

# NORDIC FIs & COVERED

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## Norway, Sweden top Moody's cover pool eligibility rankings



Norway came top out of six countries in a Moody's ranking of how strong different jurisdictions are with respect to eligibility criteria for cover pool assets based on a combination of covered bond law and market practice, while Sweden was first taking into account only the covered bond law.

The rating agency also ranked countries according to cover pool management before issuer default, with Germany coming top, while Spain was last in both areas under consideration.

Moody's released its verdicts on Monday in a comparison of legal frameworks taking in Germany, Finland, France, Norway, Spain and Sweden. The rating agency noted that while it is drawing attention to the strengths and weaknesses of each country, the features cited are only some of those it considers when determining ratings.

To determine the ranking, Moody's assigned a score of 1 to 4 — to reflect weak to strong — to various features of each of the two areas under consideration. It

then summed these to arrive at an overall score for each area — and did so for each country both based on the covered bond law alone and based on a combination of the covered bond and market practice (MP). It did not weight the features according to their importance for overall credit quality, it noted, adding that those countries that show strengths in a broad range of features tend to be stronger in key features as well.

Norway achieved the highest score for eligibility criteria based on covered bond law and market practice, with Finland and Sweden coming equal second. Based on covered bond law alone, Sweden was top.

Norway's leading score was attributed to the strength of Norwegian cover pool swaps under both law and practice.

"Under the law, there is a positive requirement that if a swap counterparty's credit quality falls then adequate security must be provided to mitigate the increased risk," said Jane Soldera, senior

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## ECBC chairman Madsen to become CBMC president

Carsten Tirsbæk Madsen will in the new year take over as president of the Covered Bond & Mortgage Council, the umbrella organisation for the European Mortgage Federation and European Covered Bond Council.

Madsen, who is already European Covered Bond Council (ECBC) chairman, will take over the Covered Bond & Mortgage Council (CBMC) role from Antonio José González Bajar, real estate chief executive officer of Banco Bilbao Vizcaya Argentaria (BBVA), whose term as president of the CBMC ends at the same time as his term as chairman of the European Mortgage Federation (EMF), on 31 December.

Bruno Deletré, director general of Crédit Foncier de France, will take over as chairman of the EMF for the 2015-2016 mandate.

Madsen is chief executive officer of BRFFkredit and is a member of the board of the Association of Danish Mortgage Banks (Realkreditrådet) and the Nordic Assembly of Mortgage Banks, and of the advisory board of the Copenhagen Stock Exchange. He is also chairman of the Covered Bond Label Foundation. ■

### Latest Nordic FI benchmarks

Senior unsecured (z spreads mid)			
JYBC	FRN	06/17	31bp
POHBK	1.125%	06/19	22bp
DANBNK	FRN	11/18	39bp
Covered bonds (asw spreads mid)			
POHBK	1.000%	11/24	7bp
NDASS	1.000%	11/24	-1bp
SHBASS	0.625%	11/21	1bp
<i>Source: CACIB trading 3/12/14</i>			

## Nordic strengths highlighted

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credit officer at Moody's. "Market practice for Norwegian issuers is typically to use external (i.e., non-intra-group) swaps to maximise the chance of the cover pool swap surviving issuer default."

The rating agency highlighted among other strong features in the Nordics a 10% limit on commercial property loans in Sweden and Finland, and a 5% obligor concentration limit in Norway. It also noted that Sweden requires that asset coverage from mortgage loans be stressed against house price falls of up to 30%.

Moody's cited three factors contributing to Spain's last place: lack of revaluation of mortgaged properties; the difficulties of using swaps for hedging purposes; and relatively high and unrestricted levels of commercial property loans.

Germany came top in cover pool management before issuer default based both on covered bond law alone and also on the combined measure, with Moody's saying the country's legal framework stands out for robust practices in almost all the aspects of cover pool management it looked at. The rating agency cited several factors contributing to Germany's position: strong independent oversight from the cover pool monitor (Treuhänder); continuing oversight from two dedicated departments at the regulator; a



Jane Soldera, Moody's

continuous net present value (NPV) test incorporating material interest rate and currency-risk stresses; and a 180 day liquidity reserve for interest and principal payments on covered bonds.

Spain again came last in the ranking, with Moody's citing an absence of liquidity tests for the cover pool and lack of a cover pool monitor as some of its weaknesses. However, the rating agency noted that changes to Spain's legal framework are being considered.

Moody's said that further reports on other topics will follow, and that it expects to add further countries to such reports. ■

## Moody's upgrades Danske to A3, highlights improved profitability

**Moody's upgraded Danske Bank from Baa1 to A3 last week, citing as the main driver continued improvement in the Danish bank's profitability, with reduced refinancing risk in its mortgage credit operations another factor.**

The rating agency said on Thursday of last week (27 November) that the upgrade and stable outlook reflect the positive trend in the group's profitability — which has been evident since mid-2013 on the back of a reduction in loan losses — and its view that this will continue due to cost efficiency measures and a positive margin trend.

Moody's also cited as a factor in the upgrade reduced refinancing risk in Danske's mortgage credit operations. It noted that the share of short term (one and two year) funded mortgages has fallen by around 50% since 2012.

The upgrade was also attributed to reduced credit risk relating to Danske's non-core operations. The rating agency also cited a stabilisation of the operating environment in Denmark, and highlighted that the bank has a high level of capital, with a Tier 1 ratio of 16.6% as of 30 September.

Danske's standalone baseline credit assessment (BCA) was also raised, from baa2 to baa1.

"The baa1 BCA mainly reflects the group's market leading position in Denmark and Northern Ireland and strong operational presence in Finland, Sweden and Norway," said Moody's, "giving the group the benefit of a balanced and well diversified lending portfolio and a significant volume of relatively stable recurring earnings."

Danske's rating benefits from one notch of government support uplift from the baa1 standalone BCA.

"Following the adoption of the Bank Recovery & Resolution Directive (BRRD) and the Single Resolution Mechanism regulation in the EU, the balance of risk for many European banks' senior unsecured creditors has shifted to the downside," said Moody's "Considering Danske Bank's domestic importance, Moody's assesses a moderate probability of systemic support, and does not currently expect this probability to decline to any material degree, even after full implementation of the BRRD." ■

## Nordic FIs & Covered Bonds

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# Euro Nordic covered bond & senior unsecured secondary spreads

Nordic benchmarks: covered versus ASW, senior unsecured (shaded) versus Z spreads, 3/12/14.

ISIN	Coupon	Maturity	Mid Spd	ISIN	Coupon	Maturity	Mid Spd
<b>AKTIA (*AKTIA REMB)</b>				<b>POHBK</b>			
XS0640889803*	3.125	22/06/2016	-4	XS0785351213	1.625	23/05/2017	-13
XS0946639381	1.125	25/06/2018	-5	XS0646202407	3.500	11/07/2018	-9
XS1056447797	1.000	15/04/2019	-5	XS1076088001	0.750	11/06/2019	-7
<b>BRF</b>				XS1045726699	1.500	17/03/2021	-3
XS0882166282	2.500	31/01/2018	51	XS1144844583	1.000	28/11/2024	7
<b>DANBNK</b>				XS0758309396	2.625	20/03/2017	6
XS1113212721	0.375	26/08/2019	-3	XS0540216669	3.000	08/09/2017	7
XS0469000144	4.125	26/11/2019	-5	XS0931144009	1.250	14/05/2018	16
XS1071388117	1.250	11/06/2021	3	XS1077588017	1.125	17/06/2019	22
XS0519458755	3.750	23/06/2022	5	XS1040272533	2.000	03/03/2021	31
XS0802067636	2.500	09/07/2015	-2	<b>SAMBANK</b>			
XS0627692204	3.875	18/05/2016	5	XS0693226978	2.750	19/10/2016	-9
XS0751166835	3.875	28/02/2017	9	XS0834714254	1.625	27/09/2019	-5
XS1139303736	3mE+35	19/11/2018	39	XS0640463062	3.875	21/06/2021	3
<b>DNBNO</b>				<b>SBAB</b>			
XS0728790402	2.375	11/04/2017	-11	XS1117542412	0.625	07/10/2021	1
XS0877571884	1.000	22/01/2018	-7	XS0968885623	2.375	04/09/2020	45
XS0992304369	1.125	12/11/2018	-6	<b>SEB</b>			
XS0794233865	1.875	18/06/2019	-5	XS0548881555	2.625	16/10/2017	-11
XS1117515871	0.375	07/10/2019	-3	XS0894500981	1.500	25/02/2020	-5
XS0637846725	3.875	16/06/2021	1	XS0988357090	1.625	04/11/2020	-4
XS1137512742	3mE+10bp	17/11/2021	12	XS0614401197	4.125	07/04/2021	-1
XS0759310930	2.750	21/03/2022	3	XS0628653007	3.750	19/05/2016	5
XS0856976682	1.875	21/11/2022	4	XS0730498143	3.875	12/04/2017	9
XS0522030310	3.875	29/06/2020	17	XS0592695000	4.250	21/02/2018	14
XS0595092098	4.375	24/02/2021	31	XS0972089568	2.000	18/03/2019	17
XS0732513972	4.25	18/01/2022	33	XS0854425625	1.875	14/11/2019	17
<b>EIKBOL</b>				XS1033940740	2.000	19/02/2021	32
XS0736417642	2.250	25/01/2017	-5	<b>SHBASS</b>			
XS0851683473	1.250	06/11/2017	-6	XS0760243328	1.875	21/03/2017	-13
XS0794570944	2.000	19/06/2019	1	XS0906516256	1.000	19/06/2018	-8
XS1044766191	1.500	12/03/2021	4	XS1050552006	1.000	04/01/2019	-6
<b>JYBC</b>				XS1135318431	0.625	10/11/2021	1
XS0856532618	3mE+110bp	20/05/2015	12	XS0490111563	3.750	24/02/2017	5
XS1078186001	3mE+50bp	19/06/2017	31	XS0732016596	3.375	17/07/2017	5
<b>LANSBK</b>				XS0794225176	2.250	14/06/2018	3
XS0926822189	1.125	07/05/2020	0	XS0965050197	2.250	27/08/2020	14
<b>MINGNO</b>				XS0693812355	4.375	20/10/2021	20
XS0893363258	2.125	21/02/2018	30	XS0819759571	2.625	23/08/2022	24
XS1069518451	1.500	20/05/2019	40	<b>SPABOL</b>			
<b>NDASS</b>				XS0495145657	3.250	17/03/2017	-8
XS0478492415	3.500	18/01/2017	-13	XS0820929437	1.250	28/02/2018	-9
XS0731649660	2.375	17/07/2017	-15	XS0738895373	2.750	01/02/2019	-6
XS0965104978	1.375	20/08/2018	-12	XS0995022661	1.500	20/01/2020	-2
XS1014673849	1.250	14/01/2019	-9	XS0942804351	1.500	12/06/2020	0
XS0778465228	2.250	03/05/2019	-7	XS0587952085	4.000	03/02/2021	1
XS0874351728	1.375	15/01/2020	-4	XS0674396782	3.375	07/09/2021	2
XS0591428445	4.000	10/02/2021	-2	<b>SPAROG</b>			
XS1132790442	1.000	05/11/2024	-1	XS0853250271	2.000	14/05/2018	36
XS0801636571	2.250	05/10/2017	15	XS0965489239	2.125	27/02/2019	41
XS0916242497	1.375	12/04/2018	17	XS0876758664	2.125	03/02/2020	49
XS0728763938	4.000	11/07/2019	20	XS1055536251	2.125	14/04/2021	64
XS0520755488	4.000	29/06/2020	21	<b>SWEDA</b>			
XS1032997568	2.000	17/02/2021	28	XS0496542787	3.375	22/03/2017	-13
XS0801636902	3.250	05/07/2022	18	XS0925525510	1.125	07/05/2020	-2
<b>NYKRE (*senior secured)</b>				XS1069674825	1.125	21/05/2021	-2
LU0787776052*	3.250	01/06/2017	30	XS0768453101	2.375	04/04/2016	2
LU0921853205*	1.750	02/05/2018	34	XS0740788699	3.375	09/02/2017	15
LU0996352158*	1.750	28/01/2019	39	XS1045283766	1.500	18/03/2019	16

Source: Crédit Agricole CIB Trading, Bloomberg – See disclaimer on page 4

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