

NORDIC FIs & COVERED

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Nordea, SEB resilient against headwinds, differ on pay-out



Nordea and SEB opened the latest earnings season this week with results that were resilient against the headwinds from autumn interest rate cuts and bode well for their peers, although the dividend and capital policies of the two Swedish banks contrasted.

Their figures kicked off reporting for Nordic financial institutions, with Nordea first, on Wednesday, and SEB on Thursday. Swedbank reports next Tuesday, Svenska Handelsbanken on Wednesday and SBAB on Friday, and they are joined by leading Danish, Finnish and Norwegian banks.

Nordea reported a pre-tax profit of Eu1.16bn, up from Eu1bn a year earlier and marginally below consensus forecasts.

“We are in 2014 delivering a robust result with stable revenues, decreased costs and improved credit quality leading to a 9% increase in operating profit,” said Christian Clausen, Nordea CEO (pictured). “This is despite a challenging environment with low growth, low rates

and increased geopolitical tensions.”

SEB’s pre-tax profit came in at Skr6.6bn (Eu710m), up from Skr5bn in the same period of 2014, but 3% below expectations.

Mats Anderson, equity research analyst at Kepler Cheuvreux, said that although the two banks’ revenues were weak — net interest income for both came in 3% below expectations, at Eu1.36bn for Nordea and Skr5.01bn for SEB — this reflected the low and falling rate environment. Meanwhile, there was good news on commission generation, he noted, with Nordea’s, at Eu763m, 5% ahead of expectations, and SEB’s, at Skr4.55bn, 11% ahead, on the back of greater capital markets and corporate activity.

And he said that it was positive to see that credit quality remained high in the quarter, while both banks had shown good cost control.

“Although we have all these troubling signs — with Russia, oil, etc — the pro-

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FIG in rude health after QE, Greece, with supply seen higher after results

The euro senior unsecured and covered bond markets proved buoyant in the wake of the European Central Bank’s announcement of sovereign QE last week and Greek elections on Sunday, although blackout periods constrained supply and question marks remain over the prospect of Nordic banks accessing the market after results announcements.

The victory of Greek anti-austerity party Syriza and its formation of a coalition government on Monday did not overly concern markets outside Greece, with benchmark covered bonds for AIB Mortgage Bank and Bankinter on Tuesday showing demand for peripheral credits to be strong.

AIB’s Eu750m seven year issue was three times oversubscribed after the Irish bank had pulled a planned 10 year in November, while Bankinter achieved what was considered aggressive pricing on a Eu1bn 10 year. Erste Bank meanwhile overcame concerns surrounding some Austrian banks, notably RBI, to price a Eu500m 10 year issue yesterday (Thursday).

In the senior unsecured market, Ra-

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Latest Nordic FI benchmarks

Senior unsecured (z spreads mid)

JYBC	FRN	06/17	32bp
POHBK	1.125%	06/19	25bp
DANBNK	FRN	11/18	37bp

Covered bonds (asw spreads mid)

POHBK	1.000%	11/24	-1bp
NDASS	1.000%	11/24	-2bp
SHBASS	0.625%	11/21	1bp

Source: CACIB trading 28/1/15

Swedes' capital policies contrast

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visioning has been kept at low levels," said Anderson. "There has been a certain increase in problem loans, but it is nothing to write home about."

On the back of its improved profits, Nordea increased its dividend to Eu0.62 per share, up from Eu0.43 — equivalent to an improvement in the pay-out ratio from 56% to 73% — and the bank said that it hopes to increase this further in 2015 while maintaining a strong capital base.

"This is an aggressive message from Nordea," said Anderson. "What we are seeing is it coming into the same camp that Handelsbanken last year joined Swedbank in."

Announcing its intentions regarding the pay-out ratio, Nordea noted that it is maintaining a strong capital base. Its Common Equity Tier 1 (CET1) capital ratio was up 1.8% to 15.7% at the end of 2014 and Nordea said that it aims to operate with a CET1 ratio of approximately 15% including a management buffer, versus a regulatory requirement of 14.8%.

SEB increased its dividend to Skr4.75 for 2014 from Skr4 a year earlier, representing a fall in its pay-out ratio from 59% to 54%, although Anderson noted that SEB's figure excludes capital gains and that including these gives a pay-out ratio of 65%. The bank maintained its



stated distribution policy of a pay-out ratio of 40% or more.

SEB meanwhile reported a CET1 ratio of 16.3%, up from 15% a year earlier, and communicated that it will run a management buffer of around 150bp against a regulatory requirement of 15.6%.

Anderson contrasted the two banks' approaches.

"The management buffer Nordea feel they need to have above the regulatory minimum requirement is apparently just 20bp-30bp," he said. "In SEB's case, there is of course a different business and geographical mix, but the fact that they are going on such different paths is something of a mystery." ■

Scope warns on Swedish real estate overvaluation

Concentrated exposure to domestic real estate is a key risk factor and a negative driver of Swedish bank ratings, Scope Ratings said yesterday (Thursday), warning that the Swedish property market is overvalued by 20%-30%.

Scope said this large risk concentration is a negative factor affecting the credit profiles of rated Swedish banks.

Exposure varies between banks according to their degree of geographical diversification and business model, Scope said, with Nordea (rated A+) benefiting from the lowest exposure to Swedish real estate, at 16% of total loans, while the exposures of Handelsbanken (A) and Swedbank (A-) are more than 10 times larger than their capital bases, at 55% and 69% of total loans, respectively, according to the rating agency.

Scope warned that a sharp deterioration of Swedish real estate assets performance "could significantly impact banks' profitability, asset quality and, under more stressed assumptions, funding and capital".

The rating agency highlighted the availability of mortgage credit on generous terms, a prolonged period of declining low real interest rates, limited amortisation requirements, a tightly regulated market, and an accommodating tax environment as factors contributing to a market overvaluation of 20%-30% compared with historical standards.

"Our conclusion is that while some of these factors appear to be structural," said analysts at Scope, "the prolonged period of rising prices has pushed expectations regarding future price developments to all-time highs, just at the point in time where authorities seem most determined to curb excesses. While a soft landing is plausible if loose monetary policy and macro-prudential tools are finely calibrated, we believe there are inherent downside risks to this scenario.

"Given our analysis, we view favourably the Swedish FSA's drive to increase the capital cushions of the banks as well as the recent proposals to increase the mandatory amortisation of mortgages which are over 50% of the property value as they bolster the banking system's robustness to potential shocks." ■

Nordic FIs & Covered Bonds

Produced by **NewType Media**,
publisher of

The Covered Bond Report

Neil Day
Managing Editor
nday@coveredbondreport.com
+44 20 7428 9575

Tom Revell
Reporter
trevell@coveredbondreport.com
+44 20 7267 5354

news.coveredbondreport.com

In association with



Vincent Hoarau
Head of FIG Syndicate
vincent.hoarau@ca-cib.com
+44 20 7214 6162

Julian Burkhard
Global Head of Capital Solutions,
Head of FI DCM Nordics & UK
julian.burkhard@ca-cib.com
+44 20 7214 5472

Florian Eichert
Senior Covered Bond Analyst
florian.eichert@ca-cib.com
+44 20 7214 6402

Basis swap moves counter improved covered RV

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bobank and Morgan Stanley each priced Eu1.5bn long dated benchmarks, the Dutch bank selling a 12 year and the US firm a 10, both of which were heavily oversubscribed. The Netherlands' Achmea meanwhile provided subordinated supply with a Eu750m perpetual non-call 10 issue that was some four times oversubscribed.

"We are seeing a strong bid for duration," said Viet Le, financial institutions and covered bond syndicate manager at Crédit Agricole CIB. "One of the reasons we did not see more supply is blackout periods, but those who were in a position to move met strong demand and have been able to take out size.

"With markets in good shape and investors looking forward to further issuance, activity should pick up next week as banks progressively exit blackout."

Nordea kicked off the reporting season in the Nordics on Wednesday, with SEB following on Thursday (*see separate article for more details*), and other major Danish, Finnish, Norwegian and Swedish financial institutions are releasing results next week.

Although historically tight levels



Alex Sönnerberg,
Crédit Agricole CIB

could attract such issuers into the senior unsecured market and AT1 and Tier 2 markets are expected to pick up after a relatively quiet start to the year, question marks remain over whether Nordic issuers will access the euro covered bond market.

Syndicate officials have noted renewed demand for benchmark covered bonds at the beginning of the year as the expectation and then announcement of the ECB's sovereign QE programme has

led to covered bonds becoming more attractive relative to government and other SSA issuance.

"All of a sudden there is some value again in covered bonds, which is great news for those who are looking to issue," said Alex Sönnerberg, Nordic FIG DCM origination at Crédit Agricole CIB. "Investors are also looking at sectors that are not eligible for CBPP3 and of just as high quality but offering pretty good value, as witnessed by the Aussie and Canadian supply we have seen, and the Nordics could benefit from this."

However, running counter to this have been movements in cross-currency basis swaps, noted Sönnerberg.

"The problem, as always, is the basis swap," he said. "When the ECB announced QE the euro-dollar basis moved a lot more negative, and that has a knock-on impact on, for example, the all-in cost for the Swedes, making euros rather unattractive versus their domestic market.

"There is around 5bp-10bp of differential, which is quite a lot, to be honest. We'll see if that means that they stay in the domestic market for the time being." ■

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

Thursday, 15 August 2013

FROM CRÉDIT AGRICOLE CIB

ECB changes repo haircuts: What's the impact on Nordic names?
Updating its collateral framework is something the ECB does on a regular basis. The central bank adjusts the parameters to reflect current market conditions and sometimes also to achieve a certain policy objective.

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, particularly of the four largest, Moody's said today (Thursday).

DENMARK

Jyske drops Moody's, citing methodology and negative

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Euro Nordic covered bond & senior unsecured secondary spreads

Nordic benchmarks: covered versus ASW, senior unsecured (shaded) versus Z spreads, 28/1/15.

ISIN	Coupon	Maturity	Mid Spd	ISIN	Coupon	Maturity	Mid Spd
AKTIA (*AKTIA REMB)				POHKBK			
XS0640889803*	3.125	22/06/2016	-2	XS0785351213	1.625	23/05/2017	-12
XS0946639381	1.125	25/06/2018	-7	XS0646202407	3.500	11/07/2018	-11
XS1056447797	1.000	15/04/2019	-6	XS1076088001	0.750	11/06/2019	-8
BRF				XS1045726699	1.500	17/03/2021	-5
XS0882166282	2.500	31/01/2018	49	XS1144844583	1.000	28/11/2024	-1
DANBNK				XS0758309396	2.625	20/03/2017	6
XS1113212721	0.375	26/08/2019	-3	XS0540216669	3.000	08/09/2017	9
XS0469000144	4.125	26/11/2019	-2	XS0931144009	1.250	14/05/2018	20
XS1071388117	1.250	11/06/2021	3	XS1077588017	1.125	17/06/2019	25
XS0519458755	3.750	23/06/2022	3	XS1040272533	2.000	03/03/2021	33
XS0802067636	2.500	09/07/2015	2	SAMBANK			
XS0627692204	3.875	18/05/2016	1	XS0693226978	2.750	19/10/2016	-10
XS0751166835	3.875	28/02/2017	14	XS0834714254	1.625	27/09/2019	-7
XS1139303736	3mE+35	19/11/2018	37	XS0640463062	3.875	21/06/2021	1
DNBNO				SBAB			
XS0728790402	2.375	11/04/2017	-9	XS1117542412	0.625	07/10/2021	-1
XS0877571884	1.000	22/01/2018	-6	XS0968885623	2.375	04/09/2020	47
XS0992304369	1.125	12/11/2018	-4	SEB			
XS0794233865	1.875	18/06/2019	-3	XS0548881555	2.625	16/10/2017	-11
XS1117515871	0.375	07/10/2019	-2	XS0894500981	1.500	25/02/2020	-4
XS1137512742	3mE+10bp	17/11/2021	11	XS0988357090	1.625	04/11/2020	-4
XS0637846725	3.875	16/06/2021	1	XS0614401197	4.125	07/04/2021	-1
XS0759310930	2.750	21/03/2022	4	XS0628653007	3.750	19/05/2016	-1
XS0856976682	1.875	21/11/2022	4	XS0730498143	3.875	12/04/2017	10
XS0522030310	3.875	29/06/2020	24	XS0592695000	4.250	21/02/2018	21
XS0595092098	4.375	24/02/2021	38	XS0972089568	2.000	18/03/2019	24
XS0732513972	4.25	18/01/2022	36	XS0854425625	1.875	14/11/2019	24
EIKBOL				XS1033940740	2.000	19/02/2021	37
XS0736417642	2.250	25/01/2017	-5	SHBASS			
XS0851683473	1.250	06/11/2017	-5	XS0760243328	1.875	21/03/2017	-13
XS0794570944	2.000	19/06/2019	2	XS0906516256	1.000	19/06/2018	-8
XS1044766191	1.500	12/03/2021	4	XS1050552006	1.000	04/01/2019	-5
JYBC				XS1135318431	0.625	10/11/2021	1
XS0856532618	3mE+110bp	20/05/2015	15	XS0490111563	3.750	24/02/2017	9
XS1078186001	3mE+50bp	19/06/2017	32	XS0732016596	3.375	17/07/2017	9
LANSBK				XS0794225176	2.250	14/06/2018	9
XS0926822189	1.125	07/05/2020	-1	XS0965050197	2.250	27/08/2020	23
MINGNO				XS0693812355	4.375	20/10/2021	32
XS0893363258	2.125	21/02/2018	34	XS0819759571	2.625	23/08/2022	28
XS1069518451	1.500	20/05/2019	40	SPABOL			
NDASS				XS0495145657	3.250	17/03/2017	-9
XS0478492415	3.500	18/01/2017	-12	XS0820929437	1.250	28/02/2018	-7
XS0731649660	2.375	17/07/2017	-14	XS0738895373	2.750	01/02/2019	-4
XS0965104978	1.375	20/08/2018	-11	XS0995022661	1.500	20/01/2020	-2
XS1014673849	1.250	14/01/2019	-11	XS0942804351	1.500	12/06/2020	0
XS0778465228	2.250	03/05/2019	-8	XS0587952085	4.000	03/02/2021	1
XS0874351728	1.375	15/01/2020	-7	XS0674396782	3.375	07/09/2021	2
XS0591428445	4.000	10/02/2021	-5	SPAROG			
XS1132790442	1.000	05/11/2024	-2	XS0853250271	2.000	14/05/2018	45
XS0801636571	2.250	05/10/2017	16	XS0965489239	2.125	27/02/2019	54
XS0916242497	1.375	12/04/2018	25	XS0876758664	2.125	03/02/2020	56
XS0728763938	4.000	11/07/2019	26	XS1055536251	2.125	14/04/2021	75
XS0520755488	4.000	29/06/2020	26	SWEDA			
XS1032997568	2.000	17/02/2021	34	XS0496542787	3.375	22/03/2017	-13
XS0801636902	3.250	05/07/2022	19	XS0925525510	1.125	07/05/2020	-2
NYKRE (*senior secured)				XS1069674825	1.125	21/05/2021	-2
LU0787776052*	3.250	01/06/2017	32	XS0768453101	2.375	04/04/2016	-4
LU0921853205*	1.750	02/05/2018	34	XS0740788699	3.375	09/02/2017	16
LU0996352158*	1.750	28/01/2019	41	XS1045283766	1.500	18/03/2019	16

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

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