S&P Global
Ratings

RatingsDirect®

Transaction Update: Oma Savings Bank PLC (Mortgage Covered Bond Program)

€3 Billion Covered Bond Program

Primary Credit Analyst:
Casper R Andersen, Frankfurt + 49 69 33 999 208; casper.andersen@spglobal.com

Research Contributor:
Saisadwik Chodavarapu, CRISIL Global Analytical Center, an S&P affiliate, Mumbai

Table Of Contents

Major Rating Factors

Outlook: Stable

Rationale

Program Description

Rating Analysis

Environmental, Social, And Governance

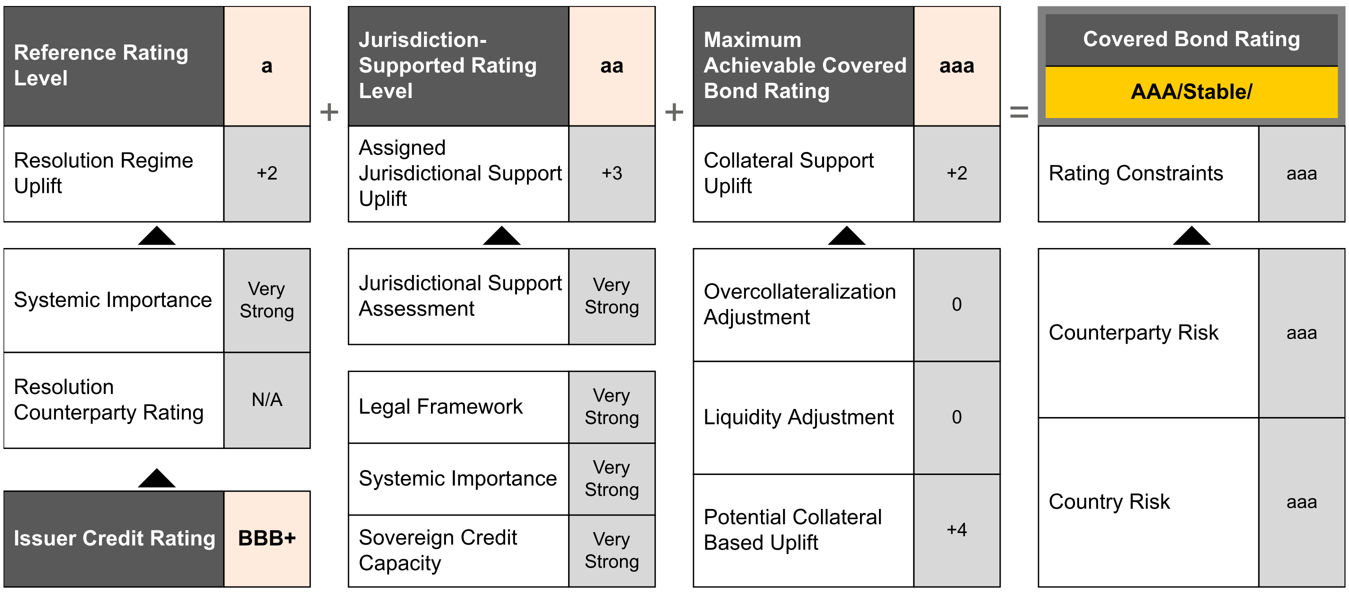
Related Criteria

Related Research

Transaction Update: Oma Savings Bank PLC (Mortgage Covered Bond Program)

€3 Billion Covered Bond Program

Ratings Detail



N/A--Not applicable.

Major Rating Factors

Strengths	Weaknesses
• The cover pool comprises residential loans and loans to housing associations in Finland with low loan-to-value (LTV) ratios compared with the maximum allowed by legislation. • The issuer is publicly committed to maintain overcollateralization in line with the current ratings on the covered bonds. • The soft bullet nature of the issued covered bonds means the program benefits from liquidity, and we do not reduce collateral-based uplift. • Available overcollateralization is currently above the	• Commingling risk is not contractually or structurally addressed pre-insolvency of the issuer, which could lead to a loss of uninvested collections. • Compared to other Finnish programs, the cover pool has a higher proportion of constant annuity loans without maturity extension (57%), and a high number of self-employed borrowers and buy-to-let properties, which we consider to increase the cover pool's credit risk.

target credit enhancement, which results in two unused notches of collateral-based uplift.	

Outlook: Stable

S&P Global Ratings' stable outlook on its ratings on Oma Bank PLC's mortgage covered bonds reflects that on Oma Savings Bank PLC (BBB+/Stable/A-2). There are two unused notches of collateral-based uplift under our covered bonds criteria. Therefore, the ratings on the covered bonds would not be affected if we were to lower our long-term issuer credit rating (ICR) on the issuer by two notches, all else being equal.

Rationale

We are publishing this transaction update following our periodic review of Oma Savings Bank's mortgage covered bond program and related issuances.

Our covered bond ratings process follows the methodology and assumptions outlined in our covered bonds criteria and our covered bond ratings framework criteria (see "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 the program's documents and the Finnish legislative covered bond framework, we have concluded that the assets in the cover pool are isolated from the issuer's insolvency risk. The asset isolation allows us to rate the covered bond program at a higher rating level than the long-term ICR on Oma Savings Bank.

Based on our operational risk analysis, which covered a review of origination, underwriting, collection, and default management procedures, as well as cover pool management and administration, we believe satisfactory procedures are in place to support our ratings on the covered bonds.

The starting point of our analysis is the long-term ICR on Oma Savings Bank. Oma Savings Bank is domiciled in Finland, which implemented the EU's Bank Recovery and Resolution Directive (BRRD).

We assess the systemic importance of covered bonds in Finland as very strong. A successful resolution of Oma Savings Bank increases the likelihood that the issuer would continue servicing its covered bonds without accessing the cover pool or receiving jurisdictional support, even following a bail-in of the bank's senior unsecured obligations. Therefore, under our covered bonds criteria, we assess the reference rating level (RRL) at 'a', two notches above the long-term ICR on Oma Savings Bank.

We then consider the likelihood of jurisdictional support, which we assess as very strong for mortgage covered bond programs in Finland. This leads us to apply three notches of uplift from the RRL to determine the 'aa' jurisdiction-supported rating level (JRL).

The covered bonds are eligible for four notches of potential collateral-based uplift from the JRL. The issuer has published a commitment to hold overcollateralization commensurate with the current rating. Therefore, we do not adjust the collateral support uplift for committed overcollateralization. Due to the soft bullet nature of the covered bonds, we consider 180 days' liquidity coverage to be available.

According to our collateral support analysis, as of Sept. 30, 2023, the available credit enhancement exceeds the overcollateralization commensurate with the rating (12.80%) and the required credit enhancement for the maximum potential collateral-based uplift, the target credit enhancement, which is 19.53%.

There are currently no rating constraints on the 'AAA' ratings relating to counterparty and country risks.

We have based our analysis on our relevant criteria (see "Related Criteria").

Program Description

Table 1

Program overview as of Sept. 30, 2023	
Jurisdiction	Finland
Covered bond type	Legislation-enabled
Outstanding amount (bil. €)	1.9
Redemption profile	Soft bullet
Underlying assets	Mortgage loans to individuals and housing associations
Jurisdictional support uplift	3
Unused notches for jurisdictional support	0
Target credit enhancement (TCE) (%)	19.53
Available credit enhancement (%)	26.15
Collateral support uplift	4
Unused notches for collateral support	2
Total unused notches	2

Oma Savings Bank is a small, but rapidly growing, retail bank focused on mortgage loans, mainly in and around smaller cities in western and eastern Finland. The Bank has been growing both organically and through acquisitions, and its balance sheet more than doubled over the past five years. Oma's recent acquisition of Liedon Savings Bank added approximately 25% to its current asset base, increasing the lender's market share and expanding its regional presence in the growth area of Turku. The bank's covered bonds are the issuer's direct unconditional and unsubordinated debt obligations and rank pari passu among themselves. The issuer amended the conditions of the existing outstanding covered bonds to reflect the new Finnish covered bond legislation and manage the cover pool in line with Finland's Finnish covered bond law--the Finnish Act on Covered Bonds (CBA), which includes the potential regulatory maturity extension subject to approval by the FSA. The issuer has received FSA approval to use the "premium" designation for the covered bonds, secured on a cover pool of euro-denominated Finnish mortgage loans. The assets remain a part of the issuer's balance sheet and consist of residential loans and loans to housing associations, originated via Oma Savings Bank's branches.

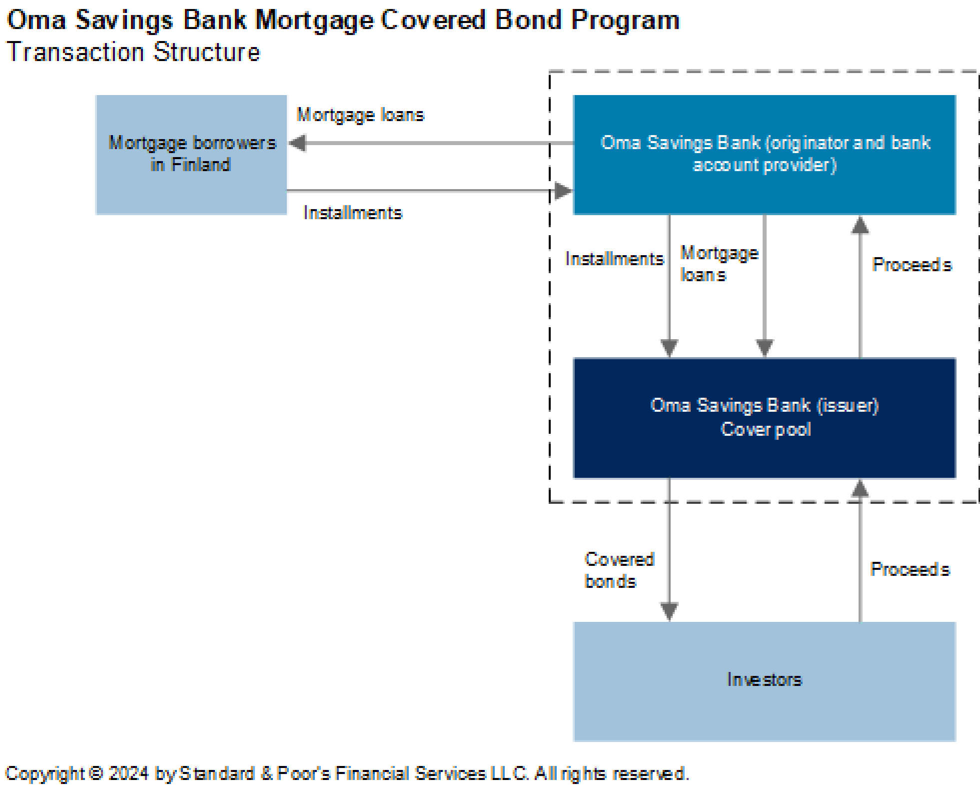


Table 2

Program participants			
Role	**Name**	**Rating**	**Rating dependency**
Issuer	Oma Savings Bank PLC	BBB+/Stable/A-2	Yes
Originator	Oma Savings Bank PLC	BBB+/Stable/A-2	No
Bank account provider	Oma Savings Bank PLC	BBB+/Stable/A-2	No

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.

The covered bonds are governed by the CBA, which implemented the Covered Bond Directive into Finish legislation. The CBA applies since July 8, 2022 and repealed the MCBA.

In our opinion, the CBA satisfies the relevant legal aspects of our covered bond criteria. We have concluded that the assets in the cover pool are effectively isolated for the benefit of covered bondholders (see "A Closer Look At Finland's Covered Bond Framework," published on Sept. 27, 2023). The protection of the assets and the continued management of the cover pool allows us to rate the covered bond program above the long-term ICR on Oma Savings Bank.

Under the CBA, 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 the legal final maturity.

The CBA requires 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 management of the register, including the recording of assets, and the issuer must quarterly report the information in the register to the FIN-FSA.

The CBA defines the eligibility criteria for the cover pool assets that 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. They must also, according to their terms, remain in force despite the issuer's bankruptcy, liquidation, or resolution. Derivative counterparties benefit from the same statutory priority right as covered bondholders.

The CBA allows deposit banks and credit societies to participate indirectly in the issuance of covered bonds via intermediary loans granted by a mortgage credit bank. Oma Savings Bank's cover pool does not comprise any intermediary loans.

Under the CBA, issuers must have 2% overcollateralization on a net present value (NPV) basis. This requirement increases to 5% on an NPV basis if certain requirements of article 129 of the Capital Requirements Regulation are not fulfilled.

Under the CBA, the cover pool must continuously contain sufficient substitute assets (liquid assets) to meet the maximum net outflow related 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 extension of the maturity.

Under the CBA, an extension of the maturity of the covered bonds by up to 12 months is permissible, subject to approval by the FIN-FSA and certain conditions being met, including:

- The issuer being unable to obtain long-term financing from ordinary sources;
- The issuer being unable to meet the liquidity requirement under the CBA upon payment of the covered bonds; and
- Such extension not affecting the order of the maturity based on the original maturity dates of covered bonds secured by the same cover pool.

If the issuer becomes insolvent, the FIN-FSA would appoint a supervisor to supervise the management of the cover pool. 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 interests of covered bondholders with powers to direct the issuer's general bankruptcy administrator.

We understand that under the CBA, acceleration can only occur (upon the request or approval of the supervisor) if the total collateral amount requirements for the covered bonds cannot be met. The essence of the cover pool supervisor's role, which also applies in this instance, is to protect the covered bondholders' interests.

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

Under the CBA, covered bondholders and derivative counterparties have a priority of payment right to 100% of the properties' value, although only 80% of the market value of residential properties and 60% of the market value of commercial estate properties can be included in the determination of overcollateralization.

The CBA excludes setoff risk against cover pool assets and claw-back risk.

Operational and administrative risks

Oma Savings Bank originates loans through the savings banks' 45 branch network. It was a result of a 2010 merger and is growing organically and through mergers. Its recent acquisition of Liedon Savings Bank will continue to increase the size of the cover pool. The mortgage credit bank operations started in 2017 and covered bonds now comprise approximately 60% of its funding base. Credit decisions made in the branches are based on lending guidelines issued by Oma Savings Bank, and the mortgages can only be included in the cover pool if they meet the guidelines. We view Oma Savings Bank's underwriting criteria as comparable with market standards.

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

In our opinion, the cover pool's management and loan origination does not pose any operational risk that would constrain the ratings on the covered bonds to the same level as our long-term ICR on Oma.

Our analysis of operational and administrative risks follows the guidelines in our criteria.

Resolution regime analysis

Oma Savings Bank is domiciled in Finland, which has implemented the bail-in provisions specified under the BRRD. We assess the systemic importance for mortgage programs in Finland as very strong. Under our covered bonds criteria, this means that the RRL will be the greater of: (i) the ICR on the issuing bank, plus two notches, that is, 'a'; and (ii) the resolution counterparty rating (RCR) (if assigned) on the issuing bank. As a result, the RRL is 'a', 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 after a default on its senior unsecured obligations because the law exempts covered bonds from bail-in in the event of bank resolution. We consider this to be an internal form of support because the bail-in of certain creditors of the issuer does not require direct support from the government. This increases the likelihood that the issuer would continue servicing its covered bonds without accessing the cover pool or receiving jurisdictional support, even if it were to face insolvency.

Jurisdictional support analysis

In our analysis of jurisdictional support under our covered bonds criteria, we determine a JRL, which is our assessment of the creditworthiness of a covered bond program once we have considered the level of jurisdictional support, but before giving credit to the amount of collateral.

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 liquidation of collateral assets in the open market. Our assessment of the expected jurisdictional support for Finnish mortgage covered bond programs is very strong. Under our covered bonds criteria, this means that the program can receive up to three notches of jurisdictional uplift from the RRL. This leads to a JRL for Oma Savings Bank's mortgage covered bonds of 'aa'.

Collateral support analysis

We based our credit analysis on loan-by-loan data as of Sept. 30, 2023. The pool comprises euro-denominated residential loans secured by Finnish properties (90.4%) and a smaller share of loans to housing associations (9.6%).

We assess the credit quality of a typical residential mortgage cover pool by estimating the credit risk associated with each loan in the pool. 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 weighted-average loss severity (WALS) estimates the required loss protection, assuming all other factors remain unchanged (see "Global Methodology And Assumptions: Assessing Pools Of Residential Loans," published on Jan. 25, 2019. We analyze the housing company loans under our commercial real estate criteria (see "Methodology And Assumptions: Analyzing European Commercial Real Estate Collateral In European Covered Bonds," published on March 31, 2015).

At a 'AAA' level of stress, the WAFF is 20.40% (22.57% in 2022) and the WALS is 25.62% (26.05% in 2022).

The WAFF has decreased mainly due to a lower percentage of constant annuity loans without maturity extension, lower current LTV ratio of loans, and higher seasoning in the portfolio. This is partly offset by a higher percentage of arrears and loans geographical placed in Western Finland. The WALS has decreased mainly due to the cover pool's lower share of jumbo valuations and housing associations.

The program is exposed to structural asset-liability mismatch risk because its features do not fully address the mismatches in its asset-liability profile. The aim of our cash flow analysis is to determine whether the cover pool's cash flow suffice, at a 'AAA' rating level, to make timely payment of interest and ultimate payment of principal on the covered bonds. We simulate a stressed sale of assets whenever a liquidity gap occurs in our analysis. The haircut (discount) applied for the assets in the cover pool is 478 basis points, on top of the stressed interest rate at the time of the shortfall. The outstanding bond includes a one-year maturity extension; we have rated to the legal final maturity date.

Based on information as of Sept. 30, 2023, the available credit enhancement is 26.15% (20.93% in 2022), which exceeds the credit enhancement commensurate with the rating of 12.80% (down from 16.89% in 2022). This corresponds to coverage of 'AAA' credit risk and 50% of the refinancing costs. The target credit enhancement is 19.53% (22.74% in 2022), which is below the available credit enhancement.

The target credit enhancement has decreased mainly due to significantly higher asset margins and lower commingling risk, which is partially offset by an increase in asset-liability mismatch and higher expectations for asset margin compression.

We do not reduce the potential four notches of collateral-based uplift due to the covered bonds' soft bullet redemption profile and the issuer's overcollateralization commitment. With a JRL of 'aa', the program uses two notches of four available notches to attain a 'AAA' rating. This means that the program currently has two unused notches of collateral uplift.

Table 3

Cover pool composition

	As of Sept. 30, 2023		As of Sept. 30, 2022	
Asset type	**Value (bil. €)**	**Percentage of cover pool**	**Value (bil. €)**	**Percentage of cover pool**
Residential assets	2.233	90.30	1.788	89.49
Housing associations	0.24	9.70	0.21	10.51
Total	2.473	100	1.998	100

Table 4

Key credit metrics

	As of Sept. 30, 2023	As of Sept. 30, 2022
Weighted-average current LTV ratio (%)*	59.92	56.49
Weighted-average effective LTV ratio (%)(ELTV)	69.53	75.53
Weighted-average loan seasoning (months)	56.9	43.05
Balance of loans in arrears (%)	0.33	0.45
Buy-to-let loans (%)	11.31	11.6
Interest-only loans (%)	0.94	0.87
Constant annuity loans (%)	57.09	63.25
Credit analysis results:		
Weighted-average foreclosure frequency (WAFF; %)	20.4	22.57
Weighted-average loss severity (WALS; %)	25.62	26.05
'AAA' credit risk (%)	5.23	5.87

*After S&P Global Ratings adjustments considering HPI & undervaluation. LTV--Loan-to-value.

Table 5

LTV ratios (current)

Current LTV ratios*	As of Sept. 30, 2023	As of Sept. 30, 2022
	Percentage of pool	
(%)		
0-60	44.2	40.92
60-70	17.19	51.3
70-80	33.19	7.77
80-90	5.17	0
90-100	0.22	0.01
Above 100	0.04	0
Weighted-average current LTV ratios	59.92	57.77

*After S&P Global Ratings adjustments. LTV--Loan-to-value.

Table 6

Loan seasoning distribution

	Percentage of portfolio as of Sept. 30, 2023	Percentage of portfolio as of Sept. 30, 2022
Less than 5 years	63.54	76.92
Between 5 and 6 years	8.77	5.71
Between 6 and 7 years	6.75	4.7
Between 7 and 8 years	5.07	2.47
Between 8 and 9 years	3.36	2.01
Between 9 and 10 years	2.46	1.61
More than 10 years	9.4	6.23
Weighted-average loan seasoning (years)	56.09	3.59

Note: Seasoning refers to the elapsed loan term.

Table 7

Geographic distribution of loan assets

Region of Finland	Percentage of cover pool as of Sept. 30, 2023	Percentage of cover pool as of Sept. 30, 2022
South Finland	30.42	33.01
West Finland	60.8	56.65
Oulun	2.51	3.05
East Finland	5.64	6.29
Lapland	0.63	1
Aland	0	0
Total	100	100

Table 8

Collateral uplift metrics

	Sept. 30, 2023	Nov. 30, 2022
Asset WAM (years)	11.76	10.12
Liability WAM (years)	4.47	3.8
Available credit enhancement (%)	26.15	20.93
Required credit enhancement for coverage of 'AAA' credit risk (%)	6.06	8.04
Required credit enhancement for first notch of collateral uplift (%)	9.43	12.47
Required credit enhancement for second notch of collateral uplift (%)	12.8	16.89
Required credit enhancement for third notch of collateral uplift (%)	16.16	21.32
Target credit enhancement (TCE) for maximum uplift (%)	19.53	25.74
Potential collateral-based uplift (notches)	4	4
Adjustment for liquidity (Y/N)	N	N
Adjustment for committed overcollateralization (Y/N)	N	N
Collateral support uplift (notches)	4	4

WAM--Weighted-average maturity.

Counterparty risk

We have identified several counterparty risks to which the outstanding issuances are exposed. However, either we consider them mitigated through documentation, or we consider them in our cash flow modeling. Accordingly, we consider that they do not constrain our ratings on the covered bonds.

Bank account provider

Payments from borrowers are made into an account in the issuer's name with the regional savings bank. There is no downgrade language for the bank account. Therefore, proceeds from the portfolio could be lost through commingling risk if the bank account provider becomes insolvent. Accordingly, we have stressed a week's worth of asset collections, reflecting the frequency of our access to information on the program's available credit enhancement. This stress is included as an additional form of credit enhancement--and we believe that overcollateralization sufficiently mitigates this risk. We consider account risk to be covered by the Finnish covered bond low after default of the issuer.

Swaps

There are no swaps registered in the cover pool. The cash flow analysis considers interest rate risk accordingly.

Sovereign risk

Covered bonds issued in a jurisdiction that is within a monetary union and that include structural coverage of refinancing need over a 12-month period, exhibit low sensitivity to sovereign risk, in our view. As a result, we can rate these covered bonds up to five notches above the sovereign rating (see "Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions," published on Jan. 30, 2019). Sovereign risk, therefore, does not limit the ratings on these covered bonds.

Environmental, Social, And Governance

Environmental considerations influence the credit quality of Oma Savings Bank's cover pool in a broadly similar way to other Finnish issuers. The issuer currently does not offer a green mortgage product. Loans to housing associations, a potential social consideration, make up a limited percentage of the cover pool. Oma Savings Bank issues covered bonds with soft bullet features and is committed to maintain a minimum level of overcollateralization in the program commensurate with the assigned rating. Therefore, we do not reduce the maximum uplift, which supports the assigned rating on the covered bonds.

Related Criteria

- Sector And Industry Variables | Criteria | Structured Finance | Covered Bonds: Covered Bonds Criteria, Nov. 23, 2022
- 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
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Covered Bond Ratings Framework: Methodology And Assumptions, June 30, 2015
- Criteria - Structured Finance - Covered Bonds: Methodology And Assumptions: Analyzing European Commercial

Real Estate Collateral In European Covered Bonds, March 31, 2015

- Criteria - Structured Finance - Covered Bonds: Covered Bonds Criteria, Dec. 9, 2014
- Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Global Covered Bond Insights Q1 2024: Issuance Still Strong As Market Exits Central Bank Funding, Dec. 15, 2023
- Covered Bonds Outlook 2024, Stability Amid Turbulence, Dec. 11, 2023
- Finland, Oct. 27, 2023
- S&P Global Ratings Definitions, June 9, 2023
- OMA Savings Bank PLC, Feb. 23, 2023
- Glossary Of Covered Bond Terms, April 27, 2018