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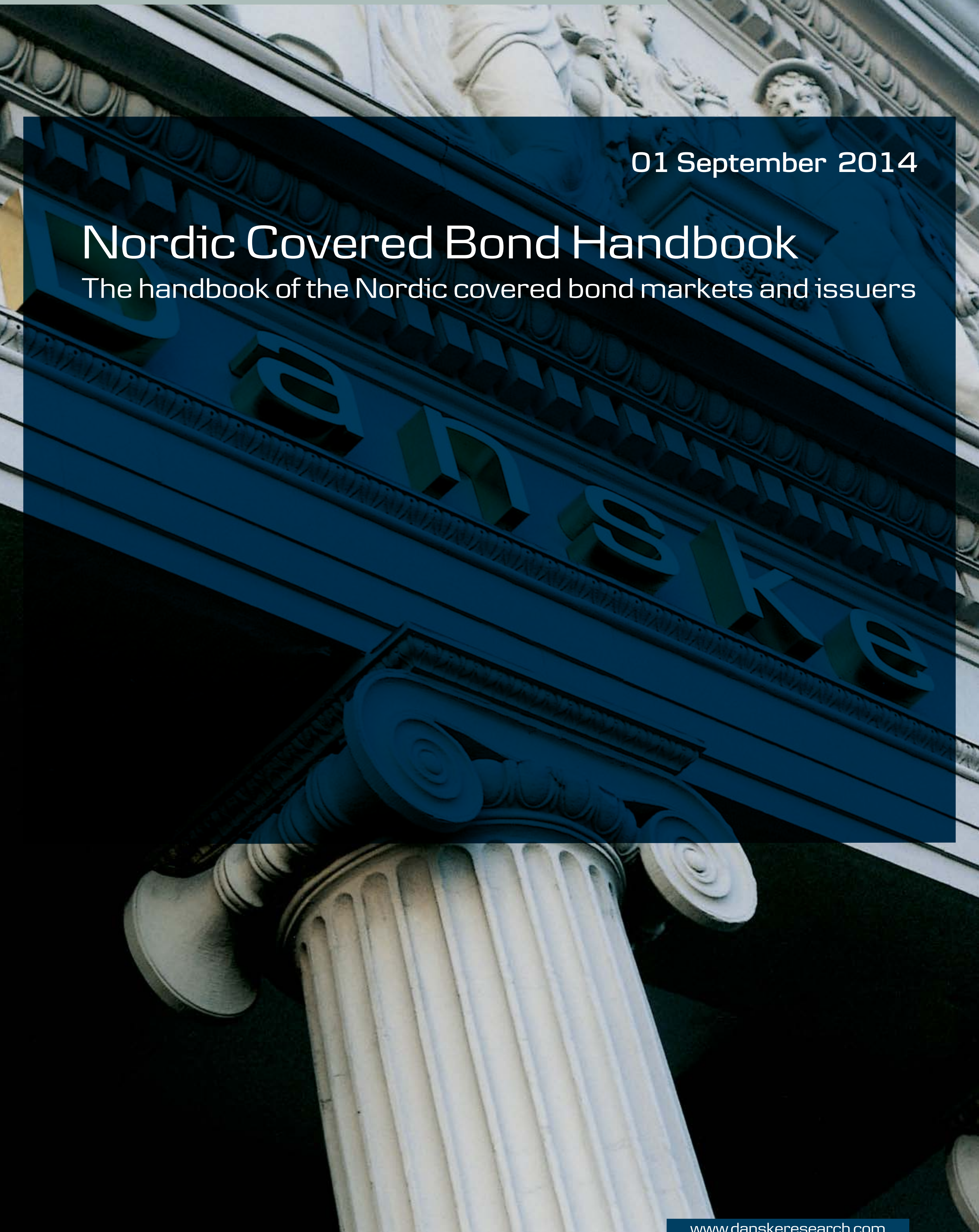

01 September 2014

Nordic Covered Bond Handbook

The handbook of the Nordic covered bond markets and issuers

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Nordic Covered Bond Handbook

10th edition

Welcome to the tenth edition of the *Nordic Covered Bond Handbook* from the Covered Bond Research team at Danske Bank Markets.

This publication is intended to act as a quick reference guide to the Nordic covered bond markets, providing an overview of covered bond issuers in Denmark, Finland, Norway and Sweden. Further, we provide a thorough description of the legislative framework in each of the four markets, as well as updates on housing market developments and the macroeconomic backdrop.

Table 1. Issuers included in this edition

Denmark	Finland	Norway	Sweden
BRFkredit	Aktia Bank	DNB BK	Landshypotek
Danske Bank	Danske Bank plc	Eika BK	LF Hypotek
DLR Kredit	Nordea Finland	Nordea EK	Nordea Hypotek
Nordea Kredit	OP MB	SpareBank 1 BK	SCBC/SBAB
Nykredit/Totalkredit		Sparebanken Vest BK	SEB
Realkredit Danmark		Storeband BK	Stadshypotek
			Swedbank Hypotek

Most covered bond issuers are subsidiaries of larger, universal banks. The specialist banking principle is applied in Norway and partly in Denmark, while Sweden and Finland do not adhere to this principle. Parent banks are covered only briefly in this handbook. On some of the parent banks, more info may be found in the *Scandi Handbook 2014*.

While issuer profiles of Danish specialist mortgage banks are included in this handbook, we refer readers to the *Danish Covered Bond Handbook* for an in-depth description of this unique market.

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Important disclosures and certifications are contained from page 90 of this report.

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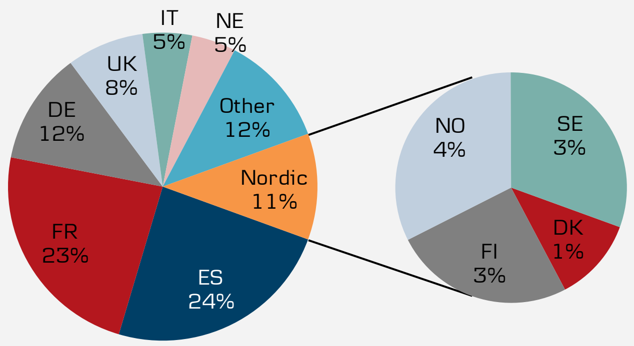
Introduction

Covered bonds are far from a new phenomenon in the Nordic countries (Denmark, Finland, Norway and Sweden). The use of mortgage bonds in Denmark goes back more than 200 years, and today, despite the modest size of the country, the Danish covered bond market is second only to those of Germany and Spain in terms of outstanding bond volume. However, more than 85% of the Danish covered bond market is made up by DKK-denominated (domestic) bonds. For both historical and currency reasons, the DKK bonds have mainly been an object for investment for Danish investors. However, foreign investors currently own 15-20% of the outstanding stock.

Chart 1. EUR covered bonds (≥ EUR500m). Total: EUR1,000bn

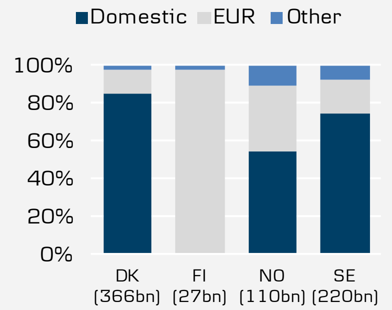


Source: Bloomberg, Danske Bank Markets

While the volume is a bit less impressive relative to Denmark, Sweden also boasts quite a deep domestic (SEK-denominated) covered bond market, accounting for some 75% of outstanding covered bonds from Swedish issuers, and also with reasonably long tradition. Including domestic issuance, Sweden has the fifth-largest covered bond market in Europe.

Covered bonds are a relatively new phenomenon in Norway and Finland, with the legislation being passed as late as 2007 in Norway, and the most recent Mortgage Act dated 2010 in Finland. Hence, the two markets have not had the same time to mature, and do not have the same deep domestic investor support as Denmark and Sweden. In Norway only 54% of its EUR110bn-equivalent covered bond market is NOK-denominated, as Norwegian issuers have been relying more on the EUR market and are in fact closing in on Swedish issuers in the race to lead the market for EUR-denominated benchmark covered bonds with a current volume of EUR39bn (Denmark: EUR13bn; Finland: EUR26bn; Sweden: EUR40bn).

Chart 2. Nordic countries, domestic vs EUR issuance (total market EUR equivalent in parenthesis)

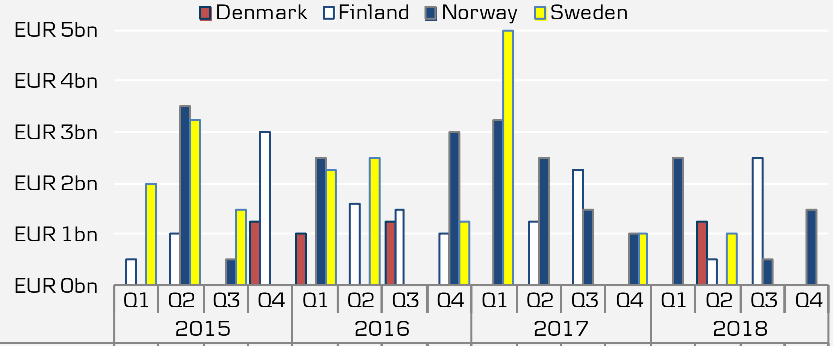


Source: European Covered Bond Council, Danske Bank Markets

Redemptions

In the coming years, redemptions out of the Nordic markets will be fairly limited. With approximately EUR6bn, EUR5bn, EUR4bn and EUR1.75bn maturing out of Sweden, Norway, Finland and Denmark respectively in each of the years 2015 and 2016, new issuance is likely to be more driven by opportunistic behaviour in terms of funding costs, and by new lending. Furthermore, an increasing regulatory focus, requiring banks to manage the matching of assets and liabilities, could be a further dampener on Nordic EUR issuance (with the exception of Finland). In total, Nordic EUR benchmark redemptions will reach EUR17bn in 2015 and EUR18bn in 2016. For a graphical representation, see Chart 3 below.

Chart 3. Nordic EUR benchmark redemptions 2015-18



	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4
Denmark				1.3	1		1.3							1.3		
Finland	0.5	1		3		1.6	1.5	1		1.3	2.3			0.5	2.5	
Norway		3.5	0.5		2.5			3	3.3	2.5	1.5	1	2.5		0.5	1.5
Sweden	2	3.3	1.5		2.3	2.5		1.3	5			1		1		

Source: Dealogic, Danske Bank Markets
Note: For Denmark, only Danske Bank's covered bonds are included

Currencies and monetary objectives

Of the four Nordic countries, only Norway is not an EU member. However, only Finland has replaced its domestic currency, the Finnish mark, with the euro. Consequently, each Nordic country has its own currency: the Danish krone (DKK) in Denmark, Norwegian krone (NOK) in Norway, Swedish krona (SEK) in Sweden and euro (EUR) in Finland. Furthermore, monetary policy objectives in Denmark, Norway and Sweden vary. In Denmark, the currency is pegged to the euro, while in Norway and Sweden the central banks have inflation target objectives. As a result, interest rate developments are also different. Consequently, growth in housing markets and changes in house prices may not be highly correlated; also, as interest rates can influence a debtor's ability to service a mortgage, depending on the share of adjustable-rate mortgages, the credit quality of mortgage portfolios may not be correlated either.

Finally, the industrial profile of each of these four countries varies. The Danish economy is dominated by service industries, the Finnish economy by traditional production industries, the Norwegian economy by oil production and the Swedish economy by production of consumer investment goods.

Covered bond issuers and asset location

The number of covered bond issuers varies between each of the four countries. In Sweden the number of issuers is as many as seven, the same as in Denmark (five mortgage banks, one ship finance institute and one universal bank). From a situation prior to the financial crisis with only a few active issuers, the introduction of Norges Bank's swap facility (*Bytteordningen*) in Norway saw a large increase in the number of issuers (many of them relatively small), as covered bonds became the way to obtain liquidity (as in many other countries). Until autumn 2010, Finland had only two active issuers (OP Mortgage Bank and Aktia Mortgage Bank) but with the revival of Danske Bank plc (Finnish subsidiary of Danske Bank – formerly *Sampo plc* and (earlier) *Sampo Housing Loan Bank*) and the launch of Nordea Bank Finland's covered bond programme, the Finnish covered bond landscape has grown to a considerable size, and totalled EUR28bn at end-H1 14.

The location of cover assets is largely restricted to domestic markets. In other words, lenders are exposed only to domestic housing markets. This is the case for all EUR covered bond issuers with the exception of Danske Bank and Stadshypotek (Handelsbanken).

Danske Bank includes two non-domestic cover pools in its covered bond programme. The international cover pool (I) can comprise mortgages from all Scandinavian countries as well as from Ireland (although not before November 2019). Currently, only mortgages from Norway and Sweden are included in the international Cover Pool I. In 2010, Danske Bank also launched a combined cover pool – Cover Pool C – containing both residential and commercial mortgages.

In late 2011 Stadshypotek added a second cover pool to its covered bond programme. While the original cover pool remains solely Swedish in its asset composition, the new cover pool comprises solely Norwegian assets, and will be used to obtain NOK-funding. However, the Norwegian pool is very small relative to the Swedish pool, making up only NOK14bn compared with the SEK612bn Swedish pool (as per March 2014).

The Nordic housing markets

The vast majority of collateral backing Nordic covered bonds is residential mortgages. Regardless of the unique features of covered bonds, collateral is ring-fenced with the investor enjoying a dual recourse: firstly to the issuer and secondly to the collateral pool.

Ultimately, regulatory frameworks and housing traditions in the Nordic countries supporting the credit quality of cover pools become at least as important as specific covered bond acts. In the (theoretical) case of default by the homeowner as well as the covered bond issuer, payments to bond holders depend on foreclosure procedures in the country in which the collateral is located. Based on data from the European Banking Industry Committee, the average duration for the entire foreclosure procedure in European countries is six to 12 months, although in Italy the average duration is, exceptionally, five to seven years. As the following table shows, foreclosure proceedings in the Nordic countries can be carried out relatively quickly compared with other European countries.

Table 2. Foreclosure period in housing markets

Finland	Sweden	Denmark	Spain	Germany	France
3 months	6 months	6 months	9 months	12 months	25 months

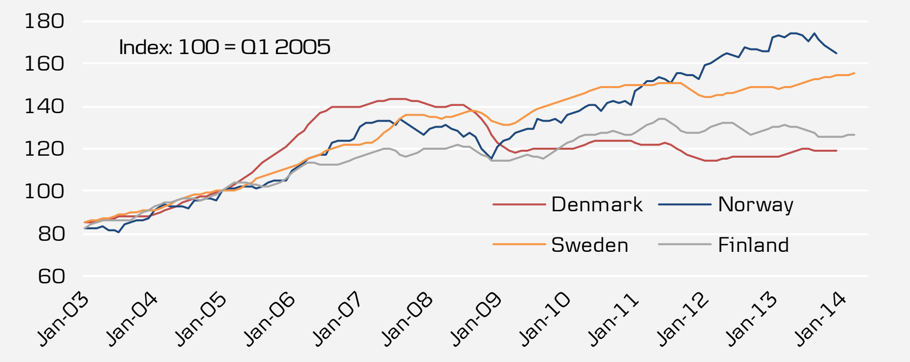
Source: European Banking Industry Committee

Finally, it is worth mentioning that, should the foreclosure price on a property prove insufficient to cover the outstanding mortgage debt and additional costs, the mortgage provider has a claim on the borrower. In other words, borrowers are personally liable for their mortgage loans.

Nordic authorities minding their housing markets

In general, with the exception of Denmark, the Nordic housing markets have all fared fairly well over the course of the financial crisis. In order to maintain stability the financial authorities in the Nordic countries have adopted several measures over the past few years.

Chart 4. Nordic housing markets



Source: Macrobond, Danske Bank Markets

All four Nordic countries have effectively capped the maximal loan-to-value (LTV) for new mortgage lending. In Denmark, the 80% cap has been in place for many years, while the 85% limit in Norway and Sweden was introduced in 2012 (tightened from 90%[pls ck] previously) and 2010 respectively. In Finland, the cap is 90%.

In addition to LTV caps, more recently, authorities have continued taking measures in order to stabilise/dampen house prices. In Sweden, the minimum risk weight on residential mortgages was raised to 15% in May 2013 (previously 5%), and in November 2013, the Swedish FSA further suggested raising the risk weight floor to 25%, which is likely to take place in the autumn of 2014. In Norway, talks were revolving around a similar 25% floor, but instead, the Norwegian FSA chose to floor banks' loss-given-default assumptions at 20%.

In Sweden, a lot of focus has also been on amortisation culture. In 2010, a recommendation to amortise down to 75% LTV was put forward by the Swedish FSA, and surveys have shown that the guideline is indeed followed. However, amortisation beyond the guideline is less common. In March 2014, the Swedish Bankers Association published its updated prudent mortgage lending principles. In these, it was stated that an individual amortisation plan should be laid out when granting new mortgage loans. The aim of this exercise is to highlight the potential positive effects of amortisation (increased financial stability, lower interest payments over time, etc). Further, the recommendation that mortgage loans should be amortised down to 75% LTV was lowered so that the recommendation now is that a mortgage loan should be amortised down to a 70% LTV.

Danish Covered Bonds

Særligt dækkede obligationer and realkreditobligationer

Background

Despite Denmark having a long and internationally recognised tradition of funding residential and commercial properties by issuing mortgage bonds, in May 2007, a proposal for a new Mortgage Act was passed, which became effective on 1 July 2007. Executive orders concerning the Mortgage Act were passed shortly afterwards.

The main reasons for amending the Danish Mortgage Act were to ensure that Danish covered bonds complied with the EU Capital Requirement Directive (CRD) and therefore, qualified for preferential risk weighting and to abandon the specialist banking principle in order to enable Danish universal banks to access attractive covered bond funding.

Traditionally, Danish mortgage bonds are tapped into the market on a daily basis. Mortgage bonds are matched with mortgages in order to ensure that mortgage banks are not exposed to any kind of interest, currency, option or liquidity risk. Furthermore, the Danish mortgage market is the only one (besides the US) where 30-year, fixed-rate, callable loans remain the predominant mortgage type. See our *Danish Covered Bond Handbook* for a more in-depth description of the traditional Danish mortgage market.

Key elements of the Covered Bond Act

Danish covered bonds fall into three categories.

- Særligt dækkede obligationer (SDOs).
- Særligt dækkede realkreditobligationer (SDROs).
- Realkreditobligationer and Skibskreditobligationer (ROs).

The legal framework for ROs is almost unchanged compared with the previous Mortgage Act. We expect the market for ROs to be insignificant, as they do not comply with the CRD. Besides issuer privileges related to SDROs, the primary difference between SDOs and SDROs concerns the types of substitution assets allowed in the cover pool. However, in both cases eligible substitution assets must comprise safe and liquid securities, in accordance with the CRD.

The **specialist banking principle**, allowing only specialised institutions restricted in their business to issue covered bonds, has been abandoned. This is also the case in Germany, Sweden and Finland. Specialist mortgage banks still enjoy the privilege of issuing realkreditobligationer (ROs) and SDROs, while Danmarks Skibskredit has the privilege of issuing Skibskreditobligationer (ROs).

Universal banks, specialist mortgage banks and Danmarks Skibskredit can apply for the right to issue SDOs.

In accordance with UCITS 52(4) requirements, the issuer is subject to **special public supervision**. The issuer must keep a **cover register** of collateral (including open hedge positions) and bonds issued. Collateral assets may include residential and commercial mortgages, public loans, derivatives and substitute assets. Universal banks issuing SDOs may also include ships as collateral assets. **LTV ratio limits are 80% and 60% for mortgage and commercial loans, respectively**. The LTV ratio is limited to 75% regarding 30Y interest-only mortgages. Regarding substitution assets in the form of short-term guarantees from loan-providing banks or SDOs issued by another credit institution (only when issuing SDOs), the 15% limit on exposure to other credit institutions (according to the CRD) has been abandoned in the Danish Covered Bond Act. The **valuation of cover assets** must be carried out in a prudent manner and not exceed the market value and the assessment must be on an individual basis. If approved by the Danish FSA, statistical models can be used. Properties in the cover asset pool must be valued on an ongoing basis, i.e. commercial properties annually and residential properties every third year. Eventually, if the LTV ratio limits are breached, the issuer is obliged to include **substitution assets** in the cover asset pool. Specialist mortgage banks can issue senior debt secured on the cover pool (ranking second to covered bonds) to fund such assets.

Mandatory minimum over-collateralisation (OC) is fixed at 8% of risk-weighted assets for specialist mortgage banks, regardless of the type of covered bond issued. There is no legal minimum OC requirement for universal banks issuing SDOs. **Asset segregation** and **bankruptcy proceedings** concerning bondholders are unchanged in the new legislation but, in line with other European covered bond acts, the revised act specifies that **derivatives counterparties** rank pari passu with bondholders. Lenders of senior debt rank second to covered bondholders regarding claims for cover assets but rank above lenders of subordinated debt or hybrid core capital. There is no acceleration of payment following bankruptcy of the issuer.

As regards **ALM requirements**, the executive order sets strict limits for interest rate risk, currency risk, option risk and liquidity requirements. We consider Danish ALM requirements to be the strictest in Europe. Issuers can choose to adhere to one of two different balance principles: *the general balance principle* (illustrated below) or *the specific balance principle*. Regarding liquidity risk, the executive order states that interest payable to bondholders in any given 12-month period must not exceed interest received from assets, according to the specific balance principle. Furthermore, NPV coverage is required.

Table 3. General balance principle

Requirement	Universal banks	Specialist banks
Interest rate risk - scenario 1 (+/-100bp change in ir. curve)	10% of OC	1% of capital requirement + 2% of voluntary OC
Interest rate risk - scenario 2 (+/-250bp change in ir. curve)	100% of OC	5% of capital requirement + 10% of voluntary OC
Currency risk (+/-10%/50% change in ex. rate)	5% of OC	10% of capital requirement + 10% of voluntary OC
Option risk (+/-100% change in vol. curve)	5% of OC	0.5% of capital requirement + 1% of voluntary OC

Source: Danske Bank Markets

As regards exposure to cross currencies other than EUR/DKK, the currency risk limit for specialist mortgage banks is 1% of the capital requirement plus 1% of voluntary OC.

Below, we show how issuers in the Danish market have positioned themselves concerning the type of covered bond and type of balance principle. Nordea Kredit and Realkredit Danmark, owned by the two large banks Nordea and Danske Bank, respectively, are the only ones to issue covered bonds in the SDRO format and adhere to the specific balance principle. DLR Kredit also adheres to the specific balance principle. Danmarks Skibskredit is the only issuer that does not issue CRD-compliant covered bonds. In the case of Danmarks Skibskredit, these non-compliant bonds are so-called *skibskreditobligationer* (ROs).

Table 4. Covered bond positions

Issuer	Covered bond type	Balance principle	Issuing principle
BRFkredit	SDO & RO	General principle	Pass-through
Danmarks Skibskredit	RO	Specific principle	-
Danske Bank	SDO	General principle	Euro style
DLR Kredit	SDO	Specific principle	Pass-through
Nordea Kredit	SDRO	Specific principle	Pass-through
Nykredit/Totalkredit	SDO & RO	General principle	Pass-through
Realkredit Danmark	SDRO	Specific principle	Pass-through

Source: Danske Bank Markets

BRFkredit and Nykredit/Totalkredit have opted for the general balance principle and (like DLR Kredit) issue covered bonds in the SDO format. The main reasons for doing so are to have the option of carrying out joint funding, to benefit from a slightly more flexible balance principle and to have the choice of including a broader range of collateral in the cover pool.

Not being a specialised mortgage bank, Danske Bank is allowed to issue covered bonds only in the SDO format. Obviously, the general balance principle within the ALM suits it best as a universal bank. So far, Danske Bank is the only Danish bank issuing covered bonds in a euro benchmark style.

New Legislation addressing Refinancing Risk

On 1 April 2014, a new law aiming at reducing refinancing risk towards borrowers and mortgage banks came into force. Initially, it cover loans where the refinancing period of the underlying bonds is up to 12 months (FlexLån® F1 loan). For loans where the refinancing period of the underlying bonds is more than 12 months, the law will apply from 1 January 2015. The law applies to non-callable bullets and short- and medium-term CFs and floaters.

The new law transfers the refinancing risk from the borrowers/mortgage banks the investor. The law is centred on two main triggers:

- Interest-rate trigger – if the yield level at a refinancing auction increases by more than 5% within a period of one year and the underlying bonds are issued with a maturity of up to two years, the maturity will be extended by one year. The yield of the extended bond will be the yield level on a corresponding bond traded 11-14 months earlier plus 5%. A maturity extension triggered by a rise in the yield level of 5% is limited to one year. The 'interest-rate trigger' element only applies to loans where the refinancing period of the underlying bonds is 24 months or less.
- Failed auction trigger - If a mortgage bank is unable to sell its bonds at a refinancing auction, the maturity of the underlying bond will be extended by one year. If the mortgage bank is still unable to sell the bonds the following year, the maturity of the bond will be extended by another year every year until the mortgage bank is able to sell the bonds in the market. If a mortgage bank is unable to sell its bonds at a

refinancing auction and the maturity is extended by one year, the yield of the maturity-extended bond will be the yield level on a corresponding bond traded 11-14 months earlier plus 5%. If the mortgage bank is still unable to sell the bonds in the market after the first maturity extension, the yield will remain unchanged. Applying the yield level on a corresponding bond traded 11-14 months earlier enables the mortgage bank to reuse the bond series up until the maturity of the bond becomes less than 24 months. This is an important feature as it improves the liquidity significantly for bonds with a maturity of more than 24 months.

If a mortgage bank is under resolution and the maturity is extended under the failed auction trigger, the coupon is fixed at a variable reference rate (for example 12M Cita) plus up to 5%, for one year at a time. However, if the Trustee is still able to issue bonds there will be no activation of the triggers.

If CFs and floaters are extended due to the law, the timing of the extension becomes important when fixing the new interest rate on the bond. If the maturity extension is triggered at:

- Fixing: the fixed interest rate will remain unchanged for a minimum of 12 months, unless a lower interest rate is set within these 12 months.
- Refinancing: the fixed interest rate will remain unchanged for a minimum of 12 months.

The transferral of the refinancing risk to the investor means the latter has to price in both the risk of a pronounced rise in yields and the risk of a ‘failed’ auction.

Issuers and credit quality

The Danish covered bond set-up is recognised as one of the strongest in the world, with high systemic support. In particular, the almost non-existent market risk, eliminated by the balance principle, is a major advantage for traditional Danish covered bonds. According to S&P’s rating methodology, Danish covered bonds belong in its best category (‘category 1’) and the asset and liability mismatch risk (ALMM) has so far also been categorised in the best category (‘low’), giving Danish covered bonds the possibility of the highest uplift in covered bond rating (seven notches above issuer rating).

Until June 2011, Danish covered bonds issued by mortgage banks enjoyed the best timely payment indicator (TPI) possible at Moody’s (‘Very High’). However, for most Danish mortgage banks, Moody’s changed this one step down to ‘High’ due to the increased use of loans with embedded refinancing (in contrast to loans where the maturity of the loan is exactly matched by the maturity of the bond). For specialist lender DLRkredit, this was further reduced to ‘Probable-High’ in July 2011. Covered bonds issued by universal bank Danske Bank were not affected as they already had a lower TPI score of ‘Probable’.

Besides the TPI revision, Moody’s, in particular, was quite active on Danish issuers in 2011. Issuer ratings came under pressure mainly as a result of Moody’s changed view on the Danish banking sector and the systemic support expected to be available for banks and consequently reclassified Denmark from a ‘High’ support country to a ‘Low’ support country in terms of expected systemic support.

In 2012, in addition to taking action on current ratings and rating outlooks, Moody’s raised its current OC requirements for the various mortgage banks. Danish mortgage banks Realkredit Danmark and BRFkredit decided to end their collaboration with Moody’s following the TPI revision in 2011. They were followed by Nykredit, which announced on 13 April 2012 that it had decided to end the rating agreement with

Moody's. In September 2012, Danske Bank followed suit, ending its collaboration with Moody's on the rating of Danske Bank's I-pool and D-pool covered bonds and in March 2013, we saw the most recent case of a Danish issuer abandoning Moody's when DLR Kredit ended its collaboration. This means that Nordea Kredit is now the only Danish covered bond issuer to have its bonds rated by Moody's. Instead, S&P has become the main rating agency of Danish mortgage banks.

Table 5. Recent S&P data

Issuer	Realkredit Danmark		Danske Bank			Nykredit		Nordea	BRF	DLR
Capital centre	S	T	C	D	I	E	H	2	E	B
CB rating	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA
Issuer rating	A(n)	A(n)	A(n)	A(n)	A(n)	A+(n)	A+(n)	AA-(n)	A-	BBB+
ALMM Risk	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low
WAFF	20.0%	22.5%	22.5%	12.8%	14.0%	15.0%	18.1%	20.7%	19.5%	29.5%
WALS	28.8%	29.4%	24.4%	37.8%	18.4%	27.0%	26.9%	33.2%	35.4%	41.8%
Target CE	5.7%	6.7%	33.7%	19.2%	19.5%	4.6%	4.4%	7.8%	5.8%	12.8%
Actual CE	11.2%	11.8%	39.3%	19.8%	20.5%	8.5%	5.1%	15.2%	10.0%	17.1%

Source: Standard & Poor's and Danske Bank Markets.

ALMM: Asset-liability mismatch, WAFF: Weighted-average foreclosure frequency, WALS: Weighted-average loss severity, CE: Credit enhancement.

Table 6. Ratings from Fitch

Capital centre	Classi-Fication	Rating (IDR/bond)	Outlook	Discontinuity caps	Asset segregation	Liquidity gap & systemic risk	Alternative management (cover pool specific)	Alternative management (systemic)	Privileged derivatives
Danske Bank		A	Stable Outlook						
Register D	SDO	AAA	Stable Outlook	3 (mod. high risk)	Low	Mod. high*	Mod.	Low	Mod.
Register I	SDO	AAA	Stable Outlook	3 (mod. high risk)	Low	Mod. high*	Mod. high*	Low	Mod. high*
Register C	SDO	AAA	Stable Outlook	3 (mod. high risk)	Low	Mod. high*	Mod. high*	Low	Mod. high*
Realkredit Danmark		A	Stable Outlook						
Capital centre S	SDRO	AAA	Stable Outlook	3 (mod. high risk)	Very low	Mod. high*	Mod.	Low	Very low
Capital centre T	SDRO	AA+	Stable Outlook	2 (high risk)	Very low	High*	Mod.	Low	Very low
Nykredit Realkredit		A	Stable Outlook						
Nordea Bank Danmark		AA-	Stable Outlook						

Source: Fitch, Danske Bank Markets. IDR: Issuer default rating. Discontinuity Caps: correspond to the maximum rating notch uplift from the IDR to the covered bond rating.

Table 7. Cover pool overview (as per Q1 2014)

Issuer	Realkredit Danmark		Danske Bank			Nykredit		Nordea	BRF	DLR
Capital centre	S	T	C	D	I	E	H	2	E	B
Cover pool (DKKbn)	218	409	31	37	116	276	542	335	145	113
WA indexed LTV	69%*	69%*	55%	61%	60%	75%	74%	70%	68%	59%
WA seasoning			3.0y	5.9y	3.8y					
Fixed-rate	64%	0%	0%	0%	0%	68%	0%	33%	22%	10%
Interest-only	39%	63%				49%	73%	56%	52%	54%
Geography (main)	DK	DK	SE	DK	NO/SE	DK	DK	DK	DK	DK

Source: Company data.
**Total RD*

Outlook for the Danish economy

The crisis has hit Denmark hard and the economy has been struggling to get into gear ever since, even though numerous soft data readings have long indicated greater optimism among both companies and consumers. However, it now appears that the positive soft figures are about to finally translate into solid hard data. The Danish economy grew by 0.9% in Q1 14 and while a number of temporary factors help push growth higher, the economy performed well overall. The healthy numbers have continued into Q2, indicating that growth will continue and that we are entering a self-perpetuating recovery. We expect the Danish economy to grow by 1.5% this year, rising to 2.0% in 2015. Private consumption is on the rise, driven by rising real incomes and very high consumer confidence, while exports are expected to contribute significantly to growth.

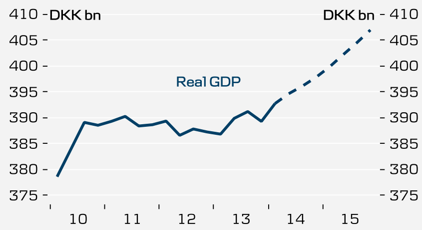
The Danish housing market has been on the mend since mid-2012, with the average price of a single family house 2.6% higher in 2013 versus 2012. According to Statistics Denmark, house prices also grew in Q1 14 and the housing market appears to be recovering faster than we previously estimated. Given this, we have raised our forecast and now expect house prices to rise by 3.1% in 2014 and 2.5% in 2015. However, it should be noted that the Danish housing market is divided. Prices and activity are not universally rising across the country, for while the housing market is growing in and around the major cities, the picture is rather different in other parts of Denmark where prices in some places have declined.

We had assumed that inflation would gradually increase during the spring and go above 1% over the course of the summer. However, that increase has failed to materialise so far – mainly due to food prices falling by more than can be explained by lower duties and taxes and despite global food prices rising by more than 20% since the start of the year. While there are nascent signs that food prices are beginning pick up, this will hardly be enough to significantly lift inflation overall in 2014. We expect inflation to be 0.7% in 2014, rising to 1.4% in 2015.

We expect public consumption to grow by 0.7% this year and 0.8% next year, which is a little below the government's own estimates. Combined with the government's other income and expenditure, this means the deficit should be around 1.2% this year, rising to 2.9% in 2015. The smaller deficit this year reflects the one-off income generated by pension conversions. Disregarding one-off income would mean the deficits for both years lying close to the EU's 3% threshold as stipulated in the Growth and Stability Pact. Hence, the room for fiscal policy manoeuvre is minimal.

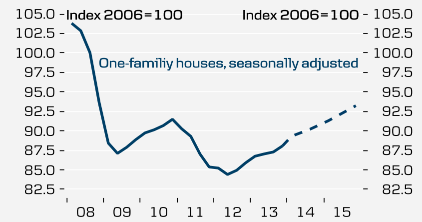
Denmark holds a large surplus on the current account, but this is not necessarily a sign of health. The current account made up 7.3% of GDP in 2013, taking the average for the current account over the past three years to 6.4% of GDP in 2013. This is above the upper limit of 6% that the EU considers an instability factor, according to its procedure for monitoring a country's macroeconomic imbalances.

Chart 5. Danish economy accelerating



Source: Statistics Denmark, Danske Bank Markets

Chart 6. Housing market clearly improving

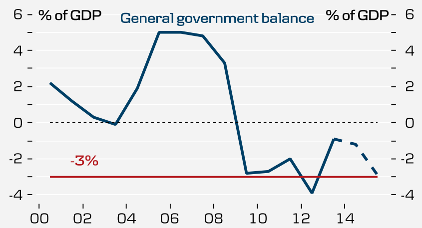


Source: Statistics Denmark, Danske Bank Markets

Chart 7. Inflation will remain low in 2014

Source: Statistics Denmark, Danske Bank Markets

Chart 8. Minimal fiscal policy room for manoeuvre



Source: Statistics Denmark, Danske Bank Markets

BRFkredit

Særligt dækkede obligationer

Company profile

BRFkredit (BRF) was established in 1959 as an independent business foundation authorised to grant third-lien mortgages. Originally, it was intended that BRFkredit grants mortgage loans for specific purposes. Until 30 April 2014 BRFkredit was is an independent specialist mortgage bank providing customers with financial solutions and other services connected with real estate and was wholly owned by BRFfonden, an independent business foundation, through holding company BRFholding. On 30. April 2014 a merger between BRFkredit and Jyske Bank A/S came into effect, and today BRFkredit is owned by Jyske Bank A/S through the holding company BRFholding A/S. BRFkredit continues as a subsidiary subject to Danish mortgage finance legislation.

The merger between BRFkredit and Jyske Bank A/S is expected to strengthen the distribution of banking and mortgage products through an extended base of approx. 900.000 clients, 149 branches, approx. 4,600 employees and a balance sheet of approx. 480bn.

Less than 10 years ago, BRFkredit was the third-largest mortgage bank in Denmark but over the past couple of years it has lost market share due to weak distribution. Today, Jyske Bank and BRFkredit is the fourth largest financial institution in Denmark, and BRFkredit's has a 8% market share of the total Danish mortgage market.

BRFkredit issues SDO covered bonds in the form of traditional pass-through callable bonds and bullet bonds. In addition, BRFkredit adheres to the general balance principle.

In December 2012 BRF established an EMTN (Euro Medium Term Notes) programme listed on Bourse de Luxembourg. Under the EMTN programme, BRF can issue bonds pursuant to §15 of the Danish Mortgage-Credit Act (Senior Secured Notes) and senior debt (Senior Unsecured Notes) equivalent to up to EUR4bn. As of end-2012 BRF has issued EUR500m in senior unsecured bonds under BRF's EMTN programme.

In October 2011 S&P assigned BRFkredit a long-term issuer rating of A- and a AAA for covered bonds issued out of Capital Centres B and E. BRFkredit's covered bonds issued out of the General Capital Centre received a AA- rating from S&P in March 2012. For more rating details, see Chapter 4.

Table 8. Ratings (M/S/F)

Covered bond rating	WR/AAA/-
Issuer rating	WR/A-/-

Source: Rating agencies, Danske Bank Markets

Table 9. Financial information - BRF

DKKm	2013	2012
Net interest income	1,986	1,653
Fees and commissions	105	30
Net gain/losses	-235	-36
Pre-provision income	839	671
Loan losses & provisions	505	493
Operating profit	413	252
Core capital ratio	16.6%	15.2%
Total capital ratio	16.6%	15.2%
Arrears rate	0.5%	0.6%
Repossessed properties	96	160

Source: BRFkredit, Danske Bank Markets

Table 10. More info

Bond ticker	BRF
Website	*www.brf.dk*

Source: Danske Bank Markets

Financial performance

BRFkredit Group reported an operating profit of DKK413 m 2013, an increase from the 2012 level of DKK252m. Net interest income increased from DKK1.653bn to DKK1.986bn and loan losses and provisions increased from DKK493m to DKK505m. The core capital ratio increased from 15.2% as of 31 December 2012 to 16.6% as of 31 December 2013.

The arrears rate (105 days) was 0.5% as at end-September 2013, down from 0.6% in 2012. The number of repossessed properties decreased from 160 to 96.

Business model and funding profile

BRFkredit is a specialist mortgage bank subject to supervision by the Danish FSA. BRFkredit offers mortgages through Jyske Bank A/S and several partnerships. For example, BRFkredit has entered into agreements with Realmæglerne and a range of independent real estate agencies. In 2012 BRFkredit entered into a range of referral agreements with enterprises that meet the customers before a financing requirement arises, for instance estate agents and companies operating in energy renovation and large consumer durables. BRFkredit also distributes mortgages through its website (www.brf.dk) and directly from its headquarters.

Jyske Bank A/S and BRFkredit entered into a joint funding agreement in February 2012. Through the agreement Jyske Bank A/S can transfer their lending on private residential properties to BRFkredit's SDO capital centre E against a fee to BRFkredit. The joint funding agreement has been approved by the Danish FSA. Jyske Bank's total funding through BRFkredit totalled DKK 4.8bn as of end Q1 2014. The recent merger between BRFkredit and Jyske Bank has not led to changes in the joint funding agreement between BRFkredit and Jyske Bank.

BRFkredit primary offers mortgages secured on properties in Denmark, specialising in those used for residential properties and office and shop premises. Loans for residential properties, including owner-occupied homes, co-operative homes, rental homes and publicly subsidised housing projects, comprise most of the total mortgage book. BRFkredit's main lending segment are owner-occupied dwellings (43%), private rentals (20%) and subsidised housing (19%).

BRFkredit offers interest-reset loans (61%), fixed rate callable loans (22%), floaters 33% (11%, of which some include a cap) and a small share of other types of loans (6%). All mortgages are based on the pass-through principle, which provides consumers with a delivery option on the underlying bonds. Interest-reset loans are financed by issuance of a fixed rate non-callable bond portfolio, while other types of mortgages are funded individually by issuing bonds with identical characteristics to those of the corresponding mortgages.

Mortgage-backed covered bonds issued by BRFkredit are divided into different cover registers (capital centres). Approximately 21% of the entire mortgage book is included in Capital Centre B, with covered bonds issued until the end of 2007. Bonds issued prior to 31 December 2007 are grandfathered to the CRD. New ROs (*Realkreditobligationer*) are also issued from Capital Centre B but they do not comply with the CRD and hence do not get preferential treatment in terms of risk weighting. According to the revised Mortgage Act, any new SDOs must be issued out of separate capital centres and new SDOs (72% of total mortgages) are issued out of Capital Centre E.

Table 11. Funding profile

Retail deposits	2%
Corporate deposits	5%
Market funds (match-funded)	83%
Other	5%
Subordinated debt	0%
Equity	4%

Source: BRF, Danske Bank Markets

Cover pool and asset quality

At end of 2013, BRFkredit's cover pool E stood at DKK145bn, made up of 99% Danish-based loans. The average LTV ratio is 68%. Loans are well diversified; however, the majority of the properties (47%) are located in the Copenhagen area. Of the cover pool, 51% is residential property and 13% is commercial. Fixed-rate assets constitute 22% of the pool.

Table 12. Cover pool info – CC E

Capital Centre E	DKK145bn
Junior covered bonds	DKK3.4bn
WA LTV	68%
OC (mandatory)	9.1% (8%)
Fixed-rate loans	22%
IO loans	52%
Geography	99% Denmark
-Copenhagen area	47%
-Zealand	14%
-Northern region	6%
-Central region	17%
-Southern region	16%
Asset type	
-Residential	51%
-Subsidised	19%
-Private rental housing	15%
-Commercial	13%
-Other	2%

Source: Investor Report Q1 2014 from BRF and Danske Bank Markets.

Danske Bank

Særligt dækkede obligationer

Company profile

The history of Danske Bank includes the history of three of the first large banks in Denmark, which came to be known as Den Danske Bank (Danske Bank). Danske Bank originated in the late 19th century with the establishment of Den Danske Landmandsbank (later Den Danske Bank) in 1871 and Handelsbanken in 1873. Between 1960 and 1990, the Danish banking sector was rationalised. A further key to Den Danske Bank's development was the liberalisation of the country's banking laws, which resulted in fewer restrictions on marketing, product development and continual technological innovation. Indirectly, the result of this development was that Den Danske Bank, Handelsbanken and Provinsbanken merged to form Den Danske Bank in 1990. From 2000, Den Danske Bank was renamed Danske Bank, merging with several domestic and Nordic banks. The latest merger occurred in 2007 when Danske Bank acquired Sampo Bank of Finland. Today, Danske Bank is active in all Nordic countries as well as Ireland, Northern Ireland, Luxembourg, Germany, Poland and the Baltics. In 2012, it was decided to structure the bank in three business units and use the Danske Bank name for all banking operations.

Danske Bank provides a wide range of banking products and services to retail, corporate and institutional clients. Domestically, Danske Bank offers mortgages through mortgage subsidiary Realkredit Danmark and pension plans and life insurance through subsidiary Danica Pension. It had 353 retail branches as of end-Q1 14 and several corporate branches. Danske Bank has a dominant position in Denmark with market share of lending (including mortgages) of 27% by end-2013. In Finland, the market share of lending is 10%, while it is 5% and 4% in Sweden and Norway, respectively. Danske Bank benefits from a shared IT platform and shared business procedures in all markets. The group is one of the largest banking groups in Scandinavia.

Danske Bank's issuer (fundamental) ratings from Moody's, S&P and Fitch are 'Baa1' (positive), 'A' (negative) and 'A', respectively. Most recently, S&P lifted its rating by one notch in April 2014, citing improved asset quality, while changing the outlook to negative due to the possible removal of implicit government support from the rating. In December 2013, Moody's revised the outlook to positive. Danske Bank's covered bonds issued out of cover pool D, I and C are rated AAA by S&P and Fitch.

Table 13. Ratings (Moody's/S&P/Fitch)

Covered bond rating	-/AAA (D/I/C)/AAA (D/I/C)
Issuer rating	Baa1(p)/A(n)/A
Fitch D-Cap	3 (D/I/C)
S&P Category	1 (D/I/C)
S&P ALMM risk	Low (D/I/C)

Source: Rating agencies, Danske Bank Markets
'p' = positive outlook , 'n' = negative outlook

Table 14. Financial information

DKKm	2013	2012
Net interest income	22,245	22,778
Fees and commissions	9,525	8,866
Net gains/losses	5,818	10,562
Pre-provision income	15,661	21,020
Loan losses and provisions	4,187	7,680
Operating profit	10,059	8,539
Cost/income ratio	63%	57%
Core tier 1 capital ratio	14.7%	14.5%
Total capital ratio	21.4%	21.3%
Arrears rate (RD)	0.41%	0.49%
Repossessed properties	122	156

Source: Danske Bank Annual Report 2013, Realkredit Danmark Annual Report 2013

Table 15. More information

Bond ticker	DANBNK
Website	*www.danskebank.com*

Source: Danske Bank Markets

Financial performance

Danske Bank reported a decrease in total income of 12% to DKK40.0bn, primarily because of lower market-making income after the extraordinarily high performance in 2012 and lower income from the insurance business at Danica Pension. As expenses remained stable, pre-provision income fell 25% to DKK15.7bn. Loan losses declined to DKK4.2bn, reflecting improving macroeconomic conditions in core markets. As a result, operating profit amounted to DKK10.0bn in 2013, an increase of 18% (2012: DKK8.5bn). The core tier 1 capital ratio increased from 14.5% as of 31 December 2012 to 14.7% as of 31 December 2013 and the total capital ratio increased from 21.3% to 21.4%.

Business model and funding profile

Danske Bank is a universal bank subject to supervision by the Danish FSA. The bank has a well-diversified funding platform including a solid deposit base. Much of the lending consists of Danish mortgages, financed by Realkredit Danmark (RD) mortgage bonds. However, the group also issues covered bonds under the Danske Bank name. This is done in SDO format, under the general balance principle (cf. the Danish Covered Bond Act).

Danske Bank has established three active cover pools within its EUR30bn covered bond programme. Cover Pool D comprises 100% domestic mortgages while Cover Pool I includes international mortgages originated by Danske Bank, currently stemming from Norway and Sweden. Cover Pool C currently comprises only Swedish loans and is made up of a diverse combination of loan types. The vast majority of the mortgage portfolio comprises adjustable-rate mortgages. Last, Cover Pool R consists purely of Irish residential mortgages, but is gradually being phases out, as the cover pool has been moved to the bank's non-core business unit. According to Danske Bank, there will be no new covered bond issuances from Cover Pool R and no further loans will be granted that could be used as collateral in the Cover Pool.

Danske Bank issues covered bonds in EUR benchmark format out of cover pool I. The last issue was launched in June 2014, a EUR1bn seven-year issue with a 1.25% coupon priced at MS+13bp. Danske Bank currently has eight outstanding EUR benchmarks.

The covered bonds currently outstanding all have soft bullet maturities, allowing for a 12 month extension period. Furthermore, covered bonds secured by Danish cover assets issued after 1 January 2015, i.e. cover pool D, are affected by the new legislation on maturity extension for Danish covered bonds. According to the legislation, an administrator will have the possibility of extending the maturity of the covered bonds in the cover pools by up to one year at a time to avoid temporary shortfalls of liquidity, but only after other refinancing options have been exhausted. In case of maturity extension, the interest rate will be fixed at a reference rate (which has yet to be specified) plus a maximum of 5pp. The maturity of new issues will be limited to a minimum of two years.

Cover pool and asset quality

As of end-March 2014, Cover Pool D totalled DKK43bn and consisted exclusively of Prioritet Plus mortgage loans, which offer the borrower the flexibility to partially draw down or repay amounts held in a dedicated savings account. However, should the bank default, the borrower cannot set-off the deposit account against its loan account, thus protecting covered bondholders against set-off risk. The underlying assets are residential properties in Denmark (92% primary homes, 8% secondary homes). All the mortgages in Cover Pool D are floating rate. The average indexed LTV ratio in Cover Pool D is 61%. The pool is well seasoned (71 months) and has OC of 23% (of which 2% is committed).

Cover Pool I – the main cover pool of Danske Bank – amounted to DKK116bn and comprised (in addition to DKK6.0bn of substitute assets) 51% Norwegian and 49% Swedish mortgages. Most of the mortgages in Cover Pool I are floating rate (81%). The average indexed LTV ratio in Cover Pool I is 60%. The pool has an overall weighted seasoning of 46 months. The level of OC stood at 23%, of which 2% is committed.

Cover Pool C stood at DKK31bn and comprised Swedish floating-rate assets – mainly rental housing (26%), agricultural properties (24%) and co-operative housing (23%). The average indexed LTV ratio in Cover Pool C is 55%. The large average loan size of DKK5.6m in Cover Pool C reflect the more business-oriented nature of this cover pool.

Loans in arrears (over 90 days) are not allowed in any of the cover pools. Furthermore, Danske Bank commits to a voluntary minimum OC of 2% (agreed with the Danish FSA). Approval of mortgages by Danske Bank is based on a strict credit policy, identical to that of Realkredit Danmark.

Table 16. Funding profile

Total balance	**DKK3,227bn**
Retail deposits	29%
Due to credit institutions	10%
Bonds issued by RD	19%
Other debt issued	10%
Trading portfolio liabilities	13%
Liab. (insurance contracts)	8%
Subordinated debt	2%
Equity	5%
Other	4%

Source: Danske Bank Annual Report 2013

Table 17. Cover pool info (D)

Cover Pool D	**DKK 42.6bn**
Average loan size	DKK 583,800
OC (committed)	23.38% (2%)
WA Indexed LTV	61%
Seasoning	71 months
Arrears (> 90 days)	None
Fixed-rate loans (>1Y)	0%
Geography	100% Denmark
-Greater Copenhagen	37%
-South Denmark	24%
-Eastern Jutland	20%
-Remaining Zealand	12%
-North Jutland	7%
Asset type	100% residential
-Primary home	92%
-Secondary home	8%

Source: Danske Bank ECBC template, Mar 2014

Table 18. Cover pool info (I)

Cover Pool I	**DKK 116.4bn**
Substitute collateral	**DKK6.0bn**
Average loan size	DKK899,100
OC (committed)	23.2% (2%)
WA Indexed LTV	60%
Seasoning	46 months
Arrears (> 90 days)	None
Fixed-rate loans (>1Y)	19%
Geography	
-Norway	51%
-Sweden	49%
Asset type	
- Primary home owner	79%
- Primary home cooperative	15%
- Secondary home owner	6%

Source: Danske Bank ECBC template, Mar 2014

Table 19. Cover pool info (C)

Cover Pool C	**DKK31.1bn**
Average loan size	DKK 5,593,000
OC (committed)	36.4% (2%)
WA Indexed LTV	55%
Seasoning	36 months
Arrears (> 90 days)	None
Fixed-rate loans (>1Y)	0%
Geography	
-Sweden	100%
Property type	
-Private rental	25%
- Agricultural properties	24%
-Cooperative housing	23%
-Offices and businesses	12%
- Manufacturing industries	10%
- Other	6%

Source: Danske Bank ECBC template, Mar 2014

DLR Kredit

Særligt dækkede obligationer

Company profile

Dansk Landbrugs Realkreditfond (DLR) is a Danish mortgage lender, specialised in agricultural and commercial mortgages. DLR was founded in 1960 on the initiative of the banks and savings banks associations (now the Danish Bankers Association). DLR's formation was driven by farmers' requirements for long-term capital in the 1950s, which were covered only partially by first- and second-lien mortgage banks. Lack of funding resulting from hesitant lending policies of first- and second-lien mortgage banks led in part to the establishment of DLR, which was allowed to operate with a loan-to-value ratio of 70% of DLR's valuation of the mortgaged property.

Between its establishment in 1960 and 1 July 2000, DLR operated on its own individual legal basis pursuant to the DLR Act. DLR's exclusive right to grant loans based on a LTV ratio of 45-70% was abandoned from 1 January 1999. DLR became subject to the Mortgage Credit Act as of 1 July 2000 and in 2001 it became a company limited by shares. Shares in DLR are held by 99 local and regional banks and savings banks (+1,000 branches across Denmark). The shareholders are members of Local Banks in Denmark (46%), members of the Association of Regional Banks (25%), Nykredit (10%), Financial Stability A/S (including Amagerbanken, Fjordbank Mors, Max Bank and Sparebank Østjylland) (9%), PRAS A/S (6%), the Danish centralbank (4%) and other shareholders (0.4%). As well as providing mortgage loans, DLR has managed the loan portfolio of LR Realkredit (majority owned by Nordea, Danske Bank, Jyske Bank, SEB and Arbejdernes Landsbank) since 1994. DLR takes no credit risk on this portfolio.

DLR's market share was 5.4% as at the end of 2013. If we look at DLR's main lending areas (agriculture, office and business properties, private rental housing properties and private co-operative housing properties), the market share was 16%.

DLR has a BBB+ issuer-rating from Standard & Poor's and a AAA covered bond rating (Capital Centre B and "General Capital Centre").

Financial performance

DLR Kredit A/S reported operating profit of DKK629m in 2013 – an increase from the 2012 level of DKK603m. Net interest income decreased slightly from DKK1.238bn to DKK1.449bn. Loan losses and provisions increased from DKK87m to DKK113m. The core capital ratio decreased from 13.2% to 12.3%.

The arrears rate (3.5 months) as of January 2014 was 1.0%, down from 1.7% as at January 2013. The number of repossessed properties decreased from 58 to 35.

Table 20. Ratings (M/S/F)

Covered bond rating:	WR/AAA/-
Issuer rating:	WR/BBB+/-

Source: Rating agencies, Danske Bank Markets.

Table 21. Financial info

DKKm	2013	2012
Net interest income	1,449	1,238
Fees and commissions	-221	-190
Net gain/losses	-296	-174
Pre-provision income	742	690
Loan losses & provisions	113	87
Operating profit	629	603
Cost/income ratio	34%	33%
Core capital ratio	12.3%	13.2%
Total capital ratio	12.3%	13.2%
Arrears rate	1.0%	1.7%
Repossessed properties	35	58

Source: DLR Kredit, Danske Bank Markets

Table 22. More info

Bond ticker	LANDBR
Website	*www.dlr.dk*

Source: Danske Bank Markets

Business model and funding profile

DLR is a specialist mortgage bank subject to supervision by the Danish FSA. DLR provides mortgages through the branch networks of its shareholder banks. In order to support the customer advisory services of the banks in connection with mortgage loans DLR has developed an electronic communications system – DLRxperten. DLR has no branches itself.

DLR only offers mortgages secured on properties in Denmark. It focuses on mortgages on agricultural and commercial properties as well as co-operative homes, rental homes and publicly subsidised housing projects. The bank offers interest-reset loans (73%), fixed rate callable loans (14%), floating rate loans (11%) and capped floaters (2%). All mortgages are based on the pass-through principle, meaning that consumers have a delivery option on underlying bonds. Interest-reset loans are funded by issuing a portfolio of fixed rate, non-callable bonds, while other types of mortgages are funded individually by issuing bonds with exactly the same characteristics as the mortgages.

DLR has a management agreement with all shareholder banks, which requires loan-providing banks to put up an individual loan loss guarantee covering the most risky part of each mortgage. The agreement includes all commercial properties.

As a result, DLR's risk of losses arising from the granting of loans for the property types mentioned is very limited. Loans for agricultural properties are also protected by a collective guarantee scheme set up between DLR and the loan-providing banks, which comes into force in the event that the losses suffered by DLR within a given financial year exceed a given level. The guarantee scheme means that DLR's risk of losses arising from the granting of loans for agricultural properties is relatively limited. As at the end of 2013, the guarantee scheme covered 92% of DLR's total loan portfolio; the remaining loans often have a very low LTV.

Mortgage-backed covered bonds issued by DLR are divided into different cover registers (capital centres). According to the revised Mortgage Act, any new SDOs must be issued out of separate capital centres. By the end of 2007 DLR closed and subsequently grandfathered the existing series in General Capital Centre, according to the Capital Requirement Directive (CRD), with new SDOs issued out of Capital Centre B.

Cover pool and asset quality

As of end-2013 DLR's capital centre B totalled DKK113bn and consisted mainly of Danish-based assets, distributed as 62% in agricultural assets and 19% in commercial assets. All assets are geographically well diversified with a slight tendency to be concentrated in Jutland.

Approval of mortgages by DLR is based on a strict credit policy. Only mortgages on properties stated in the Mortgage Act are allowed in the cover pool. The LTV ratio on each mortgage is monitored on an ongoing basis while the borrower's ability to pay is reviewed each month.

Table 23. Funding profile

Market funds (match-funded)	89%
Corporate deposits	0%
Other	2%
Subordinated debt	2%
Equity	7%

Source: DLR, Danske Markets

Table 24. Cover pool info – CC B

DLR Kredit	DKK113bn
WA LTV	59%
Fixed rate loans	10%
IO-loans	54%
Geography	99% Denmark
-Copenhagen area	6%
-Zealand	13%
-South Denmark	28%
-Jutland	51%
-International	1%
Asset type	
-Owner-occupied	5%
-Agricultural	62%
-Commercial	19%
-Rental housing	11%
-Co-operative housing	2%
-Other	1%

Source: Cover pool report Q1 2014 from DLR and Danske Bank Markets

Nordea Kredit

Særligt dækkede obligationer

Company profile

Nordea Kredit Realkreditaktieselskab (NOR) is a wholly-owned subsidiary of Nordea Bank Danmark, which is part of the Nordea Group. In 1997 Swedish Nordbanken merged with Finnish Merita Bank to form MeritaNordbanken. In 2000 Danish Unibank merged with MeritaNordbanken, which, at the same time, changed its name to Nordea. Later in 2000 the Norway-based Christiania Bank joined the newly formed Scandinavian banking group. Today Nordea is the largest bank in Scandinavia with activities in Scandinavia, the Baltic region and Russia.

Nordea's main business areas include retail banking, corporate banking, asset management, life insurance and pensions and mortgage finance.

NOR began its mortgage activities in September 1993. Initially, it provided only lending for residential properties and holiday homes. Currently, however, mortgage loans are offered for most types of property. NOR's share of the domestic mortgage market as at Q1 2014 is 14.7% (mortgage loans at nominal value as a share of all Danish mortgage bank loans).

Nordea's long-term issuer ratings by Moody's, S&P and Fitch are A1, AA- and AA-, respectively. Covered bonds issued by NOR have Aaa and AAA ratings from Moody's and S&P, respectively. For more rating details, see Chapter 4.

Table 25. Ratings (M/S/F)

Covered bond rating	Aaa/AAA/-
Issuer rating	A1/AA-/AA-

Source: Rating agencies, Danske Bank Markets

Table 26. Financial info (parent bank)

EURm	2013	2012
Net interest income	5,525	5,563
Fees and commissions	2,642	2,468
Net gain/losses	1,539	1,774
Pre-provision income	4,851	4,934
Loan losses & provisions	735	895
Operating profit	4,116	4,039
Cost/income ratio	51%	51%
Core capital ratio	11.7%	11.2%
Total capital ratio	13.4%	12.7%
Arrears rate (NOR)*	0.3%	0.3%
Repossessed properties	41	65

** Residential properties and holiday homes*
Source: Nordea, Danske Bank Markets

Table 27. More info

Bond ticker:	NDASS
Website	*www.nordea.com*

Source: Danske Bank Markets

Financial performance

Nordea Group reported operating profit of EUR4.1bn for 2013, an slight increase from the 2012 level of EUR4.0bn. Net interest income decreased slightly from EUR5.56bn to EUR5.53bn and loan losses and provisions decreased from EUR0.9bn to EUR0.7bn. The core capital ratio increased from 11.2% as of 31 December 2012 to 11.7% as of 31 December 2013 and the total capital ratio increased from 12.7% to 13.4%.

The arrears rate (3.5 months) for residential properties and holiday homes for Nordea Kredit was 0.3% as at end-2013, unchanged from end-2012. The number of repossessed properties fell from 65 to 41.

Business model and funding profile

NOR is a specialist mortgage bank subject to supervision by the Danish FSA. The objective of NOR is to carry on business as a mortgage bank, including any kind of business permitted pursuant to the Danish Mortgage Act. NOR only has mortgage credit activities in Denmark, while all mortgages in the cover pool are secured on properties situated in Denmark. All mortgages included in the cover pool are distributed through Nordea's branch network and that of the real estate chain, DanBolig.

A management agreement exists between NOR and Nordea Bank Danmark. It states the following: Nordea Bank Danmark A/S provides a guarantee for the upper 25% of mortgage loans originated by the bank. For loans granted for non-profit housing, youth housing and housing for the elderly, there is only a 10% guarantee. For loans for all-year dwellings, co-operative housing, private rental housing, non-profit rental housing and properties for social, cultural and educational purposes, the guarantee covers that part of the mortgage loan that exceeds 60% of the valuation made in conjunction with the loan origination process. For loans granted to agricultural properties, the guarantee covers that part of the mortgage loan that exceeds 55% of the valuation made in conjunction with the loan origination process.

For loans granted to recreational dwellings, industrial and craftsmen's properties, office and retail properties and collective energy supply plants, the guarantee covers that part of the loan that exceeds 45% of the valuation made in conjunction with the loan origination process.

The guarantee periods begins when the loan is disbursed or remortgaged. The former guarantee period of 10 years or 5 years for loans granted to owner-occupied, all-year and recreational dwellings was changed to lifetime of the loan on December 9, 2013.

As at the end of 2013 guarantees from Nordea Bank Danmark A/S covered loans worth DKK309bn, of which guarantees amounted to DKK88bn.

The management agreement between NOR and Nordea Bank Denmark also includes the following:

- The branch that originated the mortgage is responsible for all customer handling.
- NOR receives all payments from customers directly. In turn, NOR pays provisions to Nordea Bank Denmark.

The mortgages backing the covered bonds issued by NOR are divided into different cover pools (capital centres). According to the revised Mortgage Act, new SDROs must be issued out of separate capital centres. Therefore, at the end of 2007, NOR closed the RO Capital Centre 1 and subsequently grandfathered the existing series, according to the Capital Requirement Directive (CRD) and new SDROs have been issued out of Capital Centre 2. Capital Centre 2 holds 90% of the total mortgage book.

Table 28. Funding profile (parent bank)

Credit institution deposits	9%
Retail deposits	30%
Debt securities in issue	29%
Derivatives	10%
Subordinated debt	1%
Equity	5%
Other	13%

Source: Nordea, Danske Bank Markets

Cover pool and asset quality

As at 31 December 2013 Capital Centre 2 totalled DKK335bn and consisted entirely of Danish-based mortgages. These are secured mainly on residential (66%) mortgages, followed by agricultural (12%) and commercial (12%). Of all mortgages, 33% carry a fixed rate and 56% are interest-reset loans. The average indexed LTV ratio in NOR's Capital Centre 2 is 70%.

Table 29. Cover pool info – CC 2

Capital Centre 2	**DKK335bn**
WA Indexed LTV	70%
OC (mandatory)	13.1% (8%)
Fixed rate loans	33%
IO-loans	56%
Geography	Denmark
-Copenhagen area	22%
-Zealand	33%
-Funen	5%
-Jutland	39%
Asset type	
- Owner-occupied	66%
- Rental	6%
- Commercial	12%
- Agriculture	12%
- Other	3%

Source: Risk report Q1 14 from Nordea Kredit, Danske Bank Markets

Nykredit/Totalkredit

Særligt dækkede obligationer

Company profile

Nykredit Realkredit (NYK) is a wholly-owned subsidiary of Nykredit Holding. Nykredit Holding is an unlisted holding company owned by Foreningen Nykredit (90%), Industriens Realkreditfond (5%), Foreningen Østifterne (3%) and PRAS (2%). As a mortgage association, NYK originated in 1851. Today, besides mortgage finance, NYK is active in retail and corporate banking, asset management, insurance and real estate. Mortgage finance is the most important business area.

In 2003 NYK acquired Totalkredit (TOT), which is currently a wholly-owned subsidiary of NYK. Following the acquisition of TOT, NYK became the largest specialist mortgage bank in Denmark with a current market share based on outstanding mortgages of 43%. There are nearly 70 banks (with over 950 branches) in the TOT corporation network, making it crucial for the distribution of NYK mortgages. NYK and both local and regional banks are competitors in agricultural mortgage and non-mortgage markets. In 2008 NYK acquired Forstædernes Bank, which increased NYK's market share within banking to 5.2%. Forstædernes Bank has subsequently been merged with Nykredit Bank.

Nykredit's covered bonds issued out of Capital Centre E and H are rated AAA by S&P. Nykredit has a Baa2/A+/A long-term rating from Moody's/S&P/Fitch. For more rating details, see Chapter 4.

Table 30. Ratings (M/S/F)

Covered bond rating – CC E:	WR/AAA/-
Covered bond rating - CC H	WR/AAA/-
Issuer rating:	Baa2/A+/A

Source: Rating agencies, Danske Bank Markets

Table 31. Financial information

DKKm	2013	2012
Net interest income	10,325	10,838
Fees and commissions	-239	221
Net gain/losses	150	-547
Loan losses & provisions	2,764	2,149
Operating profit	1,914	3,144
Cost/income ratio	55%	57%
Core capital ratio	15.8%	15.8%
Total capital ratio	18.9%	19.1%
Arrears rate	0.47%	0.52%
Repossessed properties	322	356

Source: Nykredit, Danske Bank Markets

Table 32. More info

Bond ticker	NYKRE
Website	*www.nykredit.com*

Source: Danske Bank Markets

Financial performance

Nykredit Group reported operating profit of DKK1.9bn in 2013 – a fall from the 2012 level of DKK3.1bn. Net interest income decreased from DKK10.8bn to DKK10.3bn and loan losses and provisions increased from DKK2.1bn to DKK2.8bn.

The core capital ratio was 15.8% as of 31 December 2013 unchanged from the 2012 level and the total capital ratio decreased to 18.9% from 19.1%. The arrears rate (75 days) as of September 2013 was 0.47% – a slight fall from the 2012 level. The number of repossessed properties decreased from 356 to 322.

Business model and funding profile

NYK is a specialist mortgage bank subject to supervision by the Danish FSA. Banking, asset management and insurance activities are carried out by wholly-owned separate subsidiaries of NYK. As mentioned above, TOT is also a wholly-owned subsidiary of NYK. Retail and commercial customers are offered mortgages through Nykredit's distribution channels, which include 55 customer centres, Nykredit.dk, mobile app downloads, a central customer services centre and the real estate agencies of the Nybolig and Estate chains. Like NYK, TOT is a specialist mortgage bank under the supervision of the Danish FSA.

In 1994 TOT was established as a joint mortgage bank by local and regional banks in Denmark. Since the acquisition of TOT in 2003, NYK has developed a partnership with Danish local and regional banks with substantial distribution networks including over 950 branches. Mortgage products under the Totalkredit brand are sold through these local and regional banks. The vast majority of growth in mortgage lending is delivered by local and regional banks.

Denmark is the largest market for NYK and TOT. In addition, NYK provides loans secured by residential property in France and Spain and loans secured in commercial property in UK, Germany, Sweden and Norway. TOT only offers mortgages secured on residential property, while NYK's core markets in Denmark are in residential housing and commercial properties, which comprise loans to customers for urban trade, agriculture and residential rental properties.

A management agreement exists between NYK/TOT and the local and regional banks. The agreement states the following.

- The branch that originated the mortgage is responsible for all handling of customers.
- The bank that originated the mortgages covers all losses (LTV between 60% and 80%) on mortgages originated by the said bank.
- TOT receives all payments directly from customers. In turn, TOT pays provisions to the banks.

Since 2006 NYK and TOT have been jointly funded, so all mortgages originated by NYK or TOT were funded by covered bonds issued out of NYK Capital Centre D. According to the revised Mortgage Act, new SDOs must be issued out of separate capital centres. Therefore, since 1 January 2008, NYK/TOT has issued SDOs out of a new capital centre E, with existing series in Capital Centre D closed at the end of 2007. The series in Capital Centre D were grandfathered according to the Capital Requirement Directive (CRD). Nykredit announced in June 2011 that existing interest-reset and floating-rate loans – issued out of Capital Centre E – would be refinanced in to the new capital centre H starting from the refinancing auction in September 2011. Hence, going forward, joint funding will be carried out from Capital Centre E for the fixed rate loans and Capital Centre H for the interest-reset and floating-rate loans.

Nykredit introduced two-tier mortgaging for commercial borrowers (in 2009) and residential borrowers (in Q2 2012), where all new loans were funded using SDO covered bonds up to a LTV of 45% for commercial real estate and 60% for residential real estate, while the top 15%/20% were funded using RO bonds issued out of capital centres G and I. Furthermore, the top loan had to be amortising. However, Nykredit announced in 1H 2014 that they offer one-tier mortgaging for residential loans with a LTV up to 80% starting as of mid-2014. This also allies for interest only loans.

Cover pool and asset quality

As at end of Q1 2014, NYK's Cover Pool E and H totalled DKK276bn and DKK542bn, respectively, of which 91% was Danish-based mortgages. These are secured on residential (76%/63%), agricultural (3%/8%) and commercial properties (6%/14%). The cover pools have a weighted-average LTV of 75% and 74%, respectively. Of all mortgages in Capital Centre E, 68% carry a fixed rate whereas Capital Centre H consists of 100% ARMs.

Table 33. Funding profile

Market funds (match-funded bonds)	80%
Corporate deposit	3%
Retail deposits	5%
Other	8%
Subordinated debt	1%
Equity	4%

Source: Nykredit, Danske Bank Markets

Table 34. Cover pool info – CC E

Capital Centre E	DKK276bn
Junior covered bonds	DKK16bn
WA LTV	75%
Fixed rate loans	68%
IO-loans	49%
Geography	
-Copenhagen area	26%
-Remaining Zealand	10%
-Jutland region	54%
-Funen	9%
-International	9%
Asset type	
-Owner-occupied	76%
-Private rental	8%
-Non-profit housing	7%
-Commercial	6%
-Agriculture	3%
-Other	1%

Source: Risk report Q1 14 from Nykredit, Danske Bank Markets

Table 35. Cover pool info – CC H

Capital Centre H	DKK542bn
Junior covered bonds	DKK15bn
WA LTV	74%
Fixed rate loans	0%
IO-mortgages	73%
Geography	
-Copenhagen area	27%
-Remaining Zealand	8%
-Jutland region	49%
-Funen	7%
-International	9%
Asset type	
-Owner-occupied	63%
-Private rental	11%
-Non-profit housing	3%
-Commercial	14%
-Agriculture	8%
-Other	1%

Source: Risk report Q1 14 from Nykredit, Danske Bank Markets

Realkredit Danmark

Særligt dækkede obligationer

Company profile

Realkredit Danmark (RD) is a wholly-owned subsidiary of Danske Bank, the largest financial institution in Denmark, originated in 1871. Today, Danske Bank is a global bank with activities in northern Europe and the Baltic region under various brands. In 2006 Danske Bank acquired Sampo Bank in Finland. Its main business areas are retail banking, corporate banking, asset management, life insurance and pensions and mortgage finance.

RD was established in 1851 under the name Østifternes Kreditforening. In 2001 RD merged with Danske Kredit A/S and BG Kredit A/S following the merger of Danske Bank A/S and RealDanmark A/S. RD is the continuing mortgage credit arm of the Danske Bank Group and the second-largest specialist mortgage bank in Denmark, with a loan portfolio market share of 27%. RD was the first to issue CRD-compliant covered bonds under the revised Danish Covered Bond Act.

RD's covered bonds issued out of Capital Centre S and T and the General Capital Centre are rated AAA by Standard & Poor's. Capital Centre S is rated AAA and Capital Centre T is rated AA+ by Fitch. For more rating details, see Chapter 4.

Financial performance

Danske Bank reported an operating profit of DKK10.1bn in 2013, an increase from DKK8.5bn in 2012. Net interest income decreased from DKK35.0bn to DKK33.4bn. Income fell mainly because increased lending margins were offset by lower lending volumes and because deposit margins declined as a result of the fall in short-term rates in 2013. The cost/income ratio increased from 54% in 2012 to 61% in 2013. Loan losses and provisions fell from DKK12.5bn to DKK5.4bn.

The core capital ratio increased from 18.9% as of 31 December 2012 to 19.0% as of 31 December 2013 and the total capital ratio increased from 21.3% to 21.4%. The arrears rate (three months) for RD decreased marginally from 0.49% as at end-2012 to 0.41% as at end-2013. The number of repossessed properties decreased from 156 to 122.

Business model and funding profile

RD is a specialist mortgage bank subject to supervision by the Danish FSA. RD's objective is to carry out business as a mortgage bank, including any kind of business permitted by the Danish Mortgage Act. RD's principal market is Denmark. In 2012 RD started issuing loans in Norway to large corporate customers who are already customers in Danske Bank. Following the expansion of Realkredit Danmark's geographical business area in 2012 to include Norway, mortgage lending to selected business customers in Sweden and Norway continued in 2013.

Table 36. Ratings (M/S/F) - RD

Covered bond rating – CC S	WR/AAA/AAA
Covered bond rating – CC T	WR/AAA/AA+
Issuer rating	-/A/A

Source: Rating agencies, Danske Bank Markets

Table 37. Financial information (Danske Bank)

DKKm	2013	2012
Net interest income	33,432	34,954
Fees and commissions	8,823	8,233
Net gains/losses	8,146	12,735
Pre-provision income	15,479	21,068
Loan losses and provisions	5,420	12,529
Operating profit	10,059	8,539
Cost/income ratio	61%	54%
Core capital ratio	19.0%	18.9%
Total capital ratio	21.4%	21.3%
Arrears rate (RD)	0.41%	0.49%
Repossessed properties	122	156

Source: Danske Bank

Table 38. Further information

Bond ticker	RDKRE
Websites	www.danskebank.com www.rd.dk

Source: Danske Bank

RD's core markets in Denmark are residential housing – defined as lending for the financing of owner-occupied housing and holiday homes – and the corporate market, which comprises loans to customers with property in urban trade, agriculture and residential rental property.

All mortgages included in the cover pool are distributed through the branch networks of Danske Bank, the joint finance centres and the wholly-owned real estate agent 'home' in Denmark. Realkredit Danmark also offers customers online and self-service solutions provided at the rd.dk and danskebank.dk websites, and Home Direct serves customers over the telephone during extended opening hours.

A management agreement exists between RD and Danske Bank, stating the following.

- The branch that originated the mortgages is responsible for all handling of customers.
- Danske Bank covers all losses (with a LTV of 60-80%) on mortgages originated at Danske Bank branches.
- RD receives all payments directly from customers. In turn, RD pays provisions to Danske Bank.

As at the end of 2013, loss guarantees issued by Danske Bank amounted to DKK50bn. This amount includes DKK12bn in the form of supplementary collateral for mortgage covered bonds. All mortgages are transparent (pass-through), which means that consumers have a delivery option on the underlying bonds. Interest-reset loans are funded by a portfolio of fixed-rate non-callable bonds, while other types of mortgages are funded individually by issuing bonds with exactly the same characteristics as the mortgages.

Mortgages backing covered bonds issued by RD are divided into different cover registers (capital centres). According to the revised Mortgage Act, new SDROs must be issued out of separate capital centres. Therefore, since July 2007, SDROs have been issued out of Capital Centre S. Existing RO series in the General Capital Centre have been closed since end of 2007 and are grandfathered according to the Capital Requirement Directive (CRD). RD have since 2011 issued all new interest-reset loans (ARMs) out of Capital Centre T and a large part of the interest-reset loans in capital centre S have been refinanced into the new Capital Centre T, starting from the refinancing auctions set for December 2011. Today the majority of the entire mortgage book is included in Capital Centre S and T.

Cover pool and asset quality

As at end Q1 2014, the cover pool for Capital Centre S and T totalled DKK218bn and DKK409bn, respectively. These are secured on private (69% and 55%), rental residential (21% and 14%) and commercial mortgages (10% and 21%). Of the assets in capital centre S, 64% carry a fixed interest rate whereas the assets in capital centre T only consist of ARM and floating rate loans. The IO loans in Capital Centre S and T amount to 39% and 63%, respectively. Geographically, the pool is well diversified across Denmark, with 38% and 37%, respectively, of the loan portfolio located in the Metropolitan area. The average LTV ratio for all capital centres in Realkredit Danmark was 70.6% in Q1 2014. The LTV is capped at 80% for residential and 60% for commercial mortgages.

Table 39. Funding profile (Danske Bank)

Retail deposits	32%
Corporate deposits	10%
Market funds	29%
Trading portfolio liabilities	13%
Liab. under insurance contracts	8%
Other	2%
Subordinated debt	2%
Equity	5%

Source: Danske Bank

Table 40. Cover pool info – CC S

Capital Centre S	DKK218bn
Junior covered bonds	DKK2.0bn
WA Indexed LTV (Total RD)	69% LTV
LTV > 80%	26.6%
OC (mandatory)	10.8% (8%)
IO-mortgages	39%
Fixed rate loans	64%
Geography	Primarily Denmark
- Metropolitan area	38%
- Other Zealand	18%
- Western region	25%
- Southern region	19%
- Other area	0%
Asset type	
- Private	69%
- Rental residential	21%
- Commercial	10%
- Agriculture	3%

Source: Risk report Q1 14 from Realkredit Danmark

Table 41. Cover pool info – CC T

Capital Centre T	DKK409bn
Junior covered bonds	DKK26.5bn
WA Indexed LTV (Total RD)	69% LTV
LTV > 80%	24.8%
OC (mandatory)	11.3% (8%)
IO-mortgages	63%
Fixed rate loans	0%
Geography	Primarily Denmark
- Metropolitan area	37%
- Other Zealand	17%
- Western region	25%
- Southern region	19%
- Other area	3%
Asset type	
- Private	55%
- Rental residential	14%
- Commercial	21%
- Agriculture	10%

Source: Risk report Q1 14 from Realkredit Danmark

Finnish Covered Bonds

Katettu joukkolaina

Background

In December 1999 the Finnish parliament passed the Act on Finnish mortgage banks (MB). However, it took several amendments before the first *Kiinteistövakuudellinen joukkovelkakirjalaina* (mortgage bonds) were issued in 2004.

In October 2000 amendments were made to the initial Act. The primary goal was to clarify investor rights in the event of default. The most significant amendments were as follows.

- Insolvency proceedings were improved.
- Substitution assets were capped at 20%.

In January 2003 the Mortgage Act was again revised in order to strengthen its effectiveness. The main amendments were as follows.

- ALM requirements were introduced.
- A 10% cap on commercial loans in mortgage-backed covered bonds was imposed.

Aktia Real Estate Mortgage Bank (now Aktia Bank plc – Aktia MB) was the first issuer of covered bonds in June 2004, with Sampo Housing Loan Bank (now Danske Bank plc) following suit in 2005 with the first Finnish benchmark-sized covered bond. At end-May 2007, OP Bank Group Mortgage Bank (OP MB) became Finland's third issuer with an inaugural five-year EUR1bn issue. In November 2010, Nordea Bank Finland's inaugural issue was a five-year EUR2bn deal.

In 2010 the Finnish Mortgage Act was subject to a larger revision, allowing for the issuance of *katettu joukkolaina* (covered bonds). The changes and clarifications that came into effect on 1 August 2010 include the following.

- Abandoning of the specialist bank principle.
- Maximum LTV for residential mortgages to be raised from 60% to 70% (commercial lending unchanged at 60%).
- Derivatives counterparties will now rank *pari passu* with covered bondholders.
- One cover pool for both mortgages and public loans instead of separate cover pools.
- Cash can be used as substitute assets but substitute assets are still limited to 20% of the total cover pool.
- The share of loans with LTV ratios above 60% are no longer restricted to one-sixth of the issuer's mortgage portfolio.
- Clarification of the administrator's rights post default, including the possibility of raising liquidity (the insolvency process will be written directly into the covered bond act instead of relying on references to, for example, the general banking law).

Key elements of the Mortgage Act

As in Denmark and Sweden, the **specialist banking principle has been abandoned** and universal banks can obtain a licence to issue covered bonds. **Collateral assets** may include residential and commercial mortgages, public loans, derivatives and substitute assets.

Up to 20% of **substitution assets** is allowed but only on a temporary basis. The Act does not allow for ABS/RMBS to be included in the cover pool. Consistent with UCITS 52(4) requirements, the issuer will be subject to special **public supervision**. The issuer must keep a **cover register** of collateral (including open hedge positions) and bonds issued. So far, only mortgage-backed covered bonds have been issued. Non-performing loans more than 90 days in arrears cannot be taken into account when performing coverage/matching calculations, but may remain in the pool.

Further, **LTV ratio limits are 70% for mortgage and 60% for commercial loan.** Loans with LTV ratios of up to 100% are allowed in the cover pool but only the part within LTV ratio limits will be accounted for in coverage/matching calculations. In the event of an issuer default, the covered bondholder's priority right only applies to the part of the loan that falls within the LTV ratio limits.

The **valuation** of cover assets must be carried out prudently and any assessment must be on an individual basis. Properties in the cover asset pool must be valued on an ongoing basis: commercial properties every year and residential properties every third year. Eventually, if LTV ratio limits are breached, the issuer is obliged to include substitution assets in the cover asset pool.

In respect of **ALM requirements**, the law states that the value of the cover pool, including derivatives, must exceed the value of outstanding bonds issued. Bonds, loans, substitute assets and derivatives must be calculated at book value. No nominal minimum OC is required. However, **on a net present value basis, 2% OC is required** by law. Further, aggregate interest income from the cover pool must at all times be greater than or equal to the interest due on outstanding covered bonds over the following 12 months, while taking into account the possibility of a +/- 100bp shift in the yield curve. **No currency risk is accepted** (hedging allowed).

Asset segregation is secured through the cover register. Regarding **bankruptcy proceedings**, the preferential right to cover assets is explicitly stipulated. Therefore, in the event of mortgage bank insolvency, bondholders have a statutory preferential right to the cover pool. Swap counterparties rank *pari passu* with bondholders respecting claims on the cover pool.

The law explicitly defines the mandatory procedures to be followed in the event of bankruptcy as well as those necessary to ensure punctual payments. As in Germany, after an issuer has been placed in liquidation or declared bankrupt, the Finnish FSA is required to appoint an attorney to supervise the interests of bondholders. Note that **an issuer default does not prompt an acceleration of covered bonds** or a determination of derivative contracts. The attorney shall in particular supervise the management of funds placed as collateral for bonds and their conversion into cash as well as contractual payments to be made to bondholders. A bankruptcy trustee shall, if required by attorney, conclude derivatives contracts necessary to hedge against risks relating to bonds and sell collateral for the bond in order to fulfil the obligations relating to the bond. In addition, the trustee may, by permission of the attorney, transfer liability for a bond and funds placed as its collateral to another mortgage bank. The trustee may convey the collateral for a bond only after he has obtained permission from the FSA. Should funds prove insufficient to honour the bondholder's claims, the covered bonds will accelerate. Any unfulfilled claim will rank *pari passu* with other creditors.

The issuer should continually ensure that the remaining average **maturity** of the covered bonds is shorter than the remaining average maturity of the cover assets. The average term to maturity is calculated as the present-value-weighted average of the terms to maturity of a contract's remaining (nominal) cash flows (derivative contracts included).

Issuers and credit quality

Following the abandoning of the specialist banking principle, in 2010 Nordea Bank Finland introduced the first covered bond programme from a universal bank. Furthermore, in 2010 Danske Bank decided to revive its Sampo Housing Loan Bank Covered Bond programme (now Danske Bank plc) after being dormant for more than four years.

Table 42. Cover pool overview as per Q1 2014

	Aktia Bank plc	Danske Bank plc	Nordea Finland	OP Mtg Bank (A/old)	OP Mtg Bank (B/new)
Cover pool (EURbn)	1.25	5.9	21	3	6.4
Avg. loan size (EUR)	59,000	62,800	63,000	44,400	59,000
WA indexed LTV	57%	53%	51%	43%	56%
WA seasoning	28 months				43 months
Interest-only loans		6%	8%		1%
Fixed-rate loans	10%	16%	4%	<5%	<5%
Geography	100% Finland	100% Finland	100% Finland	100% Finland	100% Finland
	South (71%), West (28%)	*Uusimaa (47%), Pirkanmaa (9%)*	*Helsinki (40%), Pirkanmaa (10%)*	*South (44%), West (32%)*	*South (41%), West (35%)*
Residential	100%	100%	98%	100%	100%
Public sector			1.5%		
Commercial			0.5%		

Source: Company reports

Table 43. Ratings overview

	Rating (M/S&P/F)		Moody's			S&P	
	Covered bond	Issuer/parent	TPI	C-score	CB anchor	Category	ALMM risk
Aktia Bank plc	Aaa / - / -	A3(n) / - / A-(n)	Prob.-High	6.20%	SUR + 1		
Danske Bank plc	Aaa / - / -	A2(n) / A(n) / -	Prob.-High	3.70%	SUR + 0		
Nordea Finland	Aaa / - / -	Aa3(n) / AA-(n) / AA-	Probable	5.30%	SUR + 1		
OP Mtg Bank (A - old)	Aaa / AAA / -	Aa3(n) / AA-(n) / A+	Probable	2.50%	SUR + 1	2	Moderate
OP Mtg Bank (B - new)	Aaa / AAA / -	Aa3(n) / AA-(n) / A+	Prob.-High	2.50%	SUR + 1	2	Low

Source: Rating agencies

Outlook for the Finnish economy

The Finnish economy is still suffering from a prolonged economic downturn. After the severe recession in 2009 when GDP sunk by 8.5% the economy recovered only partly in 2010-11 before entering a second recession. In 2012 GDP decreased by 1% and in 2013 by 1.4%. Weakness has continued in 2014 as GDP fell 0.4% q/q in the first quarter and the second quarter did not change the trend with manufacturing and retail sales still declining. The outlook for the latter part of the year is weary as confidence indicators remain weak and order book levels are low. However, there are some positive signs as new manufacturing orders have increased for the past four months in February-May.

Finland is struggling with external and internal challenges. First of all, the poor economic development in the euro area has led to a low investment activity that has cut Finnish exports. Second, the strong euro dampens opportunities outside the monetary union. The latest hit has come from the east as the Russian economy has suffered since the start of the crisis in Ukraine. Russia accounts for a little under 10% of total exports and roughly every other tourist comes from Russia. Now exports to Russia are down 15% and overnight stays from Russia decreased 12% y/y in January-April.

In addition to these external difficulties, Finland is under pressure from two domestic factors as well. First, the painful structural change in the manufacturing sector as the forestry industry and the electrotechnical industry, namely Nokia, have performed dismally. The process before new industries grow and replace the old ones is time-consuming and painful. Second, the ageing population has diminished the growth potential of Finland. The number of working age population turned into a decline in 2010 and will continue on a downward path until mid-2020 according to latest estimates. The shift in demographics also weighs in on the public sector, limiting the appetite for active fiscal policies in the current slump.

We expect GDP to decrease 0.2% in 2014 and grow only 1.5% in 2014 due to the challenging environment described above. Net exports are expected to bring GDP back to a positive trend in the latter part of 2014. Growth will be sluggish and the unemployment rate will hover around 8.5% well into 2015. Private consumption will stay nearly flat as household purchasing power will decline slightly due to poor real wage development and rising local taxes. So far the housing market has survived the downturn well but we expect rising unemployment, meagre disposable income development and wary buyers to turn prices into small decline in 2014. Prices of old flats and terraced houses fell by 0.7% q/q during Q1 14. According to preliminary statistics, this trend continued in Q2. On the other hand, housing prices are supported by low interest rates and limited construction. Also private investors and different funds have kept the activity up in larger cities. Credit channels remain open and loan stocks are growing, albeit at a slower pace. Inflation is stuck near 1% as price pressures remain weak in the current economic environment. In spite of the sluggish outlook, the Finnish economy has also several strengths. Well-capitalised banks, low interest rates and healthy corporate balance sheets help to cushion the impact on employment and housing market. Also relatively healthy public finances give Finland added flexibility and shelter in case of future economic shocks.

Aktia Bank plc

Katettu joukkolaina

Company profile

Aktia Bank plc (Aktia) is the 'new' issuer of covered bonds within the Aktia Group, replacing Aktia Real Estate Mortgage Bank (Aktia REMB), which has been placed in run-off mode.

In March 2013, the Finnish FSA granted Aktia a licence to act as a mortgage bank under the Act on Mortgage Credit Bank Operations and issue covered bonds. Going forward, all covered bond issuance will be done directly from Aktia's balance sheet, through the new EUR3bn covered bond and medium-term note programme. Being in run-off mode, Aktia REMB's existing programme will focus solely on maintenance and refinancing of the current loan portfolio. While in run-off mode, all owners (including POP and savings banks, who own 49.1% of Aktia REMB) are committed to maintaining the cover pool quality and ensuring that Aktia REMB continues to meet all legal requirements.

Under Aktia's new covered bond programme, the cover pool will comprise only Aktia-originated assets (mortgages and shares in housing associations) – the POP and savings banks that were part of Aktia REMB will no longer rely on the Aktia Group for mortgage funding.

On a parent level, with approximately EUR11bn in total assets, Aktia is the fourth-largest bank in Finland. Aktia services its 300,000 customers through 57 branches in the larger cities in Finland, the coastal areas and selected inland growth centres. Further, Aktia offers both internet and telephone banking services.

Aktia offers a wide range of products including asset management, life and non-life insurance and real estate services but the main pillar of its operations is its banking business, which accounted for EUR51m of a total EUR65m in 2013's operating profits. After its break with the POP and savings banks, Aktia holds a 4% market share in Finnish mortgage lending. As at year-end 2013, household lending made up 88% of the total EUR6.8bn loan book. Housing loans to households accounted for 76% of the total loan book. Corporate (SME) lending accounted for only 7% and loans to housing associations for even less at 4%.

On 1 July 2013, Aktia plc was merged into Aktia Bank plc and all assets and liabilities of Aktia plc were transferred to Aktia Bank plc (now the group parent). The aim of the merger was to achieve a more streamlined group structure as changing regulation and rating criteria favour an approach in which the universal bank with a solid balance sheet operates as the issuer of covered bonds. In itself, the merger will not influence any of the group's business areas.

Financial performance

Year-on-year Aktia improved its operating profit by EUR9m to EUR65m in 2013. While net interest income was under pressure from the low interest environment, this was compensated by increases in commission income and larger-than-expected decreases in writedowns. Capitalisation decreased slightly to 19.3% (from 20.2%); however, the tier 1 capital ratio increased some to 12.3% (from 11.8%).

Table 44. Ratings (Moody's/S&P/Fitch)

Covered bond rating	Aaa / - / -
Issuer rating	A3(n) / - / A-(n)
Moody's C-score	6.2%
Moody's TPI	Probable-High
Moody's CB anchor	SUR + 1

Source: Rating agencies

Table 45. Financial information

EUR millions	2013	2012
Net interest income	113	117
Net commission	71	65
Net life insurance income	28	27
Operating income	224	218
Operating expenses	157	154
Impairments & writedowns	3	8
Operating profit	65	56
Cost-to-income ratio	0.72	0.74
Capital adequacy ratio	19.3%	20.2%
Tier 1 capital ratio*	12.3%	11.8%

** Basel II*

Source: Aktia Bank plc annual report 2013

Table 46. More info

Ticker	AKTIA
Website	*www.aktia.fi*

Source: Danske Bank Markets

Business model and funding profile

At a group level, Aktia is funded mainly via deposits and the issuance of debt securities, accounting for approximately 45% and 33% of total funding respectively. Market funding is done mainly through Aktia's existing covered bond programmes, accounting for 70% of debt security funding – or approximately 23% of total funding.

Previously, Aktia REMB was responsible for both the distribution (together with the POP and savings banks) and funding of mortgages. Following the transformation of Aktia into the main (and listed) entity of the Aktia group, Aktia now has the responsibility of granting and funding mortgages. The collaboration with the smaller POP and savings banks will no longer be effective. All Aktia's covered bond issuance will be done directly from the balance sheet of Aktia and will be backed solely by assets originated by Aktia itself.

Further, Aktia holds a liquidity buffer covering at least 12 months liquidity outflow. According to the 2013 annual report, the liquidity buffer covered approximately 17 months of outflow as per end-2013, equivalent to EUR2.4bn. The portfolio comprises 70% covered bonds, 16% investments in banks and 14% in state-guaranteed bonds and supra-nationals.

Table 47. Funding profile

Total balance	**EUR10.9bn**
Deposits, public	10%
Deposits, credit inst.	35%
Debt securities	33%
- covered bonds	*23%*
Subord. debt	2%
Equity	6%
Other	14%

Source: Aktia Bank plc annual report 2013

Cover pool and asset quality

As at end-March 2014, Aktia's cover pool stood at EUR1.25bn. With only one outstanding covered bond of EUR500m at the cut-off date, this is equivalent to 150% of overcollateralisation (OC). However, on 15 April 2014, Aktia issued one more (5Y) EUR500m covered bond bringing the OC to 25%, assuming that no extra assets have been added. However, this is still well above Aktia's committed 10% minimum OC and comfortably above Moody's most recently published 6% requirement for Aktia to maintain its 'Aaa' rating.

The cover pool holds solely Finnish prime residential mortgage loans, carrying mostly floating rates (90%). The loans are concentrated in southern (71%) and western (28%) Finland. The weighted average LTV is 58% (indexed 57%). There are no non-performing loans in the pool.

Table 48. Cover pool info

Cover pool	**EUR1.25bn**
OC (committed)	150% (10%)
Avg. loan balance	EUR 59,000
Type of loans	100% residential
NPLs (>90D in arrears)	None
WA seasoning	28 months
WA LTV	58%
WA indexed LTV	57%
Floating rate loans	90%
Geography	100% Finland
- South	71%
- Western	28%

Source: Aktia Bank plc cover pool report Q1 2014

Danske Bank plc

Katettu joukkolaina

Company profile

Danske Bank plc is the Finnish subsidiary of Danske Bank Group and has close to 1 million personal customers and around 90,000 corporate and institutional customers in Finland. Danske Bank services its client through 45 branches and 17 private and corporate banking offices.

In November 2012, Danske Bank Group announced that it would be operating under the same name in each of its 15 market areas and, consequently, the Finnish subsidiary *Sampo Bank plc* was rebranded. Just like its predecessor, Danske Bank will continue to operate as a Finnish subsidiary of the Danske Bank Group and will also be the issuing entity of covered bonds from Danske Bank's Finnish cover pool. Previously, the issuing entity was Sampo Bank and before that *Sampo Housing Loan Bank* (SHLB).

In September 2005, SHLB established a EUR5bn EMTN covered bond programme backed by residential mortgages. Under this programme, SHLB issued the first Finnish benchmark EUR-denominated covered bond later that month.

In November 2011, Sampo Bank obtained its licence to operate as a mortgage credit bank and on 31 December 2011, SHLB was merged with Sampo Bank (the bank). The merger was done in order to streamline the group's organisation, thereby exploiting the abandonment of the specialist banking principle in the revised Finnish Mortgage Act (688/2010). Following the merger, Sampo Bank (now Danske Bank) assumed all rights, obligations and liabilities of SHLB, including those of the outstanding covered bonds.

Danske Bank has issuer ratings A2 (negative) from Moody's and A (negative) from Standard & Poor's. The negative outlook from Moody's was assigned on 29 May 2014 and takes into account the recent adoption of the Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism (SRM) regulation in the EU, while the negative outlook from Standard & Poor's was assigned in connection with an upgrade of the issuer rating from 'A-' to 'A' occurring on 29 April 2014. The covered bonds of DB/SB/SHLB are rated 'Aaa' by Moody's with a stable outlook.

Table 49. Ratings (Moody's/S&P/Fitch)

Covered bond rating	Aaa / - / -
Issuer rating	A2(n) / A(n) / -
Moody's C-score	5.0%
- excl. syst. risk	3.7%
Moody's TPI	Probable-High
Moody's CB anchor	SUR + 0

Source: Rating agencies

Table 50. Financial information

EURm	2013	2012
Net interest income	318	358
Fees and commissions	230	196
Net trading income	35	42
Operating income	622	638
Loan losses and provisions	+3	-64
Operating profit	200	157
Cost/income ratio	68.3%	65.4%
Tier 1 capital ratio	17.2%	15.8%
Capital adequacy ratio	17.2%	15.8%

Source: Danske Bank plc annual report 2013

Table 51. More information

Ticker	SAMBNK
Website	*www.danskebank.fi*

Source: Danske Bank Markets

Financial performance

Danske Bank recorded a full-year profit of EUR200m in 2013, up from EUR157m in 2012. Net interest income came in at EUR318m (EUR358m) but this was countered by (among other things) increases in fees and commissions and a positive development in loan losses and provisions.

The cost-to-income ratio rose slightly to 68% (from 65%), while the capitalisation level improved to 17.2% (from 15.8%) on both capital adequacy and tier 1 capital.

Business model and funding profile

More than half of Danske Bank's funding comes from retail deposits (60%), while debt securities account for some 28%.

Under the Finnish covered bond Act (CBA), covered bonds may be backed only by residential mortgage loans with an LTV of up to 70% of the market value of the property on which the mortgage is written (60% for commercial). Should this limit be exceeded, only the value up to the limit will be applied in cover calculations. Loans with LTV ratios up to 100% are allowed in the cover pool. An OC of 2% is required by the CBA (NPV basis).

Table 52. Funding profile

Total assets	EUR26.7bn
Public deposits	60%
Deposits w fin. inst. & CB	5%
Debt securities	18%
Subord. debt	1%
Other	7%
Equity	9%

Source: Danske Bank plc annual report 2013

Cover pool and asset quality

As of 31 March 2014, the cover pool totalled EUR5.9bn and consisted solely of Finnish owner-occupied, residential mortgages. The average loan size is EUR62,800. Out of the total cover pool, assets amounting to EUR5.7bn fulfil the requirements in section 16 of the CBA (i.e. LTV below 70% for residential mortgages). The credit quality of the cover pool is sound, as it is also evident in the collateral score of 3.7% assigned by Moody's (excluding systemic risk).

The average LTV ratio of the pool's total assets (including loan balances up to the 100% LTV limit) is 53%. In terms of OC, the Finnish covered bond legislation requires a minimum of 2%. However, the current OC in Danske Bank's cover pool is 15% (eligible assets in accordance with section 16 in the CBA). Furthermore, Danske Bank has committed to 5% OC. The geographical location of the cover pool assets is diversified across Finland, with a concentration in the Uusimaa province (home to the capital city of Helsinki). According to the issuer, loans in arrears (more than 90 days) amounted to 0.15% at end-March 2014.

Table 53. Cover pool info

Cover pool	EUR5.9bn
Avg. loan size	EUR62,800
OC, nominal	15%
OC, NPV basis	21%
OC, committed	5%
WA LTV	53%
Loan type	
- Single-family houses	51%
- Flats	49%
Interest only loans	6%
Fixed rate loans	16%
Geography	100% Finland
- Uusimaa	47%
- Pirkanmaa	9%
- Varsinais-Suomi	5%
- North Ostrobothnia	5%
NPL (>90D in arrears)	0.15%

Source: ECBC Label report Q1 14

Nordea Bank Finland

Kiineistövakuudellinen joukkovelkkakirjalaina

Company profile

Nordea Bank Finland (NBF) is the largest bank in Finland with market shares of 30% in household mortgage lending and 35% within corporate lending. The bank also engages in other core areas such as private banking, mutual funds, pensions and insurance. In total, NBF services 3.2 million retail customers and 125,000 corporate and institutional clients in Finland. The Nordea franchise is organised at a group level. NBF is a wholly owned subsidiary of Nordea Bank AB, which forms part of the Nordea Group. The Finnish insurance group Sampo Oyj is the largest shareholder of Nordea, with 21% of the shares. The Swedish state sold its remaining shares in September 2013.

Nordea Bank AB is the leading bank in the Nordic region in terms of market value and total assets. The group has operated as *Nordea* since 2001 and targets a European cross-border operating model. The group originated with the establishment of MeritaNordbanken in 1997, which combined Merita Bank of Finland and Nordbanken of Sweden, and was completed in 2000 with the merger with Unidanmark of Denmark and acquisition of Christiana Bank of Norway. Nordea has a distinctive footprint in the Nordic area, supported by around 11 million customers, 800 branches and leading positions in retail banking, corporate finance and savings management. The bank has also built up a presence in Estonia, Latvia, Lithuania and Russia. Its Polish activities were sold off in 2013.

NBF is licensed by the Finnish FSA to issue covered bonds pursuant to the Finnish Covered Bond Act (688/2010). NBF issues these covered bonds directly from its balance sheet, as this is permitted under the Finnish Covered Bond Act – for non-specialist mortgage banks this was not the case under the previous legislation.

Parent bank Nordea Bank AB is rated ‘Aa3’/‘AA-’/‘AA-’ by M/S&P/F, respectively. Moody’s put the rating on negative outlook in May 2014, along with 81 other European bank ratings, in order to take into account the forthcoming Bank Recovery and Resolution Directive and its implications for systemic support assumptions. In November 2012, Standard & Poor’s revised the outlook to ‘negative’ for eight Swedish banks, including Nordea Bank AB, while affirming the ‘AA-’ rating. The covered bonds issued by NBF enjoy a solid triple-A rating from Moody’s (stable outlook, TPI leeway of 4 notches).

Table 54. Ratings (Moody’s/S&P/Fitch)

Covered bond rating:	Aaa/-/-
Issuer rating:*	Aa3(n)/AA-(n)/AA-
Moody’s C-score:	5.3%
Moody’s TPI:	Probable
Moody’s CB anchor:	SUR + 1

Source: Rating agencies, Danske Bank Markets
** Rating of Nordea Bank AB.*
‘n’ = negative outlook.

Table 55. Financial info (Nordea Group)

EURm	2013	2012
Net interest income	5,525	5,563
Fees and commissions	2,642	2,468
Net gain/losses	1,539	1,774
Pre-provision income	4,851	4,934
Loan losses and provisions	735	895
Operating profit	4,116	4,039
Impaired loans ratio	1.8%	1.9%
Cost/income ratio	51%	51%
Core tier 1 capital ratio	14.9%	13.1%
Total capital ratio	18.1%	16.2%

Source: Nordea Annual Report 2013

Table 56. More information

Bond ticker	NDASS
Website	*www.nordea.fi*

Source: Danske Bank Markets

Financial performance

In 2013, operating profit increased 2% to EUR4,116m. Net interest income fell 1% y/y driven by a slight decline in lending volumes. However, net fee and commission income rose 7% and expenses declined somewhat versus 2012. Furthermore, net loan loss provisions fell 18% to EUR735m, corresponding to a loan loss ratio of 21bp (2012: 26bp). While provisions for future loan losses in Denmark and shipping remained at elevated levels, the losses were low in other areas. The core tier 1 capital ratio excluding transition rules improved further in 2013 to 14.9%, up from 13.1% at end-2012. The total capital ratio excluding transition rules increased 1.9pp to 18.1%. Improved capital ratios were achieved by strong profit generation and a decrease in risk-weighted assets. Nordea’s capital policy stipulates targets for the core tier 1 capital ratio (above 13%) and for the total capital ratio (above 17%) by 2015.

Business model and funding profile

NBF is a universal bank, licensed by the Finish SFA to issue covered bonds, which it uses to fund its mortgage lending business. The main funding source for NBF is its deposits, which account for 53% of the balance sheet. Of some EUR47bn, issued debt makes up roughly 15% of the balance and, of this, covered bonds account for EUR15bn.

NBF has eight outstanding EUR benchmark covered bonds. The last issue was launched in January 2014, and was a EUR1.5bn five-year deal issued at mid-swaps +7bp.

Cover pool and asset quality

By the end Q1 13, NBF's total cover pool stood at EUR22.4bn, comprising 333,000 loans. Of this amount, however, EUR20.9bn was eligible assets in accordance with section 16 in the Finnish Mortgage Credit Bank Act, i.e. fulfilling the LTV cap (when the LTV of a loan exceeds the 60% (commercial) or 70% (residential) limit, only the part of the loan up to the limit LTV remains eligible to the cover pool). The weighted average indexed LTV for the eligible assets was 50.7%. Including only eligible assets, the nominal OC was 21.5% corresponding to 21.6% on an NPV basis (i.e. well above the legislative minimum of 2% on an NPV basis).

The collateral score assigned by Moody's is 5.3%, which is just above the national floor of 5.0% and slightly above those of NBF's peers. Nonetheless, the cover pool credit quality for Nordea Finland is very high, with 0.0% of the loans in arrears. The majority of the loans are located in the Greater Helsingfors area (40%), but the remaining cover pool is geographically well-diversified. Of the loans in the cover pool, 96% have a variable interest rate.

Table 57. Funding profile (NBF)

Total balance	**EUR305bn**
Deposits, public	27%
Deposits, credit inst.	26%
Derivatives	22%
Debt securities	15%
-of which covered bonds	*5%*
Equity	3%
Other	7%

Source: Nordea Bank Finland Annual Report 2013, Danske Bank Markets

Table 58. Cover pool info

Cover pool	**EUR20.9bn**
OC* (required**)	21.5% (2%)
Average loan size	EUR63,000
WA LTV, indexed*	50.7%
NPL	0.0%
Property type	
-Single family housing	45%
-Tenant owner units	46%
-Public sector	2%
-Commercial	0%
- Multi-family housing	0%
- Forest and agricultural	0%
Fixed rate loans	4%
Interest-only loans	8%
Geography	100% Finland
-Uusimaa (Greater Helsingfors area)	39.9%
-Pirkanmaa	9.7%
-Varsinais-Suomi	7.1%
-North Ostrobothnia	5.8%

Source: Nordea Bank Finland national transparency report, Q1 14.
** Calculated for eligible assets, in accordance with section 16 in the CBA*
*** Required by the Finnish Covered Bond Act.*

OP Mortgage Bank

Kiineistövakuudellinen joukkovelkkakirjalaina

Company profile

OP Mortgage Bank (OP MB) is incorporated as a public limited company in Finland and is a wholly-owned subsidiary of the OP-Pohjola Group Central Co-operative (previously OP Bank Group). OP MB was established in 2000 as a mortgage bank under the act governing mortgage credit banks. OP MB's sole purpose is to issue covered bonds backed by domestic Finnish mortgages acquired from the member co-operative banks. As all OP MB operations are essentially supported through services from the Central Cooperative and its group companies, OP MB has only a very limited number of employees.

OP-Pohjola Group is the second-largest financial group in Finland with a market share of about 35% in lending and deposits. Within corporate lending the market share is about 20%. The group is rather complex and consists of OP-Pohjola Group Central Cooperative, the group's central institution owned by some 200 member co-operative banks and Pohjola Bank Group, including the non-life insurance company Pohjola. OP-Pohjola Group Central Cooperative is mainly in charge of controlling and supervising the risk management, capital adequacy and liquidity of all member banks as well as providing centralised services including product development and strategic guidelines for efficiency and competitiveness. However, all member banks remain independent and responsible for the implementation of their own strategies within the group's defined risk and financial limits. The group maintains the largest branch network in Finland with some 350 outlets.

The member banks and the Central Co-operative are responsible for each other's liabilities and commitments, resulting in joint and several liabilities for the OP-Pohjola Group and member credit institutions, in line with the Finnish legal framework on cooperative banking (the joint liability scheme only applies to banking activities, i.e. excluding the insurance companies Pohjola Insurance and OP Life Assurance).

Along with the Q4 13 results, OP-Pohjola made an offer for Pohjola Bank with the purpose of acquiring it in full and delisting it from the stock exchange. The Central Cooperative already had 37% of the shares and 76% of the votes. After an extended offer period, by end-April, OP-Pohjola had 98.41% of the shares and is proceeding with the delisting. According to OP-Pohjola, the deal should improve transparency and efficiency, though it will also cause a fall in the common equity tier 1 ratio to around 11.3% by end-Q2 14.

As a result of the offer, S&P put Pohjola Bank's rating on negative watch in February 2014. However, S&P affirmed the rating at 'AA-' in May, citing the group's plan to reach a CET1 ratio of 18% by 2016 as underpinning the bank's capital and earnings position. Pohjola Bank is also rated by Moody's ('Aa3' (negative)) and Fitch ('A+').

Table 59. Ratings (Moody's/S&P/Fitch)

Covered bond rating:	**Aaa/AAA/-**
Issuer rating:*	Aa3(n)/AA-(n)/A+
Moody's C-score (A/B)**	5.0%/5.0%
- excl. syst risk:	*2.5%/2.5%*
Moody's TPI (A/B)**:	Probable/ Probable-High
Moody's CB anchor (A/B)	SUR + 1 / SUR + 1
S&P Category (A/B):	2 / 2
S&P ALMM risk (A/B):	Moderate / Low

Source: Danske Bank Markets, rating agencies
**: Parent rating (Pohjola Bank)*
***: Two different cover pools, old (A) and new (B).*
'n' = negative outlook

Table 60. More info

Bond ticker:	POHBK
Web site:	*www.pohjola.fi*

Source: Danske Bank Markets

Financial performance

As OP-Pohjola Group does not publish a consolidated annual report on behalf of the co-operative banks, we do not comment on the financial performance of these banks.

Business model and funding profile

The purpose of OP MB is to acquire refinancing for the OP-Pohjola Group through the issuance of covered bonds. The housing loans used by OP MB as collateral are subject to strict eligibility criteria and may be transferred from the member cooperative banks to OP MB. Alternatively, origination can be performed directly into OP MB, with the member cooperative bank acting as a broker.

Before the introduction of the *Finnish Covered Bond Act of 2010* (the CBA 680/2010), OP MB established a EUR10bn covered bond programme pursuant to the Finnish Act on Mortgage Credit Banks (1240/1999). Covered bonds issued before August 2010 were done under this program out of cover pool A, coming to a total of four deals of which two are still outstanding. After the introduction of the CBA, issuance under the old programme ceased. Instead, a new EUR10bn programme was established, under which the five most recent OP MB covered bonds were issued out of cover pool B. OP MB has come to the market twice this year, in March with a 7yr EUR1bn deal priced at MS+14bps, and in June with a 5yr EUR1bn deal priced at MS+5bps.

Table 61. Funding profile, OP MB

Total balance	EUR9.1bn
Covered bonds and private placements	72%
Liabilities to fin. Inst.	23%
Other liabilities	1%
Equity	4%

Source: OP MB Financial Statements 2013, Danske Bank Markets calculations

OP MB's loan portfolio (receivables from customers) decreased to EUR7.9bn in 2013 from EUR8.7bn in 2012. The total size of housing loans purchases from member banks in the OP-Pohjola Group in 2013 was EUR0.5bn. OP MB has hedged its entire loan portfolio with interest rate swaps. Pohjola Bank plc is the counterparty in all derivative contracts.

For the OP-Pohjola Group, the funding structure consisted of 66% deposits, 14% senior unsecured bonds, 11% short-term wholesale funding and 9% covered bonds. The share of deposit funding has been fairly constant since 2006, while the share of short-term wholesale funding has been nearly halved since end-2008.

Cover pool and asset quality

As of the covered bond series of April 2011, which was issued under the newly established programme following the CBA, a new separate cover pool (cover pool B) was created. Covered bonds issued prior to the introduction of the CBA are backed by the assets in OP MB's cover pool A.

Table 62. Cover Pool A (old)

Cover pool	EUR3.0bn
OC (committed)	33.3% (5%)
Average loan size	EUR44,400
WA LTV, indexed	43%
Seasoning	88 months*
NPL (>90 days)	None
Floating rate	>95%
Geography	100% Finland
-Southern Finland	44%
-Western Finland	32%
- Oulu region	11%
-Eastern Finland	7%
-Lapland	5%
Asset type	100% residential

Source: OP MB Cover Pool data, March 2014
**Source: Moody's performance overview, March 2014*

As of March 2014, cover pool A totalled EUR3.0bn. The cover pool consists of 100% first-lien Finnish residential mortgages with an average loan size of EUR44,400. The indexed LTV level for the cover pool is relatively low, standing at 43%. While the old legislation stipulates no minimum required OC level, OP MB has committed to a 5% OC threshold. The notional of the two outstanding bonds issued under 1240/1999 amounts to EUR2.25bn and the resulting notional OC of 33.3% is thus well above this limit.

Cover pool B comprises total assets worth EUR6.4bn, of which EUR6.2bn are eligible cover pool assets. The larger average loan amount compared with cover pool A is reflected in the higher LTV ratio of 56% compared with cover pool A's 43%. The OC has fallen somewhat compared with the March 2012 of 70.0%, but remains at a high level. The decline should be seen in light of there being further issuance out of the pool and the OC level remaining comfortably above the legal minimum (2%). OP MB has not committed to maintaining additional OC above this level.

Table 63. Cover Pool B (new)

Cover pool	EUR6.4bn
OC (legal minimum)	39% (2%)
Average loan size	EUR59,000
WA LTV, indexed	56%
Seasoning	43 months
NPL (>90 days)	None
Floating rate	>95%
IO-mortgages	0.6%
Geography	100% Finland
-Southern Finland	41%
-Western Finland	35%
-Eastern Finland	11%
- Oulu region	10%
-Lapland	2%
Asset type	100% residential
-Owner-occupied	100%

Source: OP MB Cover Pool data, March 2013

Moody's and S&P have both assigned triple-A ratings to OP MB's covered bond issues. The collateral scores excluding systemic risks are below the national floor of 2.5%, pointing to very high collateral asset quality.

Norwegian covered bonds

Obligasjoner med fortrinsrett

Background

In 2002 the Norwegian Parliament introduced the Mortgage Act to facilitate the issuance by mortgage institutions of bonds secured by mortgage loans. However, there were a number of areas in the act that required further clarification.

- There were uncertainties in the law regarding the separation of the cover pool from the issuer bank in the event of the bank's default. Covered bondholders only had a priority claim over cover assets in the event of default by the issuer and not a statutory right to the asset pool in that circumstance.
- Bankruptcy proceedings – under the original version of the 2002 Mortgage Act, mortgage institutes were subject to ordinary bankruptcy proceedings.

Furthermore, additional regulations had to be implemented in areas such as derivatives, valuation, registration, auditing, liquidity and market risk. The first step to addressing these issues was taken in January 2004, when a new set of rules was incorporated into the Financial Services Act from 1988 that allows:

- all Norwegian financial institutions to securitise loan portfolios and obtain capital relief under certain conditions.
- mortgage institutions to finance mortgage loans by issuing covered bonds.

In December 2006 a proposal for a new Mortgage Act was made. The proposal was passed and became effective on 16 March 2007. In May 2007 secondary legislation was passed.

Key elements of the Covered Bond Act

The **specialist banking principle** applies, allowing only specialised institutions restricted in their business to issue covered bonds. This is also the case in Ireland and France, while Finland, Germany, Sweden and Denmark have abandoned the principle. In accordance with UCITS 22(4) requirements, the issuer will be subject to **special public supervision**. The issuer must keep a **cover register** of the collateral (including open hedge positions) and bonds issued. Collateral assets may include residential and commercial mortgages, public loans, derivatives and **substitute assets** (up to 20% - on a temporary basis, the FSA can allow up to 30% of substitution assets). The issuer may decide to keep eligible assets in separate pools (residential, commercial and public loans) or in a single pool. **LTV ratio limits** are 75% and 60% for mortgage and commercial loans, respectively. For second/vacation homes, the LTV ratio is capped at 60%. Loans must be within the LTV ratio limit upon inclusion in the cover pool. There is no LTV ratio limit, at which the loan must be removed from the cover pool, however, in terms of coverage calculations, only the part of the loan up to the LTV limit is taken into account, but covered bond investors continue to have recourse to the full loan. **Non-performing loans** are allowed in the cover pool, yet they are not taken into account when matching assets and liabilities. The **valuation of covered assets** must be carried out in a prudent manner, must not exceed the market value and the assessment must be made on an individual basis by an independent valuer. In respect of **ALM requirements**, the law states that the value of the cover pool, including derivatives, must exceed the value of outstanding bonds issued. Bonds, loans, substitute assets and derivatives must be calculated at market value, so there is only a nominal match and no net present value match, as for example in Sweden and Germany. **There is no minimum required OC**.

The issuer must set limits for interest rate risk (measured against subordinated capital) allowing for the possibility of 100bp parallel shifts and twists in the yield curve (divided into maturity classes). With respect to liquidity requirements, section 2-32 of the revised Mortgage Act states that cash flow from collateral assets must at all times meet scheduled payments of covered bondholders and derivatives' counterparties. Secondary legislation states only that an issuer must not take on more liquidity risk than can be considered 'secure'. Therefore, it is up to separate issuers to set liquidity limits. Currency risk must be hedged but again secondary legislation does not state how much risk is 'secure'. No stress test is mentioned.

Asset segregation and **bankruptcy proceedings** in the old legislation were unsatisfactory. Bondholders and derivatives counterparties only had a pledge to the cover pool. In the revised Act, the preferential right to cover assets is explicitly stipulated. Therefore, in the case of the insolvency of the mortgage bank, bondholders' and derivatives' counterparties have a statutory preferential right to the cover pool. Furthermore, the law explicitly defines the mandatory procedures to be followed in the event of bankruptcy and procedures to ensure timely payments.

Credit quality

Until the outbreak of the financial crisis, the number of Norwegian issuers was limited. However, the introduction of "the swap facility" at Norges Bank prompted many new issuers. While many issuers initially issued only for this repo facility, increasing interest from domestic investors over the past few years – fuelled not least by the incentives provided in regulations such as Basel III/CRD4 and Solvency 2 – has resulted in a rapid build-up of a domestic market for NOK covered bonds, though still far from the size of the Danish and Swedish markets. The EUR market has also seen a high growth rate and the Norwegian EUR covered bond market has overtaken the first place from Sweden, and is now the biggest EUR market in the Nordic region.

The credit quality of Norwegian banks and cover pools is very high illustrated by some of the lowest observed collateral scores from Moody's and many Norwegian issuers also enjoy very strong TPIs.

Table 64. Cover pool overview as per Q1 14

	DNB BK	Eika BK	Nordea EK	SpareBank 1 BK	Sparebnkn Vest BK	Storebrand BK
Cover pool (NOKbn)	533	75	105	174	51	15
Avg. loan size (NOK)	1,196,900	1,455,300	1,370,000	1,214,000	1,191,000	1,518,000
WA indexed LTV	56%	44%	56%	52%	54%	49%
WA seasoning	57 months	23 months	42 months	36 months	41 months	39 months
Interest-only loans	39%	0%	35%*	37%	1%*	0%
Fixed-rate loans	13%	2%	3%	0%	0%	0%
Geography	100% Norway	100% Norway	100% Norway	100% Norway	100% Norway	100% Norway
Main location:	Oslo (21%), Eastern Norway excl. Oslo (44%)	Oslo (20%), Akershus (16%), Sor-Trondelage (13%)	Eastern excl. Olso (37%), Western (28%), Oslo (17%)	Eastern excl. Oslo (32%), Western (25%), Middle (15%), Northern (14%)	Hordaland (78%), Rogaland (12%)	Akershus (33%), Oslo (32%)

Source: Company data, Moody's
**Moody's data*

Table 65. Rating overview as per Q2 14

	Ratings (M/S&P/F)		Moody's			Standard & Poor's		Fitch
	Covered bond	Issuer/parent	TPI	C-score*	CB anchor	Category	ALMM risk	D-Cap
DNB BK	Aaa / AAA / -	A1(n) / A+ / -	Probable	4.9%	SUR + 1	2	Low	
Eika BK	Aa2 / - / -	- / - / -	High	1.9%	SUR			
Nordea EK	Aaa / - / -	Aa3(n) / AA-(n) / AA-	Probable	5.0%	SUR + 1			
SpareBank 1 BK	Aaa / - / AAA	- / - / A-	High	2.7%	SUR			4
Sparebnkn Vest BK	Aaa / - / -	A2(n) / - / A-	High	5.4%**	SUR + 1			
Storebrand BK	Aaa / - / -	Baa1(n) / BBB+(n) / -	High	3.0%	SUR + 1			

Source: Rating agencies
** C-score excl. systemic risk; ** C-score incl. systemic risk*

DNB Boligkreditt

Obligasjoner med fortrinsrett

Company profile

DNB Boligkreditt AS is a wholly-owned subsidiary of the largest bank in Norway, *DNB Bank ASA*, which in turn is the largest entity of *DNB Group ASA*. *DNB Group ASA* is the largest financial group in Norway and one of the largest banking groups in the Nordic region with a domestic market share of retail lending and deposits of around 30%. It is also the largest asset manager in Norway as well as the largest pension and life insurance company with about one million customers. In addition, the bank is one of the world leaders in shipping finance and has top expertise in other important industries in Norway, such as fisheries and oil drilling. It is also the largest real estate broker in Norway. While more than 80% of the group's income stems from Norway, DNB also has international operations in Scandinavia, the Baltic region and Poland albeit on a very small scale (c.4% of lending in total). In 2012, DNB made further adjustments to its business structure, divesting its wholly-owned subsidiary SalusAnsvar AB and entering into an agreement to sell its branch network in Poland. Furthermore, the organisation of the group was changed at the beginning of 2013, dividing personal and corporate banking into separate business areas and establishing a new business area to serve high-net worth clients.

The Norwegian State owns 34% of DNB but the ownership is not active in the sense that the state is not represented on the board. The purpose of ownership is to ensure that the group remains headquartered in Norway, serving as a partner for Norwegian companies.

The sole purpose of DNB Boligkreditt is to issue covered bonds backed by mortgages on retail properties in Norway. The company was the first to issue covered bonds, according to the Norwegian Mortgage Act. The mortgages included in the cover pool are originated within DNB Bank's distribution network in accordance with the bank's credit policy.

DNB Bank ASA is rated 'A1' (negative) and 'A+' (stable) by Moody's and S&P, respectively. Moody's lowered its rating by one notch in May 2012 and currently has a negative outlook due to a potential reassessment of systemic support assumptions. DNB Boligkreditt AS does not have an issuer rating.

Financial performance

DNB posted pre-tax operating profits of NOK22.7bn in 2013, marking a 28% improvement over the 2012 result. Net interest income rose 11% versus 2012, as wider lending spreads compensated for narrowing deposit spreads. Total operating expenses rose by NOK1.1bn (5%) but adjusted for non-recurring effects there was a reduction of 1%. Loan losses fell sharply by NOK1.0bn, which referred primarily to the shipping and energy segments, the Baltics and Poland.

In 2013, DNB managed a significant improvement in its capital ratios. The Common Equity Tier 1 (CET1) capital ratio according to transitional rules rose to 11.8% (2012: 10.7%), while the CET1 ratio according to Basel III was 13.6% at end-2013 (2012: 12.1%). We believe that the Norwegian FSA has the strictest approach in the Nordic area. According to DNB, its fully loaded Basel III CET1 ratio would rise 2.7pp to 16.3% if DNB were allowed to use average Swedish risk weights.

Table 66. Ratings (Moody's/S&P/Fitch)

Covered bond rating:	Aaa/AAA/-
Issuer rating:	A1(n)/A+/-
Moody's C-score:	5.9%
- *excl. syst. risk*	*4.9%*
Moody's TPI:	Probable
Moody's CB anchor:	SUR + 1
S&P Category:	2
S&P ALMM risk:	Low

Source: Rating agencies, Danske Bank Markets
'n' = negative outlook

Table 67. Financial information (DNB Group)

NOKm	2013	2012
Net interest income	30,192	27,216
Fees and commissions	7,393	6,962
Net gain/losses	19,791	18,129
Pre-provision profit	24,744	20,957
Loan losses and provisions	2,185	3,179
Loan loss ratio	0.29%	0.31%
Operating profit (pre-tax)	22,709	17,776
NPL	1.38%	1.50%
Cost/income ratio	45.7%	49.1%
CET1 capital ratio*	11.8%	10.7%
Tier 1 capital ratio*	12.1%	11.0%
Total capital ratio*	14.0%	12.6%

Source: DNB Group Annual Report 2013
**Transitional rules*

Table 68. More info

Bond ticker:	DNBNO
Web site:	*www.dnb.no*

Source: Danske Bank Markets

Business model and funding profile

DNB has access to a strong deposit base, benefiting from its leading position in the Norwegian savings market. At the end of 2013, retail deposits constituted 36% of the group's total assets. Along with customer deposits, senior bond debt and covered bonds backed by home mortgages were key sources of funding. By end-2013, debt securities issued by DNB totalled NOK711bn (up slightly from NOK708bn a year earlier), of which NOK404bn were covered bonds. According to DNB, the average remaining term to maturity for debt securities issued was 4.3 years (December 2012: 4.6 years).

For DNB Group, average deposits rose by NOK105.9bn in 2013, resulting in an increase in the ratio of deposits to loans from 62.5% per cent at end-December 2012 to 64.7% at year-end 2013. The share of long-term funding (customer deposits, subordinated debt, covered bonds and senior debt with residual maturity of more than a year) reached 125.3% by the end of Q1 14.

DNB Boligkreditt has a very transparent balance sheet, being a specialist mortgage lender. Liabilities consist almost entirely of covered bonds and only to some extent debt obtained from the parent bank. Cover pool hedging contracts for the purpose of hedging currency risk and interest rate risk are also with DNB Bank.

DNB Boligkreditt has a EUR60bn and a USD12bn covered bond programme, established in 2007 and 2010, respectively. Furthermore, DNB Boligkreditt established a AUD4bn covered bond programme in 2011 and became the first European issuer since the onset of the financial crisis to be active in the Australian market, with AUD0.6bn in a 5Y maturity issued in May that year.

DNB Boligkreditt currently has 12 EUR benchmark covered bonds outstanding, with the last issue launched in November 2013. DNB Boligkreditt issues covered bonds with both soft and hard bullet maturity structures. However, all outstanding EUR benchmark issues have soft bullet maturities.

Table 69. Funding profile

Total balance	NOK2,389bn
Retail deposits	36%
Interbank loans & deposits	10%
Debt securities	30%
- covered bonds	*17%*
Subordinated debt	1%
Derivatives	5%
Liabilities to policyholders	10%
Equity	6%
Other	3%

Source: DNB Group ASA Annual Report 2013, Danske Bank Markets calculations

Cover pool and asset quality

As of 31 March 2014, the cover pool amounted nominally to NOK533bn representing 445,557 mortgages and comprising entirely Norwegian residential mortgages. There are no substitute assets in the cover pool. Of the nominal balance, the amount of eligible residential mortgages was equivalent to NOK529bn. Considering only the eligible mortgages, the OC was 42.7%. Including also the non-eligible loan balance, OC was 41.5%. In terms of geography, the cover pool location of the properties is spread throughout Norway, with some concentration in Oslo and the Eastern provinces.

The weighted average indexed LTV ratio is 56.5% and remains significantly below the LTV ratio limits set by the Norwegian Mortgage Act. These limits require retail loans to have a LTV ratio of maximum 75% and commercial loans a LTV ratio of maximum 60%. At 0.15%, the share of non-performing loans is also very low.

The share of floating rate loans is 87% (of total loan balance). The remainder is fixed rate mortgages with an interest rate reset period of less than 2 years (4%), between 2 and 5 years (6%) or 5 years and longer (2%). Rates on floating rate loans can be reset at any time at the bank's own discretion by giving debtors six weeks' notice.

The covered bonds issued by DNB Boligkreditt enjoy stable triple-A ratings from Moody's and S&P. In January 2014, Fitch withdrew its rating on DNB's request. Before the rating was removed, it was affirmed at 'AAA' (stable).

Table 70. Cover Pool Info

Cover pool	NOK533bn
Average loan size	NOK1,196,901
OC*	41.5%
WA Indexed LTV	56.5%
Seasoning	57 months
NPL (>90 days)	0.15%
Fixed rate loans	13%
Interest only loans	39%
Geography	100% Norway
-Oslo	21.2%
-Eastern (excl. Oslo)	43.7%
-Southern	5.9%
-Western	16.4%
-Mid	5.3%
-Northern	7.5%

Source: DNB Cover Pool Data. Figures per 31 March 2014.
** Nominal OC, excluding non-eligible loan balance*

Eika Boligkreditt

Obligasjoner med fortrinsrett

Company profile

Eika Boligkreditt (EIKBOL) is part of the Eika Alliance and is thus owned directly by 77 local savings banks and the OBOS (Oslo Bolig and Sparelag) housing association. The alliance is one of the largest players in Norway with more than a million customers, and total assets of NOK280bn. Its customers are serviced via 200 branches spread across Norway. Consequently, the Eika banks are present in 18 out of the 19 Norwegian counties.

The main purpose of EIKBOL is to secure access for the owner banks in the Eika Alliance to long-term funding on competitive terms through the issuance of covered bonds. According to EIKBOL, the aim is to be active in both Norwegian and international markets. EIKBOL expects 25% to 50% of its funding to be NOK based, and the rest carried out internationally.

Effective March 2013, the alliance underwent a name change, changing its name from Terra-Gruppen. Consequently, the covered bond issuing entity Terra Boligkreditt was also renamed and the ticker was changed to EIKBOL (previously TERBOL). The Eika Alliance comprises Eika Gruppen, the Eika banks (third largest banking group in Norway) and Eika Boligkreditt.

In 2012, some changes were made to the Boligkreditt's ownership structure and support mechanisms. As per May 2012, ownership of TERBOL was transferred from the Group directly to the owner banks and OBOS. The ownership is dynamic in the sense that the individual owner bank's share is determined annually, on the basis of the lending volume contributed to the Boligkreditt, to which OBOS will also add collateral. Further measures were taken to improve the financial strength and, therefore, also the ratings prospects, comprising a Note Purchase Agreement (NPA) and a Shareholder's Agreement (SA). The NPA is structured to ensure the liquidity of EIKBOL, by committing the owner banks to purchasing covered bonds from EIKBOL (primarily on a pro rata basis) if funds should prove insufficient to cover redemptions. The SA commits the owner banks to pay a pro rata share of any capital increase adopted at the issuer's general meeting and subscribe to a pro rata share of any capital instruments issued.

EIKBOL's covered bonds are rated 'Aa2' by Moody's. Moody's does not disclose an issuer rating, however, in their latest rating action (affirmation) dating back to 2009, Moody's states that "*the Aa2 covered bond rating is constrained by the TPI*." Together with a TPI of 'High', this indicates a shadow issuer rating of 'Baa3'.

Table 71. Ratings (Moody's/S&P/Fitch)

Covered bond rating	Aa2 / - / -
Issuer rating	- / - / -
Moody's C-score	5.0%
- excl. syst. risk	1.9%
Moody's TPI	High
Moody's CB anchor	SUR + 0

Source: Rating agencies

Table 72. Financial info

No aggregated financial statements are published by the owner banks

Source: Danske Bank Markets

Table 73. More information

Ticker	EIKBOL
Web site	*www.eikabk.no*

Source: Danske Bank Markets

Business model and funding profile

EIKBOL is the strategic funding company in the Eika Alliance, licensed as a credit institution and authorised to raise loans in the market by issuing covered bonds. Issuance is done under EIKBOL's EUR20bn EMTCN programme.

The business model is based on EIKBOL acting as a vehicle for obtaining favourable financing for the owner banks, who act as distributors of the mortgages, rather than a medium for the transfer of credit risk. To ensure this, the owner banks assume mandatory guarantees for the mortgages they transfer to EIKBOL, including the following.

- A loss guarantee, covering the portion of the mortgage exceeding a 50% LTV ratio (minimum NOK25,000).
- The relevant distributor will cover any losses to EIKBOL, which are not covered by this guarantee, by agreeing to a counter-claim on its commission receivables due from EIKBOL. This right is limited to three years of commission income from all the mortgages the distributor has passed on to EIKBOL.
- Finally, the owner banks are obliged on a pro rata basis to cover losses up to 1% of the total mortgages of EIKBOL (annual renewal), should the other measures prove insufficient to cover the losses of EIKBOL.

Furthermore, an agreement on handling missing debt service exists. In case of mortgages in arrears, the distributor may either cover the missing payment itself, resume ownership of the mortgage (in effect removing it from the cover pool), or paying the full guaranteed amount to EIKBOL. The local bank in question must take one of these steps no later than two months after delinquency.

Cover pool and asset quality

As per 31 March 2014, the cover pool totalled NOK74.7bn, comprised by mortgages (79%), substitute/liquidity assets (17%) and derivatives (4%).

The mortgages in the pool total NOK58.7bn and are 85% residential, while the rest is mortgages to cooperative housing, and they are all located in Norway with a concentration in Oslo (20%), Akershus (16%) and Sor-Trondelage (13%). Almost all mortgages are floating-rate (98%). The weighted average LTV of the cover pool is low, at 46% (44% indexed). EIKBOL do not allow for loans in arrears in the pool.

The substitute assets – or liquidity portfolio – in the cover pool is subject to a list of requirements, and must at all times be greater than the greater of (i) 6% of outstanding bonds, and (ii) 100% of next month's redemptions. However, EIKBOL is aiming to keep enough liquidity to cover at least 75% of the next year's redemptions. In terms of assets, the portfolio comprises solely Norwegian and NOK exposure with a portfolio weighted average time to maturity of no more than 2 years (individual investment up to 3.5 years). The portfolio holds mostly municipality (32%) and covered bonds (29%), but also has some bank deposits (14%) and government bonds (13%). Total value of the liquidity portfolio as per 31 March 2014 was NOK12.6bn.

The derivatives in the pool had a mark-to-market value of NOK3.4bn per 31 March 2014.

Table 74. Cover pool info

Cover pool	NOK74.7bn
MORTGAGES	NOK58.7bn
Type of mortgage:	
- Residential	85%
- Cooperative housing	15%
Avg. loan size	NOK1,455,300
WA LTV (indexed)	43.70%
WA LTV (un-indexed)	46.20%
WA seasoning	23 months
NPL (>90D arrears)	None
Floating rate loans	98%
Geography:	100% Norway
- Oslo	20%
- Akershus	16%
- Sor-Trondelag	13%
- Rogaland	8%
- Ostfold	7%
- Other	36%
LIQUIDITY PORTF.	NOK12.6bn
Municipality bonds	32%
Covered bonds	29%
Bank deposits	14%
Govt bonds	13%
Public covered bonds	8%
Repos	4%
DERIVATIVES (MtM)	NOK3.4bn

Source: Companycover pool report Q1 2014

Nordea Eiendomskreditt

Obligasjoner med fortrinnsrett

Company profile

Nordea Eiendomskreditt (Nordea EK) is a wholly-owned subsidiary of subsidiary of *Nordea Bank Norge ASA* (rated 'Aa3' (neg.)/'AA-' (neg.)/'AA-' by M/S&P/F). The latter is wholly-owned by *Nordea Bank AB* (Nordea), the parent company in the Nordea Group.

Nordea EK was first incorporated in 1927 as a credit association known as Norges Hypotekforening for Næringslivet and it was acquired by Nordea in 1996. In 2008, the name was changed to Nordea EK, and during the course of autumn 2009, the company's commercial property lending activities were sold to Nordea Bank Norge. With effect from 2010, Nordea EK has been operating solely a mortgage credit institution with the business objective to grant and acquire residential mortgage loans and to fund its lending activities primarily via issuance of covered bonds. The loans are originated by Nordea Bank Norge and subsequently transferred to Nordea EK. Nordea EK has a market share of approximately 11% of the Norwegian market for residential mortgages.

Nordea is the leading bank in the Nordic region in terms of market value and total assets. The group has operated as Nordea since 2001 and targets a European cross-border operating model. The group originated with the establishment of MeritaNordbanken in 1997, which combined Merita Bank of Finland and Nordbanken of Sweden, and was completed in 2000 with the merger with Unidanmark of Denmark and acquisition of Christiana Bank of Norway. Nordea has a distinctive footprint in the Nordic area, supported by around 11 million customers, 800 branches and leading positions in retail banking, corporate finance and savings management. Furthermore, the bank has built up a presence in Estonia, Latvia, Lithuania and Russia, while its Polish activities were sold off in 2013.

The bulk of earnings comes from the core markets in the Nordic region (around 95% of the total loan portfolio). Nordea's market position differs in each geographical market. In-market consolidation is more or less complete in the Finnish market, where Nordea is the market leader with 30-35% of both household and corporate lending. Although Nordea does not have quite as high a market share in Denmark, Norway and Sweden, it still accounts for 10-25% of both household and corporate lending.

Financial performance

In 2013, operating profit increased 2% to EUR4,116m. Net interest income decreased 1% compared with 2012, driven by a slight decline in lending volumes. However, net fee and commission income rose 7% and expenses decreased somewhat compared with 2012. Furthermore, net loan loss provisions fell 18% to EUR735m, corresponding to a loan loss ratio of 21bp (2012: 26bp). While provisions for future loan losses in Denmark and shipping remained at elevated levels, the losses were low in other areas.

The core tier 1 capital ratio excluding transition rules improved further in 2013 to 14.9%, up from 13.1% at end-2012. The total capital ratio excluding transition rules increased 1.9pp to 18.1%. Improved capital ratios were achieved by strong profit generation and a decrease in risk-weighted assets. Nordea's capital policy stipulates targets for the core tier 1 capital ratio (above 13%) and for the total capital ratio (above 17%) by 2015.

Table 75. Ratings (Moody's/S&P/Fitch)

Covered bond rating:	Aaa/-/-
Issuer rating:*	Aa3(n)/AA-(n)/AA-
Moody's C-score:	5.0%
Moody's TPI:	Probable
Moody's CB anchor	SUR + 1

Source: Rating agencies, Danske Bank Markets
** Rating of Nordea Bank AB. (n) = negative outlook*

Table 76. Financial info (Nordea Group)

EURm	2013	2012
Net interest income	5,525	5,563
Fees and commissions	2,642	2,468
Net gain/losses	1,539	1,774
Pre-provision income	4,851	4,934
Loan losses and provisions	735	895
Operating profit	4,116	4,039
Impaired loans ratio	1.8%	1.9%
Cost/income ratio	51%	51%
Core tier 1 capital ratio	14.9%	13.1%
Total capital ratio	18.1%	16.2%

Source: Nordea Annual Report 2013

Table 77. More info

Bond ticker:	NDASS
Web site:	*www.nordea.com*

Source: Danske Bank Markets

Business model and funding profile

As a specialist bank, Nordea EK's main funding source is issuance of covered bonds. During the first three months of 2014, Nordea EK has issued covered bonds amounting to NOK9.8bn in the Norwegian domestic market under its NOK75bn domestic covered bond program. As of 31 March 2014, Nordea EK had outstanding covered bonds totalling NOK59.4bn in the Norwegian market and USD3.0bn in the US market. In addition, Nordea EK had outstanding NOK15.3bn of covered bonds issued in connection with swap arrangements provided by the Norwegian government. Moreover, Nordea EK also had subordinated debt outstanding to the amount of NOK0.8bn and – in addition to long-term funding – also raised short-term unsecured funding from the parent bank, amounting to NOK13.3bn by the end of the first quarter 2014.

In order to hedge market risks, Nordea EK uses interest rate and currency swaps are used to hedge interest rate and currency risk. Nordea Bank Norge ASA is counterparty to all derivative contracts.

Parent company Nordea AB has a broad and diversified funding structure, due to a strong and stable retail customer base and a variety of funding programmes. Nordea has taken advantage of the well-developed mortgage securities markets in Denmark and Sweden throughout the crisis. Moreover, Nordea has set as a target that the net balance of stable funding should be positive, which means that stable assets must be funded by stable liabilities (deposits and long-term bonds). As of 31 December 2013, the net balance of stable funding was EUR49.2bn. Furthermore, during 2013, Nordea had a liquidity buffer of EUR64.4bn on average, consisting of high-grade liquid securities that can be sold or used as collateral in funding operations with central banks. According to Nordea, the bank's LCR was 117% for the group as at end-2013.

Table 78. Funding Profile (parent bank)

Total balance	EUR677bn
Credit institution deposits	9%
Retail deposits	32%
Liabilities to policyholders	7%
Debt securities in issue	29%
Derivatives	10%
Subordinated debt	1%
Equity	5%
Other	6%

Source: Nordea Annual Report 2013, Danske Bank Markets calculations

Cover pool and asset quality

The cover pool in Nordea EK consists only of Norwegian residential mortgage loans and loans to holiday houses in Norway. As of 31 March 2014, the cover pool totalled NOK104.6, containing no substitute assets. The cover pool consists entirely of loans on single family real estate and is dominated by mortgages on detached houses (75%). A large portion of the loans in the cover pool are secured on properties in the Oslo/Akershus region (Eastern Norway), pointing to some concentration risk. Nonetheless, LTV levels are fairly low, and are well below the legislative LTV limits (75% for single family real estate and 60% for commercial including summer houses). The vast majority of loans in the cover pool are floating rate (97%). As of end-March 2014, the level of (voluntary) OC available to bondholders was 14.4% on a nominal basis.

The covered bonds issued by Nordea Eiendomskreditt are rated 'Aaa' (stable) by Moody's. According to Moody's, covered bondholders have a direct claim on the issuer and benefit from the support provided by Nordea Bank Norge.

Nordea EK applies conservative underwriting criteria, which for private households includes calculating the ability to service debt in stressed scenarios; customers must be able to manage a 5 percentage points increase on interest rate on all debt. Moreover, a check of customers' payment history is conducted. The ownership and priority of the collateral is verified through information from the Norwegian official property register, while four sources of real estate valuations are accepted: written statement from external authorized valuer, the last sales price (within 6 months), external evaluating system "Eiendomsverdi" (used by most banks and real estate agents in Norway) or a written statement from (external) real estate agent.

Table 79. Cover pool information

Cover pool	NOK104.6bn
Average loan size	NOK1,370,000
WA LTV	54.2%
WA Indexed LTV	56.1%
Seasoning	42 months
NPL	0.00%*
OC	14.4%
Interest only loans	35.4%*
Owner occupied	100%
Variable rate loans	96.9%
Geography	100% Norway
- Eastern (ex. Oslo)	36.9%
- Western	27.9%
- Oslo	17.1%
- Southern	8.4%
- Northern	5.7%
- Middle	3.8%
Asset type	
- Detached house	74.8%
- Apartments	22.3%
- Holiday houses	2.9%

Source: Nordea EK, Danske Bank Markets.
**Source: Moody's performance overview, December 2013*

SpareBank 1 Boligkreditt

Obligasjoner med fortrinsrett

Company profile

SpareBank 1 Boligkreditt (SPABOL) is a separate legal entity owned by the banks in the SpareBank 1 Alliance. The alliance was established in 1996 by major Norwegian regional savings banks. The founding banks were SpareBank 1 Nord-Norge (rated A2/A by Moody's/Fitch), SpareBank 1 Midt Norge (A2/A-) and SpareBank 1 SR-bank (A2/A-). A group of smaller savings banks in eastern/southern Norway joined the alliance shortly thereafter, and in 2005 Sparebanken Hedmark (A2 by Moody's) in the east of the country joined. Today, the alliance consists of the four regional banks, and 11 local savings banks. On total assets, SpareBank 1 Alliance is the second largest lender in Norway (after DNB).

The SpareBank 1 banks operate exclusively in Norway and are mostly involved in the area of retail mortgage lending. Approximately 65% of the aggregated loan book represents retail lending, while lending to commercial real estate projects is the second largest category of loans. In the areas where the large regional banks are domiciled, the SpareBank 1 Alliance has a market share of 30-50%. However, on a national level, the market share in residential mortgages is only c.20%, due to an underrepresentation in Oslo and the surrounding areas, where a concentration of the population resides.

The member banks in the alliance work in part through common projects and in part through the jointly owned holding company *SpareBank 1 Gruppen AS* (SP1G). The latter was founded by the alliance in 1996 and is an unlisted financial holding company. Through its subsidiaries, SP1G provides general and life insurance, fund management and other financial products and services to members of the alliance and their customers, as well as to members of the Norwegian Federation of Trade Unions. In addition, SP1G has its own banking operations in Oslo, Akershus and Hedmark through Bank 1 Oslo AS. Furthermore, the member banks in the alliance own *EiendomsMegler 1* (real-estate chain), *BN Bank ASA*, *SpareBank 1 Næringskreditt* (covered bond issuer based on commercial cover pool assets) and SPABOL.

SPABOL was established in 2005 with the sole purpose of issuing covered bonds backed by mortgages on retail properties and governmental loans in Norway. This involves purchasing and transferring mortgages from constituent banks of the SpareBank 1 Alliance and marketing the covered bonds to investors (SPABOL itself does not originate loans). The relative share of mortgage loans in SPABOL's cover pool determines each bank's ownership share of SPABOL. The ownership banks have agreed to support SPABOL's capital in the case of a credit event, and have furthermore committed to maintain a minimum core Tier 1 ratio in SPABOL of 9%. The commitment is first determined on a pro-rata basis based on the banks' ownership shares, but in the second instance it is a joint commitment limited to twice each bank's initial commitment.

Financial performance

As the Sparebank 1 Alliance does not issue a consolidated annual report on behalf of the underlying banks, we do not comment on the financial performance of these banks.

Table 80. Ratings (Moody's/S&P/Fitch)

Covered bond rating	Aaa/-/AAA
Issuer rating	-/-/A-
Moody's C-score:	5.0%
- excl. systemic risk:	*2.7%*
Moody's TPI:	High
Moody's CB anchor:	SUR + 0
Fitch D-Cap	4

Source: Rating agencies, Danske Bank Markets

Table 81. Financial information

No aggregated financial statements are published by the underlying banks

Source: N/A

Table 82. More information

Bond ticker:	SPABOL
Web site:	*www.sparebank1.no*

Source: Danske Bank Markets

Business model and funding profile

SPABOL issues covered bonds backed by loans purchased from and originated by its owner banks. The SpareBank 1 Alliance banks grant mortgage loans on equal terms. The general lending policy includes a maximum LTV limit of 85%. Furthermore, the guidelines restrict lending amounts to three times gross income and the borrower's affordability is stressed by a 5% interest rate rise when evaluating a mortgage application. In addition, the customer's past behaviour plays a key role. For loans included in the cover pool, however, SPABOL applies an LTV limit of 70% (60% for interest-only mortgages), which is lower than the legal criteria of 75% for residential mortgages. Loans for which the LTV level has risen above the legal limit may stay in the pool, but the share of the loan above 75% is disregarded for asset-liability testing. By end-March 2014, the share of loans in the cover pool with LTV above this limit was less than 1%.

In terms of liquidity, SPABOL is committed to maintaining a liquidity reserve enabling it to survive for at least twelve months without any access to market funding. For that reason, SPABOL is focused on the upcoming 2015 maturities (EUR1bn in June and NOK10bn in June/August). Also, the company must be able to meet interest and derivatives payments for three months, in a scenario where no interest is paid on SPABOL's liquidity portfolio.

SPABOL issues covered bonds in both EUR, NOK and USD out of its EUR25bn *Global Medium Term Note Covered Bond Programme*. The current amount of bonds outstanding is EUR9.75bn, NOK54.1bn and USD4.75bn, respectively. EUR issuance is intended to provide access to longer-term funding, while the USD leg was set up in October 2010 for diversification purposes. All currency exposure is hedged back to NOK via swaps. Issuance in the NOK is done on a tap basis and although the market is far less deep than the EUR market, it offers other advantages in terms of hedging costs as well as the name recognition of SPABOL. In addition, SPABOL set up a AUD2bn covered bond programme in February 2014 for further diversification (no bonds have yet been issued).

As a specialist bank, the funding structure of SPABOL relies heavily on covered bonds. As per year-end 2013, 91% of SPABOL's funding was done via the issuance of covered bonds. On the individual bank level, the SpareBank 1 Alliance has both a strong deposit base and access to senior unsecured markets. However, covered bonds remain a core funding source and SPABOL is committed to maintaining its benchmark curves.

Table 83. Funding profile (SPABOL)

Total balance	**NOK206.2bn**
Debt securities	89%
- Covered bonds	*81%*
Collateral received	5%
Equity	4%
Other	2%

Source: SpareBank 1 Boligkreditt Annual Report 2013, Danske Bank Markets calculations

Cover pool and asset quality

As of 31 March 2014, the total cover pool stood at NOK173.5bn, of which mortgages made up 97% (NOK168.3bn). The remaining substitute assets comprised a 52/48 mix of NOK and EUR (plus minor exposures in USD and SEK) mainly placed in covered bonds (52%). The eligibility criteria for the cover pool prescribes only retail residential mortgages originated by the SpareBank 1 Alliance banks and certain other banks owned by the Alliance banks on property located in Norway. Furthemore, the criteria excludes mortgages used to finance buy-to-let properties and as a result the mortgage pool is 100% owner occupied. Moreover, mortgages with a balance below NOK0.2m or above NOK12m are excluded, as are new mortgages backed by holiday properties (as of 1H 2013). The pool LTV (indexed) is fairly low at 52%. The pool seasoning is 36 months. Geographically, the pool is relatively well diversified across Norway, with some concentration in Western and Eastern Norway and only little exposure in Oslo. Hence, the cover pool reflects the relatively broad physical coverage of the banks in the SpareBank 1 Alliance. The OC level stood at 13%. SPABOL further reports a "stressed OC" (assuming 15% house price declines) of 9.3%, indicating the strength of the cover pool.

Table 84. Cover pool information

Cover pool	**NOK173.5bn**
*Substitute assets**	*NOK5.3bn*
Average loan size	NOK1,214,000
WA LTV	57.3%
WA Indexed LTV	52.2%
Seasoning	36 months
NPL (>90d)	0.00%
OC	12.5%
Interest only loans	37%
Owner occupied	100%
Variable rate loans	100%
Geography	100% Norway
- Eastern	31.7%
- Western	24.8%
- Middle	15.2%
- Northern	14.4%
- Oslo	8.0%
- Southern	5.8%
Asset type	
- Detached house	63.5%
- Apartments	16.8%
- Semi-detached house	16.3%
- Holiday houses	1.4%
- Other	2.0%

Source: SPABOL, Danske Bank Markets
**NOK/EUR: 52%/48%*
Covered bonds: 52%
Deposits: 25%
Norwegian government bills: 21%
Senior unsecured bonds (min. A/A2 rated): 2%

Sparebanken Vest Boligkreditt

Obligasjoner med fortrinsrett

Company profile

Sparebanken Vest Boligkreditt (SVEGNO), the wholly-owned covered bond issuing subsidiary of Sparebanken Vest Bank, was established on 22 May 2008, with the sole intent of issuing covered bonds, thus broadening the bank's funding base. The parent, Sparebanken Vest (SVEG), is an independent savings bank, incorporated in 1823, offering traditional banking services to both retail and corporate clients. Moreover, the bank offers capital market products and services.

The bank is the leading financial services group in Western Norway, headquartered in Bergen, with strong ties to the local and regional communities and it is the third-largest savings bank in Norway based on assets.

SVEG was one of the original members of the Sparebank 1 Alliance, which consists of three regional and several local savings banks. However, in 2003, Sparebanken Vest left Sparebank 1 Alliance, acknowledging the importance of being a local bank rooted in the neighbouring community. In 2011, SVEG entered into an agreement concerning a merger with Sparebanken Hardanger in order to further strengthen its market position in Western Norway.

As a savings bank, SVEG has no owners or shareholders and like other savings banks, the original ownership structure was based on a foundation. Since 1987, however, Norwegian savings banks have been allowed to issue equity certificates in order to obtain capital. Equity certificates have almost the same characteristics as shares, being traded on the Oslo Stock Exchange, taxed as shares and entitled to potential dividends. However, equity certificates give ownership rights to specific parts of a bank's capital. SVEG issued equity certificates in 1995. Since the merger with Sparebanken Hardanger, Hardanger Sparebankstift has become the largest holder of SVEG's equity certificates, holding a 30.24% share.

The covered bonds of SVEGNO are rated 'Aaa' by Moody's, while the issuer rating is 'A2(n)'. The negative outlook on Sparebanken Vest came in May 2014 when Moody's placed 82 European banks on negative outlook. The move was prompted by the adoption of the Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism (SRM) regulation in the EU, which, according to Moody's, is shifting risk to the downside for unsecured creditors.

Financial performance

SVEG recorded a profit of NOK908m after tax in 2013 (NOK931m). On the income side, net interest income increased significantly, rising some 20% to NOK2,161m.

Table 85. Ratings (Moody's/S&P/Fitch)

Covered bond rating	Aaa / - / -
Issuer rating	A2(n) / - / A-
Moody's C-score	5.3%
Moody's TPI	High
Moody's CB anchor	SUR + 1

Source: Rating agencies

Table 86. Financial information (Group)

NOKm	2013	2012
Net interest income	2,161	1,797
Net banking commision	378	346
Gains on financial instr.	142	276
Writedown, loans & gnt's	280	147
Net operating income	2,929	2,658
Profit before tax	1,221	1,283
Loss percentage, loans	0.25%	0.14%
Deposits/loans ratio	56%	56%
Cost/income ratio	49%	58%
Core tier 1 capital ratio*	11.2%	10.6%
Total capital ratio*	14.3%	12.7%

Source: Sparebanken Vest Group annual report 2013

**: Basel I floor*

Table 87. More information

Bond ticker	SVEGNO
Web site	*www.spv.no*

Source: Danske Bank Markets

The vast increase is largely attributable to a positive development in the interest margins, as a result of a repricing of both the retail and corporate loan book, coupled with declining borrowing costs. The average interest margin was 1.67% in 2013 (1.45%). Operating expenses were up increased to NOK1,428m in 2013 (NOK1,228m), however, 2012's expenses were influenced by a one-off reduction of NOK313m due to changes in the Group's pension scheme.

Business model and funding profile

SVEGNO acquires mortgages from SVEG via a true sale process. Following, SVEGNO issues covered bonds out of its using the transferred mortgages as collateral. On a group basis, SVEG is largely funded via deposits (46%) and debt securities/bonds (42%).

SVEGNO issues covered bonds out of its EUR8bn EMTN programme. Originally, the scope was limited to EUR5bn, but it was raised in 2012 as a part of the annual update of the documentation.

Of the total capital markets funding, which amounted to some NOK60bn as per end-2013, covered bonds make up roughly 62% (including the Norges Bank swap arrangement).

Table 88. Funding profile (Group)

Total balance	**NOK134bn**
Deposits	46%
Debt to credit institutions	2%
Debt securities	42%
Subordinated debt	2%
Equity	6%
Other	2%

Source: Sparebanken Vest Group annual report 2013

Cover pool and asset quality

As per end-March 2014, the cover pool amounted to just above NOK50bn, of which NOK48bn was comprised of prime residential Norwegian mortgages. The remainder was made up by substitution assets. The overcollateralisation is reported at 15.8%. SVEGNO only allows for primary residences and cooperative housing loans in the pool. I.e., no holiday and/or second homes are included.

All mortgage loans in the pool carry a floating rate, however, fixed-rate loans are also allowed. The pool holds 0.05% non-performing loans, but these are not included in coverage calculations.

Geographically, the properties securing the mortgages in the cover pool are concentrated in the Western part of Norway, especially in the Hordaland region (78%), but also in neighbouring Rogaland (12%) and Sogn & Fjordane (6%).

Table 89. Cover pool info

Cover pool	**NOK 50.5bn**
OC	15.80%
MORTGAGES	NOK 48.2bn
Type	100% residential
Avg loan balance	NOK 1,191,000
WA seasoning	41 months
WA LTV (indexed)	53.60%
Floating rate assets	100%
NPL (>90D in arrears)	0.05%
Geography	100% Norway
- Hordaland	78%
- Rogaland	12%
- Sogn & Fjordane	6%
- Other	4%
SUBST. ASSETS	NOK 2.3bn

Source: Sparebanken Vest investor presentation, May 2014 – data as per 31 March 2014

Storebrand Boligkreditt

Obligasjoner med fortrinsrett

Company profile

Storebrand Boligkreditt (STBNO – formerly Storebrand Kredittforetag) is a wholly-owned subsidiary of Storebrand Bank ASA, part of the Storebrand Group. The Storebrand Group originated in 1767 and has offered occupational pensions to Norwegian employees since 1917. In 1996, Storebrand Bank ASA was established and in 2006 the group commenced sales of property and casualty insurance products to the retail market. In 2007, the Group acquired the Swedish life insurance and pension provider SPP, which transformed Storebrand into the largest Nordic life and pensions insurer. Today, the Storebrand Group is made up of the business areas life and pension, asset management, bank and insurance. By end-2013, the Storebrand Group had total assets of NOK450bn.

Storebrand Bank is a web-based bank that offers traditional banking products to the Norwegian market. Its main target group is employees with occupational pension at Storebrand. At the end of 2013, the bank had 69,000 active Retail Market customers, with a lending volume of NOK23.9bn and a volume of deposits of NOK12.5bn. In April 2013, Storebrand decided to wind up the Corporate Market at the bank. According to Storebrand, the Corporate Market has a large portfolio of commercial property loans which ties up a significant amount of capital. Given that the bank's Corporate Market is not a prioritised core activity, a decision has thus been made to reduce capital consumption. According to Storebrand, the winding up of the operation will be gradual and controlled, with existing customers being well looked after.

The purpose of STBNO is to grant or purchase home mortgages. To do so, STBNO may issue covered bonds and it is licensed by the Norwegian FSA as an issuer. The mortgages are acquired from Storebrand Bank ASA, which manages the mortgages owned by STBNO. By end-2013, STBNO's balance was NOK16bn and it is an important part of Storebrand Bank's strategic funding. Covered bondholders have full recourse to the issuer and also benefit from the credit strength of the parent company, according to Moody's. The rating agency highlights the revolving credit facility provided by Storebrand Bank for the benefit of STBNO as a credit positive and also argues that a range of functions carried out by Storebrand Bank on behalf as STBNO shows the parent company's commitment to the covered bond programme. Hence, as STBNO itself is not rated, the covered bond rating is linked to the credit strength of Storebrand Bank.

Financial performance

In 2013, Storebank Bank ASA achieved a profit before tax of NOK235m, up 12% over 2012's level. Net interest income for the bank group amounted to NOK547m, up 12% over 2012, as the interest margin was supported by good lending margins and falling interest rates. Income from commissions was virtually unchanged at NOK70m, while other operating income fell to NOK4m. Total loan losses including write-downs on loans taken over amount to minus NOK11m compared with plus NOK8m in 2012. During Q2 13, Storebrand Bank issued new hybrid tier 1 capital of NOK150m. Storebrand Bank managed an improvement in capital ratios, with the total capital ratio rising to 13.6% by end-2013 (2012: 11.8%).

Table 90. Ratings (Moody's/S&P/Fitch)

Covered bond rating	Aaa/-/-
Issuer rating:*	Baa1(n)/BBB+(n)/-
Moody's C-score:	5.0%
- *excl. syst. risk*	*3.0%*
Moody's TPI:	High
Moody's CB anchor:	SUR + 1

** Rating of Storebrand Bank ASA*
'n' = negative outlook
Source: Rating agencies, Danske Bank Markets

Table 91. Financial information (Storebrand Bank Group)

NOKm	2013	2012
Net interest income	547	490
Fees and commissions	70	71
Net gain/losses	4	60
Pre-provision profit	247	201
Loan losses and provisions	11	-8
Operating profit	235	209
NPL	1.4%	0.8%
Loan loss ratio	0.03	-0.02
Cost/income ratio	57%	64%
Core capital ratio	12.8%	11.2%
Total capital ratio	13.6%	11.8%

Source: Storebrand, Danske Bank Markets

Table 92. More information

Bond ticker:	STBNO
Web site:	*www.storebrand.no*

Source: Danske Bank Markets

Business model and funding profile

As of 31 December 2013, Storebrand Bank Group's funding comprised more than 53% customer deposits, which thus remain the dominant source of funding. That said, most of these are internet deposits which may be considered as less sticky and thus riskier from a funding perspective than traditional deposits, according to Moody's. By end-2013, the deposit-to-loan ratio had risen further to 64% (2012: 56%, 2011: 55%).

Furthermore, Storebrand Bank obtains its funding from the issuance of debt securities (35% of total liabilities), of which 24 percentage points is made up by covered bond funding done out of STBNO. During the course of 2013, Storebrand Bank Group issued a total of NOK0.6bn in senior bonds, while no covered bonds were issued.

As a specialist mortgage lender, STBNO itself has a very transparent balance sheet (not shown here). Liabilities consist almost entirely of covered bonds. STBNO has established a EUR2bn EMTCN programme from which it may issue in any currency. However, the covered bonds currently outstanding are all NOK-denominated. The last issue was done in September 2012 and was a NOK500m, floating-rate bond maturing in June 2018. By end- 2013, covered bonds worth about NOK11.9bn had been issued, with maturities from four months to six years. NOK9.2bn of these bonds have been placed in the market, while the remaining NOK2.7bn are being held in the parent bank.

STBNO has participated in Norges Bank's swap agreement ('*bytteordningen*') with an amount of NOK1.0bn and hence improved the liquidity position for Storebrand Bank. As the swap agreement also allowed for the inclusion of commercial real estate loans (not currently included in STBNO), Storebrand Bank established Storebrand Eiendomskreditt AS in Q2 09 in order to utilise this opportunity as part of the banking group's financing strategy. However, in January 2011, it was decided to discontinue operations in Storebrand Eiendomskreditt due to the closure of the swap facililty. Consequently, Storebrand Bank has acquired Storebrand Eidendomskreditt's loan portfolio.

Table 93. Funding profile 2013 (Storebrand Bank Group)

Total balance	NOK39.1bn
Due to credit institutions	3%
Deposits from customers	53%
Debt securities	35%
- covered bonds	*24%*
Subordinated debt	2%
Equity	7%
Other	2%

Source: Storebrand Bank ASA Annual Report 2013, Danske Bank Markets calculations

Cover pool and asset quality

As at 31 March 2013, the cover pool stood at NOK15.3bn, comprising NOK14.8bn residential mortgages and NOK0.5bn substitute assets. The latter comprises NOK0.3bn deposits from Storebrand Bank ASA and NOK0.2bn deposits from Nordea Bank Norge ASA. OC based on eligible collateral only was 27%, given a total volume of issued covered bonds of NOK11.9bn (nominal value). STBNO has committed to maintain a minimum OC level of 9.5%, which is positive as the Norwegian legislation does not require mandatory OC. The level of committed OC is above 6.0%, which Moody's sees as consistent with the current triple-A rating (according to the most recent performance overview). All mortgages in the cover pool are floating rate. In terms of geography, Moody's notes that the cover pool has some regional concentration in Oslo and Akershus, two among the wealthiest regions in Norway.

As of end-March 2014, the weighted-average indexed LTV ratio was 49%. Overall, the credit quality of the cover pool seems sound, with non-performing loans amounting to 0.10% of gross lending, though non-performing loans are not taken into account for the matching tests. The healthy asset quality is also underscored by the covered bond programme achieving a Moody's collateral score of 3.0% excluding systemic risk, i.e. below the national floor of 5.0%.

Table 94. Cover pool info

Cover pool	NOK15.3bn
*Of which substitute assets**	*NOK0.5bn*
OC (committed)	27% (9.5%)
Average loan balance	NOK1,518,000
WA indexed LTV	49%
WA seasoning	39 months
NPL (>90 days arrears)	0.10%
Floating rate loans	100%
Asset type	
-Residential	97%
-Substitute collateral	3%
Geography	100% Norway
-Akershus	33%
-Oslo	32%
(remaining regional exposures are all <10%)	

Source: Storebrand Boligkreditt Q1 2014 cover pool report, Danske Bank Markets
**Comprising deposits from Storebrand Bank ASA (64%) and Nordea Bank Norge ASA (36%)*

Swedish Covered Bonds

Säkerställda obligationer

Background

The Swedish Covered Bond Act was passed in July 2004 but did not come into effect until 2006 when the first Swedish issuers were licensed and started issuing covered bonds. Swedish mortgage bonds (Bostadsobligationer) were, however, already an established asset class before the Covered Bond Act became effective, with Sweden having one of the largest mortgage bond markets in Europe (according to ECBC, total outstanding domestic Swedish covered bonds amounted to EUR164bn as per end-2012). However, because investor protection in previous Bostadsobligationer was unsatisfactory, they did not enjoy European covered bond status. In order to issue covered bonds under the new Act, Swedish issuers were required to convert existing Bostadsobligationer to Säkerställda Obligationer (covered bonds). All previous Bostadsobligationer now have the status of covered bonds.

In October 2006, Nordea Hypotek became the first issuer of a Swedish EUR covered bond. SCBC (SBAB) and Stadshypotek (Handelsbanken) soon followed. Today, all former Swedish mortgage bond issuers actively issue covered bonds. SEB has taken advantage of the abandonment of the specialist banking principle in Sweden and merged former SEB Bolån into parent bank SEB AB. SEB has taken over the licence to issue covered bonds under the Swedish Covered Bond Act from SEB Bolån.

On 20 August 2012, Moody's collectively raised the *Timely Payment Indicator* (TPI) for the Swedish covered bond programmes rated by Moody's from 'Probable' to 'Probable-High'. The main drivers, according to Moody's, were (1) the strong liquidity and performance seen in Swedish covered bond markets throughout the financial crisis, and (2) the increased systemic importance of the Swedish covered bond market as a funding tool for banks and the potential government support implied by this.

Key elements of Covered Bond Act

As in Finland, Germany and Denmark, there is **no specialist banking principle** in Sweden. **Collateral assets** may include residential and commercial mortgages (commercial mortgages are limited to 10% of the total cover pool), public loans, derivatives and substitution assets to a maximum 20% (the FSA can temporarily allow 30%). In line with UCITS 22(4) requirements, the issuer will be subject to **special public supervision**. The issuer must keep a **cover register** of collateral (including open hedge positions) and bonds issued. The issuer is not required to keep a separate register of mortgage and public covered bonds, as is the case in Germany and Ireland. Mortgages that are more than 60 days in **arrears** cannot be recognised for the purpose of coverage calculations.

LTV ratio limits are 75% and 60% for residential mortgages and commercial loans, respectively. Agricultural loans can be included subject to an LTV ratio of 70% (if additional security for that part of the loan that exceeds 60% is provided). Loans with higher LTVs may be included in the cover pool, but only accounted up to the legal threshold.

The **valuation** of cover assets must be made prudently and the assessment must be on an individual basis. Properties in the cover pool must be valued on an ongoing basis, i.e. commercial properties every year and residential properties every third year. Eventually, if LTV ratio limits are breached, the issuer is obliged to include substitution assets in the cover pool. **Substitution assets** are limited to 20% of the pool and must comprise highly liquid assets.

In terms of **ALM requirements**, the Swedish Mortgage Act requires that the nominal value of the cover assets must be greater than the aggregated nominal claims arising from the covered bonds. Furthermore, the present value of the cover pool must exceed that of covered bonds and derivatives, also under certain interest rate and currency rate stressed scenarios. If a loan is more than 60 days in arrears, it cannot be included in the calculation of asset value. However, **mandatory minimum OC** is not required by law. Issuers are able to commit themselves contractually to maintaining a minimum nominal OC. Any voluntary OC provided at the time of default/insolvency is protected by Swedish law if registered in the cover pool.

Asset segregation is secured through the cover register. Regarding **bankruptcy proceedings**, the preferential right to cover assets is explicitly stipulated. Consequently, in the event of an issuer's insolvency, bondholders have a statutory preferential right to the cover pool. As in Denmark and Germany, Swedish law stipulates that swap counterparties (for cover pool hedging only) rank *pari passu* with bondholders regarding claims on the cover pool.

Further, the law defines mandatory procedures to be followed in case of bankruptcy and procedures to ensure payments are made on time. Note that an **issuer default does not prompt an acceleration** of covered bonds or a determination of derivative contracts. After an issuer has been placed in liquidation or declared bankrupt, the Swedish FSA must appoint an administrator to supervise the interests of all creditors. Therefore, there is **no special covered bond administrator** as is the case in, for example, Germany. As of June 2010, amendments to the act require that the bankruptcy administrator be given an express mandate, on behalf of the bankruptcy estate, to take out liquidity loans and enter into other agreements for the purpose of maintaining matching between the cover pool, covered bonds and derivative contracts.

Should funds prove insufficient to honour the bondholder's claims, the covered bonds will accelerate. Any unfulfilled claim will rank *pari passu* with other creditors.

Credit quality

As non-performing loans (NPLs) in cover pools in Sweden are typically transferred to the parent company, it is necessary to consider the overall performance of the loan book in order to obtain a clear picture of NPL performance.

Overviews of Swedish cover pool characteristics are provided in the following table. As regards most cover pool indicators, there is a high degree of homogeneity in Swedish cover pools.

Table 95. Cover pool overview, Q1 14

	Landshypotek	LF Hypotek	Nordea Hyp.	SCBC	SEB	Stadshypotek*	Swedbank Hyp.
Cover pool (SEKbn)	72	126	435	210	440	612	740
Average loan size (SEK)	452,000	n.a.	554,000	588,000	666,000	649,400	474,000
WA indexed LTV	43%	63%	55%	59%	60%	50%	57%
WA seasoning	87 months	61 months	54 months	55 months**	50 months**	40 months	66 months
Interest-only loans	21%	67%	45%	57%	50%	52%	53%
Fixed-rate loans	46%	42%	32%	51%	36%	54%	38%
Geography	Sweden	Sweden	Sweden	Sweden	Sweden	Sweden	Sweden
Asset type:							
- Residential	2%	100%	89%	99%	100%	96%	91%
- Agriculture/forestry	98%		1%			1%	7%
- Commercial			3%			1%	
- Public sector			7%	1%		2%	1%

Source: Company reports
** Swedish pool; ** Moody's*

Table 96. Swedish covered bond issuers

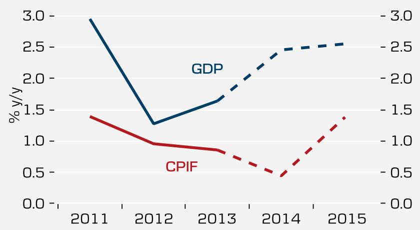
	Rating (M/S&P/F)		Moody's			S&P	
	Covered bond	Issuer/parent	TPI	C-score	CB anchor	Category	ALMM risk
Landshypotek	- / AAA / -	- / A / A+				1	Moderate
LF Hypotek	Aaa / AAA / -	A3 / A / -	Prob.-High	3.80%	Adj. BCA + 2	1	Moderate
Nordea Hyp.	Aaa / AAA / -	Aa3(n) / AA-(n) / AA-	Prob.-High	5.40%	SUR + 1	1	Low
SCBC	Aaa / AAA / -	A2(n) / A(n) / -	Prob.-High	7.10%	SUR + 1	1	Moderate
SEB	Aaa / - / -	A1(n) / A+(n) / A+	Prob.-High	7.70%	SUR + 1		
Stadshypotek (SE)	Aaa / - / -	Aa3(n) / AA-(n) / AA-	Prob.-High	7.10%	SUR + 1		
Swedbank Hyp.	Aaa / AAA / -	A1 / A+(n) / -	Prob.-High	6.30%	SUR + 1	1	Low

Source: Rating agencies

Outlook for the Swedish economy

The Swedish economy has staged an impressive recovery in the wake of the great recession. However, being an archetypical small open economy, still subdued global demand growth and a structurally stronger currency keeps the economy from firing on all cylinders. Economic policy and financial conditions have been extremely expansionary over the past few years, pushing household consumption and investments – primarily housing investments – to above pre-crisis trend levels. The one component of demand that is lacking – exports – is more or less out of the hands of Swedish policymakers. However, Danske Bank's international forecasts suggest that stronger external growth is in the offing, providing us with ample reasons to be optimistic on growth in the near term. The first estimates of 2013 GDP growth point to growth around 1.5% y/y and an even stronger opening to 2014. Looking ahead, growth should accelerate further and Danske forecasts growth – much in line with market consensus – to reach 2.5% y/y in both 2014 and 2015.

Chart 9. Swedish economy



Note: CPIF is CPI with fixed interest rates.
Sources: Macrobond. Danske Bank calculations

Risks to the above forecasts stem mainly from external events but, as Danske Bank has long alluded to, the high leverage in the household sector and seemingly stretched valuations on housing also constitute non-negligible risks to the outlook. The Riksbank and other authorities are nonetheless working proactively to reduce those risks, keeping the repo rate a couple of notches higher than warranted from a cyclical perspective, increasing risk weights on mortgages for banks, etc.

Swedish labour markets are improving, as hours worked and employment is on the rise. However, the labour force is currently rising faster still, due to strong immigration and government measures to improve labour supply. We deem this to be temporary and expect the unemployment rate to improve on trend over the coming quarters. However, the improvement is agonisingly slow and it is only beyond 2016 that we expect unemployment rates to reach our estimates of NAIRU (c7%). The combination of atypically low growth for a recovery phase and rather low growth in employment and hours worked produces higher, but nonetheless disappointing, productivity growth – something that has left a sombre hallmark over the Swedish post-crisis economy. Due to high unemployment and low total demand, labour costs are low from a historical perspective. Nonetheless, from an international perspective, costs are high, worsening relative ULC and helping to explain why export growth has been so low and the foreseen improvement in exports is still rather weak from a cyclical perspective.

From a Riksbank viewpoint, the above constitutes a sizeable policy challenge. Low ULC and a wide output gap for a long period of time should warrant extremely low rates for the foreseeable future. Indeed, the Swedish economy is flirting with deflationary tendencies. However, household debt is high and rising, and house prices have posted a strong upward trajectory, leaving an uneasy feeling with the Riksbank majority. Reading the last few sets of minutes and monetary policy statements, we can clearly see that the current monetary policy stance reflects this balance, with strong indications that the repo rate could be even lower (than the current 0.5%) should stronger measures to address excesses on the housing market be implemented.

Landshypotek Bank AB

Säkerställda obligationer

Company profile

Landshypotek Bank AB (LANHYP) is a borrower-owned bank (LANHYP went from being a mortgage bank to being a bank following the granting of a banking license in November 2012 – see more further down), specialising in first mortgage lending secured on agricultural and forestry properties. LANHYP is owned by the 45,000 members of *Landshypotek Ekonomisk Förening* (LEF). As a LANHYP borrower, one automatically becomes a member of LEF and thereby an owner of LANHYP. As a result of this special structure, there is no conflict between the interests of the borrowers and those of the owners. The bank originated in 1836 when the first mortgage bank was founded in Sweden. Thus, the bank celebrated its 175th birthday in 2011. With total lending of SEK60bn according to its annual report for 2013, LANHYP is a relatively small lender in the Swedish mortgage market. However, within its core markets (agriculture and forestry) LANHYP is the leading lender with a market share of around 30%. LANHYP's covered bonds are rated AAA (stable) by S&P, while LANHYP itself carries A (stable) and A+ (stable) ratings from S&P and Fitch respectively. Most recently, the outlook on LANHYP's rating was revised to 'stable' in April 2014 by S&P on stabilising economic risks in Sweden. As LANHYP found it sufficient with ratings from two institutions, the collaboration with Moody's was terminated in 2012.

LANHYP employs 122 people distributed throughout eight districts and 19 regional branches, with customers also able to obtain loans and advisory services through the internet. The eight districts all have access to a network of representatives who themselves run agricultural business. This local presence and deep understanding of the businesses to which the lending is done is a key factor for LANHYP.

In 2007, the bank's co-operation with LF Bank ended. Previously, LF Bank provided banking and insurance services to supplement mortgages offered to LANHYP clients. In July 2007, LANHYP converted existing *bostadsobligationer* to covered bonds following approval by the Swedish FSA.

In March 2012, LANHYP applied for a license to conduct banking operations. Following an exhaustive review from the Swedish FSA, the license was granted in November 2012. One of the main effects of LANHYP getting its banking license is that it will now be licensed to take deposits. Following this, LANHYP will offer deposit accounts, not only to its mortgage borrowers but also to other clients. LANHYP intends to establish deposits as a key source of funding. The aim is for deposits to make up 20% of funding within five years. According to the annual report for 2013, deposits amounted to SEK2.1bn by end-2013, up 36% y/y. As at end-2013, LANHYP's holding of interest-bearing securities amounted to SEK15.1bn, comprising mainly Swedish covered bonds and bonds issued by Swedish municipalities. These securities make up LANHYP's liquidity portfolio. LANSHYP's management has decided that the liquidity portfolio at all times must be able to cover all cash outflows over a six-month period without funding market access. By end-2013, this requirement was met by a factor 1.4.

Table 97. Ratings (Moody's/S&P/Fitch)

Covered bond rating:	**-/AAA/-**
Issuer rating:	-/A/A+
S&P Category:	1
S&P ALMM risk:	Moderate

Source: Rating agencies

Table 98. Financial information (Group)

SEKm	2013	2012
Net interest income	656	578
Fees and commissions	-20	-9
Financial transactions	-35	-49
Pre-provision income	321	277
Loan losses and provisions	54	22
Operating profit	267	255
Loan loss level	0.09%	0.04%
Cost/income ratio	0.44	0.42
Tier 1 ratio (Basel 2)	27.8%	29.7%
Tier 1 ratio (transitional)	8.6%	8.1%
Total capital ratio (B2)	32.0%	34.7%
Total capital ratio (trans.)	9.9%	9.4%

Source: Landshypotek Annual Report 2013

Table 99. More information

Bond ticker:	LANHYP
Website:	*www.landshypotek.se*

Source: Danske Bank

Financial performance

While lending grew 3.0% y/y, net interest income grew by 13.6% mainly due to wider margins. Operating profit improved marginally to SEK267m, but profitability was negatively affected by increases in loan losses amounting to SEK54m (SEK22m), attributable to a few individual commitments. Costs increased to SEK283m (SEK245m), mainly due to the implementation of a new business system and increased marketing.

Business model and funding profile

In July 2007, the Swedish FSA approved LANHYP's application to convert existing *bostadsobligationer* into covered bonds. In August 2007, LANHYP made its first covered bond issue. As a specialist mortgage lender (monoline business), the bank was allowed to carry out only mortgage lending and funding business. Consequently, it used to be heavily on wholesale funding. However, in November 2012, LANHYP was granted a banking license and is now taking deposits. The goal is to be 20% deposit funded by 2018. However, for now wholesale funding still accounts for 88% of total funding – the majority of which are SEK-denominated covered bonds. In 2013, covered bonds were issued in an amount of approximately SEK16bn. In addition, senior bonds were issued to a value of some SEK4bn. So far, LANHYP has not issued any EUR covered bonds.

Market risk is very limited, with both lending and funding predominantly carried out in SEK. Where financing is done in currencies other than SEK, the currency risk is managed by hedging foreign currency cash flows with swap contracts.

LANHYP finances its business mainly through bond loans and money market instruments. Funding is also obtained via borrowing from credit institutions but lately the share of funding from credit institutions has been greatly reduced – from SEK5bn in 2009 to SEK0.3bn in 2013.

Cover pool and asset quality

As at 31 March 2014, the cover pool amounted to SEK72bn, of which SEK14bn was made up by substitute assets comprising Swedish AAA-rated covered bonds (69%) and bonds issued by Swedish municipalities (31%). The average loan size was SEK452,000. Of the EUR58bn in mortgages in the pool, 98.5% are secured on agricultural and forestry properties and 1.5% are residential mortgages. The cover pool is very well seasoned with an average of 87 months on a loan level and 246 months on a customer level. The weighted average LTV ratio of the pool is 43%. At the reporting date, LANHYP had SEK56bn in outstanding covered bonds, yielding an over-collateralisation level of 28%.

Table 100. Funding profile 2013

Total balance	**SEK78.0bn**
Liab. to credit institutions	0%
Public deposits	3%
Debt securities	88%
Subordinated debt	1%
Equity	6%
Other	3%

Source: Landshypotek annual report 2013, Danske Bank Markets

Table 101. Cover pool (as at March '14)

Cover pool	**SEK71.7bn**
Of which substitute assets	SEK14bn
- Swedish AAA covered bonds	69%
- Municipalities	31%
Covered bonds	SEK56bn
OC	28%
Average loan size	SEK452,000
WA LTV (volume weighted)	43%
WA LTV (property weighted)	22%
Seasoning (loan level)	87 months
Seasoning (customer level)	246 months
Non-performing loans	None
Fixed rate-mortgages	46%
Interest-only mortgages	21%
Geography	Only Sweden
- Linkjöping	15%
- Lund	11%
- Skara	8%
- Örebro	8%
(remaining areas at 7% or lower)	
Asset type	
- Residential	1.5%
- Agriculture	98.5%

Source: Landshypotek cover pool report Q1'14, Danske Bank Markets

LF Hypotek

Säkerställda obligationer

Company profile

Länsförsäkringar Hypotek (LF Hypotek) is a wholly-owned subsidiary of *Länsförsäkringar Bank* (LF Bank), which in turn is part of the Länsförsäkringar Alliance. The latter comprises 23 local, independent and customer-owned regional insurance companies that jointly own Länsförsäkringar AB with subsidiaries. LF Bank was originally established to deliver banking products and services to customers of the independent mutual insurance companies, which have a total customer base totaling some 3.5 million and a market share of slightly above 35%.

Today, LF Bank is a full-service retail bank offering a full range of financial products and services to its customers, although it focuses on providing savings and lending products for private customers and farmers. With a business volume of SEK314bn and 880,000 customers, LF Bank is Sweden's fifth-largest retail bank.

LF Hypotek provides financing for LF Bank's banking and retail mortgage operations through its covered bonds programme. All customer contact takes place through the 130 branches of the 23 regional insurance companies, though loans are also distributed through the internet. Another significant part of the distribution network is the 150 branches throughout Sweden of the real-estate brokerage Länsförsäkringar Fastighetsförmedling. In 2012, the operations loans of LF Bank rose 8% to SEK162bn, of which retail mortgages in LF Hypotek increased 8% to SEK115bn. LF Hypotek increased its market share of the private customer mortgage market to 4.9% in 2013 (up from 4.8% in 2012).

As a measure of the financial strength of the parent bank, LF Bank was one of only two major banks in Sweden not to issue under or apply for a state guarantee during the financial crisis. While LF Bank retains a stable A rating by S&P, Moody's downgrade the bank's rating by one notch to A3 in June 2013. According to Moody's the downgrade largely reflects relatively light capitalisation at the bank level, high growth rates exhibited over a number of years particularly in the agricultural sector, and the high proportion of market funding reliance.

Financial performance

In 2013, LF Bank was able to increase its profits before loan losses 20% to SEK773m (2012: SEK647m) and operating profits rose by 16% to SEK647m (2012: SEK555m). The increase was attributable to higher net interest income, on the back of higher lending and deposit volumes and improved lending margins. While increasing somewhat, loan losses remained low at SEK126m, which is also reflected in the low share of impaired loans in the loan book (the percentage of impaired loans was 0.23% in 2013). The bank's capitalisation improved in 2013 as a subordinated loan of SEK290m from the parent company Länsförsäkringar AB Company was converted into owner's equity. Tier 1 ratio strengthened to 14.7% (2013: 13.7%), and the capital adequacy ratio strengthened to 18.7% (2013: 15.6%). LF Bank maintains a liquidity reserve consisting of AAA-rated securities. The value of the reserve totalled SEK46bn at year-end (2012: SEK41bn), comprising mainly Swedish covered bonds (76%).

Table 102. Ratings (Moody's/S&P/Fitch)

Covered bond rating:	Aaa/AAA/-
Issuer rating:*	A3/A/-
Moody's C-score:	5%
- *excl. syst. risk*	*3.8%*
Moody's TPI:	Probable-High
Moody's CB anchor:	Adj. BCA + 2
S&P Category:	1
S&P ALMM risk:	Moderate

Source: Rating agencies, Danske Bank Markets
** Rating of Lansforsakringar Bank AB (parent)*

Table 103. Financial info (parent bank)

SEKm	2012	2012
Net interest income	2,230	2,071
Fees and commissions	-253	-385
Net gain/losses	-86	5
Pre-provision income	773	647
Loan losses and provisions	126	91
Operating profit	647	555
Impaired loans ratio	0.23%	0.19%
Cost/income ratio	63%	66%
Tier 1 capital ratio (Basel II)	14.7%	13.7%
Capital adequacy ratio (B II)	18.7%	15.6%

Source: LF Bank Annual Report 2013

Table 104. More info

Bond ticker:	LANSBK
Web site:	*www.lansforsakringar.se*

Source: Danske Bank Markets

Business model and funding profile

LF Hypotek is a mortgage company whose sole business is to grant loans secured on mortgages to Swedish households. As LF Hypotek is a core area of LF Group, it is expected that support would be offered should the need arise. LF Hypotek received a licence to issue Swedish covered bonds in March 2007.

All assets on LF Hypotek's balance sheet are SEK-denominated and LF Hypotek thus has no structural need to issue in foreign currencies, but has chosen to do so in order to broaden the investor base and for reasons of diversification. Nonetheless, the Swedish covered bond market remains the most important source of financing (70%), followed by issues in EUR (23%). Furthermore, LF Hypotek also obtains funding in CHF (5%) and NOK (2%). As of 31 March 2013, the nominal amount of outstanding covered bonds was equivalent to SEK105bn.

Parent company LF Bank maintains a stable funding base in its retail deposits, which rose 10% last year to SEK59bn. Overall, deposits from the public represent 32% of group total liabilities, whereas bonds constitute 58% (of which 80% corresponding to SEK99bn were issued as covered bonds through LF Hypotek). Hence, covered bonds remain the largest source of financing in the Bank Group.

Table 105. Funding Profile (LF Bank)

Total balance	**SEK213bn**
Deposits	32%
Debt securities in issue	58%
- covered bonds	*46%*
Liabilities to credit institutions	1%
Equity	4%
Subordinated debt	1%
Other	4%

Source: LF Bank Annual Report 2013, Danske Bank Markets calculations

Cover pool, asset quality and rating

As of 31 March 2014, cover pool assets amounted to SEK126bn – SEK106bn in mortgage loans and SEK20bn in substitute collateral (80% Swedish AAA/Aaa covered bonds/20% Swedish government bonds). Apart from substitute assets, the cover pool consists only of Swedish residential mortgages (mainly single-family homes). The cover pool has a sound geographical diversification, thus reducing concentration risk in the large cities and the average loan commitment is low (SEK416,000 per end-March). The credit quality of the cover pool is strong, as reflected by LF Hypotek achieving the lowest Moody's collateral score (5.0%, 3.8% excluding minimum levels) of all Swedish covered bond issuers. The weighted average (indexed) LTV ratio is currently 63%.

To illustrate the sensitivity of LTV levels, LF Hypotek has calculated that in a stress scenario in which house prices decrease by 20% from current levels, the WA LTV ratio would increase to 67% from its current 63% (based on data available by end-March 2014).

Although the Swedish Covered Bond Act does not require mandatory OC, LF Hypotek has committed itself to an OC level of 10%. The current level of OC is 20% (nominal basis, as of 31 March 2013).

As with other Swedish covered bond issuers, asset quality should be judged by reference to the parent bank to which non-performing loans are transferred. LF Bank's overall asset quality compares favourably with peers with an impaired loans ratio of bad debt/total loan ratio of only 0.23% and loan losses of 0.08% as of 31 December 2013 (in 2012, the ratios were 0.19% and 0.06%, respectively).

Table 106. Cover Pool Info

Cover pool	**SEK126bn**
Average commitment	SEK416,000
OC (committed)	20% (10%)
WA indexed LTV	63%
WA LTV	N/A
Seasoning	61 months
NPL	None
Fixed rate-mortgages (>2Y)	42%
Interest only mortgages	67%
Geography	Only Sweden
-West Sweden	24%
- East of Sweden	24%
- North Sweden	17%
-Stockholm	15%
- Southern Sweden	10%
- Greater Gothenburg	7%
- Greater Malmoe	3%
Asset type	
-Single-family homes	77%
- Tenant owned apartments	21%
- Leisure homes	2%

Source: LF Hypotek Cover Pool data, March 2014

Nordea Hypotek

Säkerställda obligationer

Company profile

Nordea Hypotek is the third-largest mortgage lender in Sweden and grants loans to Swedish households, municipalities, municipal housing companies and corporates. Loans are mainly granted for the financing of property, agriculture and municipal activities, and are issued out of the parent bank's (Nordea Bank AB) branch network. The Finnish insurance group Sampo Oyj is the largest shareholder of Nordea, with 21% of the shares. The Swedish state sold its remaining shares in September 2013.

Nordea Bank AB (Nordea) is the leading bank in the Nordic region in terms of market value and total assets. The group has operated as *Nordea* since 2001 and targets a European cross-border operating model. The group originated with the establishment of MeritaNordbanken in 1997, which combined Merita Bank of Finland and Nordbanken of Sweden, and was completed in 2000 with the merger with Unidanmark of Denmark and acquisition of Christiana Bank of Norway. Nordea has a distinctive footprint in the Nordic area, supported by around 11 million customers, 800 branches and leading positions in retail banking, corporate finance and savings management. Furthermore, the bank has built up a presence in Estonia, Latvia, Lithuania and Russia, while its Polish activities were sold off in 2013.

The bulk of earnings comes from the core markets in the Nordic region (around 95% of the total loan portfolio). Nordea's market position differs in each geographical market. In-market consolidation is more or less complete in the Finnish market, where Nordea is the market leader with 30-35% of both household and corporate lending. Although Nordea does not have quite as high a market share in Denmark, Norway and Sweden, it still accounts for 10-25% of both household and corporate lending.

Parent bank Nordea Bank AB is rated 'Aa3'/'AA-'/'AA-' by M/S&P/F, respectively. Moody's put the rating on negative outlook in May 2014, along with 81 other European bank ratings, in order to take into account the forthcoming Bank Recovery and Resolution Directive and its implications for systemic support assumptions. In November 2012, Standard & Poor's revised the outlook to 'negative' for eight Swedish banks, including Nordea Bank AB, while affirming the 'AA-' rating. However, the covered bonds issued by Nordea Hypotek enjoy stable 'Aaa/AAA' ratings from Moody's and S&P.

Financial performance

In 2013, operating profit increased 2% to EUR4,116m. Net interest income decreased 1% compared with 2012, driven by a slight decline in lending volumes. However, net fee and commission income rose 7% and expenses decreased somewhat compared with 2012. Furthermore, net loan loss provisions fell 18% to EUR735m, corresponding to a loan loss ratio of 21bp (2012: 26bp). While provisions for future loan losses in Denmark and shipping remained at elevated levels, the losses were low in other areas.

The core tier 1 capital ratio excluding transition rules improved further in 2013 to 14.9%, up from 13.1% at end-2012. The total capital ratio excluding transition rules increased 1.9pp to 18.1%. Improved capital ratios were achieved by strong profit generation and a decrease in risk-weighted assets. Nordea's capital policy stipulates targets for the core tier 1 capital ratio (above 13%) and for the total capital ratio (above 17%) by 2015.

Table 107. Ratings (Moody's/S&P/Fitch)

Covered bond rating:	**Aaa/AAA/-**
Issuer rating:*	Aa3(n)/AA-(n)/AA-
Moody's C-score:	5.4%
Moody's TPI:	Probable-High
Moody's CB anchor	SUR + 1
S&P Category:	1
S&P ALMM risk:	Low

Source: Rating agencies, Danske Bank Markets
** Rating of Nordea Bank AB. (n) = negative outlook*

Table 108. Financial info (Nordea Group

EURm	2013	2012
Net interest income	5,525	5,563
Fees and commissions	2,642	2,468
Net gain/losses	1,539	1,774
Pre-provision income	4,851	4,934
Loan losses and provisions	735	895
Operating profit	4,116	4,039
Impaired loans ratio	1.8%	1.9%
Cost/income ratio	51%	51%
Core tier 1 capital ratio	14.9%	13.1%
Total capital ratio	18.1%	16.2%

Source: Nordea Annual Report 2013

Table 109. More info

Bond ticker:	NDASS
Web site:	*www.nordea.com*

Source: Danske Bank Markets

Business model and funding profile

As a specialist bank, Nordea Hypotek relies heavily on covered bonds which represent 71% of the funding structure. As of 31 March 2014, total wholesale funding from covered bonds was SEK320bn, of which 89% was SEK denominated, while the remainder was predominantly in EUR. Apart from this, the funding structure of Nordea Hypotek consists of subordinated debt (1%) and unsecured funding from Nordea Bank (28%).

Nordea Hypotek can issue both Swedish benchmark covered bonds (bostadsobligationer) and also has a EUR15bn EMTN programme for international funding (in any agreed currency). Private placements have also been made in NOK, USD and CHF. Nordea Hypotek has not issued EUR benchmark covered bonds since 2010.

Parent company, Nordea AB, has a broad and diversified funding structure, due to a strong and stable retail customer base and a variety of funding programmes. Nordea has taken advantage of the well-developed mortgage securities markets in Denmark and Sweden throughout the crisis. Moreover, Nordea has set as a target that the net balance of stable funding should be positive, which means that stable assets must be funded by stable liabilities (deposits and long-term bonds). As of 31 December 2013, the net balance of stable funding was EUR49.2bn. Furthermore, during 2013, Nordea had a liquidity buffer of EUR64.4bn on average, consisting of high-grade liquid securities that can be sold or used as collateral in funding operations with central banks. According to Nordea, the bank's LCR was 117% for the group as at end-2013.

Table 110. Funding Profile (parent bank)

Total balance	EUR677bn
Credit institution deposits	9%
Retail deposits	32%
Liabilities to policyholders	7%
Debt securities in issue	29%
Derivatives	10%
Subordinated debt	1%
Equity	5%
Other	6%

Source: Nordea Annual Report 2013, Danske Bank Markets calculations

Cover pool and asset quality

As of 31 March 2014, the cover pool totalled SEK435bn, consisting of mortgage loans secured by residential or commercial property and public sector loans (currently the pool contains no substitute assets, according to the Q1 14 cover pool report). However, the cover pool is dominated by single-family, residential mortgages and tenant owner rights, while the share of loans secured by agricultural and commercial property is well below the legislative limit of 10%.

Nordea Hypotek's cover pool has a current LTV of 55% and the pool has an OC of 40%. However, this is purely on a voluntary basis, as the Swedish Covered Bond Act does not require mandatory OC, nor has Nordea committed to any specific OC level.

Geographically, the cover pool is well diversified spanning the entire country of Sweden, though with an overweight in urban areas. Mortgage type is distributed 32% fixed rate and 55% amortising mortgages.

Nordea Hypotek applies conservative underwriting criteria, which for private households includes checking the household budget 'before-after' with buffer requirement and stress test including behavioural analysis. Furthermore, an individual valuation of the pledged property is performed. For corporates and municipalities, a financial analysis, including verification of key ratios and rating according to Nordea's in-house models, is performed. The pledged property is valued individually, with yearly reassessments.

Table 111. Cover Pool Info

Cover pool	SEK435bn
OC	40%
Average loan size	SEK554,000
WA LTV	-
WA Indexed LTV	55.1%
Seasoning	54 months*
NPL (>90d)	0.0%*
Fixed rate-mortgages	32%
Interest only mortgages	45%
Geography	Only Sweden
-Greater Stockholm	37%
-West Sweden	16%
-East Sweden	14%
-Greater Gothenburg	13%
Asset type	
-Single-family housing	53%
-Tenant owner rights	24%
- Multi-family housing	4%
-Associations	9%
-Public sector	7%
-Commercial	3%
-Agriculture	1%

*Source: Nordea Hypotek cover pool data, March 2014. * Source: Moody's performance overview, December 2013.*

SCBC (SBAB Bank)

Säkerställda obligationer

Company profile

SBAB Bank (SBAB) is wholly owned by the Swedish government and was established in 1985 with a mandate to improve competition in the residential mortgage market. For the purpose of issuing covered bonds, SBAB has created a wholly-owned dedicated covered bond subsidiary, SCBC (The Swedish Covered Bond Corp.). In March 2006, SCBC was licensed by the Swedish FSA to issue covered bonds pursuant to the Swedish Covered Bond Act. It issued its first covered bond in October 2006. SCBC itself will not issue loans but acts as a restricted issuance vehicle with SBAB Bank as single creditor. SBAB has agreed that all its claims rank below those from SCBC's covered bondholders, thus isolating covered assets in case of insolvency. SBAB is Sweden's fifth-largest mortgage institution and has a market share of 7.3% (end-2013) within residential mortgages.

In 2011, an extraordinary general meeting resolved that SBAB would begin conducting banking activities and the name was changed to SBAB Bank. SBAB has since received a full banking license and in 2012 a new strategy was rolled out, entailing a division of products into three areas: loans, savings and payments. The Lending area offers residential mortgages and personal loans to private individuals, and property loans to property companies and tenant-owner associations. Savings offers savings accounts and mutual funds to private individuals, and savings accounts to corporate clients and tenant-owner associations. The Payments product area is being launched at an initial stage in 2014 and will offer simple payment and card solutions for private individuals.

SBAB's status as a government-related entity is positive from a credit perspective, as it increases the likelihood of government support. While the Reinfeldt government has proposed privatising SBAB along with several other state-owned companies, the parliament voted to reject the sale in March 2011 and there seems to be no imminent plans on a change in ownership. In that regard, it should also be noted that SBAB senior debt holders benefit from a government ownership clause, providing an option to put back notes with the issuer, should government ownership fall below 51%. A change of ownership would have to address this issue, otherwise the debt could become due immediately, potentially triggering a multi-notch downgrade, according to S&P. SCBC has no issuer rating, though SBAB Bank is rated A2 (negative)/A (negative) by Moody's/S&P, respectively. In June 2014, Moody's affirmed the senior rating, taking it off negative watch. According to Moody's, the bank's low profitability and limited capital generating ability are in line with its limited credit risk as a mortgage lender.

Financial performance

In 2013, SBAB's operating profit amounted to SEK1,085m (2012: SEK500m), driven primarily by an improved net result from financial instruments. The cost/income ratio decreased to 43% (2012: 58%), mainly due to higher income. Loan losses remained low during the year. Return on equity was 9.5% (4.2). SBAB's owner has decided on a profitability target whereby the return on equity should be at least 10%. Under the reported transition rules, the Core Tier 1 (CET1) ratio was 6.9% at the end of 2013.

Table 112. Ratings (Moody's/S&P/Fitch)

Covered bond rating:	**Aaa/AAA/-**
Issuer rating:	A2(n)/A(n)/-
Moody's C-score:	7.1%
Moody's TPI:	Probable-High
Moody's CB anchor:	SUR +1
S&P Category:	1
S&P ALMM risk:	Moderate

Source: Rating agencies, Danske Bank Markets
'n': negative outlook

Table 113. Financial information (SBAB)

SEKm	2013	2012
Net interest income	1,963	1,941
Fees and commissions	-109	-95
Net gain/losses	39	-601
Pre-provision income	1,078	520
Loan losses and provisions	-7	20
Operating profit	1,085	500
Loan loss provision ratio	76%	81%
Cost/income ratio	43%	58%
Core capital ratio*	6.9%	6.9%
Total capital ratio*	10.5%	11.5%

Source: SBAB Annual Report 2013.
**With transitional regulations*

Table 114. More info

Bond ticker:	SBAB
Web site:	*www.sbab.se*

Source: Danske Bank Markets

Business model and funding profile

SBAB Bank's long-term funding operations are conducted partly through the senior unsecured market through its Parent Company and partly the covered market through its wholly-owned subsidiary SCBC. SCBC has three funding programmes: a Swedish covered bond programme with no fixed limit, a euro medium-term covered note programme limited to EUR10bn and an Australian covered bond issuance programme limited to AUD4bn.

By end-2013, debt securities issued by the SBAB Group accounted for SEK296bn. Of this amount, 31% were Swedish covered bonds and 21% were EUR-covered bonds. Furthermore, some 25% of funding had been raised as unsecured funding through SBAB's EMTN programme.

Retail deposits saw further solid growth in 2013 (up from SEK9bn in 2011, to SEK28bn in 2012 and SEK46bn by end-2013). Over the past couple of years, SBAB has build up its products for the retail banking segment and continues to offer attractive deposit rates in the retail market, in order to implement a funding strategy more focused on deposits. Hence, the reliance on wholesale funding has been reduced, though it remains the dominant source of capital.

SBAB/SCBC launched its last EUR benchmark covered bond in April 2011, which was a EUR1bn 5Y issue.

Table 115. Funding Profile (SBAB)

Total balance	**SEK335bn**
Deposits	14%
Debt securities in issue	73%
- covered bonds	*46%*
Liabilities to credit institutions	5%
Derivatives	3%
Subordinated debt	2%
Equity	3%
Other	1%

Source: SBAB Bank Annual Report 2013

Cover pool and asset quality

As of 31 May 2013, the cover pool was SEK210bn, comprising no substitute assets. Single family houses dominate the cover pool (41%), followed by tenant owner rights (27%), tenant owner associations (21%) and multi-family houses (10%) and public sector collateral (1%). The assets have a reasonable geographical spread throughout Sweden, with a 64% concentration in the economic hubs (Stockholm, Gotherburg and Malmoe). The average indexed LTV ratio of the pool is 59%. The share of amortisation mortgages is 43%, while the share of fixed-rate loans is 51% (as a share of the total number of loans). The credit quality is high, as none of the loans in the cover pool are in arrears (loans which are more than 30 days in arrears are normally repurchased by SBAB).

Table 116. Cover Pool Info

Cover pool	**SEK210bn**
Average loan size	SEK588,000
WA LTV	-
WA Indexed LTV	59.1%
Seasoning	55m*
NPL	None
Fixed-rate loans	51%
Interest only loans	57%
Geography	Only Sweden
-Greater Stockholm	47%
-South Sweden	17%
-Greater Malmoe	9%
-West Sweden	8%
-Greater Gotherburg	8%
- East Sweden	8%
Asset type	
-Single-family houses	41%
-Tenant owner rights	27%
-Tenant owner associations	21%
-Multi-family	10%
- Public sector	1%

*Source: SBAB National Label report 30 April 2014. *Source: Moody's performance overview December 2013.*

SEB

Säkerställda obligationer

Company profile

Skandinaviska Enskilda Bank (SEB) is the third largest of the Swedish banks (after Nordea and Handelsbanken) measured by total assets and offers a full range of retail, commercial, investment banking and insurance products. The bank has some four million private clients, 400,000 SME clients and 2,900 corporate and institutional clients. SEB holds a 14.5% market share in Sweden based on lending to Swedish households and a slightly higher market share of 15.5% within lending to Swedish corporate clients. SEB generates more than half its operating profit in Sweden, with the remainder split between Germany, Denmark, Norway and the three Baltic countries. In addition, the group retains a strong position in offering capital market-related services to large corporate and institutional clients and is a leading provider of life and unit-linked pension products in the Swedish market.

Fundamentally, SEB is more of a commercial bank than any of its large Scandinavian peers, with corporate lending accounting for a greater (50%) proportion of total lending than its competitors. SEB is also a leading Nordic asset manager. Its main shareholders include Investor AB (‘A1/AA-’), which holds a 20.8% equity stake (and is controlled by the Wallenberg family), and the Trygg Foundation, with a 6.6% interest. We regard SEB’s shareholder composition as credit positive.

SEB is currently rated A1 (negative), A+ (negative) and A+ (stable) by M/S&P/F, respectively. Since April 2014, SEB has been on negative outlook by S&P along with other European banks, reflecting the possible removal of government support by year-end 2015 (previously, the negative outlook reflected S&P’s view that economic risks in Sweden had increased). Moody’s is also reviewing its systemic support assumptions and put the rating on negative outlook in May 2014, along with 81 other European banks.

Financial performance

SEB Group’s operating profits increased by 27% in 2013 to SEK18,127m. Net interest income was up 7%, due to volume growth and partially because margins have remained unchanged even though short-term interest rates decreased. Average loan and deposit volumes grew by 4 and 7% during the year. Fees and commissions were also some 8% higher, as the average volumes and turnover on the Nordic stock exchanges increased. Total operating expenses decreased by 6% compared to 2012 to SEK22,287m.

As of year-end 2013, the Tier 1 capital ratio was 11.8% (2012: 11.7%) and the total capital ratio was 11.7% (2012: 11.5%), adjusted for the supervisory Basel II transitional rules.

Table 117. Ratings (Moody’s/S&P/Fitch)

Covered bond rating:	**Aaa/-/-**
Issuer rating:	A1(n)/A+(n)/A+
Moody’s C-score:	7.7%
Moody’s TPI:	Probable-High
Moody’s CB anchor:	SUR + 1

Source: Rating agencies, Danske Bank Markets
‘n’ = negative outlook

Table 118. Financial information (SEB Group)

SEKm	2013	2012
Net interest income	18,827	17,635
Fees and commissions	14,664	13,620
Net gain/losses	4,052	4,579
Profit before loan losses	19,266	15,171
Net loan losses	1,155	937
Operating profit	18,127	14,235
Net level of impaired loans	0.17%	0.28%
Cost/income ratio	54%	61%
Tier 1 capital ratio*	11.8%	11.7%
Total capital ratio*	11.7%	11.5%

*Source: SEB Annual Report 2013. *Basel II Transitional rules*

Table 119. More information

Bond ticker:	SEB
Web site:	www.sebgroup.com

Source: Danske Bank Markets

Business model and funding profile

SEB's overall funding strategy is to utilise both the covered bond and senior unsecured bond markets for long maturities and commercial paper programmes for the shorter maturities. Furthermore, SEB strives to issue more long-term debt than what matures during a year, which has been accomplished for five consecutive years. Due to the growth in Swedish household mortgage volumes, SEB has focused primarily on covered bonds as a funding source, which accounts for 41% of debt securities in issue by end-2013.

For covered bonds, SEB has acquired SEB Bolån's licence to issue under the terms of the Swedish Covered Bond Act. Previously issued Swedish domestic bonds have been converted into covered bonds as the Act requires. Covered bonds are mainly issued out of the parent bank (SEB AB) in the form of Swedish *säkerställda obligationer* but SEB's German subsidiary (SEB AG) also issues covered bonds in the form of both mortgage Pfandbriefe (public Pfandbriefe are in run-off mode).

As of March 2014, SEB Group's total funding base amounted to SEK1,854bn, of which wholesale funding constituted SEK807bn (44%). Of wholesale funding, 36% was stemming from SEB's CP/CD programmes, while 38% were mortgage covered bonds issued through SEB AB. The remainder was split on senior debt (20%), mortgage covered bonds issued through SEB AG and subordinated debt (2%). Besides wholesale funding, corporate and public sector deposits are a key funding source, amounting to 29% of total funding, whereas funding from private individuals amounts to 12%.

The Group's loan-to-deposit ratio remains at a comfortable level and amounted to 142% at year-end (2012: 134%).

Table 120. Funding Profile (parent bank)

Total balance	SEK2,485bn
Deposits, credit institutions	7%
Deposits, public	34%
Debt securities	29%
- of which covered bonds	*12%*
Financial liab. at fair value	9%
Subord. debt	1%
Liabilities to policyholders	13%
Other	3%
Equity	5%

Source: SEB Annual Report 2013, Danske Bank Markets calculations

Cover pool and asset quality

By end-March 2014, the cover pool comprised assets worth a total of SEK440bn. The cover pool contains no substitute assets and consists entirely of Swedish residential mortgage loans, mainly single family houses (59%). The weighted-average indexed LTV ratio is 60% and no loans have an LTV above 75% (80% of loans have LTV below 50%). As of March 2014, the total amount outstanding covered bonds was SEK300bn, yielding a nominal OC of 46%. Loans in arrears (more than 60 days) in the cover pool totalled only 0.08%.

In terms of loan types, the cover pool is evenly split between amortizing and interest-only mortgages. Most of the loans are 3M floating rate (63%), while the remainder comprises loans with a interest reset period below 2 years (25%), between 2 and 5 years (11%) and equal to or longer than 5 years (1%).

Covered bonds issued by SEB enjoy a stable 'Aaa' rating from Moody's and given the issuer's senior unsecured rating of A1, a TPI of 'Probable-High', the TPI leeway is 3 notches. The collateral score assigned by Moody's is 7.7%, which is a bit high relative to Swedish peers (i.e. slightly lower collateral quality).

Table 121. Cover Pool Info

Cover pool	SEK440bn
OC	46%
Average loan size	SEK666,000
WA LTV	-%
WA Indexed LTV	60%
NPL*	0.08%
Fixed rate-mortgages	36%
Interest-only loans	50%
Geography	Only Sweden
-Greater Stockholm	43%
-Gothenburg region	16%
- East Sweden	13%
- South Sweden	10%
-Malmoe region	8%
-Other	18%
Asset type	
-Single-family	59%
-Multi-family	15%
-Tenant owned	26%

Source: SEB Cover Pool information, Q1 14
** Loans more than two months in arrears*

Stadshypotek

Säkerställda obligationer

Company profile

Stadshypotek is a wholly-owned subsidiary of *Svenska Handelsbanken* (Handelsbanken). The two largest shareholders are the bank's own profit-sharing foundation, the Oktogonen Foundation and Industrivärden (both with 10% of the shares). Established in 1871, Handelsbanken provides a full range of retail, commercial and investment banking services through its extensive branch network in Sweden, other Nordic countries, the UK and the Netherlands. Based on total assets, Handelsbanken is the second-largest Swedish bank after Nordea. The bank offers universal banking in all of the Nordic countries (Sweden, Norway, Denmark and Finland). The operations outside Sweden continue to grow in importance and now account for around a third of the loan book. Handelsbanken has identified scope for growth in the UK and the Netherlands and therefore aims to build up its presence there further by growing organically. Currently, the UK operation accounts for 7% of total lending after it grew 13% measured by average lending. Handelsbanken's goal is to have higher profitability than the average of its competitors through having more satisfied customers and lower costs (including loan losses). This goal has been achieved for 42 consecutive years. In total, Handelsbanken has more than 800 branches in 24 countries. It has a distinct culture with no centralised marketing and no budgets. Instead, it uses internal and external benchmarking extensively.

Handelsbanken has a domestic market share of 25% in household mortgage lending (through Stadshypotek, which was acquired in 1996) and corporate lending. In 2007, the bank sold its life insurance operations (SPP) to Storebrand, which leaves Handelsbanken Liv as the only life insurance arm of the group. The bank has a market share of around 20% of total household lending and deposits in Sweden.

Financial performance

Over the course of 2013, Handelsbanken improved its operating profit by 6% to SEK18.1bn (2012: SEK17.1bn), which was another record high. Furthermore, profit after tax rose 2% to SEK14.3bn. One key driver behind the steady improvement in profitability was the 2% rise in net interest income, which was driven by a 17% increase in the home markets outside Sweden, where net interest income actually decreased by 2% due to lower interest rates. Net fee and commission income rose 6% to SEK7.8bn (2012: SEK7.4bn), chiefly due to higher fund management commissions and increased advisory income. Net gains/losses on financial transactions increased 21% to SEK1.4bn (2012: SEK1.1bn), mainly as a result of increased business volumes. While total expenses rose 2% to SEK17.1bn (2012: SEK16.7bn), the cost/income ratio improved slightly to 47.0%.

Credit quality remained sound with only 0.18% impaired loans, which is unchanged from 2012. Capitalisation continued to improve, with Handelsbanken reporting a common equity tier 1 (CET1) ratio of as much as 19.2% in Q4 13 under Basel II. The difference between transition figures (CET1 ratio of 8.8%) and full Basel II figures is relatively large, reflecting Handelsbanken's significant presence in the residential mortgage market with low risk-weights in the Basel II approach as well as the extensive use of collateralised lending. Consequently, the leverage ratio (tier-1 capital to total assets) is not high at 4.0% but above the expected minimum requirement of 3%.

Table 122. Ratings (Moody's/S&P/Fitch)

Covered bond rating	Aaa/-/-
Issuer rating	Aa3(n)/AA-(n)/AA-
Moody's C-score (SE/NO)	7.1% / 7.8%
Moody's TPI (both)	Probable-High
Moody's CB anchor (both)	SUR + 1

Source: Rating agencies, Danske Bank Markets
'n' = negative outlook

Table 123. Financial information (Handelsbanken)

SEKm	2013	2012
Net interest income	26,669	26,081
Fees and commissions	7,804	7,369
Net gain/losses	1,357	1,120
Pre-provision income	19,266	18,362
Loan losses and provisions	1,195	1,251
Operating profit	18,088	17,108
Post tax profit	14,295	14,038
Impaired loans	0.18%	0.18%
Cost/income ratio	47%	48%
Core Tier 1 capital ratio*	19.2%	17.9%
Total capital ratio*	21.6%	20.7%

Source: Handelsbanken annual report 2013.
**Basel II*

Table 124. More information

Bond ticker:	SHBASS
Web site:	*www.handelsbanken.se*

Source: Danske Bank Markets

Business model and funding profile

Deposits accounted for slightly more than a third of total funding at the end of 2013, while exactly half of the funding is obtained through the debt market. The reason for this relatively high wholesale funding dependence is the financing of mortgages through issuance of AAA-rated covered bonds through Stadshypotek but also Handelsbanken's general belief that senior unsecured debt is an important funding source despite the lower pricing on covered bonds. As of end-2013, long-term funding consisted of covered bonds (63%), senior bonds (35%) and subordinated debt (2%). Of the covered bonds issued by Stadshypotek, most are domestic SEK benchmarks (73%), while benchmark covered bonds issued in other currencies constitute 19% of the total amount of debt issued.

Handelsbanken has a liquidity reserve exceeding SEK800bn by end-2013, with SEK368bn consisting of liquid assets invested with central banks, SEK90bn in liquid securities and the remainder mainly being an unutilised issue amount for covered bonds at Stadshypotek. According to Handelsbanken, the total liquidity reserve covers the Bank's liquidity requirements in a stressed scenario with an outflow of deposits for more than two years without access to new market funding.

In late 2011, Stadshypotek added a second cover pool to its covered bond business. While the original cover pool comprised all Swedish assets, the new cover pool comprises solely Norwegian assets. So far, the Norwegian cover pool has been used solely for the backing of NOK-denominated covered bonds (as of March 2014, five NOK floating-rate covered bonds totalling NOK12.8bn in notional have been issued).

Cover pool and asset quality

The Swedish pool

As of Q1 14, the Swedish cover pool amounted to SEK612bn, out of which SEK5bn is cash held in a locked account. The mortgage pool consists mainly of residential mortgages (96%) but also holds some public sector (2%), agriculture & forestry (1%) and commercial loans (1%). All loans are issued by Handelsbanken's branch network. By type of property, single-family houses account for 46% of total loan collateral, followed by tenant-owner rights and associations 37%. The weighted average LTV ratio of the loan pool is 50%, and the cover pool has a fairly even mix between fixed and floating rate loans, at 54% fixed rate loans (i.e. loans with a reset period of minimum one year).

The Norwegian pool

Handelsbanken's Norwegian cover pool amounted to NOK14bn as of Q1 14, comprising solely Norwegian residential assets (no substitute assets). A little more than half of the assets were located in Ostlandet (56%) followed by Vestlandet (33%) and Trondelag (5%). All loans in the pool carry a variable rate – that is, an interest reset period of less than a year. The pool has a weighted average LTV of 55%.

Table 125. Funding profile 2012 (Handelsbanken)

Total balance	SEK2,490bn
Retail deposits	33%
Interbank	7%
Debt securities	46%
Subordinated debt	1%
Equity	4%
Other	9%

Source: Danske Bank Markets, Handelsbanken annual report 2013

Table 126. Cover pool info (Sweden)

Cover pool	SEK612bn
(of which substitute assets*)	SEK 5bn
OC	10%
Average loan size	SEK649,400
WA LTV	50%
WA Seasoning**	40 months
NPL	None
Fixed-rate loans (reset ≥ 1y)	54%
Interest-only loans	52%
Geography	100% Sweden
-Greater Stockholm	40%
-East Sweden	15%
-West Sweden	13%
-Greater Gothenburg	10%
-North Sweden	10%
-South Sweden	8%
-Greater Malmoe	5%
Asset type	
-Single-family home	46%
-Tenant owner rights	20%
-Tenant owner associations	17%
-Multi-family housing	13%
-Public	2%
-Commercial	1%
-Forestry & agriculture	1%

Source: Stadshypotek, Danske Bank Markets
** Cash on a locked account.*
*** Upon interest reset a loan is considered 'new'.*

Table 127. Cover pool info (Norway)

Cover pool	NOK14.0bn
OC	10%
Average loan size	NOK2,723,300
WA LTV	55%
WA Seasoning*	21 months
Fixed-rate loans (reset ≥ 1y)	0%
Interest-only loans	42%
Geography	100% Norway
-Ostlandet	56%
-Vestlandet	33%
-Trondelag	5%
Asset type	
-Single-family home	68%
-Tenant-owner rights	19%
-Tenant owner associations	13%

Source: Stadshypotek, Danske Bank Markets
** Upon interest reset, a loan is considered 'new'.*

Swedbank Hypotek

Säkerställda obligationer

Company profile

Swedbank Hypotek (also known as Swedbank Mortgage) is a wholly-owned subsidiary of Swedbank. Originating in 1893, Swedbank Hypotek is the oldest and largest mortgage institution in Sweden, with a market share of 25% (source Interim Report Q1 14). Swedbank Hypotek is a specialist bank, granting loans secured by collateral in residential properties to municipalities or other lenders with local government guarantees and to agricultural and forestry businesses under the name Jordbrukskredit.

Swedbank is Sweden's fourth-largest banking group in terms of assets. The bank was established in 1997 as the result of a merger between Sparebanken Sverige and Föreningsbanken under the combined name FöreningsSparbanken. In 2006 the name was changed to Swedbank. Swedbank operates the widest distribution network in Sweden and enjoys very strong domestic market shares in retail banking, financial services (particularly in mortgage finance through Swedbank Hypotek), asset management (through Robur) and retail deposits. Swedbank is relatively strong in rural areas.

Sweden is Swedbank's largest market but it also has a strong presence in Estonia, Latvia and Lithuania, as well as being established Norway, Finland, Denmark, the US, China and Luxembourg (Swedbank discontinued its remaining operations in Ukraine and Russia in April 2013). Swedbank has a client base of some 556,000 corporate customers and almost eight million private clients, over 50% of whom are resident in the Baltic countries. Swedbank is organised in four segments (Swedish Banking, Large Corporates and Institutions, Baltic Banking and Group Functions & Other) of which Swedish Banking was the most significant contributor to the group's total income (59% in 2013).

Swedbank is rated 'A1'/'A+' (negative) /'A+' by M/S&P/F. The negative outlook from S&P reflects a potential reduction in government support assumptions due to the bail-in framework. Key rating drivers include Swedbank's strong position in the Swedish retail market, its earnings capacity and strong asset quality as well as solid capitalisation, though the rating agencies also take note of the reliance on market funding. Swedbank Hypotek enjoys parental support from Swedbank through a full, irrevocable and unconditional guarantee, and the two entities are similarly rated (though Swedbank Hypotek does not have an issuer rating from Fitch).

Financial performance

Swedbank's profitability has significantly improved in recent years, and in 2013 Swedbank reported a net profit of SEK16.1bn (2012: SEK15.7bn) corresponding to a return on equity of more than 14.9% after tax. The cost income ratio (before loan losses) also continued to improve to 46.1% in 2013 from 46.7% in 2012 and as such compares well with Nordic peers. Problem loans fell to 0.6% of the loan portfolio and only 0.09% of mortgages are more than 60 days overdue. Swedbank reported a Basel II Common Equity Tier 1 (CET1) ratio of 18.7% and an expected Basel III CET1 of 18.3% at the end of 2013.

Table 128. Swedbank mortgage ratings (M/S&P/F)

Covered bond ratings	Aaa/AAA/-
Issuer rating:	A1/A+(n)/-
Moody's C score:	6.3%
Moody's TPI:	Probable-High
Moody's CB anchor:	SUR+1
S&P category:	1
S&P ALMM risk:	Low

Source: Rating agencies, Danske Bank Markets
'n' = negative outlook

Table 129. Financial information (group)

SEKm	2013	2012
Net interest income	22,029	20,361
Fees and commission	10,132	9,614
Net gains/losses	1,484	3,073
Pre-provision income	20,290	19,708
Loan losses and provision	935	242
Operating profit	19,355	19,466
Impaired loans	0.55%	1.05%
Cost/income ratio	45%	46%
CET1 (Basel 3)	18.3%	15.4%

Source: Swedbank Annual Report 2013, Danske Bank Markets

Table 130. More information

Bond ticker:	SWEDA
Website:	www.swedbank.com

Source: Danske Bank Markets

Business model and funding profile

As a specialist bank, Swedbank Hypotek relies heavily on covered bonds for funding. For this, Swedbank Hypotek has four main programmes: (1) a domestic bond programme, (2) an EMTN programme, (3) a Swedish MTN programme and (4) a US covered bond programme (under rule 144a of the US Securities Act). Benchmark bonds are issued in SEK, EUR, USD and CHF but Swedbank Hypotek also does private placements in a variety of currencies. As of Q1 14, total outstanding covered bonds amounted to SEK486bn, distributed as 63% in SEK, 26% in EUR, 6% in USD and 5% in other currencies.

Swedbank is a retail-oriented bank with a substantial domestic branch network providing access to a relatively stable source of retail deposits. Hence, deposits account for approximately one-third of total funding in 2013. More than half of Swedbank's lending consists of Swedish mortgages, which are primarily financed by issuance of covered bonds (79% of Swedbank's long-term funding as of Q1 14). Swedbank's senior debt issuance is determined by the bank's liquidity needs and the buffer it wants to maintain in its cover pool in the form of overcollateralisation (OC) to manage fluctuations in housing prices.

As an extra capital buffer, Swedbank has a liquidity reserve of SEK243bn (as of Q1 14), consisting mainly of cash and holdings in central banks (52%), securities issued or guaranteed by sovereigns, central banks or multilateral development banks (23%) and covered bonds (23%). The rating requirement is 'AA-', and 93% of the securities are triple-A rated.

Table 131. Funding profile (Swedbank)

Total balance	**SEK1,711bn**
Debt securities	43%
- covered bonds	*28%*
Deposits	36%
Interbank	7%
Equity	6%
Other	8%

Source: Swedbank Annual Report 2013, Danske Bank Markets

Cover pool and asset quality

As of 31 March 2014 the cover pool totalled SEK740bn and comprised solely Swedish assets. Swedbank Hypotek focuses mainly on residential lending, which accounts for 91% of the portfolio. According to Swedish covered bond legislation, a maximum of 10% of commercial assets is allowed in the cover pool. Currently, some 7% of the cover pool consists of commercial loans (forestry and agriculture). Geographically, the pool is more or less 50/50 between southern and central Sweden. The pool has a weighted-average seasoning of 66 months, which is fairly high. Loans which are more than 60 days past their due date are not eligible for the cover pool. The proportion of loans which are up to 60 days past their due date is 0.09%.

Regarding OC, Swedbank Hypotek reports a current level of 49%, which is comfortably above the 2.5% level required by Moody's to sustain the current (stable) Aaa rating on the covered bonds (all else being equal). Moody's assigns a collateral score of 6.4%, which puts the cover pool of Swedbank Mortgage in the middle of the field relative to its peers in terms of asset quality. In August 2012 Moody's revised the Timely Payment Indicator (TPI) to 'Probable-High' from 'Probable', in line with revisions on six other Swedish covered bond programmes. According to Moody's, the revisions reflect the relative strength of Swedish covered bonds. Under Moody's updated methodology, the relevant covered bond anchor rating is equivalent to the senior unsecured rating plus one notch, resulting in a TPI leeway of three notches. Hence, the covered bonds issued by Swedbank Hypotek have considerable buffer in case of an issuer downgrade. Besides the triple-A rating from Moody's, they are also rated AAA (stable) by Standard & Poor's.

Table 132. Cover Pool Info

Cover pool	**SEK740bn**
Avg. loan size	SEK474,000
OC	48.6%
WA LTV	-
WA Indexed LTV	57%
Seasoning	66 months
NPL (>90d)	None
Geography	Sweden only
-South	49%
- Middle (incl. Stockholm)	44%
- North	7%
Interest only loans	53%
Fixed rate loans (reset >1Y)	38%
Asset type	
-Residential	91%
-Public	1%
-Forest&agriculture	7%
Of residential loans:	
-Single-family housing	58%
-Tenant owner rights	17%
-Tenant owner associations	11%
-Multi-family	5%

Source: Swedbank Hypotek, Danske Bank Markets Data as per 31 March 2014.

Covered Bond Frameworks

Legal overview

In this appendix, we provide an overview of the covered bond frameworks in the following countries in Europe and Northern America:

- Canada (Canadian Registered Covered Bond Programs' Legal Framework)
- Denmark (Realkreditobligationer)
- Denmark (Særlig dækkede obligationer/Særligt dækkede realkreditobligationer)
- Finland (Kiineistövakuudellinen joukkovelkkakirjalaina)
- France (Obligations Fonciéres)
- France (Obligation de Financement de l'Habitat)
- France (CRH)
- Germany (Pfandbriefe)
- Greece (legally based covered bonds)
- Holland (legally based covered bonds, individual contracts)
- Ireland (Asset Covered Securities)
- Italy (Obbligazioni Bancarie Garantite)
- Luxembourg (Lettre de garge)
- Norway (Obligasjoner med fortrinnsrett)
- Portugal (Obrigações)
- Spain (Cédulas)
- Sweden (Säkerställda obligationer)
- UK (Regulated Covered Bonds, individual contracts)
- USA (individual contracts)

	Canada	Denmark
	Covered bonds	**Realkreditobligationer (RO)**
Framework	Legal	Legal
Type of covered bonds	Residential	Mixed
Specialist banking	No	Yes
Cover assets	Residential Substitution assets (10%)	Residential Commercial Public loans Substitution assets (15%) Hedging contracts
Ongoing valuation	Appraised market value at origination, adjusted on quarterly basis using house price index	No, only up-front
Required O/C	Subject to the asset percentage from the asset coverage test	8% of RW assets
Asset segregation	The covered bond collateral is segregated from the assets of the issuer in the event of insolvency or bankruptcy of the issuer and the pool of covered bond collateral is owned by a bankruptcy-remote special purpose vehicle which guarantees the bonds (the guarantor entity). In the event the issuer defaults on bond payments, the bondholders can look to the guarantor entity and the covered bond collateral for payment	Segregation, bankruptcy remote per se via capital centres. All assets on balance sheet are cover assets, including hedging contracts.
Matching requirements	Asset coverage tests are performed to ensure that the adjusted value of mortgages more than covers the outstanding principal. Monthly valuation calculations to be disclosed in cover pool report. Hard or soft bullet repayment structure permitted.	Interest rate/currency risk 1% and 0.1% of capital base, respectively. Future payments to investors must be covered by payments from borrowers received in advance or the capital base. Callable loans must be funded by callable bonds with matching cash flows. Interest rate risk is tested in scenarios of yield curve shifts and yield curve twist (of +/- 100bp. (Note: It is assumed that specialist banks use the specific principle even though they are allowed to use the general principle. In practice, they use the specific principle.)
Post bankruptcy procedures	Cover pool becomes static, no acceleration of payments. Following issuer default, the guarantor entity must perform monthly amortization tests.	Cover pools become static, no acceleration of payments. A trustee will be appointed by the FSA to manage all financial transactions. The trustee has the option to issue mortgage bonds to refinance maturing mortgage bonds and subordinated debt to raise liquidity.
Treatment of derivatives	Termination of contracts would only occur if the guarantor entity defaults. The payment structure of a GLP usually ranks derivative counterparties higher bondholders.	Derivatives used for hedging of interest and currency risk have same preferential rights as covered bond investors.
LTV residential	80%	80%
LTV commercial	-	60%
Accounting of loans in arrears	No recognition of loans more than three months in arrears	Yes
Fulfils UCITS/CRD	No/No	Yes/No

Source: Danske Bank Markets

	Denmark	Finland
	Særligt dækkede obligationer & realkreditobligationer (SDRO)	**Kiineistövakuudellinen joukkovelkkakirjalaina**
Framework	Legal	Legal
Type of covered bonds	Mixed	Mixed
Specialist banking	No (SDO), yes (SDRO)	No
Cover assets	Residential Commercial Public loans Substitution assets (15%) Hedging contracts	Residential Commercial Public loans Substitution assets (20%) Hedging contracts
Ongoing valuation	Residential: every third year Commercial: every year	Regular valuation check
Required O/C	8% of RW assets (mortgage banks). No O/C required (banks)	No nominal O/C required; however, 2% on NPV basis
Asset segregation	Segregation, bankruptcy-remote per se via capital centres. All assets on balance are cover assets, including hedging contracts (specialist banks). Cover register (separate registers for public and mortgage) including hedging contracts (banks).	Cover register (joint registers for public and mortgage) including hedging contracts.
Matching requirements	The matching requirements depend on 1) whether the covered bond is an SDO or an SDRO, and 2) whether the issuer uses the specific or general principle. In all cases, however, strict matching requirements and several stress/scenario tests apply regarding interest rate risk, currency risk and liquidity risk.	Nominal and NPV coverage is required. The average residual maturity of the covered bonds cannot exceed the average residual maturity of the assets. The interest payable in any given 12-month period to the bondholders must not exceed the interest received from the assets. Any currency mismatch must be hedged
Post bankruptcy procedures	Cover pools become static, no acceleration of payments. An administrator will be appointed by the FSA to manage all financial transactions. The administrator has the option to issue mortgage bonds to refinance maturing mortgage bonds and subordinated debt to raise liquidity.	Cover pool becomes static, no acceleration of payments. An administrator will be appointed by the FSA to manage all financial transactions.
Treatment of derivatives	Derivatives used for hedging of interest and currency risk have same preferential rights as covered bond investors.	Derivatives used for hedging of interest and currency risk have same preferential rights as covered bond investors.
LTV residential	80%	70%.
LTV commercial	60% (70% if sufficient guarantee)	60%
Accounting of loans in arrears	Yes	Yes
Fulfils UCITS/CRD	Yes/Yes	Yes/Yes

Source: Danske Markets

	France	France
	Obligations Fonciéres	**Obligation de Financement de l'Habitat**
Framework	Legal	Legal
Type of covered bonds	Mixed	Residential
Specialist banking	Yes	Yes
Cover assets	Residential Commercial Public loans Substitution assets (15%) Hedging contracts	Residential Substitution assets (15%) Hedging contracts
Ongoing valuation	Every year	Indexed house price index
Required O/C	By law 5%	By law 5%, contractual OC often higher (standard 8.1%)
Asset segregation	Asset segregation, bankruptcy-remote subsidiary per se via SCF. All assets on SCF's balance sheet are cover assets.	Asset segregation, bankruptcy-remote subsidiary per se via SCF. Equitable assignment to SFH, assets remain on parent bank's balance.
Matching requirements	OC with quarterly reporting, 180-day liquidity needs coverage (which can no longer be covered via an intra-group liquidity line) and ability to repo own issuances, controlled ALM. New maturity test has been introduced, stating that the remaining average life of the cover assets cannot exceed the remaining average life of the outstanding covered bonds by more than 18 months. The requirement only applies strictly to the share of the cover pool making up the legal minimum 105% coverage.	OC with quarterly reporting, 180-day liquidity needs coverage (which can no longer be covered via an intra-group liquidity line) and ability to repo own issuances, controlled ALM. New maturity test has been introduced, stating that the remaining average life of the cover assets cannot exceed the remaining average life of the outstanding covered bonds by more than 18 months. The requirement only applies strictly to the share of the cover pool making up the legal minimum 105% coverage.
Post bankruptcy procedures	SCF is bankruptcy remote from parent bank (which acts as asset originator and servicer). If the SCF is declared bankrupt, the entire SCF becomes static. No further claim against parent bank if cover assets prove insufficient to satisfy bondholders' claims. However, if the SCF becomes insolvent and the parent company is a going concern, the French banking regulators may exert pressure on the holding company to provide support.	SFH is bankruptcy remote from parent bank (which acts as asset originator and servicer). If the SFH is declared bankrupt, the SFH becomes static. No further claim against parent bank if cover assets prove insufficient to satisfy bondholders' claims. However, if the SFH becomes insolvent and the parent company is a going concern, the French banking regulators may exert pressure on the holding company to provide support.
Treatment of derivatives	Derivatives used for hedging of interest and currency risk have same preferential rights as covered bond investors.	Derivatives used for hedging of interest and currency risk have same preferential rights as covered bond investors.
LTV residential	60% (80% if 60-80% is non-privileged debt)	80% (loans with LTV levels of up to 100% are allowed in the cover pool, but in the ACT a 80% LTV ratio cut-off is applied)
LTV commercial	60%	-
Accounting of loans in arrears	Yes	No recognition or haircut (30% in the amortisation test)
Fulfils UCITS/CRD	Yes/Yes	Yes/Yes

Source: Danske Markets

	France	Germany
	CRH	**Pfandbriefe**
Framework	Legal	Legal
Type of covered bonds	Residential	Mortgage Public Ships
Specialist banking	Yes	No
Cover assets	Residential Substitution assets are not allowed	Residential Commercial Public loans Substitution assets (20% mortgage, ships) Substitution assets (10% public) Hedging contracts (12% NPV basis)
Ongoing valuation	Regular inspections by CRH	Every two years
Required O/C	Min. 25% (plus CRH's equity)	2% on NPV basis, though the German regulator may unilaterally increase the minimum amount of OC required above this level for a given covered bond programme.
Asset segregation	The housing loans refinanced by CRH remain on the banks' balance sheets. However, in the event of a borrower default, the loans will be transferred to CRH.	Cover register (separate registers for public and mortgage) including hedging contracts.
Matching requirements	Direct matching of both average life and present value between the pledged portfolio and the bonds. Moreover, the average interest rate on the pledged portfolio must at least be equal to that of the bonds.	Coverage by nominal value and NPV coverage is maintained under either dynamic or static cover pool. Must hold liquidity to cover the next 180 days of payments on bonds.
Post bankruptcy procedures	If the pledged portfolio is insufficient to cover liabilities, CRH has recourse to the borrowing bank (*pari passu* with the unsecured creditors). Furthermore, if this is still not enough, CRH defaults and the bondholders have recourse to CRH.	No acceleration of payments. Special cover pool/covered bond administrator appointed with authorities to engage in bridge financing as well as transferring cover pool to another bank (subsequently cover pool becomes dynamic again).
Treatment of derivatives	CRH is not allowed to use derivatives as collateral.	Derivatives used for hedging of interest and currency risk have same preferential rights as covered bond investors. Limit of 12% of NPV.
LTV residential	60% (80% if 60-80% is non-privileged debt)	60%
LTV commercial	-	60%
Accounting of loans in arrears	No recognition	Yes
Fulfils UCITS/CRD	Yes/yes	Yes/Yes

Source: Danske Markets

	Greece	Holland
	Covered bonds	**Covered bonds**
Framework	Legal	Legal (individual contracts)
Type of covered bonds	Mixed	Residential
Specialist banking	No	No
Cover assets	Residential Commercial Public loans Substitution assets Hedging contracts	Residential Substitution assets (10%)
Ongoing valuation	-	Indexed house price index
Required O/C	5.3%	5.5-10.5% (contractual)
Asset segregation	1) Cover register including hedging contracts, or 2) SPV set-up with equitable assignment to guaranteeing vehicle (CB).	Equitable assignment to guaranteeing vehicle (LLP).
Matching requirements	Nominal value coverage and NPV coverage is required - also under a 200bp shift in interest rates. Duration of bonds cannot exceed the duration of the cover assets.	Asset coverage tests are performed to ensure that adjusted value of mortgages more than covers outstanding principal. Interest rate and currency hedging on contractual basis. Different repayment structures (soft/hard bullet bonds). Hard bullet structure includes pre-maturity test and liquidity buffer.
Post bankruptcy procedures	In case of issuer insolvency cover pool becomes static, no acceleration of payments. An administrator is appointed to take care of cover assets	Cover pool becomes static, no acceleration of payments. A less strict asset coverage test is performed (amortisation test). Breach of the test equals default of LLP. If LLP defaults bonds are accelerated.
Treatment of derivatives	Derivatives used for hedging of interest and currency risk have same preferential rights as covered bond investors.	Termination of contracts would only occur if LLP defaults. The payment structure of an LLP usually ranks derivative counterparties higher than bondholders.
LTV residential	80%	Generally 80% (loan-to-market-value) or 125% (loan-to-foreclosure-value)
LTV commercial	60%	-
Accounting of loans in arrears	No recognition	No recognition, repurchase or haircut
Fulfils UCITS/CRD	-/-	Yes/Yes (but only if cover pool assets comply with CRD)

Source: Danske Markets

	Ireland	Italy
	Asset Covered Securities	**Obbligazioni Bancarie Garatite**
Framework	Legal	Legal
Type of covered bonds	Residential Commercial Public	Mortgage Public
Specialist banking	Yes	No
Cover assets	Residential Commercial Public loans Substitution assets (15%) Hedging contracts	Residential Commercial Public loans Substitution assets (15%) Hedging contracts
Ongoing valuation	Regular valuation check (at least once a year) based on prudent market value principles	Professional valuer with market value as basis (semi-annual review)
Required O/C	Residential 3% (nominal basis) Commercial 10% (nominal basis) Public loans 3% (NPV basis)	No minimum O/C required by law
Asset segregation	Cover register (separate register for public, commercial and mortgage) including hedging contracts.	Cover register including hedging contracts.
Matching requirements	Nominal and NPV coverage is required. Duration of bonds cannot exceed assets. The average residual maturity of the covered bonds cannot exceed the average residual maturity of the assets. The interest payable in any given 12-month period to bondholders must not exceed the interest received from assets.	NPV and nominal coverage is required.
Post bankruptcy procedures	Cover pool becomes static, no acceleration of payments. An administrator will be appointed by the FSA to manage all financial transactions.	Cover pool becomes static, no acceleration of payments. An administrator will be appointed by the FSA to manage all financial transactions.
Treatment of derivatives	Derivatives used for hedging of interest and currency risk have same preferential rights as covered bond investors.	Derivatives used for hedging of interest and currency risk have same preferential rights as covered bond investors.
LTV residential	75% (loans with higher LTV allowed but capped at 75%, maximum average LTV 80%).	80%
LTV commercial	60% (loans with higher LTV allowed but capped at 60%, maximum average LTV 80%)	60%
Accounting of loans in arrears	No recognition, substitution indented.	No recognition, substitution indented.
Fulfils UCITS/CRD	Yes/Yes	Yes/Yes

Source: Danske Markets

	Luxembourg	Norway
	Lettre de gage	**Obligasjoner med fortrinnsrett**
Framework	Legal	Legal
Type of covered bonds	Mortgage Public	Mixed Mortgage Public
Specialist banking	Yes	Yes
Cover assets	Residential Commercial Public loans Substitution assets (20%) Hedging contracts	Residential Commercial Public loans Substitution assets (20%, up to 30% with the consent of the supervisor) Hedging contracts
Ongoing valuation	Regular valuation check	Regular valuation check
Required O/C	No O/C required	No O/C required
Asset segregation	Cover register (separate registers for public and mortgage) including hedging contracts.	Cover registers (joint registers or separate registers for public, commercial and mortgage) including hedging contracts.
Matching requirements	Nominal and NPV coverage is required. The interest payable to the bondholders must not exceed the interest received from the assets.	Nominal coverage and NPV coverage. Nominal coverage is maintained under stress scenarios (parallel yield curve shifts +/- 100bp and twists. Currency stress tests +/- 10%).
Post bankruptcy procedures	Cover pools become static, no acceleration of payments. An administrator will be appointed by the FSA to manage all financial transactions.	Cover pools become static, no acceleration of payments. An administrator will be appointed by the FSA to manage all financial transactions. Further details to be announced.
Treatment of derivatives	Derivatives used for hedging of interest and currency risk have same preferential rights as covered bond investors.	Derivatives used for hedging of interest and currency risk have same preferential rights as covered bond investors.
LTV residential	60% (loans with higher LTV allowed but only portion up to 60% is considered eligible).	75%
LTV commercial	60% (loans with higher LTV allowed but only portion up to 60% is considered eligible).	60%
Accounting of loans in arrears	Yes	Yes, but only performing loans are included in matching calculations.
Fulfils UCITS/CRD	Yes/No	Yes/Yes

Source: Danske Markets

	Portugal	Spain
	Obrigações	**Cédulas**
Framework	Legal	Legal
Type of covered bonds	Mortgage Public	Mortgage Public
Specialist banking	Optional	No
Cover assets	Residential Commercial Public loans Substitution assets (20%) Hedging contracts	Residential Commercial Public loans Substitution assets (5%) Hedging contracts
Ongoing valuation	Regular valuation check based on prudent market value principles (residential = every three years, commercial = every year).	Regular valuation check
Required O/C	Nominal O/C of 5.26%. Voluntary O/C protected by law in case of insolvency.	Mortgage 25% Public 43%
Asset segregation	Cover register including hedging contracts.	Cover register including hedging contracts. Investors have a priority claim over entire mortgage book.
Matching requirements	Nominal and NPV coverage required. On NPV basis the cashflow from the cover pool must exceed that of the covered bonds, taking into account stress tests (+/- 200bp). The average residual maturity of the covered bonds cannot exceed the average residual maturity of the assets. Interest payable to bondholders cannot at any point in time exceed the interest received from assets. Currency risk must be hedged.	No matching requirements.
Post bankruptcy procedures	No acceleration of payments but bonds can accelerate if two-thirds of bondholders vote in favour. An administrator will be appointed by the FSA to manage all financial transactions.	No acceleration of payments, cashflows from mortgage loan book continue to make payments to bondholders. The law does not specify who will take over administration. For joint-Cédulas, a liquidity buffer is provided and any potential loss from the default of one of the participating banks is distributed pro rata among other participants.
Treatment of derivatives	Derivatives used for hedging of interest and currency risk have same preferential rights as covered bond investors.	Derivatives used for hedging of interest and currency risk have same preferential rights as covered bond investors.
LTV residential	80%	80% (95% in case of bank guarantee or credit loan insurance).
LTV commercial	60%	60%
Accounting of loans in arrears	If arrears >90 days loan must be replaced.	Yes
Fulfils UCITS/CRD	Yes/Yes	Yes/Yes

Source: Danske Markets

	Sweden	UK
	Säkerställda obligationer	**Regulated Covered Bonds**
Framework	Legal	Legal (individual contracts)
Type of covered bonds	Mixed	Mortgage
Specialist banking	No	No
Cover assets	Residential Commercial (10%) Public loans Substitution assets (20%, can be increased to 30% if approved). Hedging contracts	Residential Commercial Substitution assets (In most contracts, substitution assets can constitute up to 10/15%).
Ongoing valuation	Regular valuation check	Indexed house price index
Required O/C	No O/C required	7.0-20.5% (contractual)
Asset segregation	Cover register (shared register for public and mortgage) including hedging contracts.	Equitable assignment to guaranteeing vehicle (LLP).
Matching requirements	Nominal as well as NPV coverage. NPV coverage is maintained under stress scenarios (parallel yield curve shifts +/- 100bp and currency +/- 10%).	Asset coverage tests are performed to ensure that adjusted value of mortgages more than covers outstanding principal. Interest rate and currency hedging on contractual basis. Different repayment structures (soft/hard bullet bonds). Hard bullet structure includes pre-maturity test and liquidity buffer.
Post bankruptcy procedures	Cover pool becomes static, no acceleration of payments. An administrator will be appointed by the FSA to manage all financial transactions (not a dedicated cover pool administrator). Bridge financing is allowed and administrator can sell assets to generate liquidity for bondholders.	Cover pool becomes static, no acceleration of payments. A less strict asset coverage test is performed (amortisation test). Breach of the test equals default of LLP. If LLP defaults bonds are accelerated.
Treatment of derivatives	Derivatives used for hedging of interest and currency risk have same preferential rights as covered bond investors.	Termination of contracts would only occur if LLP defaults. The payment structure of an LLP usually ranks derivative counterparts senior to bondholders.
LTV residential	75%	80%
LTV commercial	60% (70% agricultural)	60%
Accounting of loans in arrears	Repurchase if arrears >60 days	No recognition, repurchase or haircut
Fulfils UCITS/CRD	Yes/Yes	Yes/Depends on contracts

Source: Danske Markets

	US
	Covered Bonds
Framework	Contractual
Type of covered bonds	Residential
Specialist banking	No
Cover assets	Residential Substitution assets (10%) Hedging contracts
Ongoing valuation	Indexed house price index (15% haircut for indexed valuation).
Required O/C	4.2% (Bank of America) 7.5% (Washington Mutual, now part of JPMorgan Chase)
Asset segregation	Wamu/BoA issue covered bonds through statutory trusts. Asset segregation is achieved by cover registers in the bank's own books.
Matching requirements	Asset coverage tests are performed to ensure that adjusted value of mortgages more than covers outstanding principal. Interest rate and currency hedging on contractual basis. Soft bullet repayment structure (120 days).
Post bankruptcy procedures	Default of the bank does not accelerate payments. But if the statutory trust defaults, all payments would be accelerated.
Treatment of derivatives	Depending on the contract
LTV residential	75% (contractual)
LTV commercial	-
Accounting of loans in arrears	If arrears > 60 days, loans are not taken into account in the ACT
Fulfils UCITS/CRD	No/No

Source: Danske Markets

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