S&P Global Ratings

Research

Transaction Update: OP Mortgage Bank

€20 Billion Medium-Term Covered Bond Program

Primary Credit Analyst:
Marta Escutia, Madrid + 34 91 788 7225; marta.escutia@spglobal.com

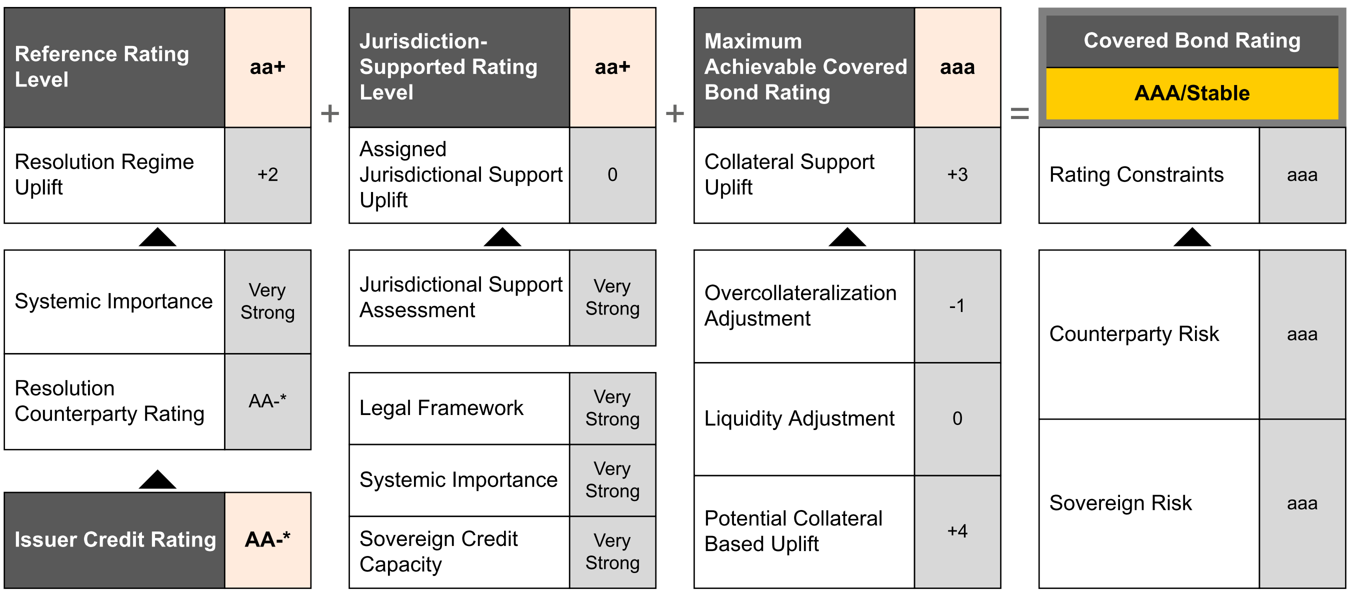
Secondary Contact:
Phuong Nguyen, Paris +33 6 27 06 09 24; phuong.nguyen@spglobal.com

Table Of Contents

Transaction Update: OP Mortgage Bank

€20 Billion Medium-Term Covered Bond Program

Ratings Detail



*As a starting point of the analysis, we may use the issuer credit rating on the parent or guarantor when the issuer is not rated, but it belongs to a group with a rated parent or payments under the covered bonds are guaranteed by another rated entity.

Major Rating Factors

Strengths

- The cover pool assets are seasoned Finnish residential mortgage loans, which have low current average loan-to-value (LTV) ratios compared with Scandinavian peers.
- The bonds' soft-bullet repayment profile mitigates short-term liquidity risk.
- The ratings on the covered bonds benefit from three unused notches of jurisdictional support and two unused notches of collateral-based uplift.

Weakness

- The issuer has no legally binding obligation to provide overcollateralization to maintain the currently assigned rating on the program.
- The interest rate index distribution of the mortgages behind the intermediary loans do not match the backed covered bonds' indexes.

Outlook: Stable

S&P Global Ratings' stable outlook on the ratings on OP Mortgage Bank's (OPMB) mortgage covered bonds reflects that the ratings on the covered bonds benefit from five unused notches of support under our covered bonds criteria. This means that the ratings on the covered bonds would be unaffected if we were to lower our long-term issuer credit rating (ICR) on the issuer by up to five notches, all else being equal.

Rationale

This transaction update follows our periodic review of OPMB's covered bond program and related issuances.

Our covered bond ratings process follows the methodology and assumptions outlined in our "Covered Bonds Criteria," published on Dec. 9, 2014, and "Covered Bond Ratings Framework: Methodology And Assumptions," published on June 30, 2015.

From our analysis of OPMB's program and the Finnish covered bond legislation, we consider that the assets registered in the cover pool are effectively isolated for the covered bondholders' benefit if the issuer becomes insolvent. This asset isolation allows us to potentially rate the covered bond program at a higher rating level than the long-term ICR on the issuer. The ICR on the issuer reflects the wider OP Financial Group's franchise and creditworthiness.

We conducted a review of OPMB's mortgage operations, which we view as prudent and maintain regular contact with the entity. We believe satisfactory procedures exist to support our ratings on the covered bonds.

OPMB is domiciled in Finland, which is subject to the EU's Bank Recovery and Resolution Directive (BRRD). We consider that mortgage covered bonds have a very strong systemic importance in Finland. These factors increase the likelihood that OPMB would continue servicing its covered bonds without accessing the cover pool or receiving jurisdictional support, even following a bail-in of its senior unsecured obligations. Under our covered bonds criteria, we assess the reference rating level (RRL) as 'aa+'

We then consider the likelihood for the provision of jurisdictional support, which we assess as very strong for mortgage programs in Finland. This leads us to apply up to three notches of uplift from the RRL. However, the jurisdictional support uplift is limited by our long-term rating on the Finnish sovereign, 'AA+'. Therefore, we assess the jurisdiction-supported rating level (JRL) at the same level as the RRL on the program, 'aa+'.

We have reviewed the asset information provided as of March 6, 2023. The program's underlying assets comprise €15 billion of Finnish residential mortgage loans. Based on our cash flow analysis, the available credit enhancement in the program exceeds the target credit enhancement, which means that covered bonds are eligible for up to four notches of collateral-based uplift. We reduce the potential collateral-based uplift by one notch due to the lack of committed overcollateralization commensurate with the ratings. We consider that the liabilities' soft-bullet structure mitigates liquidity risk for 180 days.

Counterparty and sovereign risks currently do not constrain the 'AAA' covered bond rating.

We have based our analysis on the criteria articles referenced in the "Related Criteria" section.

Program Description

Table 1

Program overview*	
Jurisdiction	Finland
Year of first issuance	2011
Covered bond type	Legislation-enabled
Outstanding covered bonds (bil. €)	12,915
Redemption profile	Yes
Underlying assets	Finnish residential mortgage loans
Jurisdictional support uplift	3
Unused notches for jurisdictional support	3
Target credit enhancement (%)	12.95
Available credit enhancement (%)	14.81
Collateral support uplift	3
Unused notches for collateral support	2
Total unused notches	5

*Based on cash flows as of March 6, 2023.

The issuer is a part of the OP Financial Group, a statutory amalgamation of the Finnish cooperative banks. The group is a financial consortium under the Act on Amalgamations of Deposit Banks. The OP Financial Group has a strong retail and corporate banking franchise in Finland. It has a countrywide branch network, with about 3.7 million private and 300,000 corporate customers. The group established OPMB to refinance its prime mortgage assets by issuing covered bonds. Its funding plans are an integral part of the cooperative group's funding strategy.

The previous and current Finnish covered bond law allows deposit banks and credit societies to participate indirectly in the issue of covered bonds by means of intermediary loans granted by a mortgage credit bank. These intermediary loans are backed by mortgage loans that are registered in the issuer's cover pool and serve as collateral for the covered bond noteholders' benefit. The covered bonds issued under this program are primarily collateralized by mortgage loans that serve as guarantee for intermediary loans.

The program's covered bonds are the issuer's direct unconditional and unsubordinated debt obligations and rank pari passu among themselves. The covered bonds are secured on a cover pool of Finnish residential mortgage loans. The cover pool assets and outstanding liabilities are all euro-denominated.

OPMB established the currently analyzed €20 billion mortgage covered bond program to issue covered bonds following the enactment of the Finnish Act on Mortgage Credit Bank Activities in 2010 (688/2010, as amended). The program's first issuance occurred in 2011.

The issuer established a second covered bond program in 2021, a €10 billion retained program, to issue covered bonds that were to be used to participate in targeted longer-term refinancing operations (TLTRO).

OPMB established its third covered bond program in 2022 to issue covered bonds under Finland's Covered Bond Act, (CBA, 151/2022, as amended), which has been in place since July 8, 2022.

OPMB's covered bonds issued before July 2022 (that is, those under the first and second covered bond programs) continue to be governed by the Finnish Act on Mortgage Credit Bank Activities, while those issued after this date (that is, those under the third program) are governed by the CBA.

The covered bonds issued under each program rank pari passu among themselves but do not relate to any of the other two programs. Thus, covered bondholders and derivative counterparties have a priority claim only toward the loans registered in each separate program's cover pool (which is segregated from cover pool assets backing the other programs).

Chart 1

OP Mortgage Bank covered bond program structure

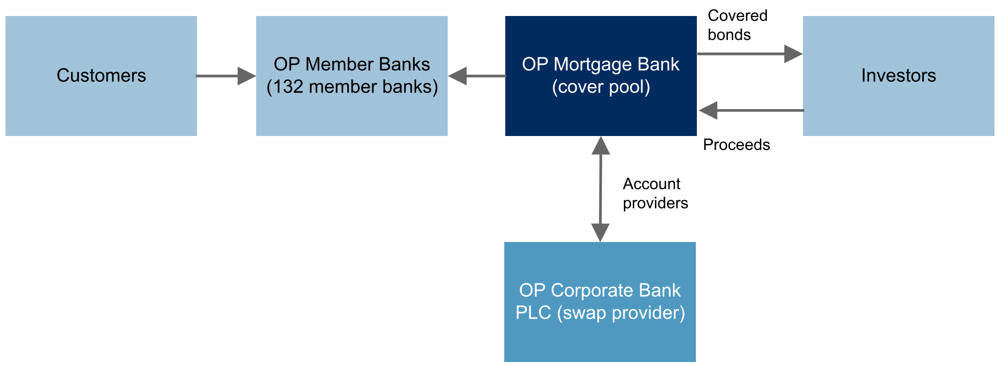


Table 2

Program participants

Role	Name	Rating	Rating dependency
Issuer	OP Mortgage Bank	AA-/Stable/A-1+ *	Yes
Originator	OP Mortgage Bank	AA-/Stable/A-1+ §	No
Bank account provider	OP Corporate Bank PLC	AA-/Stable/A-1+	Yes
Interest rate hedge provider	OP Corporate Bank PLC	AA-/Stable/A-1+	Yes

*As a starting point of the analysis, we may use the ICR on the parent or guarantor when the issuer is not rated, but it belongs to a group with a rated parent or payments under the covered bonds are guaranteed by another rated entity. §Mortgage loan origination by member banks of the wider OP Financial Group.

Rating Analysis

Legal and regulatory risks

We base our legal analysis on our criteria "Asset Isolation And Special-Purpose Entity Methodology," published on March 29, 2017 and our covered bond ratings framework.

Finland implemented the Covered Bond Directive into national legislation via the Covered Bond Act (151/2022; the CBA). The CBA entered into force on March 11, 2022 and applies since July 8, 2022. The CBA replaced the Finnish Act on Mortgage Credit Bank Activity (688/2010; the MCBA). We understand that any covered bonds issued under the MCBA can continue to be governed by the provisions effective on their issue date.

The outstanding covered bonds under this program (all issued before July 2022) continue to be governed by the MCBA.

Under both covered bond legislations, the issuer's bankruptcy would not automatically trigger the covered bonds' early redemption or the suspension of payments to bondholders. Accordingly, we rate the covered bonds based on their legal final maturity.

The MCBA and the CBA require issuers to have a license from the Finnish Financial Supervisory Authority (FIN-FSA) to issue covered bonds. Further, they must maintain a register for the covered bonds and the collateral forming the cover pool. The FIN-FSA monitors the register's management, including the recording of assets, and the issuer must regularly report the information in the register to the FIN-FSA.

Both laws set out eligibility criteria for cover pool assets, which can comprise residential mortgage loans, commercial mortgage loans, public-sector loans, and substitute assets to facilitate liquidity management. Derivatives are allowed for risk hedging purposes and must be registered in the cover pool register. Derivatives must also remain in force despite issuer's bankruptcy, liquidation, or resolution.

The MCBA and the CBA allow deposit banks and credit societies to participate indirectly in the issue of covered bonds via intermediary loans granted by a mortgage credit bank. OPMB's cover pool comprises residential mortgages that guarantee these intermediary loans. We consider the collateral backing intermediary loans' security to be comparable to direct transferred mortgage loans. We therefore perform our analysis relying directly on the inflows from the mortgage loans that guarantee these intermediary loans.

Under the MCBA, issuers must have 2% overcollateralization on a net present value (NPV) basis, while from July 8, 2022, under the CBA the requirement is 2%, or 5% on an NPV basis if certain requirements of article 129 of the Capital Requirements Regulation are not fulfilled. Additionally, pursuant to the MCBA, the total interest accrued on the cover pool assets during any successive 12-month period must suffice to cover interest due on the covered bonds and payments due to derivative counterparties.

Covered bonds with a 12-month maturity extension are allowed under both laws, but the CBA introduces a 180-day liquidity requirement whereby the cover pool must include sufficient substitute assets to meet the maximum net outflow connected to the covered bonds during the upcoming 180-day period. We understand that in calculating the net outflow related to the covered bonds, issuers may consider the covered bonds' maturity extension.

If the issuer were to become insolvent, the FIN-FSA would appoint a supervisor to supervise the cover pool's management including their conversion into cash and the contractual payments due to covered bondholders and derivative counterparties. While a bankruptcy administrator (appointed by a court) manages both the issuer's insolvency estate and the cover pool, the supervisor's role is to protect the covered bondholders' interests. If necessary, the administrator can--upon the demand or with the consent of the supervisor--sell assets to make payments on the covered bonds, enter derivative transactions, and secure liquidity to fulfil the obligations relating to the covered bonds. Under the MCBA, the administrator, upon the demand or consent of the supervisor, could accelerate the payment of the covered bonds if the cover tests cannot be fulfilled. We understand that under the CBA acceleration can only occur (upon the request or approval of the supervisor) if the overcollateralization requirements cannot be met. We consider this scenario to be ratings remote, as our credit and cash flow analysis accounts for the cover pool's ability to service the payments on the covered bonds.

Upon issuer insolvency, covered bondholders and derivative counterparties (including termination fees) have a preferential claim to the cover pool assets, which would be isolated from the issuer's other assets.

Under the MCBA, covered bondholders and derivative counterparties have recourse toward 70% of the residential properties' market value and 60% of commercial estate properties' market value. From July 8, 2022, under the CBA, this priority of payment right extends to the entire 100% of the value, although only 80% of the residential properties' market value and 60% of the commercial estate properties' market value can be included in determining overcollateralization.

Both the Finnish covered bond laws exclude set-off against cover pool assets and claw-back risk.

In our view, the relevant legal aspects of our covered bond criteria are addressed in the Finnish covered bond legal framework. The assets' protection and the cover pool's continued management enable us to assign ratings to the covered bonds that exceed the long-term rating on the issuer.

Operational and administrative risks

In our opinion, the cover pool's management and loan origination do not give rise to any operational risk that would constrain the covered bond rating to the same level as the long-term ICR.

In our view, it is highly likely that a replacement cover pool manager would be appointed if the issuer were to become insolvent. We consider Finland to be an established covered bond market and that the mortgage assets registered in OPMB's retained cover pool do not comprise product features that would materially limit the range of available replacement cover pool managers or servicers.

OP Financial Group has a leading market position in Finland. In terms of housing loans, the group currently has about 39% market share in terms of stock (as of end 2022). The typical loan granted to borrowers by OP Financial Group's member banks is a EURIBOR linked floating-rate mortgage, with an LTV ratio below 70% and a repayment period of less than 25 years.

OP Financial Group's central cooperative institution is headquartered in Helsinki, and it sets the group's basic lending criteria, supplies administrative assistance, and is responsible for debt collection. OP Financial Group has maintained cautious lending policies with adequate collateralization, in our view. OPMB can set additional loan selection and cover pool eligibility criteria.

We view the group's underwriting criteria as prudent. Our view is also supported by the low level of delinquencies observed on the mortgage book.

Our analysis of operational and administrative risks follows the guidelines in our criteria (see "Covered Bond Ratings Framework: Methodology And Assumptions," published on June 30, 2015).

Resolution regime analysis

OPMB is domiciled in Finland, which is part of the EU's BRRD. We assess the Finnish mortgage covered bonds' systemic importance as very strong. Under our covered bonds criteria, this means the RRL will be the greater of: (i) the ICR on the issuing bank, plus two notches, that is, 'aa+'; and (ii) the resolution counterparty rating (RCR) on the issuing bank, 'AA-'. As a result, the RRL is 'aa+', two notches above the ICR.

This uplift recognizes that resolution regimes like the BRRD increase the probability that an issuer could service its covered bonds even following a default on its senior unsecured obligations. We consider this as an internal form of support because the bail-in of certain creditors of the issuer does not require direct government support.

Jurisdictional support analysis

In our jurisdictional support analysis, we assess the likelihood that a covered bond program facing stress would receive support from a government-sponsored initiative instead of from the collateral assets' liquidation in the open market.

Our assessment of the expected jurisdictional support for Finnish mortgage programs is very strong. Under our covered bonds criteria, this means that the program can receive up to three notches of jurisdictional uplift above the RRL. However, we have not assigned any notches in this program because the RRL ('aa+') is already at the level of the long-term sovereign rating on Finland.

Collateral support analysis

The cover pool comprises Finnish residential mortgage loans. We base our analysis on loan-by-loan data as of March 6, 2023.

Table 3

Cover pool composition

	March 6, 2023		June 30, 2021	
Asset type	**Value (mil. €)**	**Percentage of cover pool**	**Value (mil. €)**	**Percentage of cover pool**
Finnish residential mortgage loans	15,014	100	15,696	100
Substitute assets	0	0	0	0
Other asset type	0	0	0	0
Total	15,014	100	15,696	100

The €15 billion cover pool is granular. It includes loans granted to borrowers with multiple loan parts and, in some occasions, backed by different properties. These loans currently represent on average about 47.9% of the property's current value. Finnish property prices have generally risen since 1996 but have stabilized in recent years. House prices and income levels have tended to move in tandem, suggesting that the housing market is not overvalued. We have not received information on the mortgage borrowers' loan-to-income ratios, but we have considered this risk in our foreclosure frequency analysis.

The cover pool includes 28.9% of equal installment mortgage loans. However, the maturity on most of these loans can extend up to 60 years (from origination) if the interest rate is high enough to make up for the entire installment. We believe this maturity extension to be sufficiently long to hedge for an immediate payment shock on the borrowers and hence only apply the adjustment on those loans that could not extend in the same circumstances (i.e., on about 0.94% of the cover pool).

The portfolio's weighted-average seasoning is approximately 5.9 years, and all loans pay a floating rate of interest.

Table 4

Key credit metrics

	March 6, 2023	June 30, 2021
Average loan size (€)	63,431	55,959
Weighted-average effective LTV ratio (%)*	67.62	65.99
Weighted-average LTV ratio (%)	47.92	45.02
Weighted-average loan seasoning (months)**	71.18	77.93
Balance of loans in arrears (%)	0	0
Self-employed borrowers (%)	2.94	3.51
Ordinary annuity mortgages (%)	0.94	2.13
Equal installment mortgages (%)	28.92	41.1
Credit analysis results:		
Weighted-average foreclosure frequency (%)	15.52	12.62
Weighted-average loss severity (%)	13.29	10.36
'AAA' credit risk (%)	5.18	2.5

*The effective LTV is the result of the application of our global RMBS criteria that weight the original LTV and current indexed LTV in an 80% and 20% ratio for the WAFF calculation. **Seasoning refers to the elapsed loan term. LTV--Loan-to-value.

Table 5

LTV ratios

	Effective LTV (%)		Current LTV (%)	
(%)	**March 6, 2023**	**June 30, 2021**	**March 6, 2023**	**June 30, 2021**
0-40	11.49	11.88	31.88	36.92
40-50	10.08	11.16	18.55	21.47
50-60	13.37	15.02	21.32	21.95
60-70	17.80	18.99	26.41	17.40
70-80	16.39	15.67	1.04	1.62
80-90	13.08	11.65	0.27	0.19
90-100	12.24	11.58	0.15	0.12
Above 100	5.54	4.07	0.37	0.32
Total above 80	30.86	27.30	0.79	0.63
Weighted-average LTV ratios	67.62	65.99	47.92	45.02

LTV--Loan-to-value.

Table 6

Loan seasoning distribution*

	March 6, 2023	June 30, 2021
Year	**Percentage of portfolio**	
0-2	21.44	18.76

Table 6

Loan seasoning distribution* (cont.)

	March 6, 2023	June 30, 2021
2-4	22.83	19.46
4-5	9.57	8.03
5-6	7.21	7.47
6-7	6.25	5.90
7-8	5.00	4.72
8-9	4.03	5.80
9-10	3.53	6.24
More than 10	20.13	23.61
Weighted-average loan seasoning (years)	71.18	77.93

*Seasoning refers to the elapsed loan term.

Table 7

Geographic distribution of loan assets

	March 6, 2023	June 30, 2021
	Percentage of cover pool	
Southern Finland	45.2	47.0
Eastern Finland	8.4	8.1
Western Finland	34.2	33.3
Oulu	9.3	9.2
Lapland	2.5	2.2
Aland	0.4	0.2
Total	100	100

We assess a typical residential mortgage cover pool's credit quality by estimating the credit risk associated with each loan in the pool. The analysis of the residential mortgage loans is based on the specific adjustments defined for Finland under our global residential loans criteria (see "Global Methodology And Assumptions: Assessing Pools Of Residential Loans," published on Jan. 25, 2019).

We then calculate the aggregate risk to assess the cover pool's overall credit quality. To quantify the potential losses associated with the entire pool, we weight each loan's foreclosure frequency and loss severity by its percentage of the total pool balance. The product of the weighted-average foreclosure frequency (WAFF) and the weighted-average loss severity (WALS) estimates the required loss protection, assuming all other factors remain unchanged.

Our WAFF and WALS for the portfolio are 15.52% and 13.29%, respectively. Since our previous analysis, the WAFF has increased from 12.62%. The portfolio's WAFF increased mainly due to a lower seasoning and a higher effective LTV ratio distribution. The WALS has slightly increased from 10.36% due to the cover pool's higher indexed LTV ratio distribution and a higher share of jumbo valuations. We based these metrics on the 'AAA' credit stresses that we applied.

Our analysis of the covered bond's payment structure shows that cash flows from the cover pool assets would be sufficient, at the given rating, to make timely payment of interest and ultimate principal to the covered bonds on their legal final maturities. We have performed our cash-flow analysis as of March 6, 2023.

According to our criteria, the maximum potential collateral-based uplift on a covered bond program above the JRL is four notches. We may then adjust the maximum collateral-based uplift depending on whether six months of liquidity risk is covered and an overcollateralization commitment exists. The soft-bullet repayment profile of the covered bond issued under this program includes a 12-month maturity extension, which we consider to satisfy the liquidity coverage. However, OPMB does not provide an overcollateralization commitment. As a result, the maximum collateral-based uplift for this program gets reduced from four to three notches.

By applying our credit and cash flow stresses, we calculate a target credit enhancement (TCE) of 12.95%, below the available credit enhancement of 14.81%, allowing for the full three notches of collateral-based uplift. With a JRL of 'aa+', the program only requires to cover 'AAA' credit risk stresses to attain the 'AAA' rating, which corresponds to an overcollateralization of 5.18%.

Table 8

Collateral uplift metrics

	As of March 6, 2023	As of June 30, 2021
Asset WAM (years)	9.22	7.06
Liability WAM (years)	4.9	5.94
Available credit enhancement	14.81	17.02
Required credit enhancement for first notch of collateral uplift (%)	5.18	2.50
Required credit enhancement for second notch of collateral uplift (%)	5.18	2.50
Required credit enhancement for third notch of collateral uplift (%)	11.01	2.50
Target credit enhancement for maximum uplift (%)	12.95	2.61
Potential collateral-based uplift (notches)	4	4
Adjustment for liquidity (Y/N)	N	N
Adjustment for committed overcollateralization (Y/N)	Y	Y
Collateral support uplift (notches)	3	3

WAM--Weighted-average maturity.

Counterparty risk

We have identified several counterparty risks to which the covered bonds are exposed. However, these are either structurally addressed in line with our current counterparty criteria or considered in our cash flow modeling. Therefore, we believe that they do not constrain the rating from a counterparty risk perspective (see "Counterparty Risk Framework: Methodology And Assumptions" published on March 8, 2019).

Bank account provider

OP Corporate Bank is the cover pool's bank account provider. Its commitment to replace itself if its short-term rating falls below 'A-1' mitigates bank account risk.

Commingling risk

The borrowers make payments to the bank account of the member banks that originated the loans. These funds are credited to the cover pool account daily. OPMB has a claim against OP Corporate Bank for any amounts credited to this account, and OP Corporate Bank waives all deposit set-off rights against these funds. If the short-term rating on

OP Corporate Bank falls below 'A-1', it will open and maintain an issuer collection account with a bank rated at least 'A-1'. All borrower payments following a downgrade of OP Corporate Bank would be transferred to the issuer's collection account daily. If the long-term ICR on OP Corporate Bank falls below 'BBB', within 30 days, the issuer will notify all borrowers to pay directly to the issuer's collection account, thereby mitigating commingling risk.

Swaps

OPMB entered hedging agreements with OP Corporate Bank to address interest rate mismatches between the assets and liabilities. While these swaps partially mitigate the mismatches, in our analysis such risk is not entirely hedged. This is because the liabilities' swaps have been entered to match the interest rate indexes paid on the covered bonds to the indexed paid by the intermediary loans, and in our analysis, we directly rely on the payments made by the mortgages that secure the intermediary loans' payments. Since the interest rate indexes paid by these mortgages do not match the interest indexes paid by the intermediary loans, we consider that the program is exposed to basis risk, which we have considered in our analysis.

The program has no currency mismatches, as all assets and liabilities are euro-denominated.

OP Corporate Bank is a related counterparty to the issuer, and it is entitled to termination payments that rank pari passu with payments on the covered bonds. According to the swap documentation, OP Corporate Bank is committed to replace itself if its rating falls below 'BBB+'. If it fails to meet this commitment, an additional termination event would allow the issuer to terminate the derivative agreement. Furthermore, if its rating is lowered below 'A', the swap counterparty is committed to post collateral sufficient to cover the issuer's exposure to the counterparty plus certain volatility risk in the swap value. We categorize the current counterparty's collateral-posting framework in the derivative contract as strong according to our counterparty criteria.

Our counterparty criteria combine the collateral framework assessment with the replacement trigger and the issuer's RRL to derive the maximum potential covered bond rating. While the replacement trigger according to the swap documentation is the 'BBB+' rating on CP Corporate Bank's long-term, unsecured, and unsubordinated debt obligations, our counterparty criteria state that RRL is the applicable counterparty rating when the counterparty is related to the covered bond issuer. We have therefore derived the applicable replacement trigger from the rating type shown in the documentation.

When the swap documentation does not explicitly refer to a rating type, as is the case in this program (which refers to rating triggers on the bank's long-term, unsecured, and unsubordinated debt obligations), we generally consider this to be the RCR.

A replacement trigger of 'BBB+' on the RCR equates to a replacement trigger of 'BBB+' on the long-term ICR, because there is currently no notches of difference between the RCR and ICR on OP Corporate Bank. This, in turn, equates to a replacement trigger of 'a' on the RRL (given the mortgage covered bonds' very strong systemic importance in Finland).

The strong collateral framework assessment, combined with the current RRL on the issuer ('aa+') and the replacement trigger at 'a', supports a maximum potential rating of 'AAA' under our counterparty risk assessment.

Sovereign risk

We analyze sovereign risk according to our "Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions," published on Jan. 30, 2019.

Under these criteria, covered bonds issued in a jurisdiction that is within a monetary union that includes structural coverage of refinancing need over a 12-month period to exhibit low sensitivity to country risk. As a result, we can rate these covered bonds up to five notches above the sovereign rating. Given that all assets are located in Finland (AA+/Stable/A-1+), sovereign risk does not constrain our ratings on the covered bonds.

Environmental, social, and governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	G-2	**G-3**	G-4	G-5
- N/A					- N/A					- Risk management, culture, and oversight.				

N/A--Not applicable. ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

We view environmental and social factors in OPMB's covered bond program to be aligned with those of its Finnish peers. OPMB forms part of the wider OP Financial Group, which comprises 106 member cooperative banks and is owned by over 2.1 million owner-customers. Although the group is committed to promoting sustainable finance in Finland, OP Financial Group does not currently offer residential mortgage products of a particular social or green nature. The Finnish government guarantees certain first-time-buyer mortgages, although it does not affect our analysis since we do not consider the guarantee timely. OPMB issues soft-bullet covered bonds, which mitigate liquidity risk, but is not committed to maintain a minimum overcollateralization level in the program (above the legal requirement of 2%), which introduces the risk of credit enhancement decreasing to levels that are not commensurate with the current rating and reduces the unused notches of uplift by one. We view this as a moderately negative consideration in our credit rating analysis.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities, Dec. 22, 2020
- Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
- Global Methodology And Assumptions: Assessing Pools Of Residential Loans, Jan 25, 2019
- Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017

- Covered Bond Ratings Framework: Methodology And Assumptions, June 30, 2015
- Covered Bonds Criteria, Dec. 9, 2014
- Criteria - Structured Finance - General: Global Derivative Agreement Criteria, June 24, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Norwegian And Finnish Covered Bond Market Insights 2023, April 19, 2023
- Global Covered Bond Insights Q2 2023: The Implications OF Rising Interest Rates, April 12, 2023
- S&P Global Ratings' Covered Bonds Primer, June 20, 2019
- Glossary Of Covered Bond Terms, April 27, 2018