

# NORDIC FIs & COVERED

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Issue 102

## Nordea Finland in 'bonkers' start to CBPP3 primary buys



A Eu1bn 10 year Nordea Finland deal on Wednesday that was the first new benchmark eligible for CBPP3 since the programme began met with a “bonkers” response, achieving pricing 5bp inside initial price thoughts and kickstarting the primary market for Eurozone issuers, with Italy’s Credito Emiliano issuing today and Spain’s Banco Sabadell in the pipeline.

The European Central Bank’s third covered bond purchase programme (CBPP3) started at the beginning of last week (20 October), but although the ECB on Monday confirmed Eu1.704bn of purchases in the first three days of CBPP3, these were not of new benchmarks given that the only such supply there had been was from non-Eurozone issuers that are ineligible.

Nordea Bank Finland achieved a total order book of some Eu3.7bn on its deal and pricing of 1bp over mid-swaps. This was well inside IPTs of the 6bp area, at which some Eu2.5bn of indications of

interest are said to have been taken, and inside guidance of the 3bp area. Syndicate bankers away from the leads were impressed by the order book and pricing, with many having initially expected an outcome of around 4bp over.

“It’s obviously a bonkers result in terms of book size,” added one.

Market participants have been keenly awaiting the outcome of new issues to gain an insight into the strategy central banks are adopting for CBPP3, but lead managers have not been directly disclosing any figures on their participation.

According to a syndicate official at one of the leads — Barclays, LBBW, Natixis and Nordea — allocations to central banks and official institutions were 22%, although he noted that this included non-CBPP3 buying, with Asian central banks, for example, also in the book. He said allocations to central banks were slightly larger than their share of orders in the book.

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## SpareBank 1 members set up supplementary issuers, SpaBol still key

Members of the SpareBank 1 alliance in Norway are setting up their own covered bond issuers as a back-up to SpareBank 1 Boligkreditt (SpaBol) because of large exposure limit regulation.

Although some will take advantage of the new entities to fund certain lending that cannot be financed through SpareBank 1 Boligkreditt, it is set to remain the key covered bond funding vehicle for the alliance.

SpareBank 1 Nord-Norge announced alongside its third quarter results yesterday (Wednesday) that it is establishing a 100%-owned covered bond mortgage company.

“This company will represent a supplement to SpareBank 1 Boligkreditt, which will continue to be the main vehicle for the alliance banks’ funding in the covered bond market,” it said. “The bank may sell additional loans to the new covered bond company due to different qualifying criteria, including fixed rate mortgages.

“Additionally, the establishment of a 100% owned covered bond mortgage company will eliminate problems related

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### Latest Nordic FI benchmarks

#### Senior unsecured (z spreads mid)

JYBC	3mE+50	06/17	31bp
POHBK	1.125%	06/19	28bp
MINGNO	1.500%	05/19	36bp

#### Covered bonds (asw spreads mid)

NDASS	1.000%	11/24	1bp
DNBNO	0.375%	10/19	-6bp
SBAB	0.625%	10/21	-3bp

Source: CACIB trading 29/10/14

# Nordea opens CBPP3 pipeline

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“There was no ambition to print at 1bp,” said the lead banker. “We were discussing something in the area of 4bp, with the obvious hope to price it on the tight side, at 3bp. The 6bp area was therefore a level where we could gain sufficient momentum and then be able to tighten 2bp-3bp.”

“But during the process we had to constantly adjust this. As the book was growing and growing and growing, and because the issuer had decided to keep the size at Eu1bn, we had the chance to tighten in much more than expected.”

He said that the involvement of CBPP3 in size and at re-offer gave and will give the issuer the power to drive pricing tighter if it chooses to do so.

“In this case the issuer was very careful to say right from the start that it wanted a success leaving aside the Eurosystem, and that the price should be determined on the basis of demand from other investors.

“But I cannot guarantee that it will not be a driving force. It is up to the leads and the issuer to see what is possible with and without the ECB and they could be aggressive.”

Nordea Bank Finland was considered an ideal candidate to kick off CBPP3 primary market activity.

“Nordea’s fantastic outcome is clear evidence that secondary market price are poor guides for syndicate and that the primary market is driving the secondary market, not the other way round,” said Vincent Hoarau, head of FIG syndicate at Crédit Agricole CIB. “This is here to stay, and you can feel the spill-over effect across jurisdictions, regardless of whether or not issuers belong to the Eurozone.

“The only question now is, how tight will it go from here?”

Credito Emiliano today (Thursday) followed Nordea with a Eu750m seven year OBG at 25bp over mid-swaps that a syndicate banker at one of its leads said came 5bp through its curve on the back of a Eu2.9bn book. He said that the real money component of the book was “extraordinarily high”.

“The comfort that the covered bond purchase programme offer the market is enough to give even the most cautious investors the confidence to come in,” he said. “Indeed it is not too strong to say that CBPP3 is forcing investors to come into trades — it really is.”

And Banco Sabadell is expected with the first benchmark Spanish covered bond since July tomorrow (Friday), after it announced a mandate for a seven year today. ■

# Danske raises forecast, Sydbank, Jyske report

**Danske Bank made pre-tax profits of Dkr4.5bn (Eu605m) in the third quarter, 6% ahead of consensus expectations, and raised its outlook for the full year from Dkr10bn-Dkr13bn to Dkr11.5bn-Dkr13.5bn.**

Net profit for the first nine months was Dkr10.1bn, a 95% increase from 2013. Danske said the increase was driven by growth in most income lines, lower expenses and lower impairments.

“In the third quarter, we continued to make progress in strengthening our position as a Nordic universal bank by focusing on relations with our customers and improving financial performance,” said Danske CFO Thomas Borgen.

“The results are encouraging, but we still have some way to go before reaching our long term targets.”

Mats Anderson, equity research analyst at Kepler Cheuvreux, highlighted commission revenue generation of Dkr2.6bn as a positive surprise, 8% ahead of consensus and up 16% year-on-year. He added that net interest income was in line with expectations, while net items (trading gains) had been a cause for concern but came in marginally ahead of expectations at Dkr1.5bn.

Sydbank on Tuesday reported a third quarter net profit of Dkr314m, ahead of expectations of Dkr266m according to a Reuters poll and its best quarterly result in more than six years.

“Q3 performance shows that Sydbank’s plan to increase profitability is working,” said the bank’s CEO, Karen Frøsig.

“Costs are falling, income is growing and at the same time credit quality is improving.”

Jyske Bank on Wednesday released its results for the first nine months of the year, the first quarterly results to fully incorporate BRFkredit results, complicating comparisons. Pre-tax profits were, however, double the first nine months of 2013, up from Dkr1.710bn to Dkr3.404bn.

“The third quarter of 2014 was also affected by the merger with BRFkredit, and over the past five months it has been confirmed to us that the merger has a great growth potential,” said Jyske management in the Q3 report. ■

## Nordic FIs & Covered Bonds

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# New SpareBank 1 issuers to provide 'safety valve'

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to regulatory restrictions with regard to maximum liabilities size between SpareBank 1 Nord-Norge and SpareBank 1 Boligkreditt.”

SpareBank 1 SR-Bank announced a similar move today (Thursday) upon releasing its third quarter results, and other alliance members are expected to do likewise.

In a notice released yesterday, SpareBank 1 Boligkreditt addressed the moves and cited large exposures regulations as being central to the development.

“The reason for the application is that regulatory changes require an increased weighting of the exposures among financial institutions,” it said. “The change in the weighting of exposures to SpareBank 1 Boligkreditt has increased to 100 from 20 per cent. This entails that limitations may occur in the degree to which an individual SpareBank 1 bank can access covered bond funding through SpareBank 1 Boligkreditt.”

According to Eivind Hegelstad, COO and head of investor relations at SpareBank 1 Boligkreditt, the alliance members are not faced with any restrictions on amounts today, but are establishing their issuers as something of a “safety valve” that could be used should they approach the limit at a time of difficult market conditions in future.

He said he expects some alliance members to use their new issuers more actively than others — partly to demonstrate



their viability but also to finance mortgages that are not eligible for financing through SpareBank 1 Boligkreditt due to the joint issuer’s “stringent criteria”.

As mentioned by SpareBank 1 Nord-Norge, fixed rate mortgages are not eligible for financing through SpareBank 1 Boligkreditt. SpareBank 1 Nord-Norge, for example, has some Nkr7bn (Eu828m) of fixed rate mortgages on its balance sheet, while it has meanwhile transferred about 40% of its mortgages to SpareBank 1 Boligkreditt, according to Ronny Sørensen, head of treasury at SpareBank 1 Nord-Norge.

“Of course we won’t sell the remaining 60% of the mortgages to the new company,” he said. “The reasons for that are the conservative funding strategy and the potential subordination of our

unsecured debt in the parent company.

“We should have reserves in place in terms of mortgages that would permit the company to issue if necessary,” he added, “and if you plan to issue then you should do some investor work, and therefore it makes sense to prepare some issuance for them to focus on.”

However, he stressed that it is early days yet, with the entity still needing approval, and that SpareBank 1 Boligkreditt will remain its most important funding route.

“We see this as a risk-reducing measure,” he said. “And also SpareBank 1 Boligkreditt is the company with the lowest funding cost for us.

“It’s triple-A and we are dependent on that to remain competitive in the market.” ■

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Nykredit finds strong demand in opening ARMs offering

Nykredit Realkredit kicked off autumn refinancing auctions in Denmark today (Thursday), with “extraordinarily high” interest coming in for its offering of one year ARM bonds, according to an official of the issuer, although an analyst said the outcome was not surprising.

Thursday, 15 August 2013

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SWEDEN

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SIGN UP TO RECEIVE IT WEEKLY

# Euro Nordic covered bond & senior unsecured secondary spreads

Nordic benchmarks: covered versus ASW, senior unsecured (shaded) versus Z spreads, 29/10/14.

ISIN	Coupon	Maturity	Mid Spd	ISIN	Coupon	Maturity	Mid Spd
<b>AKTIA (*AKTIA REMB)</b>				<b>POHBK</b>			
XS0640889803*	3.125	22/06/2016	-8	XS0785351213	1.625	23/05/2017	-16
XS0946639381	1.125	25/06/2018	-6	XS0646202407	3.500	11/07/2018	-12
XS1056447797	1.000	15/04/2019	-5	XS1076088001	0.750	11/06/2019	-9
<b>BRF</b>				XS1045726699	1.500	17/03/2021	-3
XS0882166282	2.500	31/01/2018	53	XS0758309396	2.625	20/03/2017	6
<b>DANBNK</b>				XS0540216669	3.000	08/09/2017	6
XS1113212721	0.375	26/08/2019	-3	XS0931144009	1.250	14/05/2018	17
XS0469000144	4.125	26/11/2019	-8	XS1077588017	1.125	17/06/2019	28
XS1071388117	1.250	11/06/2021	0	XS1040272533	2.000	03/03/2021	38
XS0519458755	3.750	23/06/2022	3	<b>SAMBNK</b>			
XS0802067636	2.500	09/07/2015	3	XS0693226978	2.750	19/10/2016	-13
XS0627692204	3.875	18/05/2016	6	XS0834714254	1.625	27/09/2019	-7
XS0751166835	3.875	28/02/2017	11	XS0640463062	3.875	21/06/2021	2
<b>DNBNO</b>				<b>SBAB</b>			
XS0728790402	2.375	11/04/2017	-15	XS1117542412	0.625	07/10/2021	-3
XS0877571884	1.000	22/01/2018	-9	XS0968885623	2.375	04/09/2020	44
XS0992304369	1.125	12/11/2018	-8	<b>SEB</b>			
XS0794233865	1.875	18/06/2019	-6	XS0548881555	2.625	16/10/2017	-14
XS1117515871	0.375	07/10/2019	-6	XS0894500981	1.500	25/02/2020	-7
XS0637846725	3.875	16/06/2021	0	XS0988357090	1.625	04/11/2020	-6
XS0759310930	2.750	21/03/2022	1	XS0614401197	4.125	07/04/2021	-3
XS0856976682	1.875	21/11/2022	1	XS0628653007	3.750	19/05/2016	7
XS0522030310	3.875	29/06/2020	24	XS0730498143	3.875	12/04/2017	9
XS0595092098	4.375	24/02/2021	35	XS0592695000	4.250	21/02/2018	17
XS0732513972	4.25	18/01/2022	39	XS0972089568	2.000	18/03/2019	27
<b>EIKBOL</b>				XS0854425625	1.875	14/11/2019	26
XS0736417642	2.250	25/01/2017	-7	XS1033940740	2.000	19/02/2021	39
XS0851683473	1.250	06/11/2017	-9	<b>SHBASS</b>			
XS0794570944	2.000	19/06/2019	-1	XS0760243328	1.875	21/03/2017	-16
XS1044766191	1.500	12/03/2021	2	XS0906516256	1.000	19/06/2018	-10
<b>JYBC</b>				XS1050552006	1.000	04/01/2019	-8
XS0856532618	3mE+110bp	20/05/2015	12	XS0490111563	3.750	24/02/2017	3
XS1078186001	3mE+50bp	19/06/2017	31	XS0732016596	3.375	17/07/2017	3
<b>LANSBK</b>				XS0794225176	2.250	14/06/2018	2
XS0926822189	1.125	07/05/2020	-2	XS0965050197	2.250	27/08/2020	14
<b>MINGNO</b>				XS0693812355	4.375	20/10/2021	28
XS0893363258	2.125	21/02/2018	27	XS0819759571	2.625	23/08/2022	31
XS1069518451	1.500	20/05/2019	36	<b>SPABOL</b>			
<b>NDASS</b>				XS0495145657	3.250	17/03/2017	-10
XS0478492415	3.500	18/01/2017	-16	XS0820929437	1.250	28/02/2018	-10
XS0731649660	2.375	17/07/2017	-17	XS0738895373	2.750	01/02/2019	-9
XS0965104978	1.375	20/08/2018	-14	XS0995022661	1.500	20/01/2020	-4
XS1014673849	1.250	14/01/2019	-10	XS0942804351	1.500	12/06/2020	-2
XS0778465228	2.250	03/05/2019	-9	XS0587952085	4.000	03/02/2021	-1
XS0874351728	1.375	15/01/2020	-8	XS0674396782	3.375	07/09/2021	0
XS0591428445	4.000	10/02/2021	-4	<b>SPAROG</b>			
XS1132790442	1.000	05/11/2024	1	XS0853250271	2.000	14/05/2018	39
XS0801636571	2.250	05/10/2017	12	XS0965489239	2.125	27/02/2019	41
XS0916242497	1.375	12/04/2018	11	XS0876758664	2.125	03/02/2020	48
XS0728763938	4.000	11/07/2019	19	XS1055536251	2.125	14/04/2021	65
XS0520755488	4.000	29/06/2020	26	<b>SWEDA</b>			
XS1032997568	2.000	17/02/2021	38	XS0496542787	3.375	22/03/2017	-17
XS0801636902	3.250	05/07/2022	27	XS0925525510	1.125	07/05/2020	-5
<b>NYKRE (*senior secured)</b>				XS1069674825	1.125	21/05/2021	-4
LU0787776052*	3.250	01/06/2017	39	XS0768453101	2.375	04/04/2016	4
LU0921853205*	1.750	02/05/2018	39	XS0740788699	3.375	09/02/2017	16
LU0996352158*	1.750	28/01/2019	44	XS1045283766	1.500	18/03/2019	20

Source: Crédit Agricole CIB Trading, Bloomberg – See disclaimer on page 5

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