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Ratings On Finland-Based Bank of Aland's Category FIN Covered Bonds Raised To 'AAA' On New Criteria; Outlook Stable

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OVERVIEW

- We have reviewed our ratings on Finland-based Bank of Aland's Category FIN covered bonds under our revised covered bonds criteria, which we published on Dec. 9, 2014.
- Following our review, we have raised to 'AAA' from 'AA' our ratings on the covered bonds.
- The stable outlook on our rating on the program reflects the current unused notch of available uplift, which would provide a buffer for our ratings on the covered bonds if we lowered the issuer's jurisdiction-supported rating level.

Frankfurt (Standard & Poor's) May 5, 2015--Standard & Poor's Ratings Services today raised to 'AAA' from 'AA' its ratings on Bank of Aland PLC's Category FIN covered bonds, following our revised criteria for rating covered bonds. The outlook on our rating on the program is stable.

Our upgrades follow the application of our revised covered bonds criteria (see "Covered Bonds Criteria," "Methodology And Assumptions For Assessing Portfolios Of International Public Sector And Other Debt Obligations Backing Covered Bonds And Structured Finance Securities," and "Updated Cash Flow Assumptions For Modeling Certain Covered Bonds," all of which were published on Dec. 9, 2014, and "Methodology And Assumptions For Analyzing Mortgage

Collateral In Finnish And Norwegian Covered Bonds," published on Dec. 10, 2014).

Upon publishing our revised criteria, we had placed our ratings on the covered bond programs that could be affected by a published change in criteria "under criteria observation" (see "Covered Bond Program And Spanish Multicedulas Ratings Placed Under Criteria Observation," published on Jan. 12, 2015). Following our review, we have removed our "under criteria observation" identifier from the ratings on these programs.

Under our covered bonds criteria, we organize the analytical process for rating covered bonds into four key stages:

- Performing an initial analysis of issuer-specific factors--legal and regulatory risks and operational and administrative risks--which mainly assess whether a rating on the covered bond may be higher than the rating on the issuer.
- Assessing the starting point for the rating analysis, based on the applicable resolution regimes, to determine the reference rating level (RRL).
- Determining the maximum achievable covered bond rating from an analysis of jurisdictional and cover pool-specific factors.
- Combining the results of the above and incorporating any additional factors, such as counterparty risk and country risk, to assign the final covered bond rating.

After assessing the RRL, to determine a maximum achievable covered bond rating we analyze jurisdictional and collateral support. Our assessment of the expected jurisdictional support for mortgage covered bond programs in Finland is "very strong" (see Assessments For Jurisdictional Support According To Our Covered Bond Criteria," published on Dec. 22, 2014). Under our covered bonds criteria, the uplift from the RRL can be up to three notches when the jurisdictional support is assessed as "very strong." Under our analysis of jurisdictional support, we determine a jurisdiction-supported rating level (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.

Following the assessment of the RRL and JRL, we analyze the credit quality of the cover pool and the availability of liquidity support and committed overcollateralization to determine the maximum collateral uplift.

When applicable, we cap our ratings on mortgage covered bond programs under our updated criteria for rating single-jurisdiction securitizations above the sovereign foreign currency rating (RAS criteria; see "Methodology And Assumptions For Ratings Above The Sovereign--Single-Jurisdiction Structured Finance," published on Sept. 19, 2014). Given the current ratings on Finland (AA+/Stable/A-1+), our rating on the program is not limited by the RAS criteria. Lastly, the rating on the program is not constrained by legal, operational, or counterparty risks.

We are raising to 'AAA' from 'AA' our ratings Finland-based Bank of Aland's Category FIN covered bonds. The 'AAA' rating reflects our RRL of 'a-' and JRL of 'AA-' for the program, as well as three notches of uplift for collateral support needed for the 'AAA' rating, from the four notches currently available. This leaves one unused notch of uplift. The issuer has publicly stated a commitment to cover the overcollateralization at the 'AAA' level or four notches of collateral-based uplift and six months of liquidity.

The updated collateral support analysis also reflects our new criteria for analyzing public sector/substitute assets (see "Methodology And Assumptions For Assessing Portfolios Of International Public Sector And Other Debt Obligations Backing Covered Bonds And Structured Finance Securities," published on Dec. 9, 2014) (as represented in the cover pool by a subpool of substitute collateral), Finnish residential real estate collateral, and certain updates to our cash flow assumptions.

The stable outlook on our rating on the program reflects the current unused notch of available uplift, which would provide a buffer for the rating of the covered bonds if we lowered the issuer's JRL.

RELATED CRITERIA AND RESEARCH

Related Criteria

- Methodology And Assumptions For Analyzing Mortgage Collateral In Finnish And Norwegian Covered Bonds, Dec. 10, 2014
- Covered Bonds Criteria, Dec. 9, 2014
- Updated Cash Flow Assumptions For Modeling Certain Covered Bonds, Dec. 9, 2014
- Methodology And Assumptions For Assessing Portfolios Of International Public Sector And Other Debt Obligations Backing Covered Bonds And Structured Finance Securities, Dec. 9, 2014
- Methodology And Assumptions For Ratings Above The Sovereign--Single-Jurisdiction Structured Finance, Sept. 19, 2014
- Europe Asset Isolation And Special-Purpose Entity Criteria--Structured Finance, Sept. 13, 2013
- Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
- Covered Bond Ratings Framework: Methodology And Assumptions, June 26, 2012
- Understanding Standard & Poor's Rating Definitions, June 3, 2009
- Methodology And Assumptions: Update To The Cash Flow Criteria For European RMBS Transactions, Jan. 6, 2009

Related Research

- Outlook Assumptions For The Finnish Residential Mortgage Market, Jan. 12, 2015
- Banking Industry Country Risk Assessment: Finland, Jan. 29, 2015
- Assessments For Jurisdictional Support According To Our Covered Bond Criteria, Dec. 22, 2014

- Assessments For Target Asset Spreads According To Our Covered Bond Criteria, Dec. 22, 2014
- Summary: Finland, Dec. 19, 2014
- Bank of Aland PLC, Nov. 28, 2014
- Covered Bond Monitor: Technical Note, Feb. 14, 2006

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