

# NORDIC FIs & COVERED

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## FIG reopened at tight levels, but little autumn action seen



**UBS and National Australia Bank this week successfully reopened the euro financial institutions and covered bond markets, respectively, but overall the euro primary market was slow off the mark after the summer recess.**

Issuance activity was modest across markets in August compared with previous years and supply is expected to remain subdued, although FIG flow deals this week were well received.

UBS, for example, sold a Eu3bn dual tranche senior unsecured deal while National Australia Bank priced a Eu500m 2021 covered bond tap, twice the Eu250m minimum that was marketed, at 9bp over mid-swaps, 17bp tighter than where the initial issue was sold in late May.

"The NAB tap was impressive," said Vincent Hoarau, head of FIG syndicate at Crédit Agricole CIB. "It shows the amazing compression in spreads over the summer and is further confirmation of the supportive issuance conditions, given the traction expected from the

treatment of covered bonds in the LCR, net negative supply, and the impact of the TLTRO."

Comments from European Central Bank president Mario Draghi at a symposium in Jackson Hole last Friday, which were taken as signalling the ECB may proceed with quantitative easing, triggered a further rally in yields this week.

The consensus among syndicate officials is that there is unlikely to be a rush of near term supply, with targeted longer term refinancing operations (TLTROs) on offer at the ECB seen as likely to reduce wholesale funding needs and heighten the selectivity with which issuers can approach the market. Syndicate bankers have, however, also noted that there is a case to be made for tapping the market before the ECB's Asset Quality Review.

Hybrid capital transactions are expected to form more of a priority for issuers this quarter. Banco Santander and UniCredit this week announced AT1 mandates. ■

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## Nordea, BRFkredit join Nykredit as ARMs sales sustain strength

Nordea Kredit wrapped up three days of refinancing auctions of adjustable rate mortgage (ARM) bonds today (Thursday), while BRFkredit and Nykredit have one day left, with "extreme" spread stability to slight tightening and curve flattening flagged as notable aspects of the sales.

Nordea Kredit held auctions from Tuesday to today, offering Dkr18.9bn (Eu2.54bn) of one year ARM bonds, Dkr570m of two years, Dkr4.38bn of threes, and Dkr600m of fives.

Nykredit Realkredit, meanwhile, started on Monday of last week (18 August) and is offering some Dkr76bn of ARMs paper, the majority of which is one year bonds. Its only sale of five year bonds will take place tomorrow, alongside another offer of one year supply.

Uffe Kalmar Hansen, senior covered bond analyst at Nordea Markets, highlighted a tightening of spreads and yields as notable aspects of the auctions.

"Nykredit's auctions are probably the most representative, as they've been going on for nine days now, and the spreads there have tightened, from 16.6bp over Cita to 16.2bp today," he said. "The

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| Latest Nordic FI benchmarks      |        |       |      |
|----------------------------------|--------|-------|------|
| Senior unsecured (z spreads mid) |        |       |      |
| JYBC                             | 3mE+50 | 06/17 | 36bp |
| POHBK                            | 1.125% | 06/19 | 34bp |
| MINGNO                           | 1.500% | 05/19 | 55bp |
| Covered bonds (asw spreads mid)  |        |       |      |
| DANBNK                           | 1.250% | 06/21 | 3bp  |
| POHBK                            | 0.750% | 06/19 | -2bp |
| AKTIA                            | 1.000% | 04/19 | 1bp  |

Source: CACIB trading 27/8/14

# Changes to Norwegian capital requirements ‘credit positive’

Changes to capital requirements announced by the Norwegian ministry of finance that are in line with the latest EU Capital Requirements Directive (CRD) are credit positive for the country’s banks, Moody’s said today (Thursday), in that they will strengthen the financial institutions’ capital buffers.

According to the rating agency, the changes announced by the ministry last Friday (22 August), which will take effect on 20 September, are in line with its expectations that Norway, which is not in the EU, will nevertheless follow EU rules when it deems them helpful domestically.

Moody’s noted that while Norway implemented the main rules from the EU Capital Requirements Regulation/CRD IV last year, the regulations have not yet been implemented in full — although the country is still ahead of some other European countries.

The rating agency cited several amendments that it said strengthen the requirements for equity and debt with respect to Common Equity Tier 1 (CET1) capital, Additional Tier 1 (AT1), and other subordinated capital. It noted that: equity certificates, which are frequently issued by Norwegian savings banks, are eligi-

ble as CET1 capital; AT1 coupons must be non-cumulative, and non-payment not considered an event of default; and the loss-absorbing trigger level has been set at 5.125% of CET1 capital.

The exact timelines for grandfathering of old-style hybrid debt instruments was also set, according to Moody’s, with banks being allowed to include the full amount of old-style capital instruments in their capital ratios until the end of 2014, although recognition declines each year between 1 January 2015 and 31 December 2021.

“As for the banks we rate, an average of just over 10% of Tier 1 capital consists of hybrid securities, part of which are old-style and may need to be refinanced before 2021,” said the rating agency, which detailed how much hybrids each has outstanding. “The overview suggests that as of the second quarter, Storebrand Bank (Baa1 negative, D+/baa3 stable4) and Sparebanken More (A3 negative, C-/baa2 stable) would be most affected.

“Indeed, Storebrand Bank called all its old-style hybrid securities following the release of its second quarter financial results and Sparebanken More is in the process of calling part of its hybrid securities.” ■

## Spreads tighten, bid-to-covers hold up across Nykredit ARM auctions

(continued from page 1)

spreads on Nordea one year ARM bonds were unchanged over the three auctions days in my opinion, but if you look at where they were trading on the last day before the auction season started there was a tightening.”

Nordea one year ARM bonds were auctioned at a spread of 15.2bp over Cita on Tuesday and 15.6bp over today, according to Hansen. Nordea also auctioned three year bonds over the three days, and the spread on these tightened slightly, from 7bp through three months asset swap to 8bp through,

he said. The yield on Nordea’s one year bonds increased from 0.233% on the first day to 0.243% today, while the yield to maturity on Nykredit’s fell from 0.28% on 18 August to 0.25% today, according to results published by the issuers.

Lars Mossing Madsen, chief dealer at Nykredit, said that the spread on Nykredit’s one year bonds has been “extremely stable” over the course of the auctions, on average 15bp over Cita, with expectations before the auctions having been for a spread of 16bp-18bp over.

Nykredit’s auctions started with very high bid-to-cover ratios of around 4, and although the oversubscription levels have been lower in the past few days this is a normal trend and has not affected the swap or yield levels, according to Madsen.

“The tightest level was at the beginning of this week and then when the bid-to-cover fell a bit we lost maybe 1bp, but the impact has been marginal,” he said.

The bid-to-cover on three year ARM bonds, meanwhile, shot up from 4.5 on the first day of their being auctioned, on Tuesday of last week, to 6.77 today.

“The three year auctions are done, and went very well,” said Madsen. “The yield curve flattened, and we’ve reached the tightest level between one year and three year bonds, so for borrowers it is an interesting time to consider three year ARMs.”

A BRFkredit official said that its auctions of one year ARM bonds have gone well so far, as it has refinanced at around the same level as Nordea and Nykredit, with the yield at around 0.26%, and that sales of its new RTL F bonds have also been successful. ■

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# Moody's ups Danish outlook, final LCR awaited

**Moody's changed its outlook on the Danish banking system from negative to stable yesterday (Wednesday) because of a continuing stabilisation of the operating environment and reduced risks for Danish financial institutions, with covered bond developments seen as key.**

The rating agency's previous negative stance on Danish banks in recent years has resulted in it losing rating contracts for several financial institutions and covered bonds.

Among positives contributing to the reduced risks for Danish banks cited by Moody's were lower expected loan losses and reduced risks from mortgage loan refinancing, the latter activity having been a bone of contention in the rating agency's dealings with Danish covered bond issuers in relation to adjustable rate mortgages (ARMs).

"We note that the mortgage act passed by the Danish parliament in March 2014 largely eliminates refinancing risk in the mortgage market, which we have previously highlighted as a significant risk to the Danish financial system," Moody's said yesterday.

The rating agency said that the positive outlook for funding profiles is contingent upon benign conditions for access to covered bond funding, noting

that this is critical to the functioning of the mortgage market and hence the wider Danish economy.

"Safeguarding investor confidence in Danish covered bonds is a high priority for the authorities, resulting in all covered bond issuers, even the relatively small DLR Kredit, being designated as SIFIs," said Moody's. "The central bank has also recommended a reduction in the maximum loan-to-value (LTV) limit for interest-only loans and repeated that it remains 'lender of last resort' for the MCIs (mortgage credit institutions)."

The final rules on Liquidity Coverage Ratios (LCRs) could have a "large impact" on demand for Danish covered bonds and the reported liquidity ratios of Danish banks, according to Moody's. It noted that the latest draft proposals in this respect — allowing for certain covered bonds to constitute 70% of LCRs with a 7% haircut — would result in only a modest change to the status quo, but also that the European Banking Authority in December raised the prospect of covered bonds facing a 40% limit and 15% haircuts. It said that the latter would result in a "significant reduction" in demand for Danish mortgage covered bonds.

The rating agency also noted that the high level of household debt — mainly mortgages — to GDP makes the finan-

cial system and wider economy sensitive to investor demand for Danish mortgage covered bonds.

Regarding the wider economic outlook for Denmark, Moody's said that it expects GDP growth to continue to strengthen, at 1.6% in 2014 and 1.7% in 2015, and also improvements in unemployment and property price trends, which have been drivers of problem loans.

The rating agency said it is "somewhat cautious" about the income outlook for the sector.

"Low loan demand combined with banks' improving lending capacity results in maintained pressure on lending margins in the highest credit quality segments," it said. "In addition, we think that the strengthened capital positions, improved funding access for most banks and the generally more positive economic outlook has increased banks' growth appetite, leading to broader pressure also on margins in lower-quality asset segments."

"The extent to which further cost reductions will be able to compensate for pressure on income will partly depend on customer behaviour such as the level of 'self service', and the extent to which customer related processes can be further automated," added Moody's. ■

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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 at the issuer, although an analyst said the outcome was not surprising.

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Updating its collateral framework is something the ECB does on a regular basis. The central bank adjusts the parameters to reflect current

SWEDEN

Swedish debt office bail-in proposal seen as credit negative by Moody's  
A Swedish National Debt Office (Riksgälden) proposal on how to implement the EU bank recovery and resolution framework in Sweden is credit negative for senior unsecured debt of the country's banks.

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# Euro Nordic covered bond & senior unsecured secondary spreads

*Nordic benchmarks: covered versus ASW, senior unsecured (shaded) versus Z spreads, 27/8/14.*

| ISIN                           | Coupon    | Maturity   | Mid Spd |
|--------------------------------|-----------|------------|---------|
| <b>AKTIA (*AKTIA REMB)</b>     |           |            |         |
| XS0640889803*                  | 3.125     | 22/06/2016 | -5      |
| XS0946639381                   | 1.125     | 25/06/2018 | -1      |
| XS1056447797                   | 1.000     | 15/04/2019 | 1       |
| <b>BRF</b>                     |           |            |         |
| XS0882166282                   | 2.500     | 31/01/2018 | 69      |
| <b>DANBNK</b>                  |           |            |         |
| XS0501663099                   | 3.500     | 16/04/2018 | -5      |
| XS0469000144                   | 4.125     | 26/11/2019 | -1      |
| XS1071388117                   | 1.250     | 11/06/2021 | 3       |
| XS0519458755                   | 3.750     | 23/06/2022 | 8       |
| XS0802067636                   | 2.500     | 09/07/2015 | 3       |
| XS0627692204                   | 3.875     | 18/05/2016 | 12      |
| XS0751166835                   | 3.875     | 28/02/2017 | 18      |
| <b>DNBNO</b>                   |           |            |         |
| XS0728790402                   | 2.375     | 11/04/2017 | -10     |
| XS0537686288                   | 2.375     | 31/08/2017 | -7      |
| XS0877571884                   | 1.000     | 22/01/2018 | -5      |
| XS0992304369                   | 1.125     | 12/11/2018 | -2      |
| XS0794233865                   | 1.875     | 18/06/2019 | -1      |
| XS0637846725                   | 3.875     | 16/06/2021 | 5       |
| XS0759310930                   | 2.750     | 21/03/2022 | 7       |
| XS0856976682                   | 1.875     | 21/11/2022 | 6       |
| XS0522030310                   | 3.875     | 29/06/2020 | 31      |
| XS0595092098                   | 4.375     | 24/02/2021 | 40      |
| XS0732513972                   | 4.250     | 18/01/2022 | 42      |
| <b>EIKBOL</b>                  |           |            |         |
| XS0736417642                   | 2.250     | 25/01/2017 | -4      |
| XS0851683473                   | 1.250     | 06/11/2017 | 0       |
| XS0794570944                   | 2.000     | 19/06/2019 | 5       |
| XS1044766191                   | 1.500     | 12/03/2021 | 9       |
| <b>JYBC</b>                    |           |            |         |
| XS0856532618                   | 3mE+110bp | 20/05/2015 | 19      |
| XS1078186001                   | 3mE+50bp  | 19/06/2017 | 36      |
| <b>LANSBK</b>                  |           |            |         |
| XS0926822189                   | 1.125     | 07/05/2020 | 3       |
| <b>MINGNO</b>                  |           |            |         |
| XS0893363258                   | 2.125     | 21/02/2018 | 42      |
| XS1069518451                   | 1.500     | 20/05/2019 | 55      |
| <b>NDASS</b>                   |           |            |         |
| XS0478492415                   | 3.500     | 18/01/2017 | -14     |
| XS0731649660                   | 2.375     | 17/07/2017 | -9      |
| XS0965104978                   | 1.375     | 20/08/2018 | -8      |
| XS1014673849                   | 1.250     | 14/01/2019 | -5      |
| XS0778465228                   | 2.250     | 03/05/2019 | -3      |
| XS0874351728                   | 1.375     | 15/01/2020 | -2      |
| XS0591428445                   | 4.000     | 10/02/2021 | 2       |
| XS0801636571                   | 2.250     | 05/10/2017 | 14      |
| XS0916242497                   | 1.375     | 12/04/2018 | 9       |
| XS0728763938                   | 4.000     | 11/07/2019 | 22      |
| XS0520755488                   | 4.000     | 29/06/2020 | 30      |
| XS1032997568                   | 2.000     | 17/02/2021 | 40      |
| XS0801636902                   | 3.250     | 05/07/2022 | 36      |
| <b>NYKRE (*senior secured)</b> |           |            |         |
| LU0787776052*                  | 3.250     | 01/06/2017 | 56      |
| LU0921853205*                  | 1.750     | 02/05/2018 | 56      |
| LU0996352158*                  | 1.750     | 28/01/2019 | 54      |

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

| ISIN          | Coupon | Maturity   | Mid Spd |
|---------------|--------|------------|---------|
| <b>POHBK</b>  |        |            |         |
| XS0785351213  | 1.625  | 23/05/2017 | -10     |
| XS0646202407  | 3.500  | 11/07/2018 | -7      |
| XS1076088001  | 0.750  | 11/06/2019 | -2      |
| XS1045726699  | 1.500  | 17/03/2021 | 2       |
| XS0758309396  | 2.625  | 20/03/2017 | 18      |
| XS0540216669  | 3.000  | 08/09/2017 | 18      |
| XS0931144009  | 1.250  | 14/05/2018 | 23      |
| XS1077588017  | 1.125  | 17/06/2019 | 34      |
| XS1040272533  | 2.000  | 03/03/2021 | 37      |
| <b>SAMBNK</b> |        |            |         |
| XS0693226978  | 2.750  | 19/10/2016 | -8      |
| XS0834714254  | 1.625  | 27/09/2019 | 0       |
| XS0640463062  | 3.875  | 21/06/2021 | 9       |
| <b>SBAB</b>   |        |            |         |
| XS0498316255  | 3.250  | 30/03/2017 | -12     |
| XS0968885623  | 2.375  | 04/09/2020 | 51      |
| <b>SEB</b>    |        |            |         |
| XS0548881555  | 2.625  | 16/10/2017 | -11     |
| XS0894500981  | 1.500  | 25/02/2020 | -3      |
| XS0988357090  | 1.625  | 04/11/2020 | -1      |
| XS0614401197  | 4.125  | 07/04/2021 | 3       |
| XS0628653007  | 3.750  | 19/05/2016 | 10      |
| XS0730498143  | 3.875  | 12/04/2017 | 12      |
| XS0592695000  | 4.250  | 21/02/2018 | 20      |
| XS0972089568  | 2.000  | 18/03/2019 | 31      |
| XS0854425625  | 1.875  | 14/11/2019 | 32      |
| XS1033940740  | 2.000  | 19/02/2021 | 41      |
| <b>SHBASS</b> |        |            |         |
| XS0760243328  | 1.875  | 21/03/2017 | -12     |
| XS0906516256  | 1.000  | 19/06/2018 | -6      |
| XS1050552006  | 1.000  | 04/01/2019 | -5      |
| XS0490111563  | 3.750  | 24/02/2017 | 8       |
| XS0732016596  | 3.375  | 17/07/2017 | 8       |
| XS0794225176  | 2.250  | 14/06/2018 | 11      |
| XS0965050197  | 2.250  | 27/08/2020 | 20      |
| XS0693812355  | 4.375  | 20/10/2021 | 34      |
| XS0819759571  | 2.625  | 23/08/2022 | 36      |
| <b>SPABOL</b> |        |            |         |
| XS0495145657  | 3.250  | 17/03/2017 | -8      |
| XS0820929437  | 1.250  | 28/02/2018 | -6      |
| XS0738895373  | 2.750  | 01/02/2019 | -2      |
| XS0995022661  | 1.500  | 20/01/2020 | 2       |
| XS0942804351  | 1.500  | 12/06/2020 | 5       |
| XS0587952085  | 4.000  | 03/02/2021 | 9       |
| XS0674396782  | 3.375  | 07/09/2021 | 9       |
| <b>SPAROG</b> |        |            |         |
| XS0853250271  | 2.000  | 14/05/2018 | 39      |
| XS0965489239  | 2.125  | 27/02/2019 | 50      |
| XS0876758664  | 2.125  | 03/02/2020 | 51      |
| XS1055536251  | 2.125  | 14/04/2021 | 70      |
| <b>SWEDA</b>  |        |            |         |
| XS0496542787  | 3.375  | 22/03/2017 | -13     |
| XS0925525510  | 1.125  | 07/05/2020 | -2      |
| XS1069674825  | 1.125  | 21/05/2021 | -2      |
| XS0768453101  | 2.375  | 04/04/2016 | 8       |
| XS0740788699  | 3.375  | 09/02/2017 | 18      |
| XS1045283766  | 1.500  | 18/03/2019 | 33      |

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