

NORDIC FIs & COVERED

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SR Bank Eu750m deal adds largest, longest point to curve



SpareBank 1 SR Bank sold a Eu750m seven year senior unsecured issue yesterday (Thursday), the Norwegian bank's largest euro benchmark and a deal that adds a new longest dated point to its curve.

"We have been looking at the market since February and we considered when the right time would be," Dag Hjelle, head of treasury at SpareBank 1 SR Bank, told *Nordic FIs & Covered*. "And as we want to do one to two benchmark deals a year and the market looked good we wanted to take advantage of that."

The Norwegian bank did not hold a roadshow ahead of the new deal but Hjelle said that the issuer has been in regular contact with investors.

"We do quite a lot of travelling, giving credit updates, since the euro market is so important for us," he said.

Leads Barclays, Danske, Deutsche and Natixis went out with initial price thoughts of the 90bp area yesterday morning, before releasing guidance of

85bp-87bp after having taken Eu800m of orders, and fixing the spread at 85bp over. According to a syndicate official at one of the leads, orders of just shy of Eu-1bn from some 100 accounts were good at the re-offer level.

He said that, with SR Bank being a less frequent issuer, it was useful for the leads to have been able to spend some time discussing the appropriate spread with potential investors based on outstanding pricing references, particularly given that the new issue was extending SR Bank's curve.

He said that SR Bank's March 2020 paper was trading at around 72bp over and that the leads then looked at the curves of some Swedish banks to calculate how much the curve to April 2021 should be worth: SEB was seen at 60bp over in the 2020 part of the curve and Nordea at 55bp, and SEB February 2021s at 64bp and Nordea February 2021s at 60bp, meaning that the curve

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Handelsbanken in senior Kangaroo debut amid European burst

Svenska Handelsbanken priced an inaugural Kangaroo senior unsecured benchmark on Tuesday, a A\$650m (Eu438m, Skr3.93bn) dual tranche issue that was part of a mini-wave of Australian-targeted European issuance benefiting from local majors being in blackout, according to a syndicate banker.

Barclays Bank led the way last week with a A\$1.3bn deal, also a dual tranche transaction, with Svenska Handelsbanken next with its deal this week and HSBC and Rabobank following suit.

Handelsbanken has previously sold Kangaroo covered bonds, but had yet to tap the market with a senior benchmark. Its debut was split into a A\$450m five year fixed rate tranche and a A\$200m five year floating rate note, with more than A\$800m of orders placed from 80 accounts.

Both tranches were priced at 95bp, the fixed rate deal over mid-swaps and the FRN over quarterly BBSW. The coupon on the fixed rate tranche was 4.5%.

Australian investors took 48%, Asia 38%, and Europe 14%. Institutional buyers were allocated 69%, banks 26%, and private banks 5%. CBA, HSBC, JP Morgan and NAB were leads.

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Latest Nordic FI benchmarks			
Senior unsecured (z spreads mid)			
SWEDA	1.500%	03/19	45bp
POHBK	2.000%	03/21	67bp
SEB	2.000%	02/21	62bp
Covered bonds (asw spreads mid)			
SHBASS	1.000%	01/19	4bp
EIKBOL	1.500%	03/21	20bp
POHBK	1.500%	03/21	10bp
Source: CA-CIB trading 3/04/14			

Europeans profit from Australians' absence

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A syndicate banker on the deal said Barclays led the way last week, showing there is good demand for high quality European issuers in the five year maturity. However, he noted that whereas Barclays' deal is repo-eligible Handelsbanken's is not, and that this helps explain the difference in size between the Swedish and UK issuers' deals, in particular with respect to the FRNs, as this is a focus for bank treasuries.

Barclays priced a A\$600m fixed rate tranche and a A\$700M FRN, each at 110bp over. HSBC followed Handelsbanken into the Kangaroo market this week, yesterday (Thursday) pricing a A\$500m three year FRN at 63bp over, while Rabobank today sold a A\$100m 10 year issue at 125bp over mid-swaps.

"There is a bit of appetite for European issuers, and three of the four Aussie majors are in blackout so investors know that there won't be a rush of domestic supply," said the banker on Handelsbanken's deal.

He pointed out that 10 years is a rare maturity for Kangaroo issuance and that Rabobank was able to price its deal some 15bp inside its euro levels.

"It was worth their while even for the small size," he said. "It will be interesting to see if it opens up more supply in the maturity." ■

SR Bank extends smooth curve with bigger than usual Eu750m

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was worth around 4bp. This put fair value for a new SR Bank 2021 issue in the mid to high 70s, he said.

Hjelle said that he saw the new issue premium at 5bp-10bp.

"Our bonds offer a premium of 10bp-20bp to our bigger Scandinavian peers and looking at where they printed in seven years the spread seemed fair," he added. "We had a granular Eu1bn book, with very little price sensitivity, so the market clearly wanted us at 85bp."

He said that the issuer could have printed a slightly smaller deal at a tighter spread.

"We normally do Eu500m, so maybe the market was a little surprised when we went for Eu750m, but we were keen to get the volume this time," said Hjelle. "The pricing was good for us and the investor, and the maturity bucket fitted very nicely.

"The seven year maturity looks good from the investor demand perspective," he added, "and also because we have six bonds outstanding and maturing each year from 2015 through to 2020, so the obvious point on the curve for us was a seven year. Now we have seven bonds outstanding in subsequent years and each maturing in the first half of the year."



Dag Hjelle, SpareBank 1 SR Bank

A banker away from the leads said that the larger than expected size of the deal led to it trading slightly wider than re-offer in the secondary market.

Alex Sönerberg, Nordic FIG DCM at Crédit Agricole CIB, said the deal nevertheless carried some positive takeaways for other less frequent Nordic issuers in the euro market.

"It was a very granular book, both in terms of the number of investors as well as the geographical distribution, and the bond offers a pick-up versus other Nordic peers, so the spread should tighten over time," he said.

Nordic accounts were allocated the highest share of the paper, with 34%, with Germany and Austria on 32%, the UK 16%, Switzerland 7%, the Benelux 4%, Asia 3%, Italy 2%, and others 2%. Banks took around 50%, asset managers 33%, insurance companies and pension funds 11%, central banks 5%, and others 1%.

Hjelle said that, in line with the issuer's wish to issue senior euro benchmarks once or twice a year, SR Bank could return in the autumn, but that this would depend on the bank's growth and desired funding mix.

Aktia Bank is expected to tap the covered bond market next week. The Finnish bank went on a roadshow from 25 March until yesterday (Thursday), having mandated Commerzbank, JP Morgan, LBBW and Nordea Markets as leads. A syndicate banker on the deal today said that the deal is pencilled in for launch in the first half of next week. ■

Nordic FIs & Covered Bonds

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ECBC pitches Label, A- covered LCR plan to EC

CRR-compliant covered bonds rated at least A- should count toward liquidity buffers with the Covered Bond Label playing a role as a quality criterion under a new approach the European Covered Bond Council (ECBC) has suggested to the EC ahead of its final decision on LCRs.

The European Commission (EC) is due by the end of June to decide which assets qualify as Level 1 or Level 2A assets for banks' Liquidity Coverage Ratio (LCR) requirements under the EU's capital requirements framework (CRD IV/CRR). The covered bond industry as a whole, and jurisdictions such as Denmark in particular, are eager for the Commission to deviate from a December recommendation of the European Banking Authority (EBA) and designate covered bonds as Level 1 liquid assets, without any limit or haircuts.

Carsten Tirsbæk Madsen, BRFkredit executive vice president and ECBC chairman, reiterated the argument at a plenary meeting of the industry body in Paris yesterday (Thursday).

"The ECBC stands ready to assist in its role of market catalyst and think-tank with regards to the identification of appropriate criteria for defining Level 1 assets under the LCR, and hopes that the European Institutions will take into consideration the unprecedented effort made by the covered bond industry to continuously improve market best practice and transparency through its establishment of a quality label," he said. "The ECBC strongly believes that a European solution is the only way to ensure growth and financial stability in Europe."

The Commission held a public hearing on the LCR requirement and leverage ratio on 10 March, and accepted submissions in writing as a follow-up to the hearing until Monday. It said that it will consider organising a further hearing "to revisit some of the more complex issues" but a covered bond market participant said this was the latest round of consultation and that a "decision period" is being entered.

In a response to an EC question on whether covered bonds should be included as Level 1 assets in the LCR or on an "enhanced Level 2 basis", the ECBC on Friday argued for covered bonds to count

as Level 1 assets, noting that this would be in line with eligibility criteria suggested in Recital 100 of the Capital Requirements Regulation (CRR) and the results of an empirical study carried out by the EBA.

The industry body has previously expressed concerns about a touted AA- cut-off point for covered bonds to be included as liquid assets, and in Friday's submission to the Commission reiterated its critical stance on the inclusion of rating triggers in European legislation.

To avoid pro-cyclicality associated with what has been referred to as a "rating cliff" and address other problems linked to the EBA's recommendation for the composition of LCRs, the ECBC has come up with "a two-pronged approach" for the Commission to take into consideration as part of its decision-making.

This is based on extending the LCR eligibility of covered bonds rated AA- (credit quality step 1) to those rated at least A- (credit quality step 2), using the covered bond industry Label as another quality criterion in the context of Level 1 assets, and, for Level 2A covered bonds, to replace a blanket 15% haircut with haircuts informed by the approach used by the European Central Bank (ECB) under its repo collateral framework.

"A step 1 rating trigger, as proposed by the Basel framework, introduces pro-cy-

clicality, which would amplify the effect of a potential crisis scenario," said the ECBC. "In our view, not including step 2 covered bonds in the LCR eligible assets would jeopardise the financial stability of the LCR structure and fail to prevent the risk which could arise from a systemic crisis."

The two-pronged approach it has suggested involves designating CRR-compliant credit quality step 1 covered bonds as Level 1 assets, "using as a reference, for example, the Covered Bond Label — aligned to Article 129 of the CRR as of 1 January 2014 — as an alternative means for identifying a qualitative segment of the covered bond market, an alternative which is based on objective criteria in terms of transparency, credit quality and liquidity".

These are the criteria mentioned in Recital 100 of the CRR in relation to the type of covered bonds that, alongside government bonds, "would be expected" to be considered top level liquid assets.

CRR-compliant credit quality step 2 covered bonds should, under the ECBC's suggested approach, be included as Level 2A assets, "using as reference for the haircut the ECB repo haircut policy".

The ECB's haircut schedule differentiates haircuts according to the credit quality step as well as residual maturity, coupon type and asset class category. ■

Nordea in \$2.25bn three trancher

Nordea Bank priced a \$2.25bn triple tranche senior unsecured bond on Monday, the last day of the first quarter, with a syndicate official at one of the leads noting that a larger deal may have been possible.

The \$2.25bn (Eu1.64, Skr14.7bn) included \$500m April 2017 fixed and floating rate notes, with the fixed rate tranche priced at 48bp over US Treasuries and the FRN at 36bp over three month Libor. Around \$1.25bn of orders were placed for each tranche.

A \$1.25bn five year fixed rate tranche was priced at 75bp over Treasuries on the back of \$2.5bn of orders. That compares with 85bp over for a \$1.5bn five year senior unsecured deal for SEB on 18 March, which drew around \$2.8bn of orders.

Bank of America Merrill Lynch, Citi,

Goldman Sachs and JP Morgan were bookrunners on Nordea's deal. A syndicate official at one of the leads put the new issue premium in the single-digits, putting it at around 3.5bp for the three year fixed rate tranche and 7bp for the five year.

"There was potentially a larger deal on the table, of around \$2.5bn," he said.

The morning after it was priced it was trading nearly 5bp tighter, he added.

Alex Sönnerberg, Nordic FIG DCM at Crédit Agricole CIB, noted how Nordea had issued in dollars soon after SEB.

"The Yankee market continues to be conducive for European banks, so it's not surprising to see Nordea take advantage of the situation by pricing a substantial three-part offering at an attractive funding cost relative to the euro market. ■

Euro Nordic covered bond & senior unsecured secondary spreads

Nordic benchmarks: covered versus ASW, senior unsecured (shaded) versus Z spreads. Thursday, 3/4/14.

ISIN	Coupon	Maturity	Mid Spd	ISIN	Coupon	Maturity	Mid Spd
AKTIA (*AKTIA REMB)				POHBK			
XS0640889803*	3.125	22/06/2016	1	XS0785351213	1.625	23/05/2017	-4
XS0946639381	1.125	25/06/2018	-1	XS0646202407	3.500	11/07/2018	1
BRF				XS1045726699	1.500	17/03/2021	10
XS0882166282	2.500	31/01/2018	81	XS0576922271	3.125	12/01/2016	21
DANBNK				XS0758309396	2.625	20/03/2017	35
XS0437056954	4.500	01/07/2016	-2	XS0540216669	3.000	08/09/2017	45
XS0501663099	3.500	16/04/2018	3	XS0931144009	1.250	14/05/2018	44
XS0469000144	4.125	26/11/2019	12	XS1040272533	2.000	03/03/2021	67
XS0519458755	3.750	23/06/2022	17	SAMBNK			
XS0802067636	2.500	09/07/2015	17	XS0693226978	2.750	19/10/2016	-2
XS0627692204	3.875	18/05/2016	37	XS0834714254	1.625	27/09/2019	9
XS0751166835	3.875	28/02/2017	38	XS0640463062	3.875	21/06/2021	19
DNBNO				SBAB			
XS0478979551	3.375	20/01/2017	-2	XS0619631624	3.375	20/04/2016	-5
XS0728790402	2.375	11/04/2017	1	XS0498316255	3.250	30/03/2017	-3
XS0537686288	2.375	31/08/2017	2	XS0968885623	2.375	04/09/2020	71
XS0877571884	1.000	22/01/2018	2	SEB			
XS0992304369	1.125	12/11/2018	5	XS0548881555	2.625	16/10/2017	-4
XS0794233865	1.875	18/06/2019	6	XS0894500981	1.500	25/02/2020	5
XS0637846725	3.875	16/06/2021	15	XS0988357090	1.625	04/11/2020	8
XS0759310930	2.750	21/03/2022	17	XS0614401197	4.125	07/04/2021	12
XS0856976682	1.875	21/11/2022	14	XS0628653007	3.750	19/05/2016	25
XS0522030310	3.875	29/06/2020	45	XS0730498143	3.875	12/04/2017	35
XS0595092098	4.375	24/02/2021	60	XS0592695000	4.250	21/02/2018	44
XS0732513972	4.250	18/01/2022	59	XS0972089568	2.000	18/03/2019	49
EIKBOL				XS0854425625	1.875	14/11/2019	52
XS0736417642	2.250	25/01/2017	4	XS1033940740	2.000	19/02/2021	62
XS0851683473	1.250	06/11/2017	6	SHBASS			
XS0794570944	2.000	19/06/2019	11	XS0760243328	1.875	21/03/2017	-3
XS1044766191	1.500	12/03/2021	20	XS0906516256	1.000	19/06/2018	-1
JYBC				XS1050552006	1.000	04/01/2019	4
XS0856532618	3mE+110bp	20/05/2015	25	XS0490111563	3.750	24/02/2017	26
LANSBK				XS0732016596	3.375	17/07/2017	26
XS0926822189	1.125	07/05/2020	10	XS0794225176	2.250	14/06/2018	27
MINGNO				XS0965050197	2.250	27/08/2020	37
XS0893363258	2.125	21/02/2018	64	XS0693812355	4.375	20/10/2021	52
NDASS				XS0819759571	2.625	23/08/2022	56
XS0478492415	3.500	18/01/2017	-7	SPABOL			
XS0731649660	2.375	17/07/2017	-3	XS0495145657	3.250	17/03/2017	2
XS0965104978	1.375	20/08/2018	1	XS0820929437	1.250	28/02/2018	1
XS1014673849	1.250	14/01/2019	4	XS0738895373	2.750	01/02/2019	8
XS0778465228	2.250	03/05/2019	5	XS0995022661	1.500	20/01/2020	14
XS0874351728	1.375	15/01/2020	6	XS0942804351	1.500	12/06/2020	14
XS0591428445	4.000	10/02/2021	12	XS0587952085	4.000	03/02/2021	20
XS0489825223	3.750	24/02/2017	28	XS0674396782	3.375	07/09/2021	20
XS0801636571	2.250	05/10/2017	31	SPAROG			
XS0916242497	1.375	12/04/2018	40	XS0853250271	2.000	14/05/2018	63
XS0728763938	4.000	11/07/2019	49	XS0965489239	2.125	27/02/2019	72
XS0520755488	4.000	29/06/2020	54	XS0876758664	2.125	03/02/2020	75
XS1032997568	2.000	17/02/2021	61	SWEDA			
XS0801636902	3.250	05/07/2022	54	XS0455687920	3.625	05/10/2016	-7
NYKRE (*senior secured)				XS0496542787	3.375	22/03/2017	-5
LU0787776052*	3.250	01/06/2017	61	XS0925525510	1.125	07/05/2020	2
LU0921853205*	1.750	02/05/2018	70	XS0794246925	1.750	18/06/2015	7
LU0996352158*	1.750	28/01/2019	73	XS0768453101	2.375	04/04/2016	22
<i>Source: Cr�dit Agricole CIB Trading, Bloomberg – See disclaimer on page 5</i>				XS0740788699	3.375	09/02/2017	36
				XS1045283766	1.500	18/03/2019	45

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