

NORDIC FIs & COVERED

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SEB, Handelsbanken beat Q2 forecasts, Sweden stands out



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SEB and Handelsbanken exceeded consensus expectations with second quarter results reported this week, while Nordea's came in slightly below, in results that a Kepler Cheuvreux analyst said reflected the banks' geographic business mixes.

SEB was the first of the Swedish banks to announce second quarter results, on Tuesday revealing operating profit of Skr5.3bn (Eu573m), 5% ahead of consensus expectations*.

It was Svenska Handelsbanken's and Nordea's turn this (Thursday) morning, with Handelsbanken reporting pre-tax profit of Skr5.1bn, 7% above consensus expectations, and Nordea announcing pre-tax profit of Eu1.12bn, excluding a restructuring charge of Eu190m related to redundancies in an ongoing cost reduction programme. Nordea's pre-tax profit came in 5% below consensus expectations.

Mats Anderson, equity research analyst at Kepler Cheuvreux, said that overall,

Handelsbanken's and SEB's second quarter results exceeded consensus expectations, while Nordea's fell a little bit short, except in relation to costs, which were better than expected.

"That reflects the geographic business mix of the banks," he said. "Sweden is performing well, while Finland is still a concern and Denmark although stabilising is still sluggish, and that counts against Nordea."

In general, he said, the banks are delivering net interest income that is in line to marginally below consensus expectations as it is under pressure from lower interest rates.

Commission generation and trading income, meanwhile, are in good shape, reflecting stable retail franchises but also increased corporate activity, according to Anderson.

"That is the most important thing, and very good news indeed," he said. "The increased corporate activity illustrates a

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Eiendomskreditt rating fuels commercial tightening, ambition

Commercial mortgage backed covered bonds issued by Eiendomskreditt AS tightened some 15bp after being assigned a first, S&P rating, and the Norwegian issuer's CFO told *The Covered Bond Report* that it has ambitions to grow considerably in the coming years.

Eiendomskreditt was founded in 1997 but after the introduction of covered bond legislation in Norway was converted into a covered bond company. It has commercial and residential cover pools and has issued covered bonds out of each into the domestic Norwegian krone market, and is wholly wholesale funded. Its shareholders are 85 Norwegian savings banks.

It received a AA rating for its commercial mortgage covered bonds on 1 July, on the back of a new BBB issuer rating.

According to a dealer in Oslo, Eiendomskreditt five year commercial covered bonds tightened some 15bp in the wake of the rating being assigned, to trade at around 47bp over three month Nibor. He added that this is some 20bp-22bp wider than where triple-A rated DNB covered bonds trade.

Lars Lynngård, Eiendomskreditt CFO, said that the rating will help the issuer grow.

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Latest Nordic FI benchmarks

Senior unsecured (z spreads mid)

JYBC	3mE+50	06/17	44bp
POHBK	1.125%	06/19	42bp
MINGNO	1.500%	05/19	60bp

Covered bonds (asw spreads mid)

DANBNK	1.250%	06/21	7bp
POHBK	0.750%	06/19	3bp
AKTIA	1.000%	04/19	4bp

Source: CACIB trading 17/7/14

Corporate pick-up 'good news' as Swedes report

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better economic cycle, especially in Sweden where the economy has picked up in 2014 and looks set to grow in 2015, too."

The banks are also delivering on expectations when it comes to costs, according to Anderson, with credit quality very high.

Commenting on SEB's results, Annika Falkengren (pictured on cover), president and chief executive officer at SEB, noted that Nordic and German corporate and capital market activities, including IPOs and tenders, have increased, illustrating that business sentiment has turned more positive.

"However, we are experiencing extraordinary times with very low inflation, low interest rates and more than six years of central bank liquidity support in the euro-zone and the US," she added.

SEB's operating profit of Skr5.3bn represents a 10% increase on the second quarter of 2013 (Skr4.8bn). The bank reported second quarter revenues of Skr11.1bn, and expenses of Skr5.5bn.

"SEB's investments in its client business have created a stronger, more stable and efficient platform," said Falkengren. "As a consequence, our result displays the higher activity in the corporate and capital markets in the Nordic countries.

"Our diversified business contributed to a broad-based increase in operating in-



come, up by four per cent while operating expenses decreased by one per cent."

Svenska Handelsbanken's operating profit of Skr5.1bn is a 3% increase on the second quarter of 2013. It reported revenues of Skr9.6bn, net interest income of Skr6.704m, a loan loss ratio of 6bp, and return on equity of 15.1%. Common Equity Tier 1 (CET1) increased by 0.6 percentage points to 20.1%, with the bank's total capital ratio, under CRD IV, increasing from 24.5% to 25%.

In addition to pre-tax profit of Eu1.12bn, Nordea reported revenues of Eu2.47bn and net interest income of Eu1.37bn. Return on equity was 12% in the second quarter and the loan loss ratio was down from 18bp in the first quarter to 16bp.

Costs amounted to Eu1.39bn, including the restructuring charge. Adjusted for the charge the costs are 3% better than the consensus expectations, according to Anderson.

CET1 stood at 15.2%, at the end of the second quarter, an increase of 60bp, according to Christian Clausen, chief executive officer at Nordea (pictured above).

"The second quarter of 2014 was characterised by a continued inflow of customers and strong activity, particularly in our savings area and corporate advisory business," he said. "Income is holding up well, despite low lending demand, low interest rates and low volatility, and we continue to execute on our cost and capital efficiency programmes.

"Underlying costs are down in local currencies and cost to income ratio is 49%."

Like officials at the other banks, Clausen referred to a May announcement from the Swedish FSA on the treatment of capital buffers and Pillar 2 requirements, saying that Nordea, "based on what we know today", will need a CET1 ratio of around 15%, including a management buffer.

"The Board's ambition to increase the pay-out ratio in 2014 and 2015 is reconfirmed," he said.

Handelsbanken noted that the size of the Pillar 2 surcharge is "the chief remaining uncertainty factor" in the assessment of the final CET1 capital requirement, but said that, taking into account future regulations, it considers the Group to be well-capitalised.

Finansinspektionen, the Swedish FSA, is expected to announce detailed capital regulations in the autumn. ■

*Kepler Cheuvreux, company, Inquiry

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Differing capital rules 'confusing' S&P sees growth at Eiendoms kreditt

Differing capital requirements being set by Nordic financial supervisory authorities will make comparing banks' capitalisation across the region increasingly challenging, Standards & Poor's said yesterday (Wednesday).

The rating agency said that Nordic banks' capitalisation is already strong in a wider European comparison and that it is set to strengthen further as regulators in the region adopt generally stricter requirements under the EU Capital Requirements Regulation & Directive (CRR/CRD IV). While the accumulation of equity capital will probably moderate over the next 18-24 months, issuance of high quality hybrid capital is likely to increase, improving capital ratios by S&P measures, said the rating agency.

However, S&P analysts believe that the bank capital regulatory terrain is becoming increasingly uneven and that "the differing capital requirements proposed in each Nordic country are unlikely to provide investors with a clear and consistent picture of banks' capital".

"We think the different requirements and risk-weight floors ... will widen existing disparities caused by banks' application of internal risk weights to exposures," they said. "As a result, we believe comparing Nordic banks' capital using regulatory measures will become even more challenging, in a region where banks routinely compete across borders for large corporate clients and regional investors."

The rating agency noted that the Swedish FSA, Finansinspektionen, has clarified that it expects to implement systemic risk buffers for the four largest domestic banks under Basel II Pillar 1 and Pillar 2 rules, which would result in an additional 5% core equity requirement for these institutions, "a deviation from their Nordic counterparts".

In Norway, meanwhile, the FSA (Finanstilsynet) is, unlike its European peers, applying increases in capital requirements to transitional Basel risk-weight floors, noted S&P. Once these floors are removed at the end of 2017, Finanstilsynet intends to raise the level of banks' risk weighted assets for mortgage exposures under Pillar 1, rather than apply risk-weight floors as prescribed under Pillar 2, as the Swedish FSA is doing.

S&P said that CRD IV is being implemented unevenly in the Nordic region, based on core equity ratio and buffer requirements that the Nordic FSAs have recently proposed or introduced.

"Adding to the confusion, Swedish banks operating in Norway will apply higher Norwegian mortgage risk weights in their Pillar 2 requirements, while Danish banks will apply the Norwegian adjustments in Pillar 1," said S&P.

It said that Norwegian banks' regulatory capital ratios will be much lower than their Swedish peers', but that this will reflect mortgage risk weights that are three to five times higher.

"We do not know whether the market, which tends to focus on capital ratios rather than capital requirements, will fully appreciate the reason for, or have the time to adjust to, this disparity," said the rating agency.

In Iceland, the FSA expects to apply all the capital buffers available under CRR to systemically important banks, said S&P, while in Denmark and Finland the regulators have so far not indicated that they will implement Pillar 1 systemic risk buffers as in the other three Nordic countries.

"Therefore, the banks in those countries will have somewhat lower core equity requirements than in the rest of the region," said the rating agency. "Denmark's regulator will apply additional requirements for systemically important banks, differentiating itself by proposing requirements based on the degree of systemic importance."

S&P considers that its bank capital measure, the risk-adjusted capital (RAC) ratio, enables a more meaningful comparison of capital levels among Nordic banks as it resolves several inconsistencies among regulatory capital ratios across the region.

RAC ratios for Nordic banks indicate that their capitalisation remains stronger than that of their European peers and is steadily improving, according to S&P.

It said that a large part of this improvement will come from a resurgence of Tier 1 hybrid capital issuance, adding that it expects large Swedish institutions to raise Additional Tier 1 capital in the second half of the year, with Danske Bank having already done so in March this year. ■

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"We have the ambition to establish ourselves in the Norwegian market as one of three issuers of covered bonds backed by commercial mortgages — alongside SpareBank 1 and DNB — where we can be a financing instrument for primarily the savings banks among our 85 shareholders that are not already part of an alliance," he told *The CBR*.

"The fact that we have taken on this rating reflects our ambitions to grow quite considerably in the years ahead. It will cut our cost of funds and regulations are moving in a direction where rated bonds enjoy more favourable treatment."

Assigning the issuer's BBB rating, S&P noted that commercial real estate loans account for 69% of Eiendoms kreditt's lending. The rating agency also highlighted that Eiendoms kreditt has a loan-to-value limit of 55% for commercial mortgages, reflecting a "conservative" underwriting process and general approach to risk by the issuer's management.

"Eiendoms kreditt will continue to increase its share of commercial real estate as it increases its role as a commercial real estate mortgage financier for its owner banks," said S&P, although for now it considers the issuer's business position to be "weak" under its methodology, citing total assets of around Nkr5bn (Eu600m) at the end of the first quarter of 2014 and "very low" market shares in residential and commercial real estate.

The covered bond programme has been deemed to have "low" asset-liability mismatch (ALMM) risk under the rating agency's criteria and to be in Category 2, meaning that it can achieve up to six notches of uplift from Eiendoms kreditt's issuer rating.

The AA covered bond rating is on negative outlook, reflecting the outlook on the issuer rating, which is based on S&P's view that increasing economic risks and a potentially deteriorating environment in Norway could have negative repercussions for Eiendoms kreditt.

Lynngård said Eiendoms kreditt has no immediate plans to issue covered bonds in euros.

"This will perhaps be an option some years ahead when we hopefully have a larger balance sheet than today," he added. ■

Euro Nordic covered bond & senior unsecured secondary spreads

Nordic benchmarks: covered versus ASW, senior unsecured (shaded) versus Z spreads, 17/7/14.

ISIN	Coupon	Maturity	Mid Spd	ISIN	Coupon	Maturity	Mid Spd
AKTIA (*AKTIA REMB)				POHBK			
XS0640889803*	3.125	22/06/2016	-2	XS0785351213	1.625	23/05/2017	-7
XS0946639381	1.125	25/06/2018	1	XS0646202407	3.500	11/07/2018	-3
XS1056447797	1.000	15/04/2019	4	XS1076088001	0.750	11/06/2019	3
BRF				XS1045726699	1.500	17/03/2021	7
XS0882166282	2.500	31/01/2018	78	XS0758309396	2.625	20/03/2017	21
DANBNK				XS0540216669	3.000	08/09/2017	26
XS0501663099	3.500	16/04/2018	-1	XS0931144009	1.250	14/05/2018	32
XS0469000144	4.125	26/11/2019	4	XS1077588017	1.125	17/06/2019	42
XS1071388117	1.250	11/06/2021	7	XS1040272533	2.000	03/03/2021	40
XS0519458755	3.750	23/06/2022	13	SAMBNK			
XS0802067636	2.500	09/07/2015	6	XS0693226978	2.750	19/10/2016	-4
XS0627692204	3.875	18/05/2016	19	XS0834714254	1.625	27/09/2019	5
XS0751166835	3.875	28/02/2017	27	XS0640463062	3.875	21/06/2021	14
DNBNO				SBAB			
XS0728790402	2.375	11/04/2017	-5	XS0498316255	3.250	30/03/2017	-8
XS0537686288	2.375	31/08/2017	-3	XS0968885623	2.375	04/09/2020	58
XS0877571884	1.000	22/01/2018	-2	SEB			
XS0992304369	1.125	12/11/2018	2	XS0548881555	2.625	16/10/2017	-7
XS0794233865	1.875	18/06/2019	4	XS0894500981	1.500	25/02/2020	1
XS0637846725	3.875	16/06/2021	9	XS0988357090	1.625	04/11/2020	3
XS0759310930	2.750	21/03/2022	12	XS0614401197	4.125	07/04/2021	7
XS0856976682	1.875	21/11/2022	11	XS0628653007	3.750	19/05/2016	15
XS0522030310	3.875	29/06/2020	33	XS0730498143	3.875	12/04/2017	18
XS0595092098	4.375	24/02/2021	47	XS0592695000	4.250	21/02/2018	26
XS0732513972	4.250	18/01/2022	47	XS0972089568	2.000	18/03/2019	35
EIKBOL				XS0854425625	1.875	14/11/2019	43
XS0736417642	2.250	25/01/2017	0	XS1033940740	2.000	19/02/2021	51
XS0851683473	1.250	06/11/2017	4	SHBASS			
XS0794570944	2.000	19/06/2019	10	XS0760243328	1.875	21/03/2017	-7
XS1044766191	1.500	12/03/2021	14	XS0906516256	1.000	19/06/2018	-3
JYBC				XS1050552006	1.000	04/01/2019	1
XS0856532618	3mE+110bp	20/05/2015	24	XS0490111563	3.750	24/02/2017	18
XS1078186001	3mE+50bp	19/06/2017	44	XS0732016596	3.375	17/07/2017	18
LANSBK				XS0794225176	2.250	14/06/2018	13
XS0926822189	1.125	07/05/2020	7	XS0965050197	2.250	27/08/2020	28
MINGNO				XS0693812355	4.375	20/10/2021	40
XS0893363258	2.125	21/02/2018	52	XS0819759571	2.625	23/08/2022	46
XS1069518451	1.500	20/05/2019	60	SPABOL			
NDASS				XS0495145657	3.250	17/03/2017	-4
XS0478492415	3.500	18/01/2017	-10	XS0820929437	1.250	28/02/2018	-2
XS0731649660	2.375	17/07/2017	-6	XS0738895373	2.750	01/02/2019	2
XS0965104978	1.375	20/08/2018	-3	XS0995022661	1.500	20/01/2020	8
XS1014673849	1.250	14/01/2019	0	XS0942804351	1.500	12/06/2020	9
XS0778465228	2.250	03/05/2019	1	XS0587952085	4.000	03/02/2021	13
XS0874351728	1.375	15/01/2020	3	XS0674396782	3.375	07/09/2021	13
XS0591428445	4.000	10/02/2021	7	SPAROG			
XS0801636571	2.250	05/10/2017	19	XS0853250271	2.000	14/05/2018	44
XS0916242497	1.375	12/04/2018	23	XS0965489239	2.125	27/02/2019	56
XS0728763938	4.000	11/07/2019	33	XS0876758664	2.125	03/02/2020	55
XS0520755488	4.000	29/06/2020	40	XS1055536251	2.125	14/04/2021	74
XS1032997568	2.000	17/02/2021	44	SWEDA			
XS0801636902	3.250	05/07/2022	45	XS0496542787	3.375	22/03/2017	-9
NYKRE (*senior secured)				XS0925525510	1.125	07/05/2020	0
LU0787776052*	3.250	01/06/2017	58	XS1069674825	1.125	21/05/2021	3
LU0921853205*	1.750	02/05/2018	63	XS0768453101	2.375	04/04/2016	8
LU0996352158*	1.750	28/01/2019	66	XS0740788699	3.375	09/02/2017	21
<i>Source: Crédit Agricole CIB Trading, Bloomberg — See disclaimer on page 5</i>				XS1045283766	1.500	18/03/2019	35

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