In association with CRÉDIT AGRICOLE CORPORATE & INVESTMENT BANK

# NORDIC FIs & COVERED

INSIDE:



Friday, 27 March 2015 Issue 120

## Aktia shrugs off weakness, cites diverse Eu1.5bn book


**Aktia Bank issued a Eu500m seven year covered bond on Tuesday that overcame difficult market conditions to attract a diverse Eu1.5bn order book that represented the highest level of oversubscription on any benchmark for two weeks.**

Leads Crédit Agricole CIB, JP Morgan, LBBW and Natixis launched the Eu500m no-grow seven year benchmark with initial price thoughts of the flat to mid-swaps area, tightening to guidance of 3bp through with books over Eu1.25bn. The re-offer was set at 4bp through with the final book in excess of Eu1.5bn.

The deal was one of two, alongside a Banco Popular Español Eu1bn 10 year, to reopen the market on Tuesday following a week in which new issues from CaixaBank and Nationwide Building Society fell short of expectations amid wider market weakness.

Acknowledging that the issuer had initially had concerns over market conditions, Timo Ruotsalainen, head of treasury at Aktia, said he was pleased with the end result.

"Considering the previous week in the market, with all the Austrian turbulence, it wasn't 100% convincing that this was the best time to come to the market," he said. "During last week and during the roadshow there was a lot of discussion about the market conditions, but towards Friday the situation had already seemed to calm down.

"Then on Monday when the leads went to have preliminary discussions with investors we got strong, positive feedback. We thought that if it the market was not exactly supportive it was at least stable, and thought that should be OK for our deal."

Ruotsalainen said such conditions seemed to have no negative impact on the deal, noting that within half an hour from launch the order book had already reached the Eu500m target.

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## Moody's positive on Norwegian, Swedish FSA amortisation moves

**Regulatory proposals from the Norwegian and Swedish FSAs that detail amortisation requirements would be credit positive for the respective covered bonds, according to Moody's, which cited the substantially lower default expectations of mortgages with the LTV levels that borrowers would have to amortise down to.**

Moody's on Monday said that recommendations from Norway's Finanstilsynet on Tuesday of last week (17 March) to tighten mortgage underwriting standards, if implemented, would help maintain stable asset quality and limit the growth of household indebtedness in a low interest rate environment, and improve the credit quality of mortgages in issuers' cover pools.

Finanstilsynet put forward the measures to dampen the risk of financial instability in response to a letter from the Ministry of Finance asking if it would be appropriate to introduce measures to dampen house price and credit growth.

"A weaker outlook and increased uncertainty about the Norwegian economy will in isolation contribute to dampening households' desire to bor-

*(continued on page 4)*

| Latest Nordic FI benchmarks | | | |
|---|---|---|---|
| Senior unsecured (z spreads mid) | | | |
| JYBC | FRN | 03/18 | 33bp |
| POHBK | 0.750% | 03/22 | 46bp |
| NDASS | 1.125% | 02/25 | 49bp |
| Covered bonds (asw spreads mid) | | | |
| AKTIA | 0.250% | 03/22 | -6bp |
| NDASS | 0.125% | 06/20 | -12bp |
| NDASS | 0.625% | 06/27 | -3bp |

*Source: CACIB trading 26/3/15*

# Aktia encouraging, Swedbank in sterling success

*(continued from page 1)*

"We issued now because it fits with our refinancing plans," he added. "We could have delayed the timing, but because there was this opportunity and this window, why not?

"In the end it was a really nice execution and a good deal, so we are really happy."

Rob Chambers, FIG syndicate manager at Crédit Agricole, said that the Eu1.5bn order book was particularly positive considering the poor market backdrop and that last week's two benchmarks had not been significantly oversubscribed.

He said that outstanding Aktia April 2018 paper was trading at around minus 8bp, bid, putting fair value for the new issue at around minus 5bp-4bp.

"It's encouraging that it only required a negligible new issue premium, if any," said Chambers. "We're not quite back to the market we had, but things are looking better than last week."

Ruotsalainen said the final price pleased both the issuer and investors.

"We have never tried to squeeze the lemon, we have always tried to at least be fair," he said. "And even being fair, as I feel we have been, we achieved what we aimed for, if not even better."

However, Ruotsalainen said the aspect of the deal he was most proud of was the final order book, which he said was well balanced and granular.

Banks were allocated 40% of the deal, asset managers 27%, central banks and official institutions 24%, insurance companies and pension funds 4%, and other investors 5%. Accounts from Germany and Austria took 46%, the Nordics 35%, the UK 8%, the Benelux 5%, and others 6%

Ruotsalainen noted central banks were among the last investors in the books.

"Clearly they didn't want to be the one that is running the show," he said.

The trade followed a roadshow that, Ruotsalainen said, sought to update investors on changes to Aktia's covered bond issuance process. The deal is the third benchmark from Aktia Bank since it switched issuance of covered bonds from Aktia Real Estate Mortgage Bank to the universal bank.

"Since we are still a regular issuer, if not particularly frequent, we also take every opportunity to remind clients that we are still here," he added.

"Particularly in the last couple of years investors have been mainly focussed on the banks that have been issuing, rather than the ones wanting to just meet and greet, so in that sense the roadshow was also worthwhile. Reminding people who we are was probably the most important thing."

Ruotsalainen said that when the issuer was looking at the market it had the whole spectrum, from five to 10 years, open for consideration. He said that 10 years was the longest tenor available to Aktia, due to its cover pools and amortisation requirements in Finland.

"During the roadshow, seven year was the recommended maturity," he said. "Five was a little short for some, 10 was a little long, but seven seemed to please most investors.

"We tried not to do anything very exotic. Covered bonds are our most important funding vehicle after deposits, so we don't want to take any risks with brave and testing maturities."

While noting that Aktia has a Eu200m senior issue redeeming in November, Ruotsalainen said that the issuer had no plans for further covered bonds this year.

"We are still very liquid, and in that sense our needs are limited," he said. "But should our activity grow then that might provide an opportunity."

Swedbank Hypotek meanwhile on Wednesday sold a £500m (Eu682m, Skr6.34bn) three year floating rate covered bond in sterling. Leads Nomura and RBC went out with IPTs of the 22bp area for a benchmark-sized issue and priced the FRN at Libor plus 20bp on the back of a £650m order book.

A syndicate official away from the leads said the outcome was a great result for Swedbank. He said that after heavy supply at the start of the year there was some fatigue in three year sterling FRNs. Deals that were launched at 18bp-19bp over were still quoted at around that level, he added, although he had not expected the 20bp level to be hit given that "it is increasingly hard to actually get a trade done".

A syndicate official at one of the leads said he was pleased with the result.

"The market is tricky," he said. "You feel you have the right name at the right price, but you can't judge the depth of demand until you actually go out with it." ■


## Nordic FIs & Covered Bonds

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The Covered Bond Report

# The Covered Bond Investor Conference

**Date:** Thursday, 7 May 2015
**Venue:** Deutsche Nationalbibliothek, Frankfurt am Main



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*Andreas Denger, senior portfolio manager at MEAG and acting chairman of the ICMA Covered Bond Investor Council*

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# Norwegian step timely, Swede's addresses culture

*(continued from page 1)*

row," said Finanstilsynet. "There is a risk that the prospect of long-lasting low interest rates and easy access to credit will cause the strong growth in debt and house prices to persist.

"That would further increase households' debt burden and help to maintain demand for goods and services for a time, but such a development is not sustainable. The risk of a subsequent sharp setback and financial instability would thus increase."

Finanstilsynet proposed a minimum 2.5% annual amortisation from the first year for all mortgages until the loan-to-value ratio (LTV) falls to 65%.

"The proposed rule reflects a tightening because the current guidelines require amortisation only down to 70% LTV, and do not quantify a minimum annual amortisation," Moody's said. "Indeed, our default rate expectation for a residential loan with a 65% LTV is just about half of our default expectation for a loan with an 85% LTV, reflecting the increased risk of high LTV loans."

Finanstilsynet also proposed that while new mortgage loans should remain restricted to a maximum LTV of 85%, personal guarantees that are often provided by parents for first time buyers would no longer be allowed as a justification to exceed the limit.

Also among the suggested standards is a requirement that banks assume a six percentage point increase of the interest rate when checking borrower affordability, up one percentage point from the previous stress rate requirement to reflect lower interest rates forming the basis of the calculation. Banks would no longer be allowed to bypass the stress test based on special prudential assessments of borrowers' circumstances, Moody's noted.

The regulator recommended that the Ministry of Finance establish the underwriting requirements in regulation, whereas current requirements are only guidelines.

"This step is positive because it would stop banks from deviating from the underwriting requirements, and give the regulator a basis for tighter supervisory follow-up action," said Moody's.


It noted that the Norwegian regulator's move is the latest in numerous steps taken in recent years to ensure financial stability and prevent overheating of the residential lending market.

"Finanstilsynet's proposal is timely because it comes as the Norwegian central bank has indicated a willingness to cut interest rates further over the next couple of months to support the economy," it added.

The Norwegian regulator said in a statement on its proposals that it had looked at how similar policy instruments had been applied to contribute to financial stability in other countries.

The Swedish FSA (Finansinspektionen, or FI) meanwhile on 11 March made its country's latest move to address growth in household indebtedness by announcing that it would require mortgages originated from August to be amortised down to a LTV of 50%, and Moody's said on Monday that this would be credit positive for Swedish covered bonds because it would constrain indebtedness and build up home equity.

FI proposed that mortgages with a loan-to-value ratio over 70% should be repaid down by a minimum of 2% of the original loan each year, while loans with a LTV below 70% should be repaid by a minimum of 1% annually until the LTV has reached 50%.

Moody's said covered bonds from Länsförsäkringar Hypotek and issuance from Skandiabanken backed by Swedish mortgages, both rated Aaa by the agency, would benefit the most from the proposed rules because their Swedish residential mortgages comprise 91% and 100% of their cover pools, respectively.

"Over time, increased amortisation would reduce the average LTVs in covered bond asset portfolios," said Moody's.

The rating agency noted that the requirement would have a countercyclical element because LTV variations resulting from house price changes would only be factored in every five years at the earliest.

"The amortisation of the loans should therefore lead to sustainable reductions in asset portfolio LTVs, albeit at a slow pace given that the regulation is only applicable to new loans," said Moody's. "To indicate some of the benefit of this, our default rate expectation for a loan with a 50% LTV is just about half of our expectation for a loan with a 70% LTV, reflecting the increased risk of high LTV loans."

The proposed regulation is now being submitted for consultation before being passed on to FI's board of directors for a final decision. If enacted, the new rules are intended to take effect from 1 August.

"FI's proposal would further counter the current lack of an amortisation culture among mortgage borrowers, thereby supporting the credit quality of mortgage loans backing covered bonds," added Moody's. ■

# Euro Nordic covered bond & senior unsecured secondary spreads

*Nordic benchmarks: covered versus ASW, senior unsecured (shaded) versus Z spreads, 26/3/15.*

| ISIN | Coupon | Maturity | Mid Spd |
|---|---|---|---|
| **AKTIA (*AKTIA REMB)** | | | |
| XS0946639381 | 1.125 | 25/06/2018 | -12 |
| XS1056447797 | 1.000 | 15/04/2019 | -10 |
| XS1056447797 | 1.000 | 15/04/2019 | -6 |
| **BRF** | | | |
| XS0882166282 | 2.500 | 31/01/2018 | 38 |
| **DANBNK** | | | |
| XS1113212721 | 0.375 | 26/08/2019 | -8 |
| XS0469000144 | 4.125 | 26/11/2019 | -9 |
| XS1197037515 | 0.250 | 06/04/2020 | -4 |
| XS1071388117 | 1.250 | 11/06/2021 | -4 |
| XS0519458755 | 3.750 | 23/06/2022 | -6 |
| XS0751166835 | 3.875 | 28/02/2017 | 9 |
| XS1139303736 | 3mE+35 | 19/11/2018 | 28 |
| **Danske Bank Finland (SAMBNK)** | | | |
| XS0834714254 | 1.625 | 27/09/2019 | -13 |
| XS0640463062 | 3.875 | 21/06/2021 | -10 |
| **DNBNO** | | | |
| XS0728790402 | 2.375 | 11/04/2017 | -10 |
| XS0877571884 | 1.000 | 22/01/2018 | -12 |
| XS0992304369 | 1.125 | 12/11/2018 | -8 |
| XS0794233865 | 1.875 | 18/06/2019 | -7 |
| XS1117515871 | 0.375 | 07/10/2019 | -7 |
| XS1137512742 | 3mE+10bp | 17/11/2021 | 10 |
| XS0637846725 | 3.875 | 16/06/2021 | -5 |
| XS0759310930 | 2.750 | 21/03/2022 | -3 |
| XS0856976682 | 1.875 | 21/11/2022 | -3 |
| XS0522030310 | 3.875 | 29/06/2020 | 23 |
| XS0595092098 | 4.375 | 24/02/2021 | 40 |
| XS0732513972 | 4.25 | 18/01/2022 | 40 |
| **EIKBOL** | | | |
| XS0736417642 | 2.250 | 25/01/2017 | -9 |
| XS0851683473 | 1.250 | 06/11/2017 | -8 |
| XS0794570944 | 2.000 | 19/06/2019 | -6 |
| XS1044766191 | 1.500 | 12/03/2021 | -4 |
| **JYBC** | | | |
| XS1078186001 | 3mE+50bp | 19/06/2017 | 29 |
| XS1207605210 | 3mE+35bp | 23/03/2018 | 33 |
| **LANSBK** | | | |
| XS0926822189 | 1.125 | 07/05/2020 | -6 |
| **MINGNO** | | | |
| XS0893363258 | 2.125 | 21/02/2018 | 28 |
| XS1069518451 | 1.500 | 20/05/2019 | 37 |
| **NDASS** | | | |
| XS0478492415 | 3.500 | 18/01/2017 | -12 |
| XS0731649660 | 2.375 | 17/07/2017 | -11 |
| XS0965104978 | 1.375 | 20/08/2018 | -16 |
| XS1014673849 | 1.250 | 14/01/2019 | -13 |
| XS0778465228 | 2.250 | 03/05/2019 | -14 |
| XS0874351728 | 1.375 | 15/01/2020 | -14 |
| XS1204134909 | 0.125 | 17/06/2020 | -12 |
| XS0591428445 | 4.000 | 10/02/2021 | -12 |
| XS1132790442 | 1.000 | 05/11/2024 | -8 |
| XS1204140971 | 0.625 | 17/06/2027 | -2 |
| XS0916242497 | 1.375 | 12/04/2018 | 14 |
| XS0728763938 | 4.000 | 11/07/2019 | 22 |
| XS0520755488 | 4.000 | 29/06/2020 | 28 |
| XS1032997568 | 2.000 | 17/02/2021 | 34 |
| XS0801636902 | 3.250 | 05/07/2022 | 33 |
| XS1189263400 | 1.125 | 12/02/2025 | 49 |

| ISIN | Coupon | Maturity | Mid Spd |
|---|---|---|---|
| **NYKRE (*senior secured)** | | | |
| LU0787776052* | 3.250 | 01/06/2017 | 25 |
| LU0921853205* | 1.750 | 02/05/2018 | 27 |
| LU0996352158* | 1.750 | 28/01/2019 | 30 |
| **POHBK** | | | |
| XS0785351213 | 1.625 | 23/05/2017 | -10 |
| XS0646202407 | 3.500 | 11/07/2018 | -15 |
| XS1076088001 | 0.750 | 11/06/2019 | -12 |
| XS1045726699 | 1.500 | 17/03/2021 | -11 |
| XS1144844583 | 1.000 | 28/11/2024 | -9 |
| XS0758309396 | 2.625 | 20/03/2017 | 7 |
| XS0540216669 | 3.000 | 08/09/2017 | 8 |
| XS0931144009 | 1.250 | 14/05/2018 | 18 |
| XS1077588017 | 1.125 | 17/06/2019 | 27 |
| XS1040272533 | 2.000 | 03/03/2021 | 34 |
| XS1196759010 | 0.750 | 03/03/2022 | 46 |
| **SBAB** | | | |
| XS1117542412 | 0.625 | 07/10/2021 | -7 |
| XS0968885623 | 2.375 | 04/09/2020 | 39 |
| **SEB** | | | |
| XS0548881555 | 2.625 | 16/10/2017 | -12 |
| XS0894500981 | 1.500 | 25/02/2020 | -9 |
| XS0988357090 | 1.625 | 04/11/2020 | -8 |
| XS0614401197 | 4.125 | 07/04/2021 | -6 |
| XS0730498143 | 3.875 | 12/04/2017 | 9 |
| XS0592695000 | 4.250 | 21/02/2018 | 17 |
| XS0972089568 | 2.000 | 18/03/2019 | 22 |
| XS0854425625 | 1.875 | 14/11/2019 | 24 |
| XS1033940740 | 2.000 | 19/02/2021 | 35 |
| **SHBASS** | | | |
| XS0760243328 | 1.875 | 21/03/2017 | -10 |
| XS0906516256 | 1.000 | 19/06/2018 | -11 |
| XS1050552006 | 1.000 | 04/01/2019 | -9 |
| XS1135318431 | 0.625 | 10/11/2021 | -7 |
| XS0490111563 | 3.750 | 24/02/2017 | 3 |
| XS0732016596 | 3.375 | 17/07/2017 | 6 |
| XS0794225176 | 2.250 | 14/06/2018 | 9 |
| XS0965050197 | 2.250 | 27/08/2020 | 27 |
| XS0693812355 | 4.375 | 20/10/2021 | 32 |
| XS0819759571 | 2.625 | 23/08/2022 | 27 |
| **SPABOL** | | | |
| XS0495145657 | 3.250 | 17/03/2017 | -12 |
| XS0820929437 | 1.250 | 28/02/2018 | -12 |
| XS0738895373 | 2.750 | 01/02/2019 | -9 |
| XS0995022661 | 1.500 | 20/01/2020 | -7 |
| XS0942804351 | 1.500 | 12/06/2020 | -5 |
| XS0587952085 | 4.000 | 03/02/2021 | -5 |
| XS0674396782 | 3.375 | 07/09/2021 | -4 |
| **SPAROG** | | | |
| XS0853250271 | 2.000 | 14/05/2018 | 39 |
| XS0965489239 | 2.125 | 27/02/2019 | 46 |
| XS0876758664 | 2.125 | 03/02/2020 | 44 |
| XS1055536251 | 2.125 | 14/04/2021 | 62 |
| **SWEDA** | | | |
| XS0925525510 | 1.125 | 07/05/2020 | -8 |
| XS1069674825 | 1.125 | 21/05/2021 | -7 |
| XS1200837836 | 0.375 | 11/03/2022 | -9 |
| XS0740788699 | 3.375 | 09/02/2017 | 10 |
| XS1045283766 | 1.500 | 18/03/2019 | 15 |

*Source: Crédit Agricole CIB Trading, Bloomberg — See disclaimer on page 6*

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