Moody's

Rating Action: Moody's assigns provisional (P)Aaa to OP Mortgage Bank - Mortgage Covered Bonds 4

25 Oct 2022

Paris, October 25, 2022 -- Moody's Investors Service ("Moody's") has today assigned a provisional long-term rating of (P)Aaa to mortgage covered bonds to be issued under programme number 4 by OP Mortgage Bank ("the issuer"/"OPMB", unrated), which are governed by the new Finnish covered bond act.

RATINGS RATIONALE

A covered bond benefits from (1) the issuer's promise to pay interest and principal on the bonds; and (2) following a CB anchor event, the economic benefit of a collateral pool (the cover pool). The rating therefore reflects the following factors:

(1) The credit strength of OP Corporate Bank plc (deposits/senior unsecured Aa3 stable; adjusted baseline credit assessment a3; CR assessment Aa2(cr)) and a CB anchor of CR assessment plus 1 notch. OPMB is part of the OP Financial Group ("the Group"), the largest Finnish co-operative banking group. OPMB is a wholly-owned subsidiary of OP Cooperative, the Group's central co-operative, and serves as a funding vehicle for the Group in respect of residential mortgage loans originated by the member banks. For the CB anchor we have relied on the CR Assessment of the Group's largest subsidiary, OP Corporate Bank plc, which fully incorporates the credit implications arising from the joint liability agreement shared by the key credit institutions operating under the Group.

Under Finland's Cooperative Bank Act, banks belonging to a cooperative group and all their subsidiaries are jointly responsible for each other's liabilities. Creditors can claim payment from the central cooperative if any member institution is unable to pay. Each member institution has an unlimited obligation to pay the debts of the central cooperative if the latter is unable to do so independently.

(2) Following a CB anchor event, the value of the cover pool. The stressed level of losses on the cover pool assets following a CB anchor event (cover pool losses) for this transaction is 14.59%

Moody's considered the following factors in its analysis of the cover pool's value:

a) The credit quality of the assets backing the covered bonds. The mortgage covered bonds are backed primarily by Finnish residential and multi-family mortgage loans. The collateral score for the cover pool is 5%.

b) The support provided by the new Finnish legal framework for covered bonds.

c) The exposure to market risk, which is 11.24% for this cover pool.

d) Assuming a covered bond issuance of Euro 1.5 billion, the over-collateralisation (OC) in the cover pool is 10.6%, of which the issuer provides 2.0% on a "committed" basis (see Key Rating Assumptions/Factors, below).

The TPI assigned to this transaction is Probable-High. Moody's TPI framework does not constrain the rating.

At present, the total value of the assets included in the cover pool is approximately EUR 1.65 billion, comprising residential mortgage loans and loans to housing companies. The mortgage loans have a weighted-average (WA) seasoning of 80 months and a WA loan-to-value (LTV) ratio of 55.8%.

KEY RATING ASSUMPTIONS/FACTORS

Moody's determines covered bond ratings using a two-step process: an expected loss analysis and a TPI framework analysis.

EXPECTED LOSS: Moody's uses its Covered Bond Model (COBOL) to determine a rating based on the expected loss on the bond. COBOL determines expected loss as (1) a function of the probability that the issuer will cease making payments under the covered bonds (such cessation, a CB anchor event); and (2) the estimated losses that will accrue to covered bondholders should a CB anchor event occur. We express the probability of a CB anchor event as a point on our alpha-numeric rating scale (i.e. the CB anchor), which is typically one notch higher than the issuer's CR assessment.

The CB anchor for this programme is Aa1, being the CR assessment of OP Corporate Bank plus 1 notch.

The cover pool losses for OP Mortgage Bank - Mortgage Covered Bonds 4 are 14.59%. This is an estimate of the losses Moody's currently models following a CB anchor event. Moody's splits cover pool losses between market risk of 11.24% and collateral risk of 3.35%. Market risk measures losses stemming from refinancing risk and risks related to interest-rate and currencymismatches (these losses may also include certain legal risks). Collateral risk measures losses resulting directly from cover pool assets' credit quality. Moody's derives collateral risk from the collateral score, which for this programme is currently 5.0%.

The over-collateralisation in the cover pool will depend upon the issuance amount for the first series of covered bonds. OP Mortgage Bank - Mortgage Covered Bonds 4 provides 2.0% over-collateralisation on a "committed" basis. Under Moody's COBOL model, the minimum OC consistent with the Aaa rating is 0%. These numbers show that Moody's is not relying on "uncommitted" OC in its expected loss analysis.

The cover pool losses are an estimate of the losses Moody's currently models following a CB anchor event. Moody's splits cover pool losses between market risk and collateral risk. Market risk measures losses stemming from refinancing risk and risks related to interest-rate and currency mismatches (these losses may also include certain legal risks). Collateral risk is derived from the collateral score, which measures losses resulting directly from the cover pool assets' credit quality.

For further details on cover pool losses, collateral risk, market risk, collateral score and TPI Leeway across covered bond programmes rated by Moody's please refer to "Covered Bonds Sector Update", published quarterly.

TPI FRAMEWORK: Moody's assigns a "timely payment indicator" (TPI), which is our assessment of the likelihood of timely payment of interest and principal to covered bondholders following a CB anchor event. TPIs are assessed as Very High, High, Probable-High, Probable, Improbable or Very Improbable. The TPI framework limits the covered bond rating to a certain number of notches above the CB anchor.

RATING METHODOLOGY

The principal methodology used in this rating was "Moody's Approach to Rating Covered Bonds" published in December 2021 and available at https://ratings.moodys.com/api/rmc-documents/360326. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

FACTORS THAT WOULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATING:

The CB anchor is the main determinant of a covered bond programme's rating robustness. A change in the level of the CB anchor could lead to an upgrade or downgrade of the covered bonds. The TPI Leeway measures the number of notches by which Moody's might lower the CB anchor before the rating agency downgrades the covered bonds because of TPI framework constraints.

Based on the current TPI of "Probable-High", the TPI Leeway for this programme is 5 notches. This implies that Moody's might downgrade the covered bonds because of a TPI cap if it lowers the CB anchor by 6 notches all other variables being equal.

A multiple-notch downgrade of the covered bonds might occur in certain circumstances, such as: (1) a country ceiling or sovereign downgrade capping a covered bond rating or negatively affecting the CB anchor and the TPI; (2) a multiple-notch downgrade of the CB anchor; or (3) a material reduction of the value of the cover pool.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

Moody's did not use any stress scenario simulations in its analysis.

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