

# NORDIC FIs & COVERED

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and senior spread data

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## Iceland's Arion eyes landmark euro senior unsecured issue



Arion Bank, the successor to Kaupthing Bank, is poised to become the first Icelandic bank to tap the euro senior unsecured market since the collapse of the country's banks in the financial crisis, a move that the issuer's CFO said the market is ready for.

Arion has mandated Citi, Deutsche and Nomura in connection with a deal-related roadshow that starts next Tuesday (22 April). A subsequent transaction would be the first euro senior unsecured benchmark from an Icelandic bank since 2007, before the collapse of the Icelandic financial system in October 2008.

Stefán Pétursson, chief financial officer at Arion Bank, said that a euro senior unsecured transaction is "the next logical step" in the issuer's long term strategy, after it began selling covered bonds domestically in early 2012 and in February 2013 sold an unrated but listed Nkr500m (Isk9.36bn,

Eu60.7m) three year senior unsecured issue.

A rating from Standard & Poor's, BB+, in January this year was another important development paving the way for the issuer to approach the euro market, according to Pétursson.

"We feel that the development of our bank is such that we are now ready to come to market and have people evaluate what we have done and are doing for our business," he told *Nordic FIs & Covered*. "We also believe the market is ready for an Icelandic issue.

"When you look at developments elsewhere in the periphery you can see that investors' risk appetite has increased and spreads are continuing to narrow."

For example, Piraeus Bank in mid-March became the first Greek bank to return to the public bond market since the bail-out of the sovereign, while Irish, Italian and Spanish banks have

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## ESAs' EMIR consult offers swaps hope for covered bond industry

European Supervisory Authorities EBA, ESMA and EIOPA launched a consultation on draft Regulatory Technical Standards for EMIR on Monday, which they said provide some flexibility for covered bonds, with one source cautiously welcoming the proposals as "looking quite positive".

The Regulatory Technical Standards (RTS) address risk management procedures for OTC-derivative contracts not cleared by a central counterparty, after the European Market Infrastructure Regulation (EMIR) introduced a requirement to exchange a margin on non-centrally cleared derivatives.

The risk mitigation techniques for non-centrally cleared derivatives are one of two main sets of obligations set out in EMIR that have alarmed the covered bond industry, which has been calling for exemptions for the asset class given some of its specificities, such as that covered bond posting requirements are always unilateral in favour of the issuer due to rating agency requirements and operational considerations.

Swaps are used in covered bond programmes to hedge interest rate and foreign exchange risk.

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### Latest Nordic FI benchmarks

#### Senior unsecured (z spreads mid)

SPAROG	2.125%	04/21	85bp
SWEDA	1.500%	03/19	40bp
POHBK	2.000%	03/21	63bp

#### Covered bonds (asw spreads mid)

AKTIA	1.000%	04/19	6bp
SHBASS	1.000%	01/19	5bp
POHBK	1.500%	03/21	10bp

Source: CA-CIB trading 17/04/14

# Arion ready for comeback, takes heart from peripheral successes

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typically met with strong demand for new issues.

Arion is a commercial bank that was created out of the default of Kaupthing Bank in 2008, and is owned by the creditors of Kaupthing (87%) and the Icelandic government (13%). Kaupthing's senior unsecured creditors faced losses on their bonds, but payments were maintained on covered bonds issued on a contractual basis by Kaupthing.

Indeed, covered bonds — now legislation-based — were the first wholesale funding instrument to be tapped by an Icelandic bank since the financial crisis, with Íslandsbanki in December 2011 selling a Isk4bn (Eu26m) inflation-linked issue to domestic institutional investors.

Arion is mainly funded by deposits, which stood at Isk500bn as at 30 September, and has longer term, mainly foreign currency funding from the Icelandic government and the central bank, according to Pétursson.

S&P considers that Arion operates in a high risk environment but benefits from a strong capital position, with the risk-adjusted capital ratio projected



Stefán Pétursson, CFO, Arion Bank

to approach 11.5% at the end of 2015, ample liquidity and a largely restructured loan book. Its funding is “average”, according to S&P, noting the risk of foreign currency and domestic deposit outflows but the potential for the bank to obtain other types of stable funding considering moderate asset encumbrance of around 20%.

Arion's roadshow will visit London next Tuesday and Wednesday, Helsinki and Stockholm on Thursday and Copenhagen on Friday, according to a banker at one of the leads. ■

## OC condition proposed in EBA swaps consult

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A covered bond market participant said that, at first glance, the proposals put forward by the European Supervisory Authorities (ESAs) in the consultation look “quite positive”.

“It feels like they have listened to the market,” he said. “On the face of it, at least they included the possibility to have a carve-out for initial and variation margin posting requirements.”

However, he noted that one of the conditions for such an exemption is that the covered bond programme in question is subject to a minimum legal collateralisation requirement (102%), and that not all European covered bond frameworks have such a statutory OC requirement.

Florian Eichert, senior covered bond analyst at Crédit Agricole CIB, said that Nordic frameworks would need to be changed to comply with this, for example, but that that doing so would be in line with moves by other jurisdictions, such as France and the Netherlands, to either increase legal minimum OC or introduce such a requirement.

France is planning to up statutory minimum OC from 2% to 5%, while Dutch covered bond legislation is being amended to include a 5% requirement.

Explaining the approach set out in the draft RTS with respect to margining requirements of derivatives in relation to covered bonds, the ESAs said that they took into account a requirement, set out in recital 24 of EMIR, to take into account certain impediments faced by covered bond issuers or cover pools in posting collateral that this refers to.

“As a consequence covered bonds issuers or cover pools are not required to post collateral under a specific set of conditions, including a requirement to use the derivatives for hedging purposes and a legal overcollateralisation requirement,” they said. “This will ensure that the risks on the counterparties of covered bonds issuers or cover pools are limited, while ensuring some flexibility for covered bonds issuers or cover pools.”

An “alternative market-based solution” could supplement the above solution, they added, and be available to covered bond programmes not fulfilling the conditions mentioned in the proposed RTS.

The consultation runs until 14 July. ■

## 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. Thursday, 17/4/14.

ISIN	Coupon	Maturity	Mid Spd	ISIN	Coupon	Maturity	Mid Spd
<b>AKTIA (*AKTIA REMB)</b>				<b>AKTIA (*AKTIA REMB)</b>			
XS0640889803*	3.125	22/06/2016	-3	XS0646202407	3.500	11/07/2018	1
XS0946639381	1.125	25/06/2018	2	XS1045726699	1.500	17/03/2021	10
XS1056447797	1.000	15/04/2019	6	XS0576922271	3.125	12/01/2016	16
<b>BRF</b>				<b>BRF</b>			
XS0882166282	2.500	31/01/2018	81	XS0758309396	2.625	20/03/2017	31
<b>DANBNK</b>				<b>DANBNK</b>			
XS0437056954	4.500	01/07/2016	-2	XS0540216669	3.000	08/09/2017	41
XS0501663099	3.500	16/04/2018	3	XS0931144009	1.250	14/05/2018	42
XS0469000144	4.125	26/11/2019	12	XS1040272533	2.000	03/03/2021	63
XS0519458755	3.750	23/06/2022	17	<b>SAMBNK</b>			
XS0802067636	2.500	09/07/2015	15	XS0693226978	2.750	19/10/2016	-2
XS0627692204	3.875	18/05/2016	34	XS0834714254	1.625	27/09/2019	9
XS0751166835	3.875	28/02/2017	39	XS0640463062	3.875	21/06/2021	19
<b>DNBNO</b>				<b>SBAB</b>			
XS0728790402	2.375	11/04/2017	1	XS0619631624	3.375	20/04/2016	-5
XS0537686288	2.375	31/08/2017	2	XS0498316255	3.250	30/03/2017	-4
XS0877571884	1.000	22/01/2018	2	XS0968885623	2.375	04/09/2020	67
XS0992304369	1.125	12/11/2018	5	<b>SEB</b>			
XS0794233865	1.875	18/06/2019	6	XS0548881555	2.625	16/10/2017	-4
XS0637846725	3.875	16/06/2021	14	XS0894500981	1.500	25/02/2020	5
XS0759310930	2.750	21/03/2022	17	XS0988357090	1.625	04/11/2020	7
XS0856976682	1.875	21/11/2022	15	XS0614401197	4.125	07/04/2021	11
XS0522030310	3.875	29/06/2020	39	XS0628653007	3.750	19/05/2016	22
XS0595092098	4.375	24/02/2021	51	XS0730498143	3.875	12/04/2017	32
XS0732513972	4.250	18/01/2022	53	XS0592695000	4.250	21/02/2018	37
<b>EIKBOL</b>				<b>SEB</b>			
XS0736417642	2.250	25/01/2017	4	XS0972089568	2.000	18/03/2019	37
XS0851683473	1.250	06/11/2017	6	XS0854425625	1.875	14/11/2019	41
XS0794570944	2.000	19/06/2019	13	XS1033940740	2.000	19/02/2021	55
XS1044766191	1.500	12/03/2021	20	<b>SHBASS</b>			
<b>JYBC</b>				<b>SHBASS</b>			
XS0856532618	3mE+110bp	20/05/2015	23	XS0760243328	1.875	21/03/2017	-4
<b>LANSBK</b>				<b>SHBASS</b>			
XS0926822189	1.125	07/05/2020	10	XS0906516256	1.000	19/06/2018	-1
<b>MINGNO</b>				<b>SHBASS</b>			
XS0893363258	2.125	21/02/2018	62	XS1050552006	1.000	04/01/2019	5
<b>NDASS</b>				<b>SHBASS</b>			
XS0478492415	3.500	18/01/2017	-7	XS0490111563	3.750	24/02/2017	25
XS0731649660	2.375	17/07/2017	-3	XS0732016596	3.375	17/07/2017	25
XS0965104978	1.375	20/08/2018	1	XS0794225176	2.250	14/06/2018	25
XS1014673849	1.250	14/01/2019	4	XS0965050197	2.250	27/08/2020	34
XS0778465228	2.250	03/05/2019	5	XS0693812355	4.375	20/10/2021	45
XS0874351728	1.375	15/01/2020	6	XS0819759571	2.625	23/08/2022	50
XS0591428445	4.000	10/02/2021	12	<b>SPABOL</b>			
XS0489825223	3.750	24/02/2017	26	XS0495145657	3.250	17/03/2017	2
XS0801636571	2.250	05/10/2017	31	XS0820929437	1.250	28/02/2018	1
XS0916242497	1.375	12/04/2018	35	XS0738895373	2.750	01/02/2019	8
XS0728763938	4.000	11/07/2019	41	XS0995022661	1.500	20/01/2020	14
XS0520755488	4.000	29/06/2020	49	XS0942804351	1.500	12/06/2020	14
XS1032997568	2.000	17/02/2021	56	XS0587952085	4.000	03/02/2021	20
XS0801636902	3.250	05/07/2022	52	XS0674396782	3.375	07/09/2021	19
<b>NYKRE (*senior secured)</b>				<b>SPAROG</b>			
LU0787776052*	3.250	01/06/2017	63	XS0853250271	2.000	14/05/2018	65
LU0921853205*	1.750	02/05/2018	71	XS0965489239	2.125	27/02/2019	70
LU0996352158*	1.750	28/01/2019	73	XS0876758664	2.125	03/02/2020	74
<b>POHKB</b>				<b>SPAROG</b>			
XS0785351213	1.625	23/05/2017	-4	XS1055536251	2.125	14/04/2021	85
				<b>SPNTAB / SWEDA</b>			
				XS0455687920	3.625	05/10/2016	-7
				XS0496542787	3.375	22/03/2017	-5
				XS0925525510	1.125	07/05/2020	2
				XS0768453101	2.375	04/04/2016	17
				XS0740788699	3.375	09/02/2017	32
				XS1045283766	1.500	18/03/2019	40
				XS1045283766	1.500	18/03/2019	45

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

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