MOODY'S
RATINGS

Rating Action: Moody's Ratings affirms Aaa ratings assigned to Pfandbriefbank schweizerischer Hypothekarinstitute - Mortgage Covered Bonds

24 Mar 2025

London, March 24, 2025 -- Moody's Ratings (Moody's) has affirmed the Aaa ratings assigned to the mortgage covered bonds issued by Pfandbriefbank schweizerischer Hypothekarinstitute AG (the issuer/Pfandbriefbank, not publicly rated). The issuer's mortgage covered bonds are governed by the Swiss Pfandbrief Act, which was established in 1931.

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 ratings therefore reflect the following factors:

(1) The credit strength of the issuer. Pfandbriefbank is a refinancing vehicle (specialised financial institution with a limited scope of business), whose sole purpose is to provide funding to Swiss banks. Over the past six years, Pfandbriefbank has increased the amount of funding to Swiss banks from CHF 68 billion to CHF 95 billion. During the same time period, the number of member banks decreased due to legal entity mergers from 324 to 289. These banks use the funding to refinance their Swiss mortgages businesses. Pfandbriefbank and its member banks (which own it) are supervised by the Swiss financial supervisory authority (Eidgenössische Finanzmarktaufsicht or FINMA). Pfandbriefbank is one of two Swiss institutions that benefits from the legal privilege to issue Pfandbriefe according to the Swiss Pfandbrief Act;

(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 11.4%.

We considered the following factors in our analysis of the cover pool's value:

a) The credit quality of the assets backing the covered bonds. The Pfandbriefe are collateralised by secured loans to its member banks. These loans are secured by mortgage loans backed by residential properties located in Switzerland. The collateral score for this cover pool is 4.0%;

b) The legal framework for Swiss Pfandbriefe. The Swiss Pfandbrief legislation has several notable features. One of these is that there are certain property-type-specific loan to value (LTV) limits for mortgages, which secure the loans from the issuer to the member banks. These loans in turn secure the Swiss Pfandbrief. This chain of security (Sicherungskette) under the Swiss Pfandbrief Act includes the issuer, the member banks, and the recourse to the mortgage loans. A further notable feature is that the Swiss Pfandbrief Act prevents any currency mismatch between the outstanding covered bonds and the cover assets. Both, covered bonds and cover assets, are denominated in Swiss francs;

c) The exposure to market risk, which is 8.7% for this cover pool;

d) The over-collateralisation at the member-bank level.

The timely payment indicator assigned to this transaction is "Probable" (see KEY RATING ASSUMPTIONS/FACTORS below).

KEY RATING ASSUMPTIONS/FACTORS

We determine covered bonds ratings using a two-step process: an expected loss analysis and a TPI framework analysis.

EXPECTED LOSS: we use our 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.

The CB anchor for this programme is the CR assessment of Pfandbriefbank plus 2 notches.

The cover pool losses for this programme are 11.4%. This is an estimate of the losses we currently model following a CB anchor event. We split cover pool losses between market risk of 8.7% and collateral risk of 2.7%. 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 measures losses resulting directly from cover pool assets' credit quality. We derive collateral risk from the collateral score, which for this programme is currently 4.0%.

As of 31 December 2024, the level of over-collateralisation provided by each member bank varies from 16.3% to 801.7% (of which 10.0% are provided on a "committed" basis). Under our COBOL model, the minimum OC consistent with the Aaa rating is 0%, of which 0% needs to be in "committed" form to be given full value. These numbers show that we are not relying on "uncommitted" OC in our expected loss analysis.

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

TPI FRAMEWORK: we assign 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 bonds rating to a certain number of notches above the CB anchor.

RATING METHODOLOGY

The principal methodology used in these ratings was "Covered Bonds" published in February 2025 and available at https://ratings.moodys.com/rmc-documents/438242. 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 ratings:

The CB anchor is the main determinant of a covered bonds 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 we might lower the CB anchor before we downgrade the covered bonds because of TPI framework constraints. As the issuer rating is not published, the TPI Leeway is not published for this transaction.

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 bonds ratings 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.

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