



Nordic Covered Bonds

2015- 2016

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Table of contents

INTRODUCTION	7
ISSUER PROFILES DENMARK	9
BFRKREDIT	10
DANMARKS SKIBSKREDIT	13
DANSKE BANK	16
DLR KREDIT	19
NORDEA KREDIT	22
NYKREDIT REALKREDIT	25
REALKREDIT DANMARK	28
ISSUER PROFILES FINLAND	31
AKTIA BANK	32
BANK OF ÅLAND PLC	35
DANSKE BANK PLC	38
NORDEA BANK FINLAND	41
OP MORTGAGE BANK	44
ISSUER PROFILES NORWAY	47
DNB BOLIGKREDITT	48
EIKA BOLIGKREDITT	51
MØRE BOLIGKREDITT	54
NORDEA EIENDOMSKREDITT	57
SPAREBANK 1 BOLIGKREDITT	60
SPAREBANKEN SØR BOLIGKREDITT	63
SPAREBANKEN VEST BOLIGKREDITT	66
ISSUER PROFILES SWEDEN	69
LANDSHYPOTEK BANK	70
LÄNSFÖRSÄKRINGAR HYPOTEK	73
NORDEA HYPOTEK	76
SWEDISH COVERED BOND CORPORATION	79
SKANDINAVISKA ENSKILDA BANKEN AB	82
STADSHYPOTEK	85
SWEDBANK MORTGAGE	88

LEGAL FRAMEWORK	91
DENMARK	91
FINLAND	93
NORWAY	95
SWEDEN.....	97
THE COVERED BOND MARKET	99
DENMARK	99
FINLAND	104
NORWAY	107
SWEDEN.....	110
MACROECONOMIC CONDITIONS	113
DENMARK	113
FINLAND	116
NORWAY	119
SWEDEN.....	122
RATING - APPROACHES AND METHODOLOGY	125
COUNTRY COMPARISON	130
COVERED BOND LEGISLATION	130
ADVANTAGES AND DISADVANTAGES	131
CONTACT PERSONS	132

Introduction

Welcome to the fifth edition of our Nordea Covered Bond Handbook.

Since the publication of our last edition a lot has happened in the covered bond markets. Firstly regulation has continued to set a decisive footprint capturing headlines. The Liquidity Coverage Ratio now permeates the Nordic covered bond markets resulting in an ever increasing focus on liquidity. Regulation will also in the near future set the tone in markets, as we e.g. are currently awaiting the EU's version of the Net Stable Funding Ratio.

The ECB also decided to leave a footprint on euro-area covered bond markets with the initiation of the third covered bond purchase program. Many things have been said and written about the program. Nevertheless we can assess that euro-area covered bond spreads have been stable in periods where volatility in other asset classes has been high. The drawback seems to be that liquidity is waning.

The Nordic covered bond markets have weathered the regulatory wave, and will continue to do so, and as such the Nordic countries constitute a homogenous area compared to the rest of Europe. There are differences though. Some are subtle, for example differences in the local currency markets and market size, and yet all major Nordic issuers issue EUR denominated covered bonds forging a common denominator.

Our core area is the Nordic region and through our presence in each of the Nordic countries, we believe that we have an intimate knowledge of each of the four Nordic countries. The Nordea Covered Bond Handbook should therefore be viewed as a useful tool for seeking information regarding Nordic covered bonds. Comprising the Nordic covered bond markets in their entirety is beyond the scope of the limited space within this Handbook. And actually, we would rather prefer that you contact us in order to give you the fully updated story of the Nordics and what the current market movers are.

Please enjoy our fifth edition of the Nordea Covered Bond Handbook.

Uffe Kalmar Hansen, Senior Analyst, editor

I would like to thank all the Nordic desks for contributing to the publication, and not least a special thanks to Joakim Berglund for his work updating this year's version of our Nordic Covered Bond Handbook.

Please see the last page for a list of contacts.

Issuer profiles

Denmark

BRFkredit

Danmarks Skibskredit

Danske Bank

DLR Kredit

Nordea Kredit

Nykredit Realkredit

Realkredit Danmark

BFRkredit

Key points

Strengths

- No exposure to interest rate due to match funding.
- High-quality cover pool consisting only of Danish mortgages.
- The merger with Jyske Bank will strengthen BFRkredit.

Weaknesses

- High share of ARMs and IO loans in recent years.
- Borrowers exposed to interest rate hikes.
- High LTVs compared to Nordic peers (61.97% and 72.87% in pool B and E, respectively).

Company profile

BRFkredit is the only completely independent specialist mortgage bank operating in Denmark, established in 1959. Less than 10 years ago BRF was the third-largest covered bond issuer in Denmark, but its market share has decreased over time due to a weak distribution network. However, from 2013 to 2014, its market share slightly increased from 8.0% to 8.6% of outstanding Danish covered bonds. After more than 10 years of collaboration on common funding of mortgage loans, Jyske Bank took full ownership of BRFkredit's shares from BRFholding A/S in February 2014. The merger came into force by the end of April 2014. The merger will strengthen BRFkredit in the future which continues to issue all of the BRFkredit mortgage bonds. The deal enhanced BRFkredit distribution power and thereby the combined group's lending volume. It also ensures better liquidity and high turn-over in the bonds issued by BRFkredit.

Figure 1: Structure of the BRFkredit Group

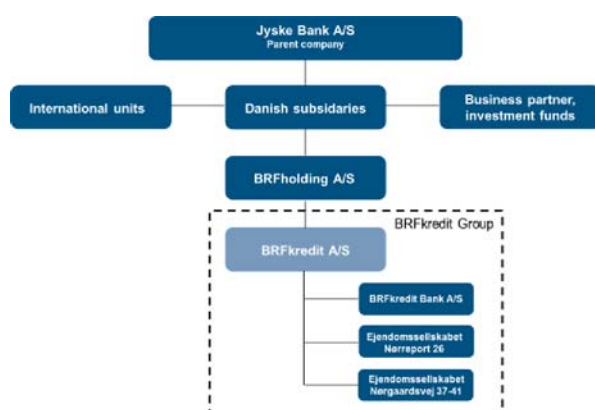
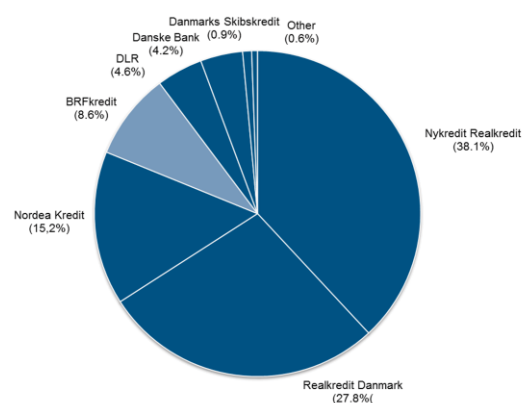


Figure 2: Market share



Source: BRFkredit, Bloomberg

Financial performance

2014 was affected by BRFkredit's merger with Jyske Bank, including adjustments of impairment charges and changes in the organization. Profit for the year decreased by 191.4% from 2013 to 2014, and amounted -276m in 2014. This result was primarily affected by considerable impairment charges. Impairment for loan losses increased by 111.7% between 2013 and 2014. This is explained by the joint funding cooperation, and the negative development was expected by management. From 2012 to 2013, the total and core capital ratios increased by 0.9%-points, the change can be ascribed to a decline in risk-weighted assets. Regarding the key ratios, one should remember that the BRFkredit Group is not directly comparable to the financial groups which the other Danish issuers are a part of, as the BRFkredit Group only focuses on mortgage financing.

Table 1: Key figures for the BRFkredit Group

Key variables (DKKm)	2014	2013	Change (%)
Total assets	261.300	233.770	11,8%
Net interest income	2.116	1.986	6,5%
Loan losses	1.069	505	111,7%
Profit for the year (after tax)	-276	302	-191,4%
Key ratios (%)	2014	2013	Change (%-point)
Return on equity	3,2	4,0	-7,2
Cost/income ratio	0,8	1,3	-0,5
Total capital ratio	17,5	16,6	0,9
Core capital ratio	17,5	16,6	0,9

Source: BRFkredit Annual Report 2014

Cover pool composition

BRFkredit has a total lending volume of DKK 221.2bn, which includes loans in capital centres B, E and the general capital centre (at end of Q1 2015). Pool B contains ROs at a value of DKK 31.3bn, whereas Pool E contains SDOs for a value of DKK 176.4bn. The cover pools consist entirely of DKK-denominated mortgage loans, primarily residential (36.8% in pool B, 48.9% in pool E) and commercial (54.0% in pool B, 45.0% in pool E). The high level of commercial assets has to be considered in light of S&P classification: subsidised housing is considered a commercial assets. The weighted average LTV across all asset classes is 61.97% in pool B and 72.87% in pool E. S&P's WAFF*WALS is 8.0% for pool B and 6.3% for pool E, which is higher than for most domestic peers.

ALM and risk

Since both cover pool loans and outstanding bonds are DKK-denominated, the issuer is not exposed to currency risk. Because of the special "pass-through" system in the Danish market for mortgages, there is a match between the cover pool loans and the outstanding bonds, and the issuer is not exposed to interest rate risk. Regarding refinancing risk, this is held by the borrower as well. The only risk faced by the issuer is credit risk, which is, however, limited by the legal right to execute a forced sale of the property in case of default on the loan.

Ratings

All covered bonds are AAA-rated by S&P, while the issuer rating of BRFkredit is A-. S&P changed the outlook from negative to stable following the merger announcement of Jyske Bank and BRFkredit. S&P believes the combined entity will have business and risk positions that reflect the industry and economic risks associated with the Danish economy. In addition, the merger should improve the relevant key ratios (SFR and BLAST). Potential improvements in the group's capitalization could offset a lower likelihood of government support.

Graphs and statistics

Table 2: Cover pool statistics

Value of cover pool	B (RO)	E (SDO)
Total lending (DKKbn)	31,3	176,4
WAFF	20,6%	20,3%
WALS	38,6%	31,1%
WAFFxWALLS	8,0%	6,3%
Collateral composition		
Residential assets	36,8%	48,9%
Commercial assets	54,0%	45,0%
Public-sector assets	0,0%	6,1%
Other assets	9,2%	0,0%
Interest rate and duration mismatch		
WAM of outstanding covered bonds (years)	10,63	14,44
WAM of the cover pool (years)	9,82	13,45

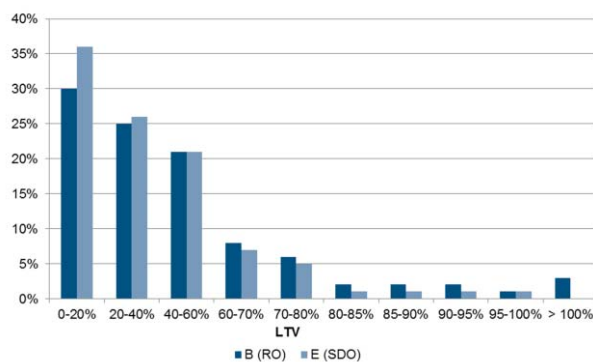
Source: S&P

Table 3: Rating by S&P

Rating S&P	B (RO)	E (SDO)
Rating	AAA	AAA
Current OC / Actual CE	8,5%	6,5%
Committed OC	-	-
OC consistent with current rating / Target CE	7,5%	5,4%
RRL	a	a
JRL	aa	aa
TPI Leeway / Unused uplift (notches)	1	1

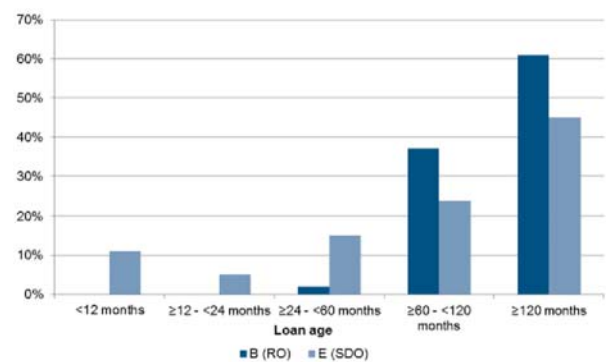
Source: S&P

Figure 3: Continuously distributed LTV, Q1 2015



Source: BRFkredit

Figure 4: Loan seasoning, Q1 2015



Danmarks Skibskredit

Key points

Strengths

- Enjoys strong loyalty from private investors.
- Only Nordic issuer of covered bonds backed by ship mortgages.
- Solid shareholder group: Large shipping lines, the Danish Central Bank and major banks.
- High loan diversification.

Weaknesses

- Relatively low rated covered bonds (Baa2 by Moody's).
- Issues ROs (not SDOs)
- The shipping industry can be highly correlated with the business cycle.

Company profile

Danmarks Skibskredit (DSF) was established in 1961 to provide funding for ship owners. The company primarily operates in Denmark, but also provides loans to foreign shipping companies. DSF was granted the right to issue SDOs in 2007. However, the company has so far not utilized this right. The company is owned by banks (40%), shipping lines (20%), the Danish Central Bank (19%), the Danish Maritime Fund (10%), shipyards (3%), insurance companies (4%), and others (4%).

DSF is allowed to provide loans up to 70% of a ship's market value. However, it can provide loans for the remaining 30% if secured against other collateral and/or additional stranding. DSF carries out a update of the market values every 6 months of all financed vessels and verify that any agreed requirements on maximum loan-to-value ratios are complied with. Furthermore, physical inspections of the financed vessels are made on a spot-check basis.

DSF has always adhered to the specific balance principle which ensures strict limits on interest rates, currency and interest rate risks. DSF mainly finances its operations through issuance of plain vanilla bullet covered bonds primarily denominated in DKK (88% of issued amount) and a smaller amount in USD (12% of issued amount).

Figure 1: Structure of the Danmarks Skibskredit

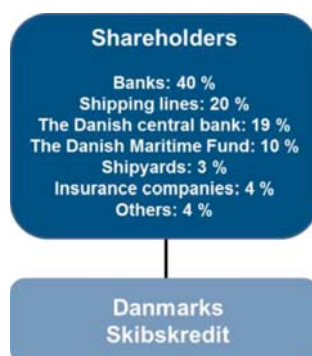
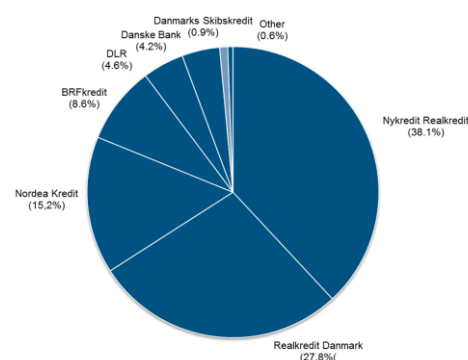


Figure 2: Market share



Source: Danmarks Skibskredit

Financial performance

Danmarks Skibskredit experienced a decrease in total assets of 3.2% from 2013 to 2014. Profit for the year increased remarkably by almost 229%. This increase is primarily affected by reversal of prior-year loan impairment charges. The net interest income fell due to switches from higher-coupon bonds to lower-coupon bonds. The decrease in loan losses can be explained by a reduction in the group's reserve account.

Table 1: Key figures for Danmarks Skibskredit

Key variables (DKKm)	2014	2013	Change (%)
Total assets	69.374	67.222	3,2%
Net interest income	820	891	-8,0%
Loan losses	1.103	-166	-764,5%
Profit for the year (after tax)	1.568	477	228,7%
Key ratios (%)	2014	2013	Change (%-point)
Return on equity	14,8	4,8	10,0
Cost/income ratio	9,0	10,1	-1,1
Total capital ratio	16,4	17,0	-0,6
Core Tier 1 capital ratio	16,4	17,0	-0,6

Source: Danmarks Skibskredit Annual Report 2014

Cover pool composition

The value of the cover pool is DKK 45.4bn. Overcollateralization stands at 24.6%, which is much above the level required by Danish law of 8% of risk-weighted assets. At year-end 2014, the five largest loans were secured by mortgages in 83 vessels comprising 8 vessel types. One of these loans was substantially larger than the rest and represented less than 25% of total lending in the same period. The largest loan is secured through mortgage on vessels distributed on three different vessel types. However, due to this lending distribution there is concentration risk. This is mitigated by risk diversification focusing on diversification on vessel types on each loan. From 2013 to 2014, loan diversification increased as the five largest debtors represented 36% of total loans vs 44% in 2013.

ALM and risk

Danmarks Skibskredit has obliged itself to the specific balance principle but do not apply pass-through in contrast to the rest of the Danish covered bond issuers (except for Danske Bank). This implies that Danmarks Skibskredit stick to statutory fixed absolute limits for the size of allowable interest rate, foreign exchange and liquidity risks when there is a difference between payments on loans and funding. Under these rules, the company is prevented from assuming any noteworthy interest rate, foreign exchange or liquidity risk in connection with its lending operations. Due to the application of the specific balance principle, the most significant risk facing Danish Ship Finance is credit risk on the company's cover pool loans. This is the risk of losses arising due to collateral not covering the residual debt if the customers default on their loans. This risk is handled by a high level of overcollateralization (24.6%).

Ratings

DSF's issuer rating by Moody's is Baa2, which is also identical to its covered bonds rating. This follows a severe downgrade in May 2012 by three notches and a negative outlook. Moody's reasons were the continuing vulnerable operating environment for shipping, high borrower concentration and reliance on wholesale funding which Moody's sees as a weakness. However, Moody's notes the strong liquidity position and the specific balance principle that mitigate the funding risk. Unlike other covered bond issuers, DSF does not have the possibility of changing rating institute since Moody's is the only one who has a model to rate covered bond issuers with shipping credit. In December 2014, the outlook was changed to stable.

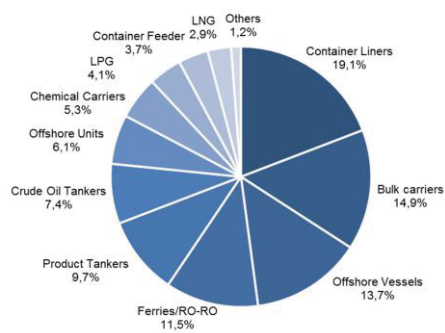
Graphs and statistics

Table 2: Cover pool statistics

Value of cover pool	
Cover pool value (DKKbn)	45,4
Overcollateralization	24,6%
Required overcollateralization (by law, percentage of RWA)	8,5%
ALM and risk	
Specific balance principle	Yes
One-to-one balance between terms of granted loans and bonds issued	No
Pass-through cash flow from borrowers to investors	No
Asset substitution in cover pool allowed	Yes

Source: Danmarks Skibskredit

Figure 3: Loan portfolio by mortgaged vessels, 2014



Source: Danmarks Skibskredit Risk Report 2014

Figure 4: Debtor distribution by country, 2014

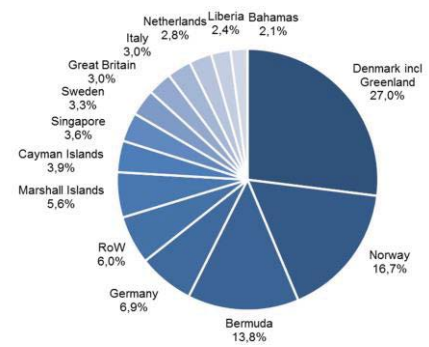
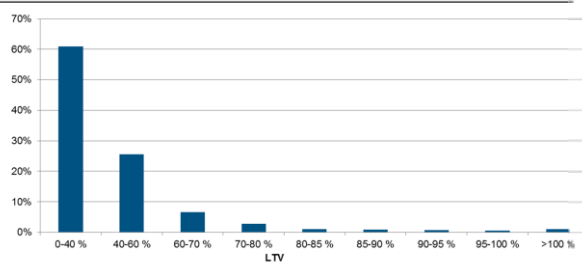
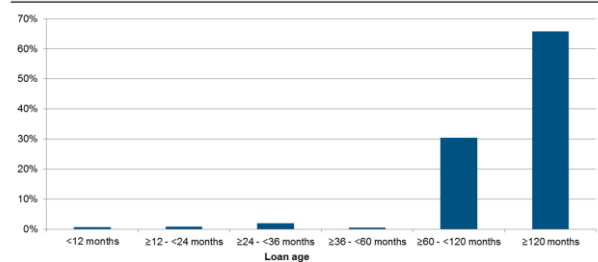


Figure 5: Continuously distributed LTV, Q4 2014



Source: Danmarks Skibskredit

Figure 6: Loan seasoning, Q4 2014



Danske Bank

Key points

Strengths

- Largest bank in Denmark and part of one of the largest financial groups in the Nordic region.
- Investors have recourse against Danske Bank itself, as opposed to Realkredit Danmark where investors do not have a direct claim against Danske Bank.
- The only true Danish Euro covered bond issuer.

Weaknesses

- Danske Bank deviates from the Danish pass-through system - larger discrepancy between duration of assets and liabilities and higher interest rate risk compared to Danish peers.
- Dynamic cover pool – substitution risk.
- Refinancing risk.

Company profile

Danske Bank is the largest bank in Denmark with around 3.8m costumers and a significant share of lending to the business and public sector in Denmark. It offers a wide range of financial services such as deposits and loans, investment management, mortgage finance and pension & insurance. Danske Bank is a result of several large banking mergers, most recently in 2007 when the Finnish Sampo Bank was acquired. Today, Danske Bank operates in all Nordic countries plus Northern Ireland, Luxembourg, Poland and the Baltics. However, from the beginning of 2016 Danske Bank Northern Ireland will operate as a separate business unit. The group has a total of 5m private customers and some 18,000 employees

Danske Bank is the only universal bank issuing covered bonds in Denmark. It currently operates three active capital centres. Capital Centre I includes international mortgages, currently Norwegian and Swedish, and Capital Centre D is based on domestic mortgages. Capital Centre C is established to comprise combined mortgages, though it currently only consists of Norwegian and Swedish mortgages, with a high degree of commercial assets.

Figure 1: Structure of the Danske Bank Group

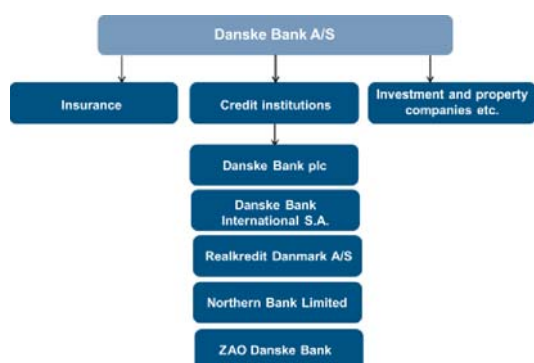
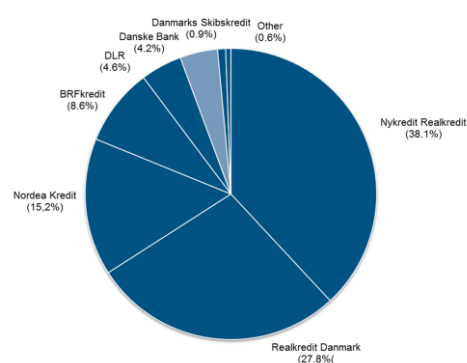


Figure 2: Market share



Source: Danske Bank, Bloomberg

Financial performance

From 2013 to 2014 the Danske Bank Group experienced a decrease in net profit of 18.6%. This decrease can primarily be explained by goodwill impairments. Increases, on the other hand, were driven by growth in all income lines, lower expenses and lower loan impairments. Net interest income rose by almost 5% from the level in 2013, despite persistently low interest rates. Net interest income benefited primarily from a repayment of hybrid capital raised from the Danish state, a higher investment return from a liquidity bond portfolio and lower funding costs. The profit level of the group is generally low compared to peers but the peer-gap has been narrowing since 2012. By the end of 2014, the Group had made considerable headway in winding up Irish Non-core operations, thus lessening the exposure to the Irish market (an exposure that downgraded Danske Bank Group's credit rating from Moody's and S&P in 2012).

Table 1: Key figures for the Danske Bank Group

Key variables (DKKm)	2014	2013	Change (%)
Total assets	3.453.015	3.227.057	7,0%
Net interest income	23.107	22.077	4,7%
Loan losses	2.788	4.111	-32,2%
Profit for the year (after tax)	3.846	4.725	-18,6%
Key ratios (%)	2014	2013	Change (%-point)
Return on equity	8,5	5,0	3,5
Cost/income ratio	72,4	59,9	12,5
Total capital ratio	19,3	21,4	-2,1
Core Tier 1 capital ratio	15,1	14,7	0,4

Source: Danske Bank Group Annual Report 2014

Cover pool composition

The three pools of Danske Bank have a value of DKK 53.9bn (pool C), DKK 40.0bn (pool D), and DKK 121.8bn (pool I). The weighted average LTVs in pool C, D, and I are in line with domestic peers at 54.3%, 61.8% and 60.9%, respectively. The WAFF*WALS values assigned by S&P are low compared to domestic peers: 5.5% for pool C, 4.0% for pool D. Due to revised criteria for covered bonds, S&P has not yet published the WAFF*WALS for pool I. Pool I and D mainly comprise residential mortgages, while pool C is mainly based on commercial mortgages. Pool C has the highest credit enhancement (actual CE) at 34.8%.

ALM and risk

In contrast to the other Danish issuers, Danske Bank is exposed to both interest rate risk and refinancing risk because they are not issuing covered bonds in the format of the pass-through system. There can therefore also be currency risk if not adequately hedged, because of the bonds being denominated in several currencies. Credit risk is also present.

Ratings

The covered bonds issued by Danske Bank are assigned AAA/AAA-rating by S&P/Fitch. Danske Bank's long-term rating by Moody's/S&P/Fitch is A2/A/A. All three have stable outlooks. In June 2015 Moody's upgraded Danske Bank's rating to A2. Amongst other things, this takes into account a moderate assessment of government support. In April 2014, S&P improved Denmark-based Danske Bank A/S' rating from A- to A as risk on Irish portfolio has decreased. Danske aims to improve its rating by one notch in the short term. In June 2015, the A-rating was affirmed by S&P.

Graphs and statistics

Table 2: Cover pool statistics

Value of cover pool	Pool C	Pool D	Pool I*
Cover pool value (DKKbn)	53,9	40,0	121,8
WAFF	23,8%	11,9%	-
WALS	23,2%	33,4%	-
WAFFxWALS	5,5%	4,0%	-
Collateral composition			
Residential assets	0,0%	100,0%	-
Commercial assets	100,0%	0,0%	-
Public-sector assets	0,0%	0,0%	-
Other assets	0,0%	0,0%	-
Interest rate and duration mismatch			
WAM of outstanding covered bonds (years)	3,55	5,75	-
WAM of the cover pool (years)	4,19	14,38	-

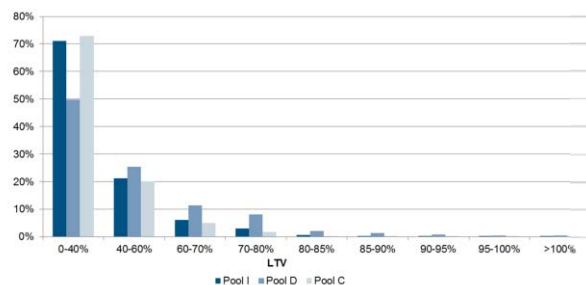
Source: Danske Bank, S&P

Table 3: Rating by S&P

Rating S&P	Pool C	Pool D	Pool I*
Rating	AAA	AAA	AAA
Current OC / Actual CE	34,8%	15,6%	17,4%
Committed OC	-	-	-
OC consistent with current rating / Target CE	10,7%	11,6%	13,4%
RRL	a	a	a
JRL	aa	aa	aa
TPI Leeway / Unused uplift (notches)	1	1	1

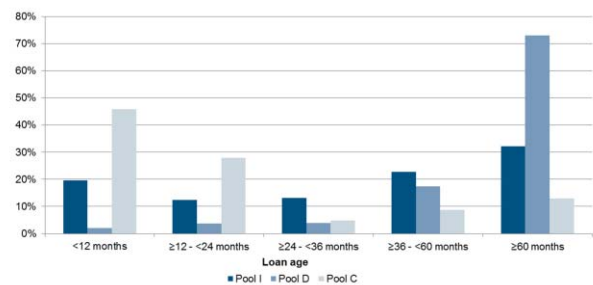
Source: S&P

Figure 3: Continuously distributed LTV, Q1 2015



Source: Danske Bank

Figure 4: Loan seasoning, Q1 2015



* In December 2014 S&P published revised criteria for covered bonds. Those covered bonds programs that could be affected by published change in criteria were placed "under criteria observation", including Pool I from Danske Bank. In June 2015, S&P could affirm the rating, ACE, TCE, RRL, JRL and unused uplift (notches) for Pool I. Further information is to be released in subsequent issues of the 'Global Covered Bond Characteristics and Rating Summary'.

DLR Kredit

Key points

Strengths

- DLR has a strong loan-loss agreement with shareholder banks.
- A proportion of loans in the cover pools are de facto state-guaranteed, as the state company Financial Stability is a shareholder.
- Loyal customer base.

Weaknesses

- Exposure to the Danish agricultural sector – concentration risk.
- Small institution – suffers from low liquidity compared to other Danish issuers.
- Uncertainty of DLR business position following BRF and Jyske Bank merger as Jyske Bank is largest loan-providing owner.

Company profile

Dansk Landbrugs Realkreditfond (DLR) is the fifth-largest mortgage lender in Denmark. The specialist mortgage bank was established in 1960 and specializes in agricultural and commercial mortgages. The formation of DLR took place at the initiative of the Danish Bankers Association (Finansrådet) to construct better funding for agricultural commerce, in particular to bridge generational handovers and longer-term investments. Prior to 2000 DLR was encompassed by its own legal framework. However, it was included in the Danish Mortgage Act 1 July 2000. In 2001 DLR changed its company form from a trust to a private limited company.

Shares in DLR are held by 65 local and regional banks. These banks also play an active role in DLR's distribution network. Currently, the state company Financial Stability (Finansiell Stabilitet) is a large shareholder in the company. In May 2013, DLR announced that they are going to buy back the shares themselves by the end of 2017.

DLR has an agreement with all shareholder banks, which requires loan-providing banks to put up an individual loan loss guarantee. This guarantee covers 91% of DLR's loan portfolio, which limits the risk of its business model substantially. The merger between Jyske Bank and BRF creates some uncertainty for DLR's business position as Jyske provides a substantial number of loans. This could however be balanced by other owner banks preferring DLR Kredit for loans.

Figure 1: Structure of the DLR Group

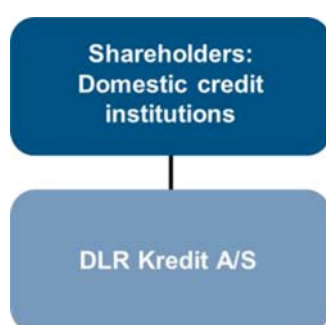
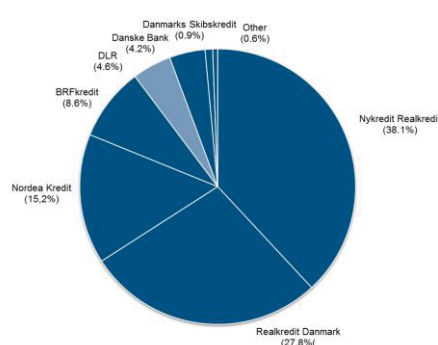


Figure 2: Market share



Source: DLR Kredit, Bloomberg

Financial performance

In 2014, DLR showed an increase in profit after tax of 30.8%. This increase in profit was driven by an increase in net interest income, reduced fee and commission expenses (net) and reduced negative value adjustments. Increased provisions adjusted the result in the opposite direction. The net interest income increased as a result of a decrease in interest expenses for government hybrid core capital.

Table 1: Key figures for DLR Kredit

Key variables (DKKm)	2014	2013	Change (%)
Total assets	157.637	146.894	7,3%
Net interest income	1.564	1.449	7,9%
Loan losses	4	5	-22,9%
Profit for the year (after tax)	616	471	30,8%
Key ratios (%)	2014	2013	Change (%-point)
Return on equity	6,0	5,0	1,0
Cost/income ratio	3,0	3,0	0,1
Total capital ratio	12,3	12,3	0,0
Core capital ratio	12,3	12,3	0,0

Source: DLR Kredit Annual Report 2014

Cover pool composition

The value of the pool in capital center B (pool B) is DKK 145.5bn, while the value of the pool in capital center G (pool G) is DKK 18.3bn. Both of the pools mainly consist of commercial assets (agricultural loans) with this type of asset accounting for 69.4% of pool B and 76.4% of pool G. The rest of the cover pool assets are residential mortgages and other assets. The actual CE are 22.3% and 10.5% respectively for pool B and pool G. Most of the residential and commercial assets of Pool B and G are located outside the capital region which results from DLR's focus on agriculture lending and banks' regional focus. Pool B's WAFF and WALs has improved since last year mainly because of lower LTV ratios and a decrease of the proportion of commercial loans. It however remains higher than the average of the Danish market.

ALM and risk

Due to the pass-through system, the issuer is not exposed to interest rate risk, or currency risk. The only risk for the issuer to be concerned about is credit risk – the risk that the borrower does not repay the loan. DLR is exposed to the Danish agricultural sector and suffers from worsened conditions in the sector where falling prices for agrarian products are troubling leveraged farmers. That being said, DLR has still performed well in recent years due to a diversified business.

Ratings

In July 2015 Standard & Poor's affirmed the BBB+ long-term credit rating for DLR Kredit, with a stable outlook. On 12 May 2015 the long- and short-term counterparty credit ratings on DLR have been placed on credit watch with negative implications relating to the upcoming implementation of the BRRD bail in regime in Denmark. Two months later, in July 2015, this was however removed. Both capital centres for the covered bonds have been assigned AAA ratings, outlook stable. The AAA ratings reflect the RRLs of a- and JRLs of aa-. The stable outlook reflect the view that DLR Kredit's strengthening stand-alone credit profile may offset the possible removal of government support from the ratings on the covered bonds.

Graphs and statistics

Table 2: Cover pool statistics

Value of cover pool	Pool B (SDO)	Pool G (RO)
Total lending (DKKbn)	145,5	18,3
WAFF	28,2%	22,4%
WALS	39,2%	19,2%
WAFFxWALS	11,1%	4,3%
Collateral composition		
Residential assets	12,4%	14,1%
Commercial assets	69,4%	76,4%
Public-sector assets	0,0%	0,0%
Other assets	18,2%	9,5%
Interest rate and duration mismatch		
WAM of outstanding covered bonds (years)	13,11	11,41
WAM of the cover pool (years)	11,49	10,65

Source: S&P, DLR Kredit

Table 3: Rating by S&P

Rating S&P	Pool B (SDO)	Pool G (RO)
Rating	AAA	AAA
Current OC / Actual CE	22,3%	10,5%
Committed OC	-	-
OC consistent with current rating / Target CE	10,9%	4,6%
RRL	a-	a-
JRL	aa-	aa-
TPI Leeway / Unused uplift (notches)	0	0

Source: S&P

Figure 3: Continuously distributed LTV, Q1 2015

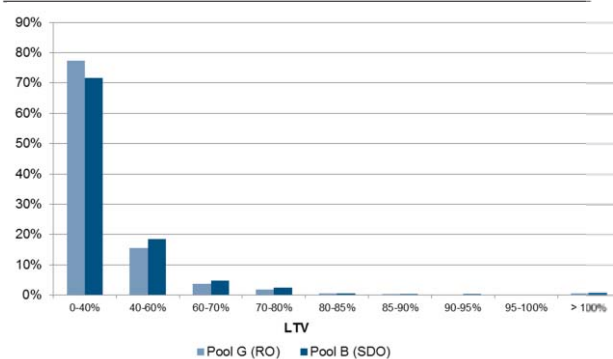
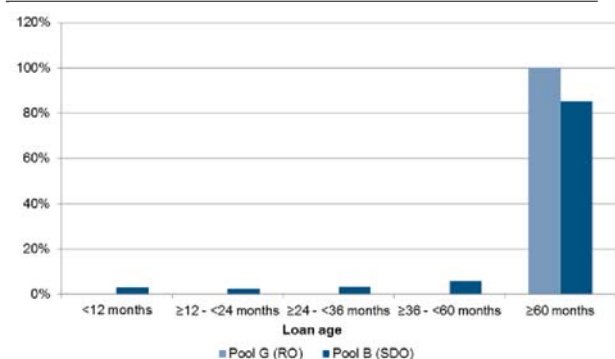


Figure 4: Loan seasoning, Q1 2015



Source: DLR Kredit

Nordea Kredit

Key points

Strengths

- Financially strong group, leading provider of financial services in the Nordic region.
- Benefits from a strong distribution network through Nordea Bank Denmark.
- With less than 114 employees Nordea Kredit benefits from low operating costs.

Weaknesses

- High share of ARMs.
- The two cover pools are exposed to large commercial loans – concentration risk.
- Borrowers are exposed to interest rate risk and refinancing risk.

Company profile

Nordea Kredit is the third-largest specialized covered bond issuer in the Danish market with 15.2% of the outstanding covered bonds. Nordea Kredit is subject to regulation by the Danish FSA. It is a fully-owned subsidiary of Nordea Group, which is the largest financial institution in the Nordic and Baltic Sea region with operations in Sweden, Denmark, Finland, Norway, the Baltics, and Russia. Nordea is the result of several large mergers of Danish, Finnish, Swedish and Norwegian banks. Nordea sets a significant footprint in Nordic banking as Nordea holds a market position with 10.2m retail customers, 590,000 corporate customers and approximately 700 branches. Nordea Kredit benefits from a strong distribution network via its parent company Nordea Bank Denmark.

Figure 1: Structure of the Nordea Group

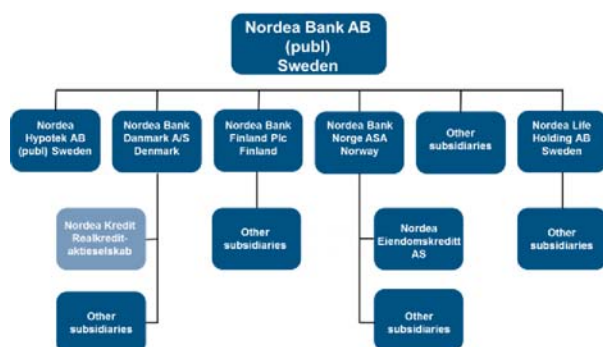
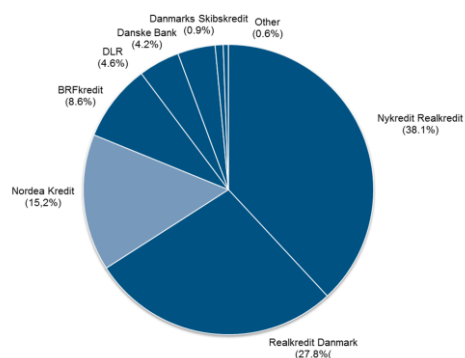


Figure 2: Market share



Source: Nordea, Bloomberg

Financial performance

Nordea Group weathered the financial crisis and has performed well in recent years. Profit for the year improved by 8.5% because of stable income and stable expense and lower losses. On this point, Nordea is traditionally viewed as a conservative bank in terms of risk-taking, which is reflected in relatively few loan impairments in 2013 and 2014 compared to key competitors. Total assets increased by 6%. Thus, there was an increase despite the Euro strengthening against the Swedish and Norwegian Krona and against the Russian Rubel in 2014. The effect of changes in currency exchange rates had a negative impact on the value of the Group's assets. Nordea Group holds a return on equity target of 13%. In 2014, return on equity was 11.6% excluding non-recurring items and 11.5% including these, thus below the target level.

Table 1: Key figures for the Nordea Group

Key variables (DKKm)	2014	2012	Change (%)
Total assets	669.342	630.434	6,2%
Net interest income	5.482	5.525	-0,8%
Loan losses	534	735	-27,3%
Profit for the year continuing operations (after tax)	3.371	3.107	8,5%
Key ratios (%)	2014	2012	Change (%-point)
Return on equity	11,5	11,0	0,5
Cost/income ratio	49,0	51,0	-2,0
Total capital ratio	13,5	13,4	0,1
Core Tier 1 capital ratio	11,6	11,0	0,6

Source: Nordea Annual Report 2014

Cover pool composition

Nordea Kredit has two capital centres issuing covered bonds; centre 1 consisting of ROs and centre 2 consisting of SDROs. The cover pool of centre 1 has a value of DKK 32,9bn while the cover pool of centre 2 has a value of DKK 379.1bn. The average indexed LTVs in the two pools are 68.6% in pool 1 and 72.7% in pool 2 and the collateral scores are 10.9% and 13.2% respectively, which is fairly high compared to the other Nordic issuers. This is partly due to the high concentration of commercial assets in the pools (13.5% in pool 1 and 22.3% in pool 2). However, the dominating assets in the pools are residential mortgages (58.9% and 56.3%).

ALM and risk

Due to the pass-through system, the issuer is not exposed to interest rate risk, or currency risk. The only risk for the issuer to be concerned about is credit risk – the risk that the borrower does not repay the loan. This risk is to some extent related to the interest rate risk of borrowers holding ARMs, as interest rate hikes might lead to higher default rates in the pools.

Ratings

All covered bonds issued by Nordea Kredit are given Aaa/AAA ratings by Moody's/S&P. Nordea Kredit does not have a stand-alone rating, but Nordea Group's long-term ratings by Moody's/S&P/Fitch are Aa3/AA-/AA-. In June 2015, Nordea Bank's outlook was upgraded to stable by Moody's due to a resilient pattern, good operational efficiency and healthy asset-quality metrics. These positive factors are counterbalanced by Nordea Bank's high reliance on market funding.

Graphs and statistics

Table 2: Cover pool statistics

Value of cover pool	Pool 1 (RO)	Pool 2 (SDRO)
Cover pool value (DKKbn)	33,0	391,1
Collateral score	10,9%	14,5%
Collateral score excl. systemic risk	n/a	n/a
Collateral risk (collateral score post-haircut)	7,3%	8,8%
Refinancing and market risk	3,0%	8,5%
WAFF (S&P)	14,0%	20,2%
WALS (S&P)	25,6%	34,3%
WAFFxWALS (S&P)	3,6%	6,9%
Collateral composition		
Residential assets	58,9%	56,3%
Commercial assets	13,5%	22,3%
Public-sector assets	0,0%	0,0%
Multi family assets	3,7%	3,1%
Other assets	24,0%	18,3%
Interest rate and duration mismatch		
WAL of outstanding covered bonds (years)	8,5	6,0
WAL of the cover pool (years)	10,1	14,2

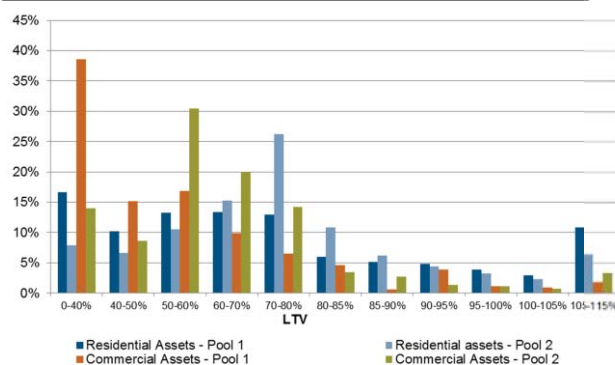
Source: Moody's investor service

Table 3: Ratings by Moody's and S&P

Rating Moody's/S&P	Moody's		S&P	
	Pool 1 (RO)	Pool 2 (SDRO)	Pool 1 (RO)	Pool 2 (SDRO)
Rating	Aaa	Aaa	AAA	AAA
Current OC / Actual CE	9,9%	12,4%	31,5%	22,4%
Committed OC (% of RWA)	8,0%	8,0%	-	-
OC consistent with current rating / Target CE	3,0%	9,5%	7,9%	8,5%
TPI	Very High	High	-	-
RRL	-	-	aa	aa
JRL	-	-	aaa	aaa
TPI Leeway / Unused uplift (notches)	5	4	3	3

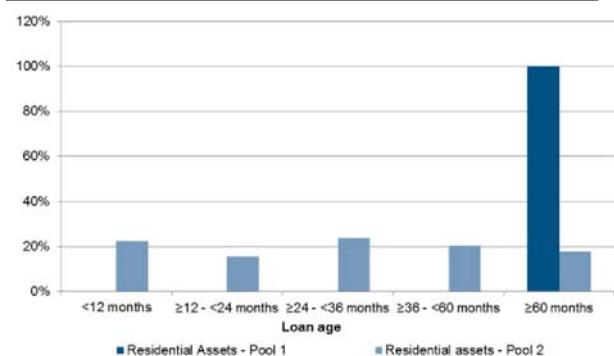
Source: Moody's investor service, S&P

Figure 3: Indexed LTV, Q1 2015



Source: Moody's investor service

Figure 4: Loan seasoning, Q1 2015



Nykredit Realkredit

Key points

Strengths

- Largest issuer of Danish covered bonds in terms of outstanding amount.
- Enjoys a strong working relationship with a number of local Danish financial institutions.
- Danish pass-through system – no currency, interest rate and refinancing risk for the issuer.

Weaknesses

- Dependence on other banks to originate loans - no binding obligation is in place to ensure the continued transfer of loans.
- Due to high market share, the Danish competition authorities have limited NYK's ability to raise fees, which is challenging its profitability.
- High share of ARMs and IO loans in the pools, similar to other Danish issuers.
- Lower lending amount due to exit of Jyske Bank from TotalKredit.

Company profile

Nykredit Realkredit (NYK) is Denmark's largest issuer with 38.1% of the covered bond market. In mid-March 2014, Nykredit lost its main distribution partner, Jyske Bank, who exited from Totalkredit partnership. At the end of 2013, Jyske Bank customers accounted for some 7% of Nykredit Group's mortgage loans. NYK estimates the net impact of revised contractual terms, including an estimated additional decline in the lending portfolio and loan refinancing volumes, to increase the earnings of Totalkredit and Nykredit by a total of some DKK 200m.

NYK is owned by Nykredit Holding, the second-largest financial group in Denmark. NYK dates back to 1851. Since its origination Nykredit has diversified into real estate and banking but mortgage finance is still its primary business. In 2003 NYK acquired Totalkredit, which is a wholly-owned subsidiary of NYK. The Nykredit Group is in contact with more than 1.1 million customers including about 615,000 personal customers served by local and regional banks under the Totalkredit partnership.

Figure 1: Structure of the Nykredit Group

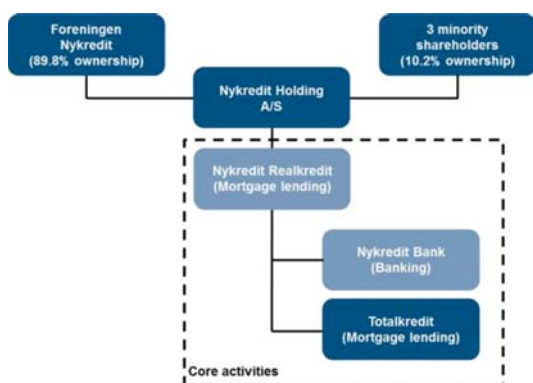
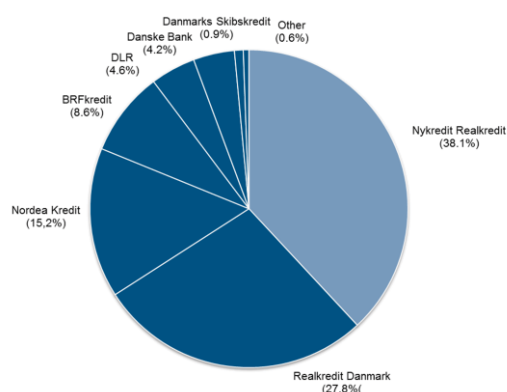


Figure 2: Market share



Source: Nykredit Realkredit, Bloomberg

Financial performance

Profit of the year (after tax) for Nykredit Realkredit Group decreased by 66% between 2013 and 2014. Although the Group saw positive developments in its underlying operations, such as increasing core income from business operations and lower loan impairment losses, the overall result were negative in comparison to 2013. This can primarily be explained by significant negative value adjustments of interest rate swaps. As a result, return on equity decreased by 1.2 %-points in between 2013 and 2014. The current return on equity of 1.6% is well below the Group's long-term target of 11%.

Table 1: Key figures for Nykredit Realkredit Group

Key variables (DKKm)	2014	2013	Change (%)
Total assets	1.458.153	1.417.414	3%
Net interest income	11.353	10.325	10%
Loan losses	2.351	2.764	-15%
Profit for the year (after tax)	576	1.674	-66%
Key ratios (%)	2014	2013	Change (%-point)
Return on equity before tax	1,6	2,8	-1,2
Income/cost ratio	43,8	55,8	-12,0
Total capital ratio	18,2	18,9	-0,7
Tier 1 capital ratio	15,4	15,8	-0,4

Source: Nykredit Realkredit Group Annual Report 2014

Cover pool composition

Nykredit issues covered bonds from seven capital centres: centre C, D, E, G, H, I and general capital centre. The most important centres are D, E, G, H, and I, where I is the most recently established and is still being built up in size. D is closed meaning that no new loans are made from this pool. The values of the cover pools are in the ranges of DKK 12.8bn-578bn. Pool H is the largest pool and pool I is the smallest pool. Pool H and E have the lowest actual credit enhancement (actual CE) in Standard & Poor's overview, both below 6.5% which is low compared to domestic peers. Pool G has the highest actual CE at 19.78% and the others lie in between with the average actual CE across the pools being 9.21%. All pools consist mainly of residential mortgages, except for pool D and G where most of the assets are commercial loans.

ALM and risk

Looking at the lifetime of assets and liabilities and the shares of fixed rate loans/bonds, the implications of the Danish pass-through system are clear. There is no refinancing risk and no interest rate risk for the issuer. As loans and bonds are denominated in the same currency, there is no currency risk either. There is credit risk for the issuer to be considered. Especially in the pools with a high concentration of the same type of loans (residential or commercial), one should be aware of the credit risk.

Ratings

All covered bonds from Nykredit are assigned an AAA-rating by S&P. NYK has an A+/A rating from S&P/Fitch. The outlook on NYK's long term debt rating by S&P was confirmed negative in July 2015. This indicated that the ratings might be lowered, especially if it is considered that extraordinary government support is less predictable under the new EU legislative framework. The outlook would be revised to stable if the potential extraordinary government support is unchanged in practice, despite the introduction of bail-in powers and international efforts to increase the banks' resolvability.

Graphs and statistics

Table 2: Cover pool statistics

Value of cover pool	D (RO)	E (SDO)	G (RO)	H (SDO)	I (RO)
Cover pool value (DKKbn)	167	344	52,5	578	12,8
WAFF	21%	15%	25%	18%	13%
WALS	25%	24%	76%	25%	90%
WAFFxWALS	5%	4%	19%	5%	12%
Collateral composition					
Residential assets	40%	74%	27%	62%	68%
Commercial assets	54%	21%	57%	33%	20%
Public-sector assets	0%	0%	0%	0%	0%
Other assets	6%	5%	16%	5%	12%
Interest rate and duration mismatch					
WAL of outstanding covered bonds (years)	12	15	12	14	9
WAL of the cover pool (years)	11	15	11	13	8

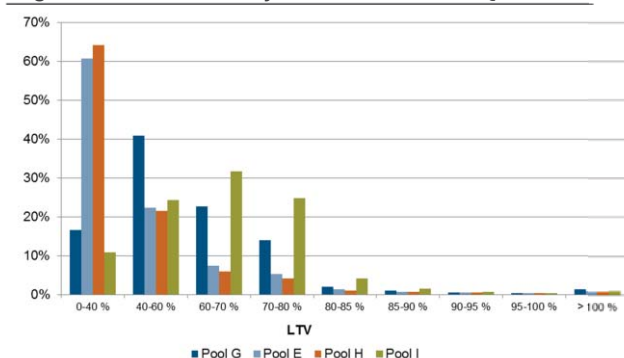
Source: S&P, Nykredit

Table 3: Rating by S&P

Rating S&P	D (RO)	E (SDO)	G (RO)	H (SDO)	I (RO)
Rating	AAA	AAA	AAA	AAA	AAA
Current OC / Actual CE	6,4%	3,8%	19,8%	3,9%	12,2%
Committed OC	-	-	-	-	-
OC consistent with current rating / Target CE	5,3%	3,8%	19,8%	3,9%	12,3%
RRL	a+	a+	a+	a+	a+
JRL	aa+	aa+	aa+	aa+	aa+
TPI Leeway / Unused uplift (notches)	0	0	0	0	0

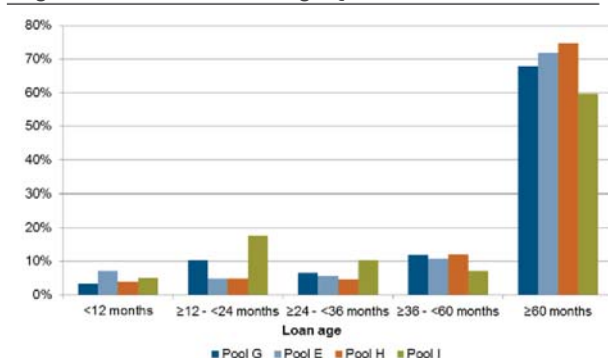
Source: S&P

Figure 3: Continuously distributed LTV, Q1 2015



Source: Nykredit Realkredit

Figure 4: Loan seasoning, Q1 2015



Realkredit Danmark

Key points

Strengths

- Second largest issuer in the Danish covered bond market in terms of outstanding volume and strong distribution network via Danske Bank and the real estate agency Home.
- Danish pass-through system – no currency or interest rate risk for the issuer.
- In 2014 Danske Bank Denmark was upgraded by S&P from A- to A on improved financial strength and unwinding of Irish assets.

Weaknesses

- High shares of ARMs in the cover pools.
- Borrowers are exposed to interest rate risk – increased default risk in case of interest rate hikes.
- Low profitability.
- Dependent on parent bank, Danske Bank A/S.

Company profile

Realkredit Danmark is the second-largest specialized mortgage bank in Denmark with a market share of 27.8% of the outstanding volume. Realkredit Danmark is a wholly owned subsidiary of Danske Bank A/S. Danske Bank is a result of several large banking mergers, most recently in 2007 when the Finnish Sampo Bank was acquired. Today, Danske Bank operates in all Nordic countries plus Ireland, Northern Ireland, Luxembourg, Poland and the Baltics. The group has over 5m private customers, 322 branches and almost 19,000 employees.

Realkredit Danmark dates back to 1851 and was a part of Kreditforeningen Danmark. In January 1993, Kreditforeningen Danmark was converted into a limited company, Realkredit Danmark A/S. A group structure was established in which Foreningen RealDanmark owned all the shares in RealDanmark Holding A/S, which in turn held all the shares in Realkredit Danmark A/S. In 1998 collaboration between Realkredit Danmark and BG Bank resulted in the creation of BG Kredit A/S. Later that year Realkredit Danmark and BG bank formed the holding company RealDanmark A/S, which became the parent company of Realkredit Danmark and BG Bank. In 2001 RealDanmark A/S merged with Danske Bank, with the latter as the continuing company and the two units, Realkredit Danmark and BG Bank, operating under their known brand names (Danske Bank absorbed BG Bank in 2007).

Figure 1: Structure of the Realkredit Group

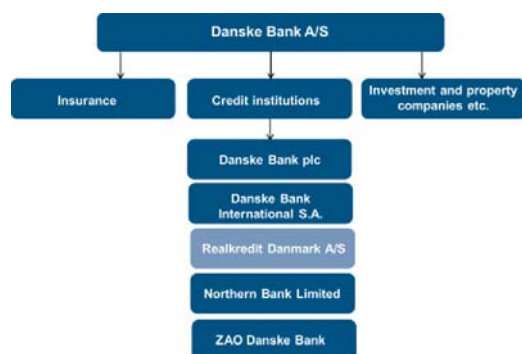
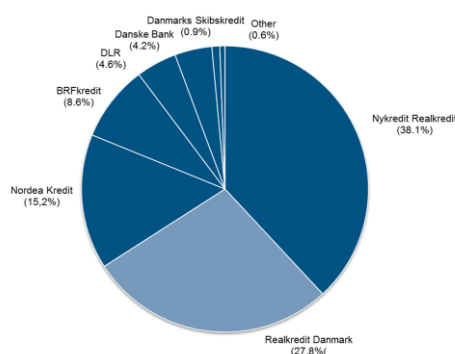


Figure 2: Market share



Source: Danske Bank A/S

Financial performance

From 2013 to 2014 the Danske Bank Group experienced a decrease in net profit of 18.6%. This decrease can primarily be explained by goodwill impairments. Increases, on the other hand, were driven by growth in all income lines, lower expenses and lower loan impairments. Net interest income rose by almost 5% from the level in 2013, despite persistently low interest rates. Net interest income benefited primarily from a repayment of hybrid capital raised from the Danish state, a higher investment return from a liquidity bond portfolio and lower funding costs. The profit level of the group is generally low compared to peers but the gap to peer has been narrowing since 2012. By the end of 2014, the Group had made considerable headway in winding up Irish Non-core operations, thus lessening the exposure to the Irish market (an expose that downgraded Danske Bank Group's credit rating from Moody's and S&P in 2012).

Table 1: Key figures for the Danske Bank Group

Key variables (DKKm)	2014	2013	Change (%)
Total assets	3.453.015	3.227.057	7,0%
Net interest income	23.107	22.077	4,7%
Loan losses	2.788	4.111	-32,2%
Profit for the year (after tax)	3.846	4.725	-18,6%
Key ratios (%)	2014	2013	Change (%-point)
Return on equity	8,5	5,0	3,5
Cost/income ratio	64,0	60,9	3,1
Total capital ratio	19,3	21,4	-2,1

Source: Danske Bank Group Annual Report 2014

Cover pool composition

Realkredit Danmark issues bonds from capital centre S, capital centre T and a general capital centre, with the cover pools in centre S and T being the most important ones. These cover pools have a value of DKK 239.2bn (pool S) and DKK 482.8bn (pool T) and have an actual credit enhancement of 6.1% and 11.3%, respectively. The WAFFxWALS are in line with other Danish issuers at 5.5% and 6.7% respectively for Pool S and Pool T.

ALM and risk

Both cover pools mainly consist of fixed rate loans at 73% (pool S) and 59% (pool T) defined as loans with a fixed rate for at least one year. For pool T most of these loans (79%) are adjustable-rate mortgages (ARMs) financed by fixed-rate bullets, while 15% of the loans in pool S are ARMs financed by fixed-rate bullets. There is therefore no interest rate risk for the issuer as well as no currency risk. The only risk faced by the issuer is credit risk.

Ratings

All outstanding covered bonds issued by Realkredit Danmark have received an AAA-rating from S&P. Fitch have rated capital centre S AAA and capital centre T an AA+, both with stable outlooks. Realkredit Danmark does not have its own issuer rating. However, Danske Bank's long-term rating by Moody's/S&P/Fitch is A2/A/A. Moody's and Fitch agree on a stable outlook, whereas S&P holds it negative. In June 2015 Moody's upgraded Danske Bank's long-term credit rating from baa1, to A2, which is reflecting the progressive strengthening of the bank's performance in recent years, including improvements in asset quality and capitalization. In April 2014, S&P improved Danske Bank A/S' rating from A- to A as risk on Irish portfolio has decreased. However, the negative outlook reflects that Danske Bank's rating might be lowered by year-end 2015, if there is a greater likelihood that senior unsecured liabilities may incur losses if the bank fails.

Graphs and statistics

Table 2: Cover pool statistics

Value of cover pool	Pool S (SDRO)	Pool T (SDRO)
Total lending (DKKbn)	239,2	482,8
WAFF	18,1%	21,6%
WALS	30,2%	31,0%
WAFFxWALS	5,5%	6,7%
Collateral composition		
Residential assets	60,4%	49,9%
Commercial assets	30,2%	39,9%
Public-sector assets	0,0%	0,0%
Other assets	9,6%	10,3%
Interest rate and duration mismatch		
WAM of outstanding covered bonds (years)	14,48	15,18
WAM of the cover pool (years)	13,08	13,53

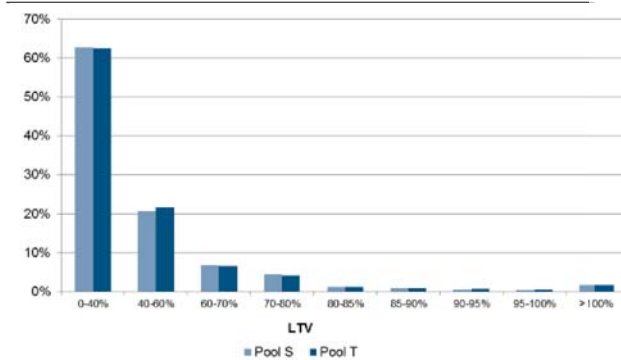
Source: S&P, Realkredit Danmark

Table 3: Rating by S&P

Rating S&P	Pool S	Pool T
Rating	AAA	AAA
Current OC / Actual CE	6,1%	11,3%
Committed OC	-	-
OC consistent with current rating / Target CE	6,0%	4,9%
RRL	a	a
JRL	aa	aa
TPI Leeway / Unused uplift (notches)	1	1

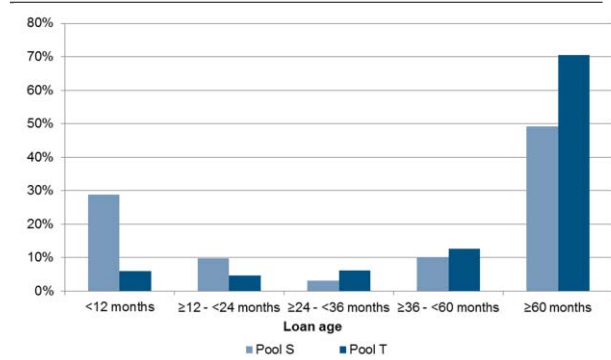
Source: S&P

Figure 3: Continuously distributed LTV, Q1 2015



Source: Realkredit Danmark

Figure 4: Loan seasoning, Q1 2015



Issuer profiles

Finland

Aktia Bank

Bank of Åland plc

Danske Bank plc

Nordea Bank Finland

OP Mortgage Bank

Aktia Bank

Key points

Strengths

- Solid bank with a diversified network in Finland.
- High-quality cover pools mainly consisting of Finnish residential mortgages.
- New covered bond program issued by Aktia Bank in June 2013 has obtained an Aaa-rating by Moody's.

Weaknesses

- A small player with a modest market share of the Finnish covered bond market.
- One of the older pools (pool 0) is rated Aa2 by Moody's.

Company profile

The Aktia Group is the fourth-largest banking group in Finland with activities in banking, insurance and real estate. With the aim to streamline the group structure, the listed holding company Aktia plc merged with the subsidiary Aktia Bank on July 1, 2013. The new structure of the Aktia Group is illustrated in the figure below with Aktia Bank being the group's current issuer of covered bonds. Because the merger took place within the Group and Aktia plc owned 100% of the shares in Aktia Bank plc, the merger had no direct effect on the results for the Aktia Group. Aktia Bank intends to renew its core banking system and the new system is taken into use during 2015.

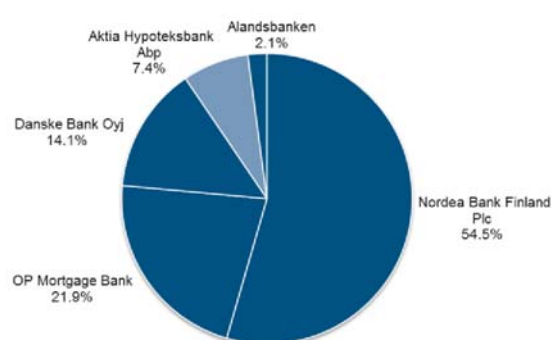
Previously, all covered bonds from the Aktia Group were issued by Aktia Real Estate Mortgage Bank (AREMB) - a specialist mortgage bank - on the basis of two cover pools (pool 0 and pool 1). As of November 2011, covered bonds issued by AREMB were under review for downgrade by Moody's, and in October 2012 a downgrading from Aa1 to Aa3 took place. This was primarily due to a downgrading in issuer rating of the parent company, Aktia Bank, from A1 to A3 (February 2012), but was also explained by the fact that AREMB is only partly owned by Aktia Bank, and there is a substantial number of unrated owners. In the wake of the downgrading, AREMB stopped issuing bonds from pool 0 and 1.

Instead, Aktia Bank was granted concession by the FSA to operate as a mortgage bank and launched its first covered bond program in June 2013 with a cover pool consisting only of Finnish residential mortgages. The rating of the covered bond program now only relies on the rating of one issuer, Aktia Bank, and the program has obtained an Aaa-rating by Moody's.

Figure 1: Structure of the Aktia Group



Figure 2: Market share



Source: Aktia Bank Debt Investor Presentation Q2/2015, Bloomberg

Financial performance

From 2013 to 2014, net interest income remained quite stable despite a low interest rates environment. Write-downs on credits and other commitments decreased by 37% and contributed to the increase of the after-tax profit for the year from continuing operations. The decline of net interest income was compensated by an increase in commission income and lower expenses. The bank has a relatively high cost-to-income ratio due to increasing operating expenses over the recent years. Furthermore, Aktia Bank is characterized by a relatively high reliance on wholesale funding. Tier 1 capital ratio improved to 14.6% from 12.3%, and thus exceeds the goal of 13%.

Table 1: Key figures for the Aktia Bank plc

Key variables (EURm)	2014	2013	Change (%)
Total assets	10.706	10.933	-2,1
Net interest income	103	113	-8,8
Write-downs on credit and other commitments	2	3	-37,0
Profit for the year from continuing operations (after tax)	55.031	52.354	5,1
Key ratios (%)	2014	2013	Change (%-point)
Return on equity	8,3	8,1	0,2
Cost/income ratio	71,0	72,0	-1,0
Total capital ratio	19,1	15,5	3,6
Tier 1 capital ratio	14,6	12,3	2,3

Source: Aktia Bank plc Annual Report 2014

Cover pool composition

Aktia Bank launched its first covered bond program in June 2013 with one cover pool consisting only of Finnish residential mortgages. Now the pool has a value of EUR 1.57bn and a high asset quality with an average LTV of 56.8%, a collateral score by Moody's of 5.6% and a high overcollateralization of 57.9%. The old cover pools, pool 0 and pool 1, issued by AREMB have a strong asset quality as well, which is further supported by its promise to maintain an overcollateralization in the pools of 21.8% and 23.4%, respectively. The average indexed LTV levels for residential assets are 51.8% in pool 0 and 49.8% in pool 1. As already mentioned, no new issues are made from the two pools, as issuing of covered bonds will from now on be made by Aktia Bank.

ALM and risk

Similar to the rest of the Finnish issuers, mortgage loans in the cover pools (the new pool as well as pool 0 and pool 1) are primarily floating-rate loans, while the covered bonds are issued as fixed-rate bonds resulting in exposure to interest rate changes if not adequately hedged. This mismatch especially applies to pool 1 where 0 % of the pool assets are fixed-rate loans, whereas 86.2 % of the outstanding covered bonds are fixed-rate bonds. These numbers are 10.8% and 100% for the new pool. Pool 0 shows a more modest mismatch and less exposure to interest rate changes. Due to a higher weighted average life (WAL) of the cover pools compared to the outstanding bonds, there is a refinancing risk associated with the pools as well. As all assets in the cover pools as well as the outstanding bonds are EUR-denominated the pools are not exposed to currency risk.

Ratings

The new covered bond program and Pool 1 has obtained an Aaa-rating by Moody's. In May 2014, Moody's upgraded Pool 0 from Aa3 to Aa2 on the grounds of the issuer's low debt ratio and the covered bond anchor is one notch above Aktia Bank's monitored rating. AREMB does not have a stand-alone rating, while Aktia Bank has a long-term credit rating of Aaa by Moody's (stable outlook).

Graphs and statistics

Table 2: Cover pool statistics

Value of cover pool	New pool	Pool 0	Pool 1
Cover pool value (EURbn)	1,6	0,9	1,1
Collateral score	5,6%	5,0%	5,0%
Collateral score excl. systemic risk	n/a	2,7%	3,7%
Collateral risk (collateral score post-haircut)	3,7%	3,4%	3,4%
Refinancing and market risk	7,0%	7,9%	11,7%
Collateral composition			
Residential assets	100%	93%	90%
Commercial assets	0%	0%	0%
Public-sector assets	0%	0%	0%
Multi family assets	0%	2%	2%
Other assets	0%	5%	8%
Interest rate and duration mismatch			
Fixed rate assets in the cover pool	10,8%	46,3%	0,0%
Fixed rate covered bonds outstanding	100,0%	66,7%	86,2%
WAL of outstanding covered bonds (years)	3,9	0,3	2,1
WAL of the cover pool (years)	8,5	7,7	7,7

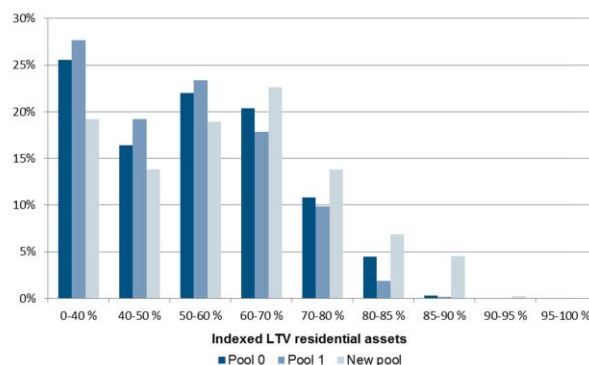
Source: Moody's investor service

Table 3: Rating by Moody's

Ratings Moody's	New pool	Pool 0	Pool 1
Rating	Aaa	Aa2	Aaa
Current OC	57,9%	21,8%	23,4%
Committed OC	10,0%	8,5%	12,0%
OC consistent with current rating	9,0%	3,0%	3,0%
TPI	Probable-High	Probable-High	Probable-High
TPI Leeway	1	0	0

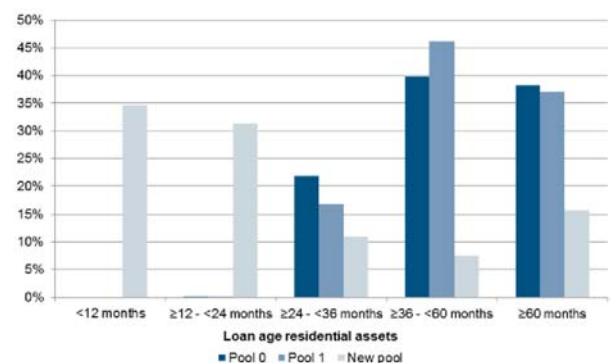
Source: Moody's investor service

Figure 3: Indexed LTV distribution, Q1 2015



Source: Moody's investor service

Figure 4: Loan seasoning as of Q1 2015



Bank of Åland plc

Key points

Strengths

- Business operations in economically robust regions in Finland.
- Sound financing profile benefitting from stable customer deposits.

Weaknesses

- Concentration risk due to focus on retail and private banking in Finland and Sweden.
- Limited but improving geographic, franchise, and earnings diversification.
- Still low earnings capacity and cost efficiency.

Company profile

The Bank of Åland Plc (Ålandsbanken) is a commercial bank and banking group. It has its main market in Åland, but it also operates in Finland and Sweden. The group was founded in 1919 and further extended its operations through an acquisition of Kaupthing Bank Sverige AB in 2008. Today it has over 700 employees, about 90,000 customers and is the fifth largest issuer on the covered bond market in Finland, with a 2.1% market share. The Bank of Åland Group has a total of five subsidiaries and all are connected to banking in various ways. In the Åland Islands, the Bank of Åland is a bank for all residents. In Finland and Sweden, however, it has a niche strategy targeted to entrepreneurs, wealthy families and individual customers with sound finances.

Bank of Åland grants long term loans to Finnish and Swedish households. These loans are used as the collateral in the two cover pools of the group, Cover Pool FIN and Cover Pool SWE. Bank of Åland is committed to maintain a liquidity buffer covering 180 days of contractual outflows from the covered bonds issued. The liquidity buffer consists of contractual inflows and liquidity assets in the cover pool.

Figure 1: Structure of the Bank of Åland Group

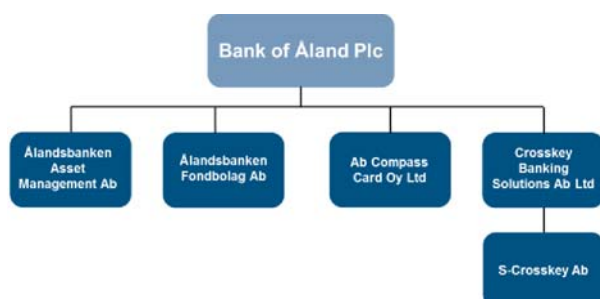
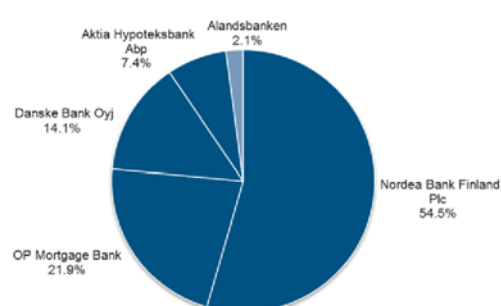


Figure 2: Market share



Source: Bank of Åland Annual Report 2014, Bloomberg

Financial performance

From 2013 to 2014, the Bank of Åland experienced a remarkable increase in profit for the year (after tax) of 128.9%. This increase can be explained by earnings improvements on the Finnish mainland and in Sweden. The net interest income rose by 16%, where the Finnish mainland business and the Sweden business area accounted for the largest increases. Improved net interest income can be explained by higher lending volume as well as wider interest margins in the loan portfolio and lower funding costs. Impairment losses on loans decreased by 56.7% from 2013 to 2014. The positive result laid the foundation for an improved return on equity by 4.9 %-points from 2013 to 2014, and ended at 8.7%. Although a positive trend, this is below the group's goal of a return on equity of 10%.

Table 1: Key figures for the Bank of Åland plc

Key variables (EURk)	2014	2013	Change (%)
Total assets	4.292.372	3.886.655	10,4%
Net interest income	49.293	42.371	16,3%
Loan losses (net)	1.765	4.080	-56,7%
Profit for the year (after tax)	17.626	7.701	128,9%
Key ratios (%)	2014	2013	Change (%-point)
Return on equity	8,8	3,8	4,9
Cost/income ratio	78,0	75,0	3,0
Total capital ratio	12,1	13,5	-1,4
Core Tier 1 capital ratio	10,9	10,8	0,1

Source: Bank of Åland plc Annual Report 2014

Cover pool composition

The Bank of Åland has two covered bond programs, Cover Pool FIN and Cover Pool SWE. Cover Pool SWE is the most recently launched in 2014. Cover Pool FIN consists solely of residential mortgages (100%), whereas Cover Pool SWE consists of a combination of residential mortgages (46.75%) and commercial assets (53.25%). Cover Pool FIN and Cover Pool SWE have a value of EUR 993m and SEK 3,011m, respectively. The average LTV is on an average level for both pools; 51% (Cover Pool FIN) and 57% (Cover Pool SWE). Both pools also maintain high overcollateralization compared to domestic peers of 39.4% (Cover Pool FIN) and 72.1% (Cover Pool SWE).

ALM and risk

Similar to the rest of the Finnish issuers, mortgage loans in both of the cover pools are primarily floating-rate loans. In Cover Pool FIN 90% of the loans in the cover pool are floating rate loans, while 63% of the bonds issued are fixed-rate bonds. This results in an exposure to interest rate changes if not adequately hedged. Cover Pool SWE shows a more modest mismatch as 80% of the loans in the cover pool are floating rate loans, while none of the bonds are issued as fixed-rate bonds. Thus, this pool has less exposure to interest rate changes. In Cover Pool FIN, all assets in the cover pools as well as the outstanding bonds are EUR-denominated. In Cover Pool SWE on the other hand, all assets in the cover pool as well as the outstanding bonds are SEK-denominated. Thus none of the pools are exposed to currency risk.

Ratings

Both cover pools have obtained an AAA-rating from S&P. In April 2015 S&P raised the rating on the covered bonds from AA with a negative outlook, to AAA with a stable outlook. This credit rating reflects the strong institutional framework and legislation in the Finnish and European financial sector, as well as high credit quality and strong liquidity in the Bank of Ålands cover pool. Bank of Åland has a long-term credit rating of BBB with a negative outlook. This rating is based on the fact that the weak economic conditions in Finland might hamper the banking sectors performance.

Graphs and statistics

Table 2: Cover pool statistics

Value of cover pool	Cover Pool FIN	Cover Pool SWE
Cover pool value (EURm/SEKm)	993,0	3.011,0
WAFF	21,2%	20,9%
WALS	13,2%	14,1%
WAFFxWALS	2,8%	3,0%
Collateral composition		
Residential assets	100%	47%
Commercial assets	0%	53%
Public-sector assets	0%	0%
Multi family assets	0%	0%
Other assets	0%	0%
Interest rate and duration mismatch		
Fixed rate assets in the cover pool	10,0%	20,0%
Fixed rate covered bonds outstanding	63,0%	0,0%
WAM of outstanding covered bonds (years)	3,4	4,5
WAM of the cover pool (years)	5,7	15,5

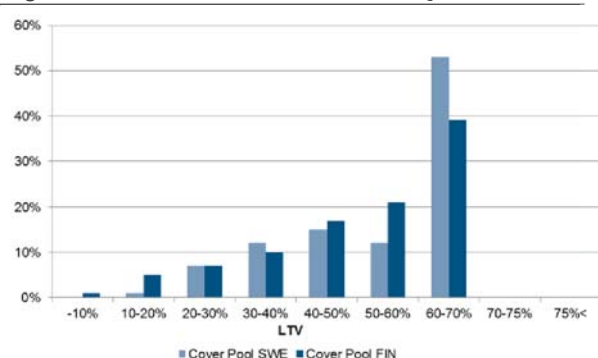
Source: S&P, Bank of Åland Covered Bond Data Q1 2015

Table 3: Rating by S&P

Rating S&P	Cover Pool FIN	Cover Pool SWE
Rating	AAA	AAA
Current OC / Actual CE	63,1%	71,5%
Committed OC	-	-
OC consistent with current rating / Target CE	29,3%	19,8%
RRL	a-	a-
JRL	aa-	aa-
TPI Leeway / Unused uplift (notches)	1	1

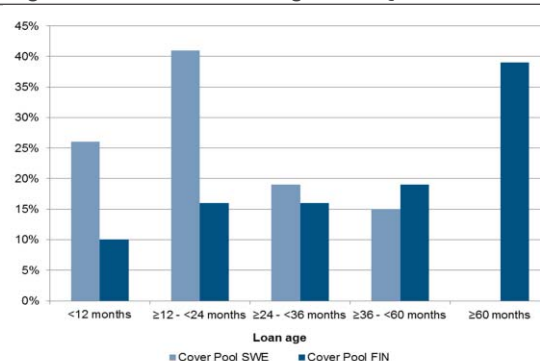
Source: S&P

Figure 3: Indexed LTV distribution, Q1 2015



Source: Bank of Åland Covered Bond Data Q1 2015

Figure 4: Loan seasoning as of Q1 2015



Danske Bank plc

Key points

Strengths

- Issuer's credit strength benefits from full ownership of the Danske Bank Group and the liquidity support therein.
- High-quality cover pool consisting of 100% Finnish residential mortgage loans with a low average LTV of 53.5%.

Weaknesses

- Market share of Finnish covered bond market at approximately 14%, smaller than that of market leaders Nordea and OP-Pohjola Group.
- The pool primarily consists of floating rate loans (83.8%), thus the quality of the pool is vulnerable to interest rate hikes.

Company profile

Danske Bank Plc (former Sampo Bank Plc) has since 2007 been a fully-owned subsidiary of the Danske Bank Group and is the third-largest bank in Finland with more than 1m retail customers and 90,000 corporate and institutional customers. The parent company, Danske Bank Group, is one of the largest financial groups in Northern Europe with activities in all Nordic countries, Ireland and parts of Eastern Europe.

Previously, all covered bond activities in the Sampo Bank Group were carried out by Sampo Housing Loan Bank, a mortgage credit bank. In January 2012, Sampo Housing Loan Bank merged with its parent company, Sampo Bank Plc. Thereby, Sampo Bank Plc (the current Danske Bank Plc) assumed all rights and obligations of Sampo Housing Loan Bank and was granted a license for mortgage credit banking operations by the Finnish FSA. The structure of the Danske Bank Group is illustrated below.

Figure 1: Structure of the Danske Bank Group

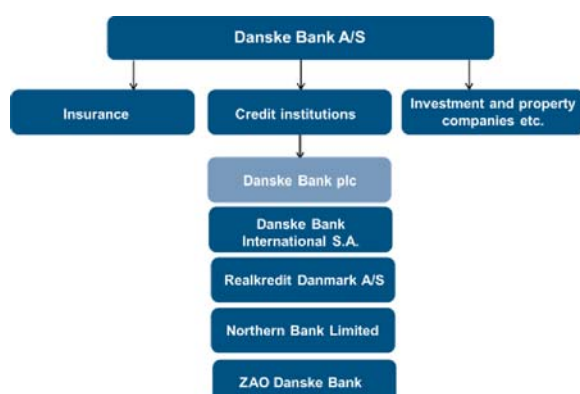
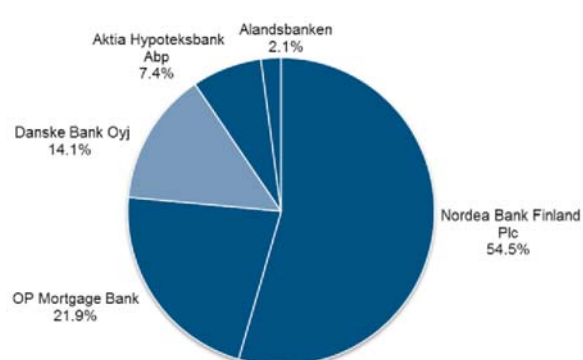


Figure 2: Market share



Source: Danske Bank, Bloomberg

Financial performance

From 2013 to 2014 the Danske Bank Group experienced a decrease in net profit of 18.6%. This decrease can primarily be explained by goodwill impairments. Increases, on the other hand, were driven by growth in all income lines, lower expenses and lower loan impairments. Net interest income rose by almost 5% from the level in 2013, despite persistently low interest rates. Net interest income benefited primarily from a repayment of hybrid capital raised from the Danish state, a higher investment return from a liquidity bond portfolio and lower funding costs. The profit level of the group is generally low compared to peers but the gap to peer has been narrowing since 2012. By the end of 2014, the Group had made considerable headway in winding up Irish Non-core operations, thus lessening the exposure to the Irish market (an expose that downgraded Danske Bank Group's credit rating from Moody's and S&P in 2012).

Table 1: Key figures for the Danske Bank Group

Key variables (DKKm)	2014	2013	Change (%)
Total assets	3.453.015	3.227.057	7,0%
Net interest income	23.107	22.077	4,7%
Loan losses	2.788	4.111	-32,2%
Profit for the year (after tax)	3.846	7.115	-45,95%
Key ratios (%)	2014	2013	Change (%-point)
Return on equity	8,5	5,0	3,5
Cost/income ratio	72,4	60,9	11,5
Total capital ratio	19,3	21,4	-2,1
Core Tier 1 capital ratio	15,1	14,7	0,4

Source: Danske Bank Group Annual Report 2014

Cover pool composition

All covered bonds issued by Danske Bank plc are backed by one cover pool with a value of EUR 6.2bn consisting of 100% residential mortgages. The loans are granted on property in Finland, mostly in Southern Finland, where the country is densely populated. The cover pool is characterized by a low LTV on average (53.5%), though the distribution is quite dispersed with more than 25% of the loans having a LTV above 70%. The collateral score excl. systemic risk assigned by Moody's is 3.3%, which is in line with domestic peers.

ALM and risk

As most of the Finnish peers, the pool primarily consists of floating-rate loans (83.8%) while the outstanding covered bonds are mainly fixed-rate bonds (80%). Due to this mismatch, there is an interest rate risk which should be hedged. Furthermore, there is a refinancing risk as the WAL of the pool is less than that of the outstanding bonds. There is no currency risk as both pool assets and outstanding covered bonds are EUR-denominated.

Ratings

All covered bonds issued by Danske Bank Plc are Aaa-rated by Moody's, while Danske Bank Plc's long-term rating is A2/A- by Moody's/S&P. This follows Moody's' and S&P's one notch downgrade in May 2012. Moody's reasons for downgrading were Sampo Bank's operating environment and funding opportunities that were not considered immune to the Euro-area debt crisis. It was questioned whether the government would consider large banks systemic important enough to support them in case of default. In June 2015, Moody's changed the outlook from negative to stable, reflecting the unused notch of uplift from the long-term issuer credit rating. At the same time the Danske Bank Group was upgraded to A2 by Moody's.

Graphs and statistics

Table 2: Cover pool statistics

Value of cover pool	
Cover pool value (EURbn)	6,2
Collateral score	5,0%
Collateral score excl. systemic risk	3,3%
Collateral risk (collateral score post-haircut)	3,4%
Refinancing and market risk	6,7%
Collateral composition	
Residential assets	100,0%
Commercial assets	0,0%
Public-sector assets	0,0%
Multi-family assets	0,0%
Other assets	0,0%
Interest rate and duration mismatch	
Fixed rate assets in the cover pool	14,3%
Fixed rate covered bonds outstanding	80,0%
WAL of outstanding covered bonds (years)	3,3
WAL of the cover pool (years)	9,4

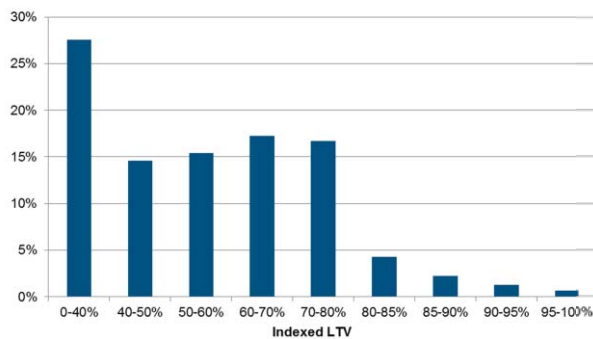
Source: Moody's investor service

Table 3: Rating by Moody's

Ratings Moody's	
Rating	Aaa
Current OC	24,8%
Committed OC	5,0%
OC consistent with current rating	6,0%
TPI	Probable-High
TPI Leeway	1

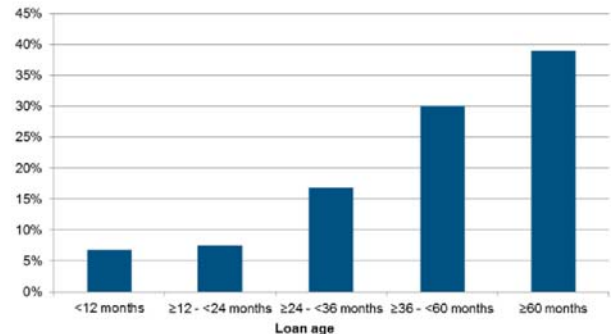
Source: Moody's investor service

Figure 3: Indexed LTV distribution, Q1 2015



Source: Moody's investor service

Figure 4: Loan seasoning, Q1 2015



Nordea Bank Finland

Key points

Strengths

- High credit quality, largest bank in Finland and part of the Nordea Group.
- Largest issuer of Finnish covered bonds (54.5% of total outstanding bonds).
- High-quality cover pool with mainly Finnish residential mortgages (93.4%) and low average LTV (52.2%).

Weaknesses

- Challenges to parent from tougher financial regulation and decreasing implicit state support.
- With 96.7% of the pool consisting of floating-rate loans, the credit quality of the pool is vulnerable to interest rate hikes.
- Dynamic cover pool – substitution risk.

Company profile

Nordea Bank Finland is a universal bank which is fully owned by Nordea Bank AB and licensed by the Finnish FSA to issue covered bonds in accordance with the Finnish Covered Bond Act. Nordea has the largest customer base of any financial services group in the Nordic region with approximately 11 million customers. The group operates in eight home markets; The Nordic region including Denmark, Finland, Norway and Sweden and the new European markets of Estonia, Latvia, Lithuania, and Russia. Nordea Bank Finland was the largest issuer of covered bonds in Finland accounting for 54.5% of total outstanding covered bonds in the market (a value of EUR 15.5bn). The structure of the Nordea Group is shown in the figure below.

Figure 1: Structure of the Nordea Group

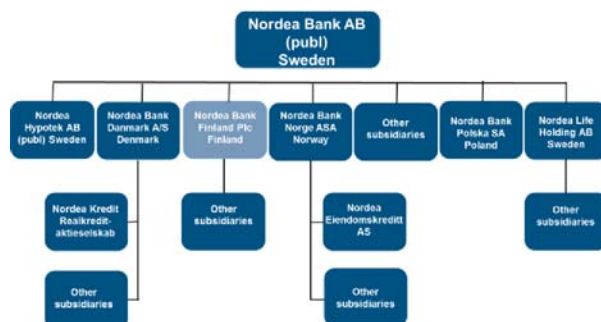
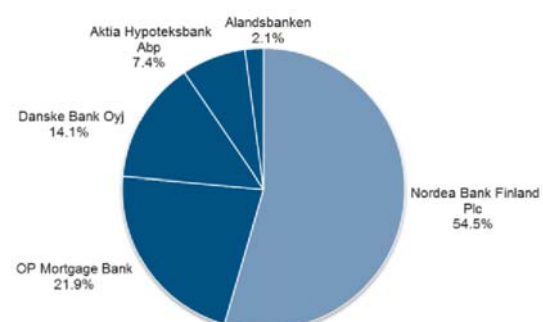


Figure 2: Market share



Source: Nordea, Bloomberg

Financial performance

Nordea Group weathered the financial crisis and has performed well in recent years. Profit for the year improved by 8.5% because of stable income, stable expenses and lower losses. On this point, Nordea is traditionally viewed as a conservative bank in terms of risk-taking, which is reflected in relatively few loan impairments in 2013 and 2014 compared to key competitors. Total assets increased by 6%. Thus, there was an increase despite the Euro strengthening against the Swedish and Norwegian Krona and against the Russian Rubel in 2014. The effect of changes in currency exchange rates had a negative impact on the value of the Group's assets. Nordea Group holds a return on equity target of 13%. In 2014, return on equity was 11.6% excluding non-recurring items and 11.5% including these, thus below the target level.

Table 1: Key figures for the Nordea Group

Key variables (DKKm)	2014	2013	Change (%)
Total assets	669,342	630,434	6,2%
Net interest income	5,482	5,525	-0,8%
Loan losses	534	735	-27,3%
Profit for the year (after tax)	3,371	3,107	8,5%
Key ratios (%)	2014	2013	Change (%-point)
Return on equity	11,5	11,0	0,5
Cost/income ratio	49,0	51,0	-2,0
Total capital ratio	13,5	13,4	0,1
Core capital ratio	11,6	11,0	0,6

Source: Nordea Annual Report 2014

Cover pool composition

The value of the cover pool is EUR 19.7bn consisting almost solely of residential mortgages (93.4%), though qualifying assets may include loans collateralized by both mortgages, state/municipal guaranteed loans, derivative contracts, and substitute assets according to the Finnish Covered Bond Act. The pool is characterized by a low indexed LTV on average (52.2%) and a collateral score incl. systemic risk of 5.3%, which is in line with domestic peers. The underlying properties are geographically well spread across Finland. However, there is a greater concentration in Southern Finland due to the density of habitation in this area.

ALM and risk

Like the rest of the Finnish issuers, mortgage loans are primarily floating-rate loans, while covered bonds are issued as fixed-rate bonds resulting in a mismatch and exposure to interest rate changes if not adequately hedged. As all loans are EUR-denominated, the pool is not exposed to currency risk, but there is a refinancing risk due to the mismatch in weighted average lifetime of cover pool loans and outstanding bonds (15.8 years and 4.0 years respectively).

Ratings

All covered bonds issued by Nordea Bank Finland are rated Aaa by Moody's. Nordea Bank Finland's as well as Nordea Group's long-term ratings by Moody's/S&P/Fitch are Aa3/AA-/AA-. In June 2015, Nordea Bank's outlook was upgraded to stable by Moody's due to a resilient pattern, good operational efficiency and healthy asset-quality metrics. These positive factors are counterbalanced by Nordea Bank's high reliance on market funding.

Graphs and statistics

Table 2: Cover pool statistics

Value of cover pool	
Cover pool value (EURbn)	19,7
Collateral score	5,3%
Collateral score excl. systemic risk	2,3%
Collateral risk (collateral score post-haircut)	3,5%
Refinancing and market risk	8,0%
Collateral composition	
Residential assets	93,4%
Commercial assets	0,5%
Public-sector assets	1,4%
Multi family assets	4,8%
Other assets	0,0%
Interest rate and duration mismatch	
Fixed rate assets in the cover pool	3,3%
Fixed rate covered bonds outstanding	91,0%
WAL of outstanding covered bonds (years)	4,0
WAL of the cover pool (years)	15,8

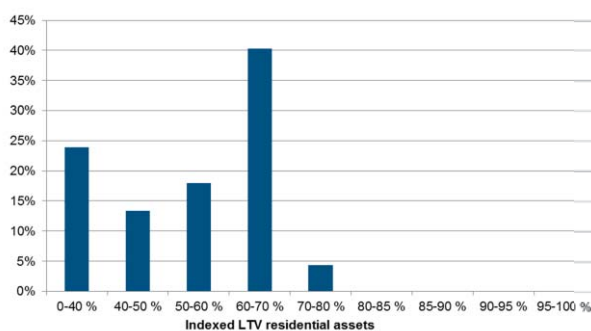
Source: Moody's investor service

Table 3: Cover pool statistics

Ratings Moody's		Moody's
Rating		Aaa
Current OC		23,0%
Committed OC		0,0%
OC consistent with current rating		0,0%
TPI		Probable
TPI Leeway		4

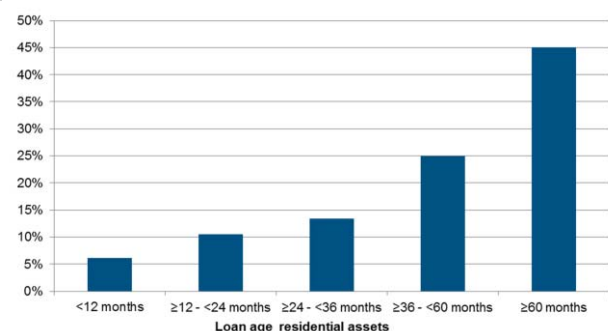
Source: Moody's investor service

Figure 3: Indexed LTV distribution, Q1 2015



Source: Moody's investor service

Figure 4: Loan seasoning as of Q1 2015



OP Mortgage Bank

Key points

Strengths

- Major financial group in Finland and second largest issuer of Finnish covered bonds.
- Well-capitalized group with joint liability between member institutions.
- High-quality cover asset pools consisting of only Finnish residential mortgages.

Weaknesses

- Few outstanding issues.
- Susceptible to interest rate rises as approximately 99% of assets in cover pools are variable-rate loans.
- Law of 2010 has raised LTV limits.
- Dynamic cover pool, and there is refinancing.

Company profile

OP Mortgage Bank (OPMB) is a specialized credit institution and a wholly-owned subsidiary of the largest provider of financial services in Finland, the OP-Pohjola Group. The aim of OPMB is to raise funds for the member credit institutions of the OP-Pohjola Group by issuing covered bonds collateralized by Finnish residential mortgages.

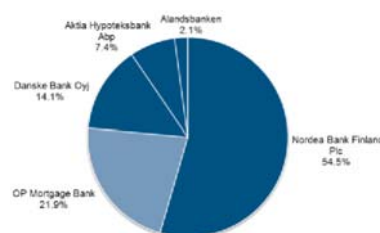
The Central Cooperative and the member banks are jointly liable for each other's debts and commitments, for instance in the case of liquidation or bankruptcy if debt of the liquidated or bankrupted institution cannot be covered by its funds. The liability is apportioned among the Central Cooperative and the member credit institutions in proportion to the total assets in the most recently adopted balance sheets. Assets in the cover pools of OPMB, however, are ring-fenced for the covered bond investors, and these investors therefore benefit from the joint liability. The structure of the OP-Pohjola Group is illustrated below. In February 2014, the Group made a voluntary public bid for Pohjola Bank's shares. This contributes to OP Pohjola Group's target of streamlining its structure and achieving a higher business efficiency.

The OP-Pohjola Group strengthened its market position further in 2013, especially in home loans, corporate financing and deposits. OPMB's market share stands at 21.9% of outstanding amount of covered bonds Finland, which makes them the second biggest issuer in the Finnish market.

Figure 1: Structure of the OP-Pohjola Group



Figure 2: Market share



Source: OP-Pohjola Group, Bloomberg

Financial performance

The group reported a decrease in profit after tax of 8.7% from 2013 to 2014, although the group managed to increase income and decrease expenses. The negative trend can be explained by record high tax expenses. The net interest income increased by 14%. This increase was the result of an increase in the average margin and the growth of the balance sheet. The Group continued to strengthen its capitalisation in 2013 as Core Tier 1 ratio and Total capital ratio improved by 0.8 %-points and 1.2 %-points respectively.

Table 1: Key figures for the OP-Pohjola Group

Key variables (EURm)	2014	2013	Change (%)
Total assets	110.427	100.991	9,3
Net interest income	1.043	915	14,0
Loan losses	88	84	4,8
Profit for the year (after tax)	607	665	-8,7
Key ratios (%)	2014	2013	Change (%-point)
Return on equity	8,1	8,9	-0,8
Cost/income ratio	57,0	62,0	-5,0
Total capital ratio	15,5	14,3	1,2
Core Tier 1 capital ratio	15,1	14,3	0,8

Source: OP-Pohjola Group Annual Report 2014

Cover pool composition

The two pools of OPMB have a value of EUR 1.2bn for pool A and EUR 8.0bn pool B and both solely consist of Finnish housing loans. Hence there are no commercial, agricultural or public sector loans in the pools. All new issues are made from pool B, while pool A will be closed in June 2015 at the maturity of the last issued bond from that pool.

ALM and risk

Both cover pools have low unindexed LTVs on average (43% pool A, 54% pool B) and low collateral scores excl. systemic risk (2.5% pool A, 2.3% pool B). As the pools only contain Finnish EUR-denominated residential mortgages, there is no currency risk associated with the pools. Similar to other Finnish issuers, there is interest risk, as the pools almost only contain floating-rate loans (99% of pool A, 99.3 % of pool B) which are funded with fixed-rate covered bonds. This is eliminated by the use of derivatives. Furthermore, the asset pools are exposed to refinancing risk.

Ratings

All covered bonds issued by OPMB are Aaa/AAA rated by Moody's and S&P, while Pohjola Bank's long term debt rating is Aa3/AA-/A+ by Moody's/S&P/Fitch. Pohjola Bank hold stable outlooks from both Moody's and Fitch, and a negative outlook from S&P. With an over-collateralization (OC) of 22.0% and 22.3% for pool A and B, respectively, the pools are well collateralized compared to the committed OC-levels consistent (5 % and 2 %) and OC consistent with the current rating (0% for both pools). In May 2014, Pohjola Bank was part of the banks whose outlook has been reviewed from stable to negative by Moody's on the grounds that the new EU regulation (Bank Recovery and Resolution Directive and Single Resolution Mechanism) shifts the risk to the downside. However, in 2015, Moody's argued that Pohjola Bank's cushion of liabilities eligible for bail-in, assuming a currently unlikely failure scenario, is sufficient to compensate for less likely government support.

Graphs and statistics

Table 2: Cover pool statistics

Value of cover pool	Pool A	Pool B
Cover pool value (EURbn)	1,2	8,0
Collateral score	5,0%	5,0%
Collateral score excl. systemic risk	2,5%	2,3%
Collateral risk (collateral score post-haircut)	3,4%	3,4%
Refinancing and market risk	7,2%	6,1%
Collateral composition		
Residential assets	100%	100%
Commercial assets	0%	0%
Public-sector assets	0%	0%
Multi family assets	0%	0%
Other assets	0%	0%
Interest rate and duration mismatch		
Fixed rate assets in the cover pool	1,0%	0,7%
Fixed rate covered bonds outstanding	100,0%	95,2%
WAL of outstanding covered bonds (years)	0,1	3,6
WAL of the cover pool (years)	5,6	7,1

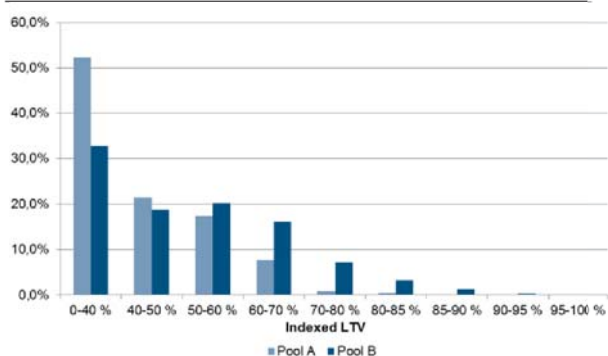
Source: Moody's investor service

Table 3: Ratings by Moody's

Ratings Moody's / S&P	Pool A	Pool B
Rating	Aaa	Aaa
Current OC / Actual CE	22,0%	22,3%
Committed OC	5,0%	2,0%
OC consistent with current rating / Target CE	0,0%	0,0%
TPI / ALMM risk	Probable	Probable-High
TPI Leeway / Unused uplift (notches)	4	4

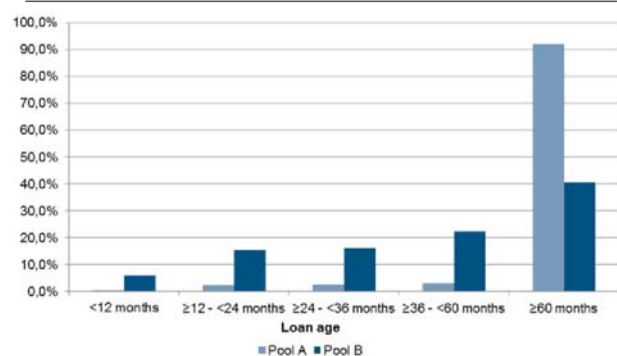
Source: Moody's investor service

Figure 3: Indexed LTV distribution, Q1 2015



Source: Moody's investor service

Figure 4: Loan seasoning as of Q1 2015



Issuer profiles

Norway

DNB Boligkreditt

Eika Boligkreditt

Møre Boligkreditt

Nordea Eiendoms kreditt

SpareBank 1 Boligkreditt

Sparebanken Sør Boligkreditt

Sparebanken Vest Boligkreditt

DNB Boligkreditt

Key points

Strengths

- Parent company is the largest provider of financial services in Norway.
- High quality cover pool. Mainly Norwegian residential mortgages (97.1%), low average LTV (57.4%) and OC at 37.3%.
- DNB is 34% owned by the Norwegian state.

Weaknesses

- Cover pool consists of potentially inflated assets in the Norwegian housing market.
- Parent company, DNB Bank, is exposed to the shipping industry, the real estate sector and corporates.
- Few limitations on future pool composition – substitution risk.

Company profile

DNB Boligkreditt is a wholly-owned subsidiary of the largest bank in Norway, DNB Bank. The DNB Group is the largest provider of financial services in Norway with 2.1m retail customers and 220,000 corporate customers. DNB Boligkreditt has Norway's most extensive distribution network for mortgage solutions, being one of the largest real estate agencies. This ensures a strong distribution system. DNB Bank was founded in 1822 under the name Christiania Sparebank, but has been formed by several mergers during its lifetime. The Norwegian state holds a 34% share in the bank while a foundation (Sparebankstiftelsen DNB NOR) holds an additional 10%. Due to this ownership structure and DNB's systemic importance to the Norwegian financial sector, government support is considered highly likely in case of distress. DNB Boligkreditt's sole purpose is to issue covered bonds backed by mortgage loans. DNB Boligkreditt was the first to issue covered bonds in Norway and has retained a very strong market position with almost 43.2% of all outstanding bonds.

Figure 1: Structure of the DNB Group

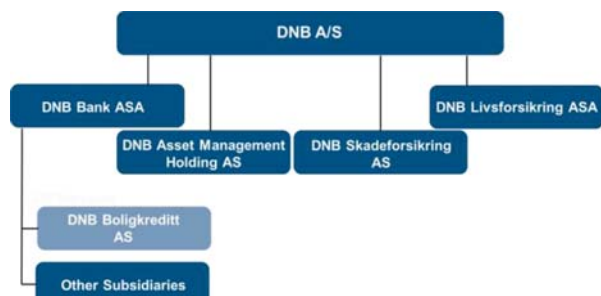
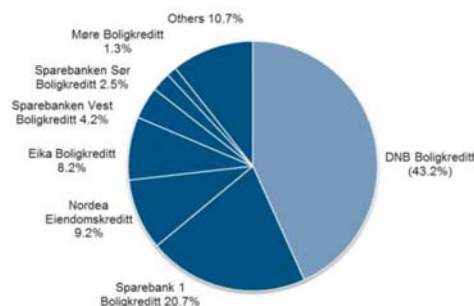


Figure 2: Market share



Source: DNB Bank ASA, Bloomberg

Financial performance

From 2013 to 2014, DNB Bank Group recorded an increase of after-tax profit of 17.7% to NOK 20,617. The improved profit is attributable to both an increase in net interest income (7.6%) and lower loan losses (-25.0%). The return on equity improved by 0.7 %-points to 13.8%, and is in line with domestic peers. This is above DNB Bank Group's target for 2016, which is set at 12%. Both capital ratios increased as well. This indicates that the group is well capitalized, but still have to build extra capital to meet stricter capital adequacy calculations issued by the Norwegian Ministry in 2013.

Table 1: Key figures for the DNB Bank Group

Key variables (NOKm)	2014	2013	Change (%)
Total assets	2,649,341	2,405,507	10,1%
Net interest income	32,487	30,192	7,6%
Loan losses	1,639	2,185	-25,0%
Profit for the year (after tax)	20,617	17,511	17,7%
Key ratios (%)	2014	2013	Change (%-point)
Return on equity	13,8	13,1	0,7
Cost/income ratio	41,9	45,7	-3,8
Total capital ratio	15,2	14,0	1,2
Tier 1 capital ratio	12,7	11,8	0,9

Source: DNB Bank Group Annual Report 2014

Cover pool composition

The cover pool consists exclusively of NOK-denominated mortgages, thus there is no currency risk. These mortgages are primarily financing residential properties (97.1%) and a small amount of commercial assets (2.9%). All loans are granted on Norwegian properties making the pool exposed to the state of the Norwegian economy, in particular the housing market. The residential assets in the pool are characterized by an average LTV of 57.4%, well below the requirements of 75% according to the Norwegian law regulations. Similarly, the collateral score excl. systemic risk is low (4.6%) compared to domestic peers reflecting the limited credit risk in the pool. Overcollateralization stands at 37.3% higher than most of the domestic competitors.

ALM and risk

DNB Boligkreditt is subject to interest rate risk given that most loans are floating-rate loans while the outstanding covered bonds are fixed-rate bonds. However, this risk is mitigated through swap agreements. Underlying assets are all NOK-denominated, but bonds are issued in EUR, NOK and USD. The currency risk is eliminated by the use of swap agreements. The pool is subject to refinancing risk as the average weighted lifetime of the loans is shorter than for the outstanding bonds.

Ratings

All covered bonds issued by DNB Boligkreditt benefit from Aaa/AAA/AAA by Moody's/S&P/Fitch. DNB Boligkreditt does not have a stand-alone issuer rating, while DNB Bank is rated Aa2/A+/A+ by Moody's/S&P/Fitch. Moody's upgraded the long-term rating from Aa3 to Aa2 in June 2015. The upgrade was based on that DNB Bank had few failures based on the protection provided to depositors, and low loss given failure based on the protection provided to senior unsecured creditors by the group's deposits, senior and subordinated debt. At the same time, the outlook was updated from negative to stable. In 2014 Fitch decided to withdraw its rating, due to Fitch's view that the bank's creditworthiness has not materially changed and no additional information has been released. The rating above is the last one from Fitch.

Graphs and statistics

Table 2: Cover pool statistics

Value of cover pool	
Cover pool value (NOKbn)	558,1
Collateral score	5,9%
Collateral score excl. systemic risk	4,6%
Collateral risk (collateral score post-haircut)	3,9%
Refinancing and market risk	10,8%
Collateral composition	
Residential assets	97,1%
Commercial assets	2,9%
Public-sector assets	0,0%
Multi family assets	0,0%
Other assets	0,0%
Interest rate and duration mismatch	
Fixed rate assets in the cover pool	12,2%
Fixed rate covered bonds outstanding	72,3%
WAL of outstanding covered bonds (years)	4,0
WAL of the cover pool (years)	12,5

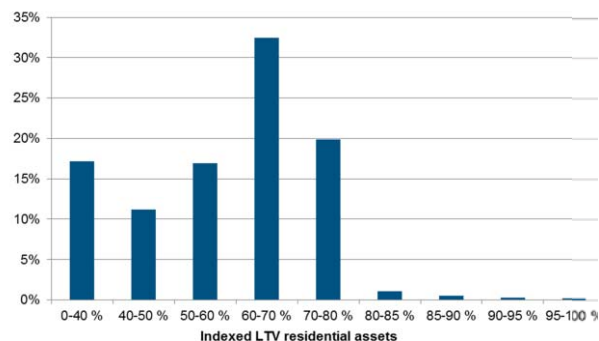
Source: Moody's investor service

Table 3: Rating by Moody's and S&P

Ratings Moody's / S&P	Moody's	S&P
Rating	Aaa	AAA
Current OC / Actual CE	37,3%	42,7%
Committed OC	0,0%	-
OC consistent with current rating / Target CE	0,0%	9,7%
TPI	Probable	-
RRL	-	a+
JRL	-	aa+
TPI Leeway / Unused uplift (notches)	6	1

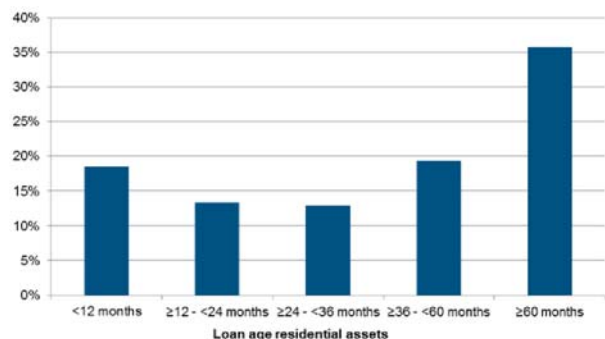
Source: Moody's investor service and S&P

Figure 3: Indexed LTV distribution, Q1 2015



Source: Moody's investor service

Figure 4: Loan seasoning, Q1 2015



Eika Boligkreditt

Key points

Strengths

- High-quality cover pool – 77.2% residential mortgages with a low average LTV on residential assets (46.2%).
- The lowest collateral score excl. systemic risk of 2.0% among European countries.
- Geographically diversified due to nationwide distribution network.

Weaknesses

- Only major Norwegian covered bond program that is Aa1 (and not Aaa) rated by Moody's.
- Cover pool loans granted on potentially inflated assets in the Norwegian housing market.
- Dispersed owner-structure.

Company profile

Eika Boligkreditt (former Terra Boligkreditt) is owned by 74 Norwegian savings banks (Eika banks) and the housing cooperative OBOS. The Eika banks and Eika Gruppen AS - a holding company also owned by the 75 Eika banks and OBOS - have a collective customer base of almost one million. OBOS is Norway's largest housing corporation owned by its 330,000 members and founded with the aim to build and manage houses for its members. Eika Boligkreditt benefits from a distribution system of about 200 branch offices owned by the various Eika saving banks. Eika Boligkreditt was established in 2003 as a specialized credit institution. Its sole purpose is to offer mortgages on retail properties in Norway distributed through Eika banks' branches and the real estate agent Aktiv Eiendomsmegling (a merger of Aktiv Eiendomsmegling and Terra Eiendomsmegling in 2013).

A guarantee scheme exists between Eika Boligkreditt and the Eika banks to ensure aligned incentives: 1) A loss guarantee implying a first-loss guarantee for the portion of the loan exceeding 50% LTV plus a minimum guarantee of NOK 25,000 per loan irrespective of LTV and 2) Set-off rights implying that Eika Boligkreditt has set-off rights against each bank's commission for a period of up to three years. Furthermore, an agreement on loans in arrears has been settled, implying that the local Eika bank is notified whenever debt payments are missed. The bank will then be presented with three options to choose from: 1) The bank covers missed payments 2) The bank buys back the mortgage at par plus interest and as a result the mortgage is removed from the cover pool and 3) The bank pays the guaranteed amount. In addition, the owners' support extends to capital and liquidity support.

Figure 1: Structure of the Eika Group

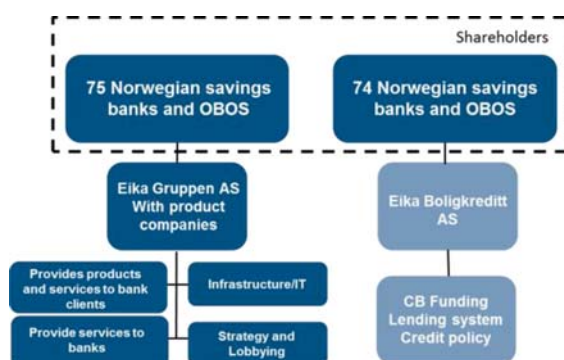
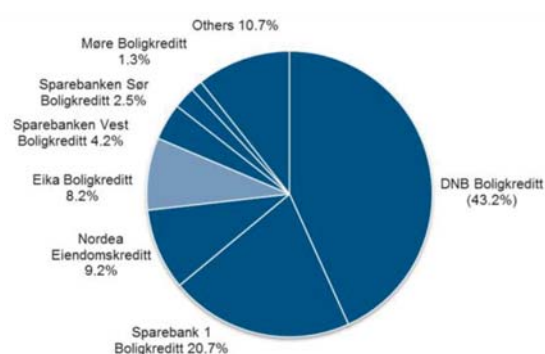


Figure 2: Market share



Source: Eika Boligkreditt Investor Presentation 2014, Bloomberg

Financial performance

Since the Eika banks do not publish a consolidated annual report we do not comment on their financial performance. Instead, key figures for Eika Boligkreditt are reported below. As from 2012 to 2013, Eika Boligkreditt experienced a significant increase in total assets of 16.4% to DKK 81.2bn during the year 2014. The increase was almost 25% from 2012 to 2013. The increase in company's balance sheet is mostly attributable to the higher lending to customers. The credit institution reported again an increase in net interest income of 16.3%, compared to an increase in net interest income by more than 80% in 2013. Profit for the year was influence by a declining money market interest rate, which reduced interest charges for the company, which in turn boosted net interest earnings for the company and increased the operating margin for the mortgage portfolio. When considering the financial performance of Eika Boligkreditt, one should keep in mind that this is a credit institution, why its key figures below are not directly comparable to the reported financial performance of the parent banks or groups of the other Nordic covered bond issuers.

Table 1: Key figures for Eika Boligkreditt AS

Key variables (NOKm)	2014	2013	Change (%)
Total assets	81.298	69.829	16,4%
Net interest income	741	637	16,3%
Net loan losses	18	17	5,9%
Profit for the year (after tax)	86	21	307,2%
Key ratios (%)	2014	2013	Change (%-point)
Return on equity	4,2	1,5	2,7
Cost/income ratio	32,5	27,9	4,5
Total capital ratio	14,4	14,3	0,1
Core Tier 1 capital ratio	11,6	11,2	0,4

Source: Eika Boligkreditt AS Annual Report, 2014

Cover pool composition

The value of the cover pool increased substantially and now stands at NOK 68.9bn consisting mainly of residential mortgages (77.2%), but also 12.4% multi-family houses and 10.4% other assets, mainly cash and cash equivalents. All mortgages are granted on Norwegian property, primarily located in the Oslo region. The average indexed LTV (46.2%) and the collateral score excl. systemic risk (2.0%) are low compared to domestic peers. According to Moody's EMEA Covered Bonds monitoring overview Q1 2015, covered bonds from Eika Boligkreditt have the lowest collateral scores in Europe.

ALM and risk

The cover pool loans are almost solely floating-rate loans (95.8%) while the outstanding bonds are mainly fixed-rate bonds (65.7%) exposing the issuer to changes in the Norwegian interest rate, if this is not adequately hedged. Furthermore, there is a refinancing risk as the weighted average lifetime of the bonds funding the loans is shorter than the lifetime of the loans (4.4 years and 12.9 years, respectively).

All loans are domestic and NOK-denominated but bonds Eika Boligkreditt issues are primarily in NOK and EUR. The arising currency-risk is eliminated by the use of derivatives.

Ratings

All covered bonds issued by Eika Boligkreditt are rated Aa1 by Moody's. This reflects that Moody's rating approach builds on a close link between issuer rating and covered bond rating. In October 2014 Eika covered bonds were updated from Aa2 to Aa1 by Moody's. This reflects an upgrade in The CB anchor and the timely payment indicator (TPI). While Eika Boligkreditt benefits from the ownership-structure when it comes to the widespread distribution network it provides, the owner-structure is a drawback when it comes to transparency and credit rating.

Graphs and statistics

Table 2: Cover pool statistics

Value of cover pool	
Cover pool value (NOKbn)	68,9
Collateral score	5,0%
Collateral score excl. systemic risk	2,0%
Collateral risk (collateral score post-haircut)	3,4%
Refinancing and market risk	6,7%
Collateral composition	
Residential assets	77,2%
Commercial assets	0,0%
Public-sector assets	0,0%
Multi family assets	12,4%
Other assets	10,4%
Interest rate and duration mismatch	
Fixed rate assets in the cover pool	4,2%
Fixed rate covered bonds outstanding	65,7%
WAL of outstanding covered bonds (years)	4,4
WAL of the cover pool (years)	12,9

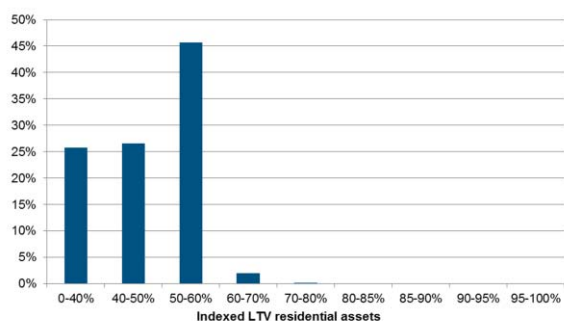
Source: Moody's investor service

Table 3: Rating by Moody's

Ratings Moody's / S&P	Moody's
Rating	Aa1
Current OC / Actual CE	11,6%
Committed OC	5,0%
OC consistent with current rating / Target CE	5,5%
TPI / ALMM risk	High
TPI Leeway / Unused uplift (notches)	1

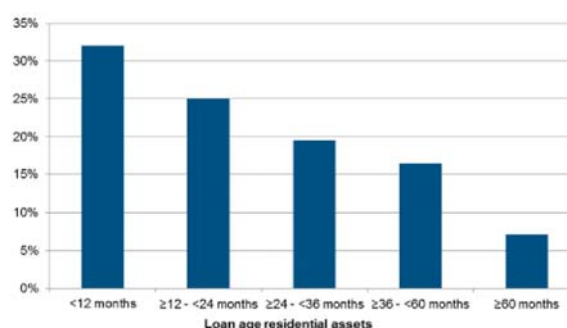
Source: Moody's investor service

Figure 3: Indexed LTV distribution, Q1 2015



Source: Moody's investor service

Figure 4: Loan seasoning, Q1 2015



Møre Boligkreditt

Key points

Strengths

- Purely domestic bank, benefitting from strong Norwegian macro profile.
- Strong parent bank, with high credit strength.
- High quality of cover pool – average LTV in line with domestic peers (52.4%) and low collateral score (5.0%).

Weaknesses

- High level of household indebtedness and high reliance on market funding.
- Geographic concentration to Møre and Romsdal regions.
- Cover pool consists of potentially inflated assets in the Norwegian housing market.

Company profile

Møre Boligkreditt AS is a wholly-owned subsidiary of Sparebanken Møre and owns a license to operate as a mortgage company and issue covered bonds to secure long-term market funding for its parent bank. With a market share of 1.3%, it is the seventh largest issuer of covered bonds in Norway. It currently has one cover pool, with a value of NOK 16.2bn containing almost solely residential assets (95.2%). Covered bonds are issued in both NOK and SEK, but also EUR. Møre Boligkreditt's parent bank, Sparebanken Møre, operations extend geographically to the Møre and Romsdal regions (about 4.79% of Norway's land area) and currently it has about 400 employees and 30 branches. Sparebanken Møre came into existence in 1985 as the result of a merger of several banks. Since this time it has continued to grow, and the latest merger took place in 2009.

Figure 1: Structure of Sparebanken Møre Group

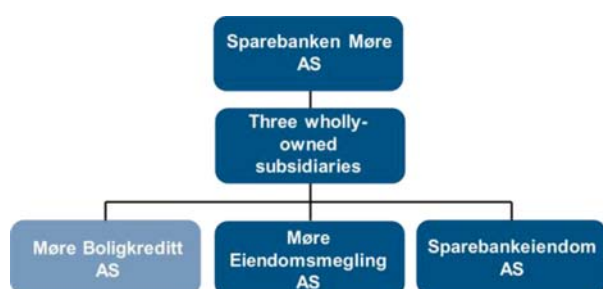
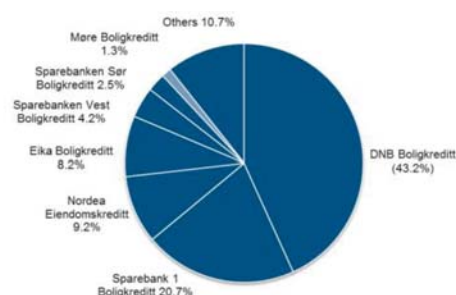


Figure 2: Market share



Source: Sparebanken Møre AS, Bloomberg

Financial performance

From 2013 to 2014 the Sparebanken Møre Group recorded an increase in after-tax profit of 38.4% to NOK 623m. Included in this year's result is the profit of the sale of shares in Nets AS. Loan losses decreased by 59.3% between 2013 and 2014. The loan losses in 2014 were due to an increase in group write-downs, reductions in the corporate segment, and increases in the retail market. The change in total assets was affected by a reduction in holdings of short-term investments in securities and a reduction in holdings in Norges Bank during 2014. Total assets increased by 3.1% between 2013 and 2014. The cost/income rate decreased by 5.6 %-points to 40.1%, and it thus meets the Groups goal of being below 50%.

Table 1: Key figures for the Sparebanken Møre Group

Key variables (NOKm)	2014	2013	Change (%)
Total assets	56.305	54.627	3,1%
Net interest income	1.093	1.042	4,9%
Loan losses	22	54	-59,3%
Profit for the year (after tax)	623	450	38,4%
Key ratios (%)	2014	2013	Change (%-point)
Return on equity	14,0	11,6	2,4
Cost/income ratio	40,1	45,7	-5,6
Total capital ratio	14,4	15,5	-1,1
Tier 1 capital ratio	12,0	12,5	-0,5

Source: Sparebanken Møre Group Annual Report 2014

Cover pool composition

The cover pool backing the issued covered bonds totals NOK 16.2bn. It primarily consists of residential assets (95.2%) with a geographical bias towards the Møre and Romsdal regions. A weighted average LTV of 52.4% is in line with domestic peers and well below the requirements of 75% for residential mortgage loans. Sparebanken Møre also enjoys a low collateral score (5.0%) which illustrates the solid quality of the cover pool. Overcollateralization stands at 14.0%, which is in line with domestic competitors.

ALM and risk

Loans in the cover pool are exclusively floating-rate loans (100%), while 85.8% of the outstanding covered bonds are mainly floating-rate loans. Therefore, the pool is exposed to some interest risk. Regarding currency risk at the end of Q1 2015, the issued bonds are denominated in NOK, SEK and EUR while all pool loans are NOK-denominated, exposing the issuer to currency risk. Both the interest rate risk and the currency risk are eliminated by the use of derivative contracts. Stated in Møre Boligkreditt annual report 2014 credit risk represent the most significant area of risk. This risk is however limited by high quality of the loans (low LTV and low collateral score). There is also refinancing risk.

Ratings

All covered bonds issued by Møre Boligkreditt AS benefit from Aaa by Moody's. Møre Boligkreditt does not have a stand-alone issuer rating, while Sparebanken Møre's long-term credit rating is A2, with a stable outlook by Moody's. This credit rating was updated from A3 to A2 in May 2015 driven, amongst other things, by strong capital metrics, asset quality and macro conditions. The rating of the cover pool is driven by the high credit and asset quality securing the payment obligation of the issuer under the covered bonds, the strength of the Norwegian legal framework and credit strength of the issuer.

Graphs and statistics

Table 2: Cover pool statistics

Value of cover pool	
Cover pool value (NOKbn)	16,2
Collateral score	5,0%
Collateral score excl. systemic risk	4,4%
Collateral risk (collateral score post-haircut)	3,4%
Refinancing and market risk	9,8%
Collateral composition	
Residential assets	95,2%
Commercial assets	0,0%
Public-sector assets	0,0%
Multi family assets	0,0%
Other assets	4,8%
Interest rate and duration mismatch	
Fixed rate assets in the cover pool	0,0%
Fixed rate covered bonds outstanding	14,2%
WAL of outstanding covered bonds (years)	3,8
WAL of the cover pool (years)	16,7

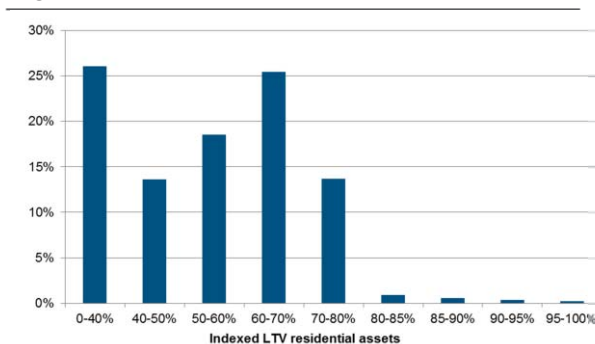
Source: Moody's investor service

Table 3: Rating by Moody's

Ratings Moody's	
Rating	Aaa
Current OC / Actual CE	14,0%
Committed OC	10,5%
OC consistent with current rating / Target CE	3,0%
TPI	High
TPI Leeway / Unused uplift (notches)	4

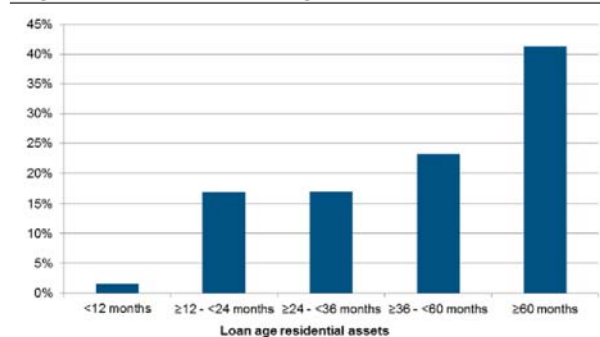
Source: Moody's investor service

Figure 3: Indexed LTV distribution, Q1 2015



Source: Moody's investor service

Figure 4: Loan seasoning, Q1 2015



Nordea Eiendomskreditt

Key points

Strengths

- Solid parent company (Nordea Bank Norge ASA, part of the Nordea Group).
- High quality asset pool consisting only of Norwegian residential mortgages, low average LTV (56.0%) and high OC (18.8%).
- Nordea Bank Norge has improved its capitalization over the recent years.

Weaknesses

- Cover pool is exposed to developments in the Norwegian housing market which might be overheated.
- Cover pool loans are primarily floating-rate loans (98.4%) – rate hikes in Norway could affect loan performance.

Company profile

Nordea Eiendomskreditt is a fully-owned subsidiary of Nordea Bank Norge ASA, which is part of the Nordea Group, the largest financial institution in Scandinavia and the Baltic region. It was established in 1992 and changed name to Nordea Eiendomskreditt in 2008. It is a specialist bank with the sole purpose of issuing covered bonds backed by loans originated by Nordea Bank Norge. Nordea Eiendomskreditt enjoys a market share of more than 10% measured by outstanding covered bonds. Nordea Group works throughout the Nordic region and Eastern Europe with operations in Sweden, Denmark, Finland, Norway, the Baltics, and Russia. Nordea is the result of several large mergers in 2000 of Danish, Finnish, Swedish and Norwegian banks. Nordea sets a significant footprint in Nordic banking with 10.2m private customers, 590,000 corporate customers and approximately 700 branches. Nordea Eiendomskreditt benefits from a strong distribution network via its parent company Nordea Bank Norge.

Figure 1: Structure of the Nordea Group

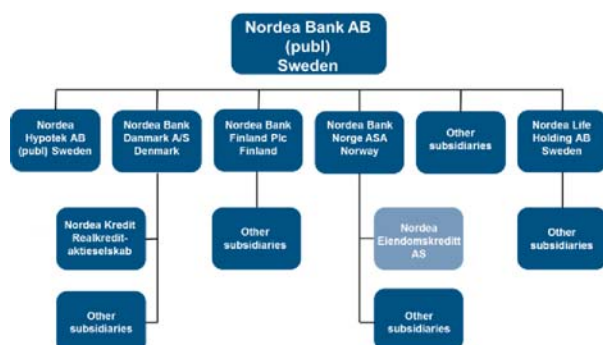
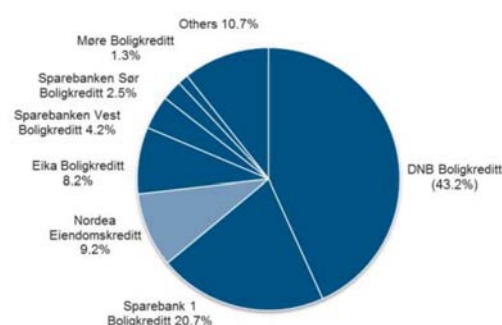


Figure 2: Market share



Source: Nordea Annual Report 2014, Bloomberg

Financial performance

Nordea Group weathered the financial crisis and has performed well in recent years. Profit for the year improved by 8.5% because of stable income and stable expense and lower losses. On this point, Nordea is traditionally viewed as a conservative bank in terms of risk-taking, which is reflected in relatively few loan impairments in 2013 and 2014 compared to key competitors. Total assets increased by 6%. Thus, there was an increase despite the Euro strengthening against the Swedish and Norwegian Krona and against the Russian Rubel in 2014. The effect of changes in currency exchange rates had a negative impact on the value of the Group's assets. Nordea Group holds a return on equity target of 13%. In 2014, return on equity was 11.6% excluding non-recurring items and 11.5% including these, thus below the target level.

Table 1: Key figures for the Nordea Group

Key variables (DKKm)	2014	2013	Change (%)
Total assets	669.342	630.434	6,2%
Net interest income	5.482	5.525	-0,8%
Loan losses	534	735	-27,3%
Profit for the year (after tax)	3.371	3.107	8,5%
Key ratios (%)	2014	2013	Change (%-point)
Return on equity	11,5	11,0	0,5
Cost/income ratio	49,0	51,0	-2,0
Total capital ratio	13,5	13,4	0,1
Core capital ratio	11,6	11,0	0,6

Source: Nordea Annual Report 2014

Cover pool composition

The cover pool backing the issued covered bonds totals NOK 103.2bn. It solely consists of Norwegian single-family residential mortgages with a geographical bias towards the Oslo and eastern parts of Norway. An LTV value of 56.0% is in line with domestic competitors and much lower than the legislative LTV limit of 75% for single-family mortgages. Nordea Eiendomskreditt also enjoys a low collateral score (5.0%), which illustrates the solid quality of the cover pool.

ALM and risk

Both the cover pool loans and the outstanding covered bonds are primarily floating-rate, however with a larger share of floating-rate loans in the cover pool than among the outstanding bonds (98.4% and 74.1% respectively). Therefore, there is exposure to interest rate risk. Currency and interest rate risk is hedged by use of derivatives. Primarily bonds are issued in NOK, but also in USD and GBP, whereas all loans are NOK-denominated. There is also a refinancing risk.

Ratings

All covered bonds issued by Nordea Eiendomskreditt are rated Aaa by Moody's. Nordea Eiendomskreditt does not have a stand-alone rating, while Nordea Group's long-term ratings by Moody's/S&P/Fitch are Aa3/AA-/AA-. In June 2015, Nordea Bank's outlook was upgraded to stable by Moody's due to a resilient pattern, good operational efficiency and healthy asset-quality metrics. These positive factors are counterbalanced by Nordea Bank's high reliance on market funding.

Graphs and statistics

Table 2: Cover pool statistics

Value of cover pool	
Cover pool value (NOKbn)	103,2
Collateral score	5,0%
Collateral score excl. systemic risk	n/a
Collateral risk (collateral score post-haircut)	3,4%
Refinancing and market risk	7,4%
Collateral composition	
Residential assets	100,0%
Commercial assets	0,0%
Public-sector assets	0,0%
Multi family assets	0,0%
Other assets	0,0%
Interest rate and duration mismatch	
Fixed rate assets in the cover pool	1,6%
Fixed rate covered bonds outstanding	25,9%
WAL of outstanding covered bonds (years)	2,8
WAL of the cover pool (years)	15,5

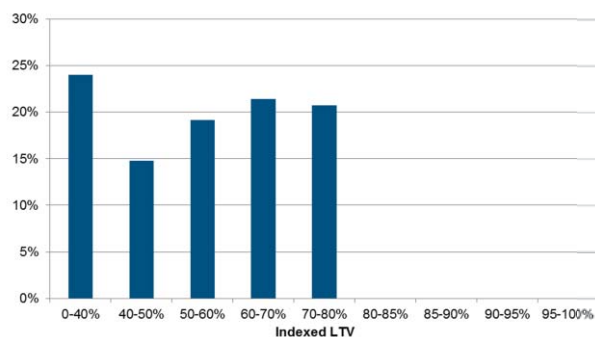
Source: Moody's investor service

Table 3: Rating by Moody's

Ratings Moody's		Moody's
Rating		Aaa
Current OC / Actual CE		18,8%
Committed OC		0,0%
OC consistent with current rating / Target CE		0,5%
TPI		Probable-High
TPI Leeway		5

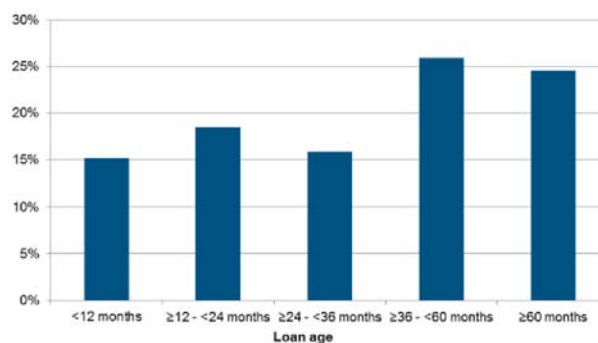
Source: Moody's investor service

Figure 3: Indexed LTV distribution, Q1 2015



Source: Moody's investor service

Figure 4: Loan seasoning, Q1 2015



SpareBank 1 Boligkreditt

Key points

Strengths

- Strong group of owners.
- High-quality cover pool with average LTV of 53.9%.
- Low collateral score excl. systemic risk (2.5%).
- Almost only Norwegian residential mortgages (92.9%).

Weaknesses

- Few restrictions on future composition of the cover pool could lead to dilution.
- Potentially inflated assets in the Norwegian housing market.
- Increasing unemployment in Norway in light of the weakness in the oil sector.

Company profile

SpareBank 1 Boligkreditt is a wholly-owned subsidiary of the members of the SpareBank 1 Alliance. The members of the alliance are SpareBank 1 Nord-Norge, Sparebanken Hedmark, SpareBank 1 SR-Bank, SpareBank 1 SMN and 11 smaller savings banks. The alliance was founded in 1996 and is the second-largest mortgage lender in the Norwegian market in terms of total assets. It has a strong local presence and an extensive branch network with more than 350 branches covering all of Norway. SpareBank 1 Boligkreditt solely issues Aaa-rated covered bonds backed by loans made by members of the alliance. Sparebank 1 Næringskreditt, a legally separate company, issues Aa1-rated covered bonds and is managed by the same team as Boligkreditt. The ownership structure stands out compared to other Norwegian and Nordic issuers. Each of the banks in the alliance holds a share in the issuer, but the alliance is not a legal entity.

Figure 1: Structure of the SpareBank 1 Alliance

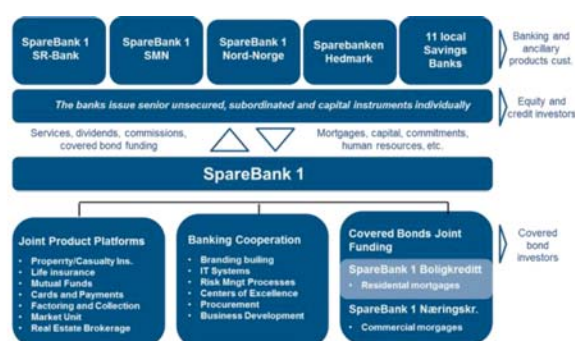
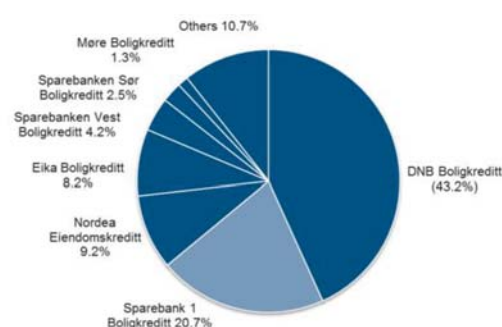


Figure 2: Market share



Source: SpareBank 1 Boligkreditt Investor Presentation June 2015, Bloomberg

Financial performance

As the SpareBank 1 Alliance does not publish a consolidated annual report, key figures for the three largest members (all three owns 19.5%) are illustrated below. As evident, the banks are well capitalized with core capital ratios above 11 %, which for all of them has increased from 2013 to 2014. Loan losses decreased for Sparebank 1 SMN, and increased for the other two. In comparison to domestic peers, however all three members have a high return relative to their domestic peers.

Table 1: Key ratios for the largest banks of the SpareBank 1 Alliance

Key measures	Cost/income ratio		Return on equity		Core Tier 1 capital ratio		Loan losses	
	2014	2013	2014	2013	2014	2013	2014	2013
Sparebank 1 SR-bank	41,8%	44,9%	14,2%	14,0%	11,5%	11,1%	257	132
Sparebank 1 SMN	44,5%	48,1%	15,1%	13,3%	11,2%	11,1%	89	101
Sparebank 1 Nord-Norge	44,4%	47,2%	12,2%	13,0%	13,7%	13,4%	321	172

Source: Annual reports of the companies, 2014

Cover pool composition

The value of SpareBank 1 Boligkredit's cover pool has grown within the last year and is now NOK 175.6bn. The cover pool consists of 92.9% of Norwegian residential mortgages with an average indexed LTV of 53.9%, well below the legal requirement of 75% for residential mortgage loans. Other assets (7.1%) include government treasuries and cash deposits. The weighted average lifetime is 14.4 years.

ALM and risk

Similar to domestic competitors, loans in the pool are mainly floating-rate loans (97.2%), while the outstanding covered bonds are mainly fixed-rate loans (79.6%). Thereby, the pool is exposed to interest rate risk. In terms of credit risk, interest rate hikes in Norway could distress certain borrowers' ability to repay their loans increasing the credit risk of the pool. Considering the solid quality of the cover pool, this risk is furthermore deemed to be minimal. Similar to the other Norwegian covered bond programs, there is no currency risk as both pool loans and outstanding bonds are NOK-denominated. However, there is refinancing risk.

Ratings

All covered bonds issued by SpareBank 1 Boligkredit are assigned Aaa/AAA by Moody's and Fitch, respectively. The program has not been rated by S&P, and SpareBank 1 Boligkredit has not been assigned an issuer rating. Regarding the member banks in SpareBank 1 Alliance, all of them are rated at least A2 by Moody's. In May 2015, all the largest members (SpareBank 1 SMN, SpareBank 1 SR-bank and SpareBank 1 Nord-Norge) were upgraded by Moody's from A2 to A1, with a stable outlook, partly due to improved asset quality. This after having being downgraded in December 2012 and March 2013 respectively.

Graphs and statistics

Table 2: Cover pool statistics

Value of cover pool	
Cover pool value (NOKbn)	175,6
Collateral score	5,0%
Collateral score excl. systemic risk	2,5%
Collateral risk (collateral score post-haircut)	3,4%
Refinancing and market risk	6,7%
Collateral composition	
Residential assets	92,9%
Commercial assets	0,0%
Public-sector assets	0,0%
Multi family assets	0,0%
Other assets	7,1%
Interest rate and duration mismatch	
Fixed rate assets in the cover pool	2,8%
Fixed rate covered bonds outstanding	79,6%
WAL of outstanding covered bonds (years)	3,6
WAL of the cover pool (years)	14,4

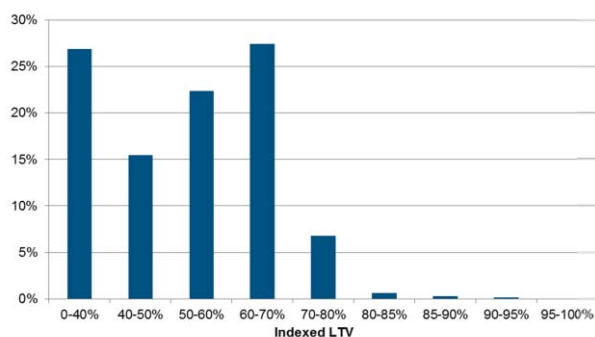
Source: Moody's investor service

Table 3: Rating by Moody's

Ratings Moody's	Moody's
Rating	Aaa
Current OC / Actual CE	11,3%
Committed OC	9,5%
OC consistent with current rating	0,5%
TPI	High
TPI Leeway	4

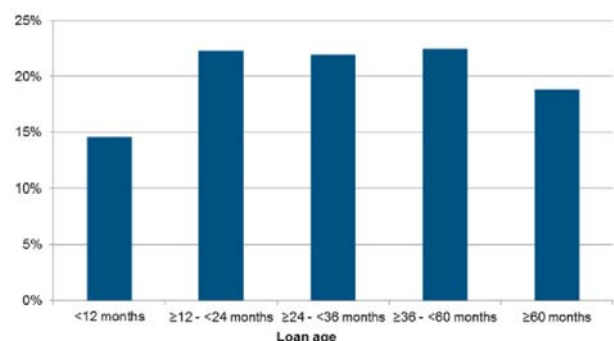
Source: Moody's investor service

Figure 3: Indexed LTV distribution, Q1 2015



Source: Moody's investor service

Figure 4: Loan seasoning, Q1 2015



Sparebanken Sør Boligkreditt

Key points

Strengths

- Profitability is supported by efficient operations.
- High quality of the cover pool - residential mortgages makes up 100% of the cover pool, with an average LTV of 54.2%.
- Low collateral score incl. systemic risk of 5.0%.

Weaknesses

- Sparebanken Sør has weaker asset quality than domestic peer following a portfolio review (Moody's, 2015).
- Geographical concentration: 74.7% of all housing collateral is located in Southern Norway.
- Cover pool consists of potentially inflated assets in the Norwegian housing market.

Company profile

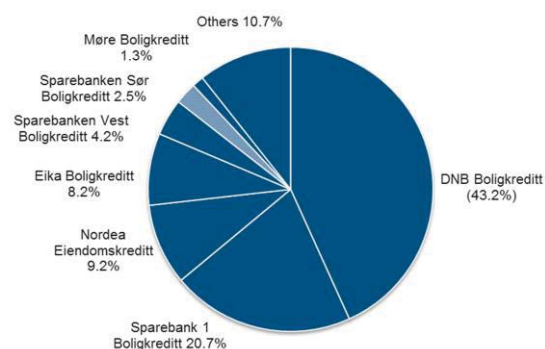
Sparebanken Sør Boligkreditt AS is a wholly-owned subsidiary of Sparebanken Sør, and the company's business is operated from Kristiansand. Sparebanken Sør Boligkreditt AS is the result of the merger of Pluss Boligkreditt AS and Sør Boligkreditt AS in 2014 and it issues covered bonds to national and international investors. Its cover pool comprises mortgage home loans that are granted by Sparebanken Sør and later taken over by Sparebanken Sør Boligkreditt. An important requirement is that any outstanding loan balance taken over by the company must not exceed 75% of the mortgaged property's market value, according to Norwegian law.

Sparebanken Sør Boligkreditt is currently the sixth largest issuer of covered bonds in Norway, with a market share of about 2.5%. It has one cover pool with a value of NOK 24.0bn containing 100% residential assets.

Figure 1: Structure of the Sparebanken Sør Group



Figure 2: Market share



Source: Sparebanken Sør Annual Report 2014, Bloomberg

Financial performance

As a result of the merger of Pluss Boligkreditt AS and Sør Boligkreditt AS in 2014 to form Sparebanken Sør Boligkreditt AS in 2014, the comparison figures are not directly comparable, as the figures from the same period in 2013 are figures of Pluss Boligkreditt AS. Below follows an overview of key figures of the Sparebankes Sør Group from 2014 and 2013.

Table 1: Key figures for the Sparebanken Sør Group

Key variables (NOKk)	2014	2013	Change (%)
Total assets	20.547.060	11.320.060	81,5%
Net interest income	425.768	212.623	100,2%
Loan losses	-	-	0,0%
Profit for the year (after tax)	254.123	131.668	93,0%
Key ratios (%)	2014	2013	Change (%-point)
Return on equity	-	-	-
Cost/income ratio	40,1	45,7	-5,6
Total capital ratio	19,4	17,4	2,0
Tier 1 capital ratio	19,4	17,4	2,0

Source: Sparebanken Sør Annual Report 2014

Cover pool composition

The cover pool backing the issued covered bonds totals NOK 24.0bn. It solely consists of Norwegian single-family residential mortgages with a geographical bias towards the Vest-Agder and Aust-Agder in the southern parts of Norway. An LTV value of 54.2% is in line with domestic competitors and much lower than the legislative LTV limit of 75% for single-family mortgages. Sparebanken Sør Boligkreditt also enjoys a low collateral score (5.0%), which illustrates the solid quality of the cover pool. Overcollateralization stands at 18.3%, fairly low compared to domestic peers.

ALM and risk

Both the cover pool loans and the outstanding covered bonds are primarily floating-rate. 100% of the loans in the cover pool are floating-rate and 95.8% of the outstanding bonds. Thus there is some exposure to interest rate risk, although not very extensive. This risk is mitigated using financial derivatives. Sparebanken Sør Boligkreditt issue bonds solely in NOK, and all assets in the pool are NOK-denominated. Therefore, there is no currency risk. Due to the duration mismatch between cover pool loans and outstanding bonds (WAL of 18.4 and 4.0 years respectively), refinancing risk should be taken into account when considering the risk of the pool.

Ratings

The covered bonds issued by Sparebanken Sør Boligkreditt are rated Aaa by Moody's. Sparebanken Sør Boligkreditt does not have a stand-alone rating, while Sparebanken Sør Group's long-term ratings by Moody's is A1 with a stable outlook. In May 2015 Sparebanken Sør was upgraded from A1 to A2 based on an analysis of the bank's own volume of deposits and senior unsecured debt, and the volume of securities subordinated to them, which offset a decrease in government support assumptions. It should however be noted that Moody's points out that the asset quality of Sparebanken Sør is weaker than that of domestic peers following a portfolio review.

Graphs and statistics

Table 2: Cover pool statistics

Value of cover pool	
Cover pool value (NOKbn)	24,0
Collateral score	5,0%
Collateral score excl. systemic risk	4,5%
Collateral risk (collateral score post-haircut)	3,4%
Refinancing and market risk	5,2%
Collateral composition	
Residential assets	100,0%
Commercial assets	0,0%
Public-sector assets	0,0%
Multi family assets	0,0%
Other assets	0,0%
Interest rate and duration mismatch	
Fixed rate assets in the cover pool	0,0%
Fixed rate covered bonds outstanding	4,2%
WAL of outstanding covered bonds (years)	4,0
WAL of the cover pool (years)	18,4

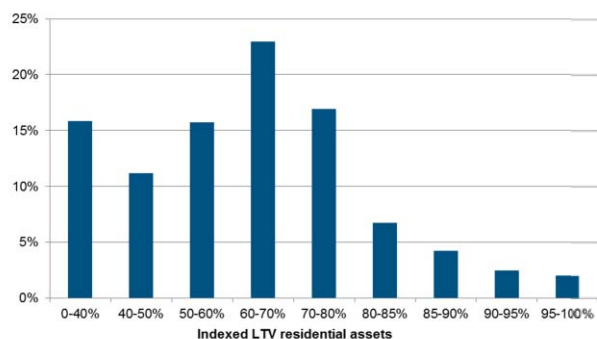
Source: Moody's investor service

Table 3: Rating by Moody's

Ratings Moody's	
Rating	Aaa
Current OC / Actual CE	18,3%
Committed OC	0,0%
OC consistent with current rating / Target CE	0,5%
TPI	High
TPI Leeway / Unused uplift (notches)	5

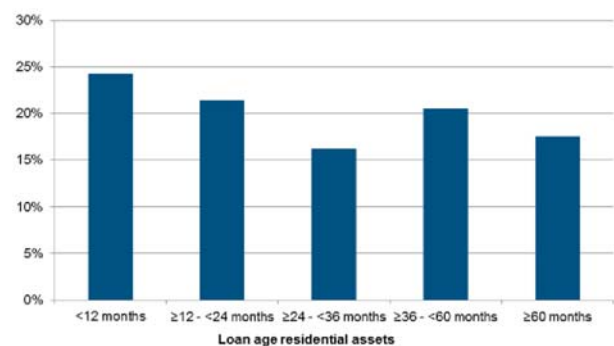
Source: Moody's investor service

Figure 3: Indexed LTV distribution, Q1 2015



Source: Moody's investor service

Figure 4: Loan seasoning, Q1 2015



Sparebanken Vest Boligkreditt

Key points

Strengths

- Parent is the third largest savings bank in Norway.
- High-quality cover pool – residential mortgages makes up 97.1% of the cover pool, with an average LTV of 56.6%.
- Low collateral score incl. systemic risk of 5.0%.

Weaknesses

- Geographical concentration: 77.3% of all housing collateral is located in Western Norway (Hordaland).
- Cover pool loans granted on potentially inflated assets in the Norwegian housing market.
- Few restrictions on future composition of the cover pool – substitution risk.

Company profile

Sparebanken Vest Boligkreditt (SVBK) is a wholly-owned subsidiary of Sparebanken Vest which is Norway's third largest savings bank with total assets amounting to NOK 147bn by year-end 2014. The bank is especially a large player in Western Norway, the most diversified and wealthiest region of the country. Headquarters are located in Bergen. Sparebanken Vest also has activities in real estate agency via ownership of Eiendomsmegler Vest, which further supports the distribution of mortgage loans.

Figure 1: Structure of the Sparebanken Vest

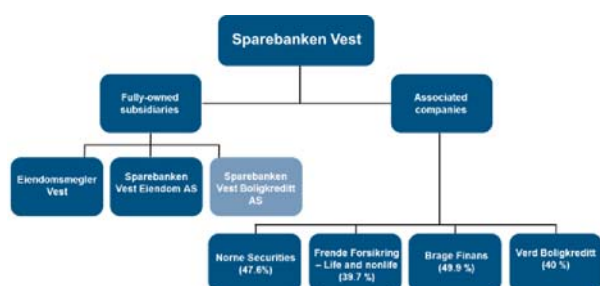
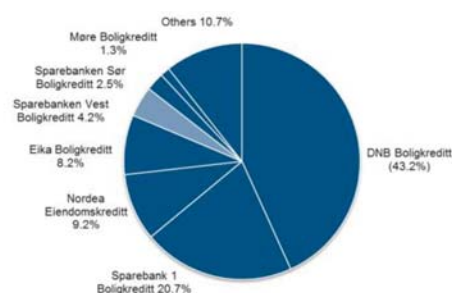


Figure 2: Market share



Source: Sparebanken Vest Boligkreditt AS Investor Presentation 2014, Bloomberg

Financial performance

Sparebanken Vest recorded an increase in net profit after tax from 2013 to 2014 of 30.8%. The profit performance was influenced by an increase in net interest and credit commission, growth in commission income, an improvement in financial income, including sale of some of the bank's shares and two of the bank's properties. Consequently the group experienced a higher return on equity (13.7%) as well as a reduced cost/income ratio (45.5%). Thus, the group managed to exceed its return on equity goal of 11%.

Table 1: Key figures for Sparebanken Vest

Key variables (NOKm)	2014	2013	Change (%)
Total assets	147.070	134.396	9,4%
Net interest income	2.320	2.161	7,4%
Loan losses	410	280	46,4%
Profit for the year (after tax)	1.188	908	30,8%
Key ratios (%)	2014	2013	Change (%-point)
Return on equity	13,7	11,7	2,0
Cost/income ratio	45,5	48,8	-3,3
Total capital ratio - Basel I floor	15,6	14,3	1,3
Core Tier 1 capital ratio - Basel I floor	12,2	11,2	1,0

Source: Sparebanken Vest AS Annual Report 2014

Cover pool composition

The value of the cover pool is NOK 53.6bn, and the pool mainly consists of residential mortgages (97.1%). All mortgages are granted on Norwegian property with a strong geographical concentration towards Western Norway, especially the region Hordaland (77.3% of all mortgages in the pool). This exposes the pool to developments in the Norwegian housing market, especially to the conditions in Hordaland. Weighted average LTV is 56.6% which is lower than most European peers and in line with other Norwegian mortgage portfolios. Moody's collateral score incl. systemic risk is 5.0%. Substitution assets are mainly government T-bills and deposits in Sparebanken Vest.

ALM and risk

The cover pool solely consists of floating-rate loans, while only 44.1% of the outstanding covered bonds are floating-rate bonds, and the pool is thereby exposed to interest rate changes. The floating-rate loans might expose the pool to credit risk in case of interest rate hikes. However, the pool is of high quality and overcollateralization lowers the risk. Sparebanken issues bonds primarily in EUR and NOK whereas all assets in the pool are NOK-denominated. The use of currency swaps eliminates currency risk. Due to the duration mismatch between cover pool loans and outstanding bonds (WAL of 13.5 and 2.7 years respectively), refinancing risk should be taken into account when considering the risk of the pool.

Ratings

SVBK is not independently rated, but Sparebanken Vest's long-term rating is A1/A- by Moody's/Fitch, both with stable outlooks. In May 2015, Moody's upgraded Sparebanken Vest from A2 to A1, taking into account the LGF analysis of the bank's own volume of deposits and senior unsecured debt, and the volume of securities subordinated to them, which offsets the decrease in government support assumptions. All covered bonds are ranked Aaa by Moody's. Moody's TPI ranking is "High".

Graphs and statistics

Table 2: Cover pool statistics

Value of cover pool	
Cover pool value (NOKbn)	53,6
Collateral score	5,0%
Collateral score excl. systemic risk	4,8%
Collateral risk (collateral score post-haircut)	3,4%
Refinancing and market risk	6,2%
Collateral composition	
Residential assets	97,1%
Commercial assets	0,0%
Public-sector assets	0,0%
Multi family assets	0,0%
Other assets	2,9%
Interest rate and duration mismatch	
Fixed rate assets in the cover pool	0,0%
Fixed rate covered bonds outstanding	58,9%
WAL of outstanding covered bonds (years)	2,7
WAL of the cover pool (years)	13,5

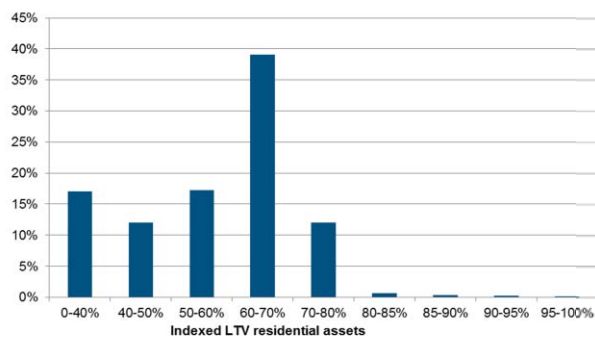
Source: Moody's investor service

Table 3: Rating by Moody's

Ratings Moody's	Moody's
Rating	Aaa
Current OC / Actual CE	19,1%
Committed OC	0,0%
OC consistent with current rating	4,5%
TPI	High
TPI Leeway	5

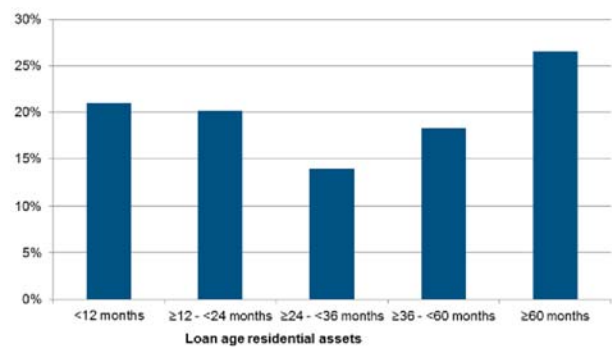
Source: Moody's investor service

Figure 3: Indexed LTV distribution, Q1 2015



Source: Moody's investor service

Figure 4: Loan seasoning, Q1 2015



Issuer profiles

Sweden

Landshypotek

Länsförsäkringar Hypotek

Nordea Hypotek

SCBC

SEB AB

Stadshypotek

Swedbank Mortgage

Landshypotek Bank

Key points

Strengths

- High-quality cover pool consisting of 98.5% agricultural loans with average LTV of 43.67%.
- High over-collateralization of 25.89%.
- Borrower-owned credit institution, loyal customer base.
- Low concentration risk.
- Historically low loan losses compared to peers.

Weaknesses

- High exposure to the agricultural sector.
- Low liquidity compared to other Nordic covered bond issuers.
- Duration mismatch between cover pool loans and outstanding bonds – refinancing risk.
- Dynamic cover pool.

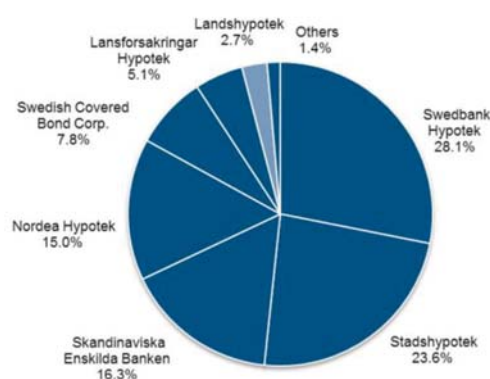
Company profile

Landshypotek Bank (former Landshypotek) is a specialist mortgage bank. With respect to owner structure, Landshypotek Bank differs from most of the other Nordic issuers, as it is borrower-owned via its parent association, Landshypotek Ekonomisk Förening. Operations began in 1836, and today the parent association has 45,000 members who are all land and/or forest owners. Landshypotek Bank is a market leader in lending for agricultural and forestry properties in Sweden. The company has 19 sales offices throughout the country with 150 employees undertaking loan processing and servicing customers locally. At year-end 2014, the Bank had loans outstanding of SEK 62bn a market share of approximately 3% of the Swedish mortgage market, but with 27.6% of lending for agricultural and forestry properties in Sweden, it is the market leader in this area. Landshypotek Bank has a wholly-owned subsidiary, Landshypotek Jordbrukskredit, which also provides credit to farm and forest owners.

Figure 1: Structure of the Landshypotek Group



Figure 2: Market share



Source: Landshypotek Bank Annual Report 2014, Bloomberg

Financial performance

From 2013 to 2014 total lending to Swedish farmers and foresters rose by 1.5% to SEK 61.7 bn. This follows the 3.0% growth from 2012 to 2013. Demand for credit from Swedish farmers and foresters remain high, although growth has eased off. Landshypotek group reported an increase in net interest income of approximately 16.5% attributable to the rise in lending. Loan losses have however risen to SEK 79m from SEK 54m in 2013. Loan losses remain low compared to domestic peers as lending is secured by property collateral. Net profit for the year was 301,413 in 2014, which is an improvement by 44.8% from 2013. The total capital ratio amounted to 24.5% without taking into account the transitional rules linked to Basel I.

Table 1: Key figures for the Landshypotek Group

Key variables (SEKm)	2014	2013	Change (%)
Total assets	82,105	77,973	5,3%
Net interest income	764	656	16,5%
Loan losses	79	54	46,3%
Profit for the year (after tax)	301	208	44,7%
Key ratios (%)	2014	2013	Change (%-point)
Return on equity	7,0	5,1	0,7
Cost/income ratio	47,0	44,0	3,0
Total capital ratio	24,5	32,0	-7,5
Core Tier 1 capital ratio	21,0	n/a	n/a

Source: Landshypotek Bank Annual Report 2014

Cover pool composition

The cover pool backing Landshypotek Bank's covered bonds consists of SEK 58.5bn at the end of Q2 2015, and mainly includes mortgage loans to Swedish agricultural and forest owners (98.5%). The quality of the asset pool is solid; the average LTV is low (43.67%) compared to domestic peers, and the over-collateralization is high of 28.5%, but not the highest compared to domestic peers. The pool consists of 116,872 loans with the average loan size being SEK 501,088 and the top 10 borrowers accounting for 2.73% of the total loan volume. There is no major concentration to any particular branch of the agriculture or forestry sector or geographic area in Sweden.

ALM and risk

As the interest rate on the loan (fixed or floating) does not always match the interest rate on the issued bond, the issuer is exposed to interest rate risk. Furthermore, the issued covered bonds are denominated in SEK, NOK and CHF, while the underlying loans are SEK-denominated, exposing the issuer to exchange risk. Both exchange risk and interest rate risk is however managed by the use of derivative contracts. The issuer's lending is on average on longer terms than its funding, exposing the issuer to refinancing risk. In addition, there is credit risk which is, however, limited by the high quality of the pool and the high level of over-collateralization.

Ratings

The covered bond programme of Landshypotek Bank benefits from an AAA-rating by S&P. Landshypotek Bank as a company has a long-term rating of A- from S&P, and a long-term rating of A+ from Fitch. Both S&P and Fitch agree that the outlook of Landshypotek Bank is stable. S&P lowered Landshypotek Bank's rating from A to A- in December 2014. The motivation was that the quality of Landshypotek Bank's loan portfolio was approaching the quality of those of other banks. This downgrade did however not affect the rating of the covered bonds. Landshypotek Bank was downgraded two notches from A3 to Baa2 by Moody's in May 2012. Shortly after the downgrading, in July 2012, Landshypotek terminated its agreement with Moody's.

Graphs and statistics

Table 2: Cover pool statistics

Value of cover pool	
Total lending (DKKbn)	58,6
WAFF	20,3%
WALS	12,5%
WAFFxWALS	2,5%
Collateral composition	
Agricultural properties	98,5%
Residential assets	1,5%
Commercial assets	0,0%
Public-sector assets	0,0%
Interest rate and duration mismatch	
Fixed rate assets in the cover pool	42,0%
Fixed rate covered bonds outstanding	-
WAM of outstanding covered bonds (years)	3,7%
WAM of the cover pool (years)	16,9%

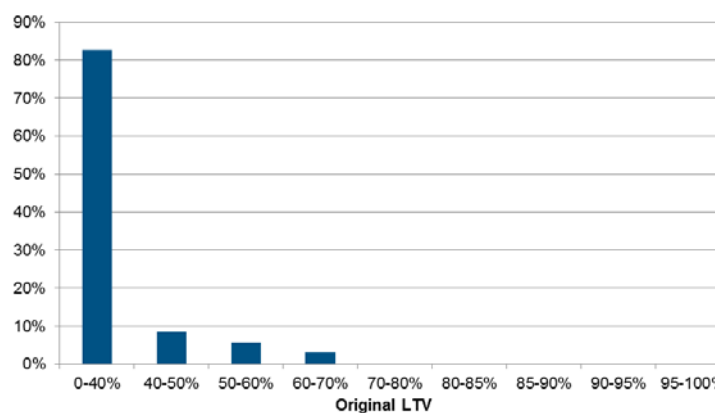
Source: Landshypotek cover pool report Q1 2015, S&P

Table 3: Rating by S&P

Rating S&P	
Rating	AAA
Current OC / Actual CE	28,5%
Committed OC	-
OC consistent with current rating / Target CE	22,2%
RRL	a+
JRL	aa+
TPI Leeway / Unused uplift (notches)	0

Source: S&P

Figure 2: Original LTV distribution, Q1 2015



Source: Landshypotek Bank 2015

Länsförsäkringar Hypotek

Key points

Strengths

- Parent bank is the fifth largest retail bank in Sweden.
- High credit quality of the cover pool – collateral score excl. systemic risk of 3.7%.
- Current over-collateralization of 39.9% and committed level of 10%.

Weaknesses

- High share of IO loans in the pool (81.1%).
- Dynamic pool – substitution risk
- Refinancing risk due to lending longer term than funding.

Company profile

Länsförsäkringar Hypotek (LF Hypotek) is a wholly-owned subsidiary of Länsförsäkringar Bank (LF Bank), which in turn is fully-owned by the insurance group Länsförsäkringar AB, formed by 23 regional independent mutual insurance companies. The alliance has a customer base of 3.5 million, and LF Bank has almost 933.000 customers and 128 branches. LF's market position is continuously strengthened and the number of customers increased by 4% since 2013. It is the fifth-largest Swedish retail bank, with a strong presence in especially rural areas. Loans are distributed through bank branches, internet operations and Länsförsäkringar Fastighetsförmedling, a real estate company with 158 branches in Sweden.

Figure 1: Structure of the Länsförsäkringar Group

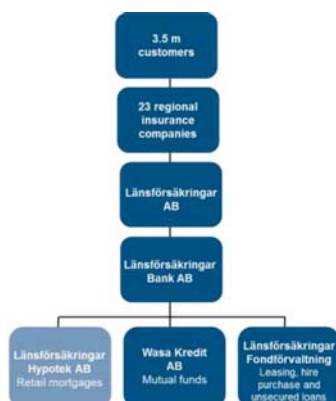
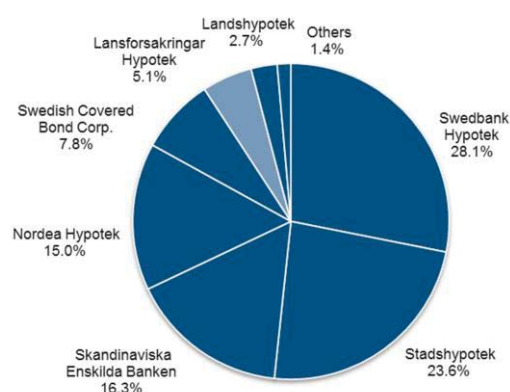


Figure 2: Market share



Source: Länsförsäkringar Bank Annual Report 2014, Bloomberg

Financial performance

LF Bank's profit after tax for 2014 increased by 48.7% compared to 2013. This is primarily due to an increase in the net interest income, which increased by 15.7%. Loan losses decreased by almost 105.6%, and became positive in 2014. This can be explained by the introduction of a settlement model in January 2014, allowing regional insurance companies to off-set loan losses to a buffer of accrued commission. Further this strengthened the return on equity, which amounted 8.3%, 1.6% better than in 2013.

Table 1: Key figures for the Länsförsäkringar Bank Group

Key variables (SEKm)	2014	2013	Change (%)
Total assets	232,180	213,720	8,6%
Net interest income	2,580	2,230	15,7%
Loan losses, net	7	-126	-105,6%
Profit for the year (after tax)	712	479	48,7%
Key ratios (%)	2014	2013	Change (%-point)
Return on equity	8,3	6,7	1,6
Cost/income ratio	62,0	69,0	-7,0
Total capital ratio	16,2	14,4	1,8
Core Tier 1 capital ratio	16,2	14,4	1,8

Source: Länsförsäkringar Bank Annual Report 2014

Cover pool composition

The value of the cover pool backing LF Hypotek's covered bonds is SEK 130bn, and the collateral comprise only private homes, comprising primarily single-family homes (72.6%) and tenant-owned apartments (20.3%). LF Hypotek benefits from the lowest collateral score among domestic peers (5%) and a low collateral score excl. systemic risk (3.7%). The average LTV is 62%, while the over-collateralization is fairly high (30%). Investors also benefit from a commitment to maintain an overcollateralization of minimum 10%. A large share of residential loans (83.1%) is IO loans.

ALM and risk

More than half of the cover pool loans are floating rate loans (60.9%), while almost all outstanding bonds (95.8%) are fixed-rate bonds. Due to this mismatch, the issuer is exposed to interest rate risk. As the outstanding bonds are denominated in SEK, EUR and CHF, while pool loans are solely SEK-denominated, there is exposure to currency risk as well if not adequately hedged. There is refinancing risk due to mismatch between the lifetime of the cover pool loans and the outstanding bonds (lending on longer term than funding), and there is credit risk as well, which is, however, limited because of the high quality of the pool loans and the high level of over-collateralization.

Ratings

Covered bonds issued by LF Hypotek are rated Aaa/AAA by Moody's and S&P, respectively. LF Hypotek does not have an issuer rating from any rating agency, but LF Bank holds a long-term rating by Moody's/S&P of A1/A. In May 2015 Moody's upgraded LF Bank's long-term rating to A1 from A3. The upgrade reflects LF Bank's substantial cushion of liabilities, eligible for bail-in, assuming a currently unlikely stress-scenario. In December 2014 S&P affirmed that the covered bonds program has a stable outlook, because a downgrade of LF Bank would not automatically result in a negative rating action on the covered bonds.

Graphs and statistics

Table 2: Cover pool statistics

Value of cover pool	
Cover pool value (SEKbn)	130,9
Collateral score	5,0%
Collateral score excl. systemic risk	3,7%
Collateral risk (collateral score post-haircut)	3,4%
Refinancing and market risk	9,9%
Collateral composition	
Residential assets (20.3% tenant owner rights)	92,9%
Commercial assets	0,0%
Public-sector assets	0,0%
Multi-family assets	0,0%
Other assets	7,1%
Interest rate and duration mismatch	
Fixed rate assets in the cover pool	39,1%
Fixed rate covered bonds outstanding	95,8%
WAL of outstanding covered bonds (years)	3,5
WAL of the cover pool (years)	14,1

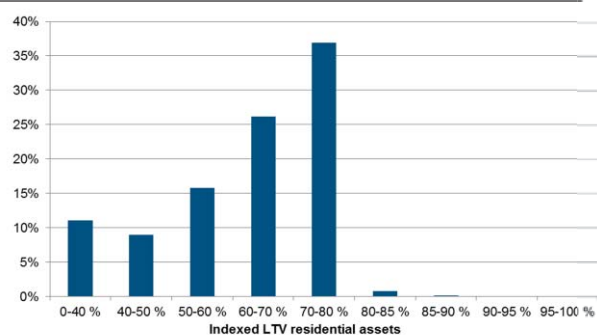
Source: Moody's investor service

Table 3: Rating by Moody's and S&P

Rating Moody's/S&P	Moody's	S&P
Rating	Aaa	AAA
Current OC / Actual CE	20,0%	30,5%
Committed OC	10,0%	-
OC consistent with current rating / Target CE	8,5%	23,3%
TPI	Probable-High	-
RRL	-	aa-
JRL	-	aaa
TPI Leeway / Unused uplift (notches)	2	2

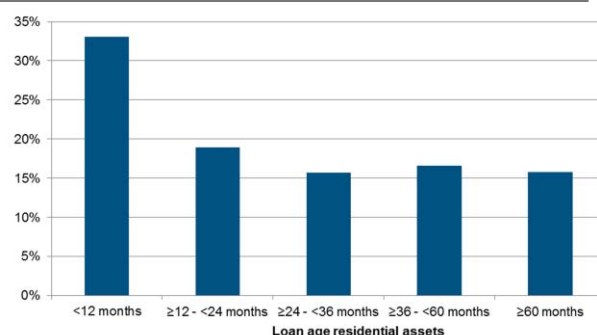
Source: Moody's investor service and S&P

Figure 3: Indexed LTV distribution, Q1 2015



Source: Moody's investor service

Figure 4: Loan seasoning, Q1 2015



Nordea Hypotek

Key points

Strengths

- Strong parent bank – provides support and access to widespread distribution network.
- High-quality cover pool – average LTV in line with peers (53.4%) and high over-collateralization (43.2%).
- Strong Swedish covered bond legislation.

Weaknesses

- Refinancing risk, mismatch in duration between pool loans and outstanding bonds.
- No committed level of over-collateralization.
- Cover pool is dynamic – substitution risk.

Company profile

Nordea Hypotek is a specialist credit company issuing covered bonds backed by Swedish mortgages. It is currently the fourth largest issuer of covered bonds in Sweden, with a market share of 15.0%. Nordea Hypotek is a fully-owned subsidiary of Nordea Bank AB and a part of the Nordea Group, which is active throughout Scandinavia with operations in Sweden, Denmark, Finland, Norway, the Baltics, and Russia. Nordea is the result of several large mergers of Danish, Finnish, Swedish and Norwegian banks. Nordea sets a significant footprint in Nordic banking with 10.2m private customers, 590,000 corporate customers and approximately 700 branches. Nordea Hypotek benefits from the strong position and widespread distribution network of its parent company, Nordea Bank AB. It functions as a funding vehicle for Nordea Bank and all mortgage loans are originated through Nordea's Swedish branches.

Figure 1: Structure of the Nordea Group

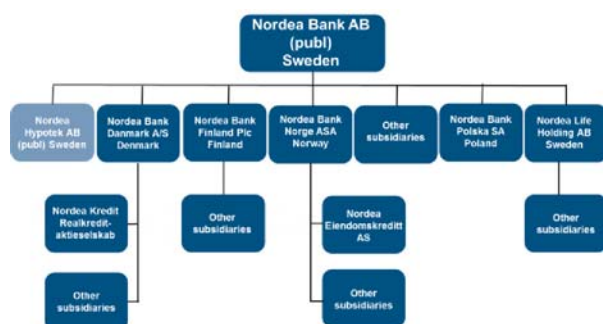
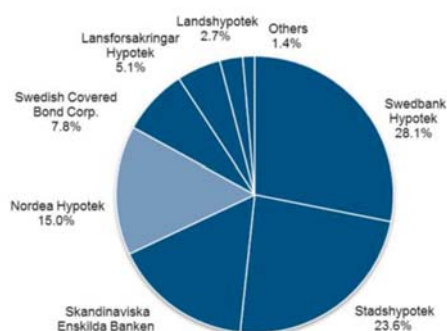


Figure 2: Market share



Source: Nordea Annual Report 2014, Bloomberg

Financial performance

Nordea Group weathered the financial crisis and has performed well in recent years. Profit for the year improved by 8.5% because of stable income and stable expense and lower losses. On this point, Nordea is traditionally viewed as a conservative bank in terms of risk-taking, which is reflected in relatively few loan impairments in 2013 and 2014 compared to key competitors. Total assets increased by 6%. Thus, there was an increase despite the Euro strengthening against the Swedish and Norwegian Krona and against the Russian Rubel in 2014. The effect of changes in currency exchange rates had a negative impact on the value of the Group's assets. Nordea Group holds a return on equity target of 13%. In 2014, return on equity was 11.6% excluding non-recurring items and 11.5% including these, thus below the target level.

Table 1: Key figures for the Nordea Group

Key variables (DKKm)	2014	2013	Change (%)
Total assets	669.342	630.434	-6,2%
Net interest income	5.482	5.525	-0,8%
Loan losses	534	735	-27,3%
Profit for the year (after tax)	3.371	3.107	8,5%
Key ratios (%)	2014	2013	Change (%-point)
Return on equity	11,5	11,0	0,5
Cost/income ratio	49,0	51,0	-1,0
Total capital ratio	20,7	18,1	2,6
Tier 1 capital ratio	17,6	15,7	1,9

Source: Nordea Annual Report 2014

Cover pool composition

The cover pool backing the issued covered bonds totals SEK 457.9bn. It is mainly comprised by Swedish residential mortgages (79%) together with a smaller amount of multi-family loans (12.3%) and to a lesser extent public sector loans (4.7%) and commercial loans (3.9%). The pool is of high quality with a collateral score incl. systemic risk (5.8%). The average LTV is fairly low (53.4%) and in line with domestic peers.

ALM and risk

The issuer is exposed to interest rate risk, as only 17.5% of the cover pool loans are fixed-rate loans, while most of the bonds issued are fixed-rate bonds (94.7%). Regarding currency risk at end of Q1 2015, the issued bonds are denominated in SEK, EUR, CHF while all pool loans are SEK-denominated, exposing the issuer to currency risk. Both the interest rate risk and the currency risk are eliminated by the use of derivative contracts. The lending provided by the issuer is typically on longer terms than the funding meaning that there is refinancing risk. There is credit risk as well, which is however limited due to the high quality of the loans (low LTV and low collateral score) and the high level of over-collateralization (43.2%).

Ratings

All covered bonds issued by Nordea Hypotek are assigned Aaa/AAA ratings by Moody's/S&P. Nordea Hypotek does not have a stand-alone rating, but Nordea Group's long-term ratings by Moody's/S&P/Fitch are Aa3/AA-/AA-. In June 2015, Nordea Bank's outlook was upgraded to stable by Moody's due to a resilient pattern, good operational efficiency and healthy asset-quality metrics. These positive factors are counterbalanced by Nordea Banks' high reliance on market funding.

Graphs and statistics

Table 2: Cover pool statistics

Value of cover pool	
Cover pool value (SEKbn)	452,3
Collateral score	5,8%
Collateral score excl. systemic risk	4,7%
Collateral risk (collateral score post-haircut)	3,9%
Refinancing and market risk	8,6%
Collateral composition	
Residential assets	78,8%
Commercial assets	3,8%
Public-sector assets	5,1%
Multi family assets	12,3%
Other assets	0,0%
Interest rate and duration mismatch	
Fixed rate assets in the cover pool	17,5%
Fixed rate covered bonds outstanding	94,7%
WAL assets (years) / S&P	2,7
WAL liabilities (years) / S&P	n/a

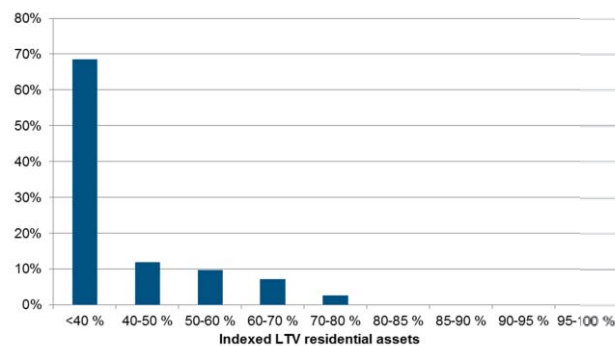
Source: Moody's investor service

Table 3: Rating by Moody's and S&P

Ratings Moody's / S&P	Moody's	S&P
Rating	Aaa	AAA
Current OC / Actual CE	39,8%	53,2%
Committed OC	0,0%	-
OC consistent with current rating / Target CE	1,0%	12,1%
TPI	Probable-High	-
RRL	-	aa
JRL	-	aaa
TPI Leeway / Unused uplift (notches)	4	2

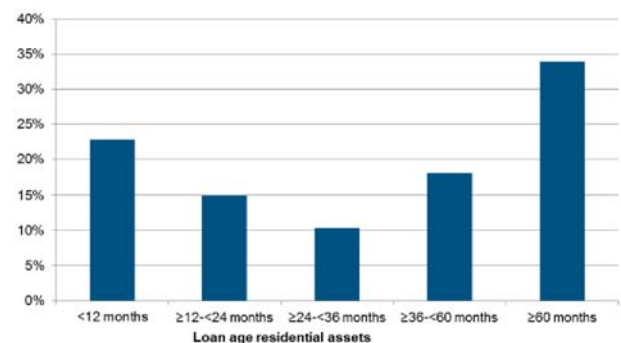
Source: Moody's investor service and S&P

Figure 3: Indexed LTV distribution, Q1 2015



Source: Moody's investor service

Figure 4: Loan seasoning, Q1 2015



Swedish Covered Bond Corporation

Key points

Strengths

- Strong parent bank fully-owned by the Kingdom of Swedish.
- High-quality cover pool – low average LTV (58.3%) and high over-collateralization (44.2%).
- Strong Swedish covered bond legislation.

Weaknesses

- A sale of the parent bank is considered by the Swedish government.
- No committed level of over-collateralization.
- Cover pool is dynamic – substitution risk.

Company profile

The Swedish Covered Bond Corporation (SCBC) is a wholly-owned subsidiary of SBAB Bank (Statens Bostadsfinansieringsaktiebolag). SCBC's operations started in 2006 after it received a license from the Swedish Financial Supervisory Authority. In the same year SCBC became the first issuer of Swedish covered bonds. SCBC does not engage in new lending itself but acquires loans from SBAB. SBAB Bank was established in 1985 with the objective to finance government mortgages. The bank is still fully-owned by the Kingdom of Sweden. However, in June 2007 the Swedish parliament approved the government's proposal to reduce ownership in SBAB. Currently, a sale is not being considered due to non-attractive market conditions.

SBAB has in recent years expanded its product line to include savings accounts for personal banking customers (2007) and deposits for the corporate market and tenant-owner associations (2009). In December 2009, SBAB submitted an application to the Swedish FSA to obtain permission to conduct banking operations and thereby broaden its product line and become more than a mortgage bank.

Figure 1: Structure of the SBAB Group

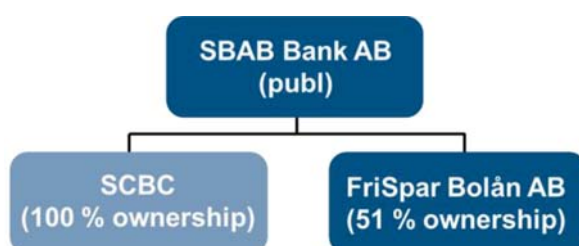
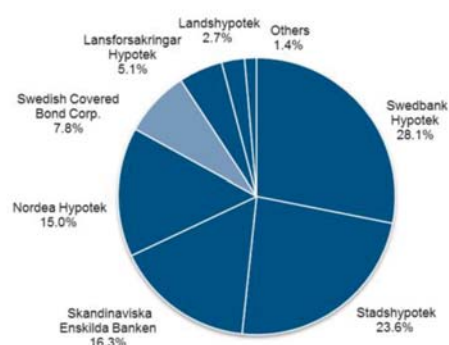


Figure 2: Market share



Source: SBAB Group

Financial performance

SBAB Group reported an increase in total assets from 2013 to 2014 of 1.2% together with an increase in net interest income and profit for the year of 7.5% and 43.9%, respectively. Loan losses decreased and the outcome was positive for the year at SEK 30 million, which corresponds to a loan loss rate of 0%. From 2013 to 2014 the SBAB Group improved its return on equity to 12.1%. This continues the positive trend in return on equity from 2012 to 2013, which marked the end of a continuous decrease in the ratio every year from 2009. The total capital ratio and the core tier 1 capital ratio are expressed in the table below is without taking into consideration transitional regulations.

Table 1: Key figures for the SBAB Group

Key variables (SEKm)	2014	2013	Change (%)
Total assets	338.985	335.058	1,2%
Net interest income	2.111	1.963	7,5%
Loan losses (net)	-30	-7	328,6%
Profit for the year (after tax)	1.256	873	43,9%
Key ratios (%)	2014	2013	Change (%-point)
Return on equity	12,1	9,5	2,6
Cost/income ratio	32,0	43,0	-5,0
Total capital ratio	44,7	35,6	9,1
Core Tier 1 capital ratio	29,8	23,3	6,5

Source: SBAB Annual Report 2014

Cover pool composition

SCBC has a cover pool valued at SEK 211.4bn with a collateral score of 6.2%, which is higher than the average collateral score of the domestic peers. The cover pool mainly consists of Swedish residential mortgages with 40.8% being loans to tenants of tenant-owned housing cooperatives. The over-collateralization is 44.2%, which is one of the highest levels among the Swedish competitors. There is a substantial amount of IO loans in the pool corresponding to 56.5% of all loans. Regional distribution exhibits a bias for the Greater Stockholm region.

ALM and risk

Similar to the other Swedish covered bond issuers, SCBC's outstanding bonds are SEK, CHF, EUR-denominated, while the pool loans are SEK-denominated exposing the issuer to currency risk if not adequately hedged. Furthermore, there is a mismatch between loans and funding with respect to interest rates, as 49.3% of the loans are fixed-rate loans, while 14.8% of the bonds are floating-rate bonds exposing the issuer to interest rate risk. There is refinancing risk due to the mismatch in lifetime between loans and funding as well as credit risk. The latter is, however, limited due to the high quality and high over-collateralization of the cover pool.

Ratings

All covered bonds issued by SCBC are subject to an Aaa/AAA ratings from Moody's/S&P. SCBC is not independently rated but the parent group SBAB Bank is ranked A2/A by Moody's/S&P. In June 2014 S&P announced that they will withdraw their credit rating on SCBC's covered bonds, on the request of the issuer. On the time of the withdrawal, the outlook on the covered bonds was stable. In July 2013, SBAB was put on negative credit watch by S&P. In April 2014, the negative outlook was re-affirmed as the Group has not strengthened its liquidity profile as planned. S&P does not believe the new EU regulation will impede the Swedish government abilities to support SBAB bank so SBAB was not part the European banks whose S&P rating has been affected by the new resolution frameworks. However in April 2015, Moody's gave SBAB Bank a stable outlook, as it was concluded that the expected introduction of an operational resolution regime in Sweden will lower the likelihood of government support for the SBAB Bank.

Graphs and statistics

Table 2: Cover pool statistics

Value of cover pool	
Cover pool value (SEKbn)	215,9
Collateral score	6,2%
Collateral score excl. systemic risk	n/a
Collateral risk (collateral score post-haircut)	4,1%
Refinancing and market risk	10,5%
Collateral composition	
Residential assets (39.9 % tenant owner rights)	65,4%
Commercial assets	0,0%
Public-sector assets	1,2%
Multi-family assets	27,2%
Other assets	6,3%
Interest rate and duration mismatch	
Fixed rate assets in the cover pool	49,3%
Fixed rate covered bonds outstanding	85,2%
WAL of outstanding covered bonds (years)	2,6
WAL of the cover pool (years)	23,0

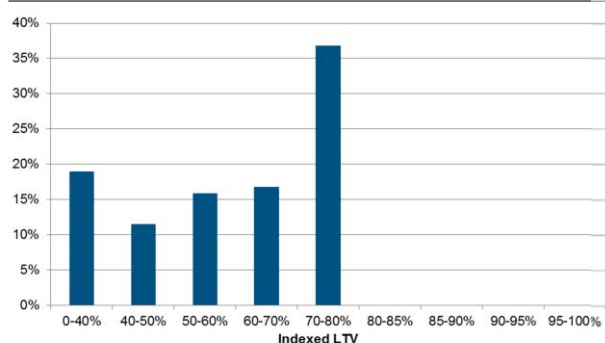
Source: Moody's investor service

Table 3: Rating by Moody's

Ratings Moody's	Moody's
Rating	Aaa
Current OC / Actual CE	44,2%
Committed OC	0,0%
OC consistent with current rating / Target CE	9,0%
TPI / ALMM risk	Probable-High
TPI Leeway / Unused uplift (notches)	2

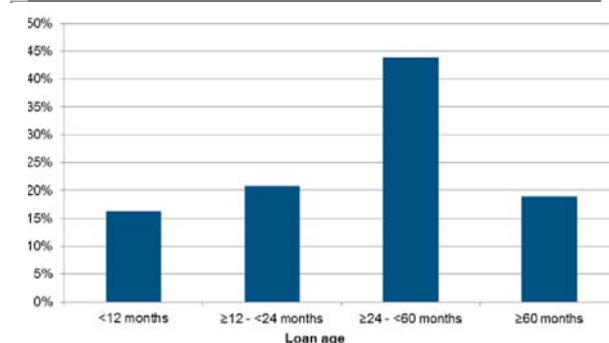
Source: Moody's investor service

Figure 3: Continuously distributed LTV, Q2 2015



Source: Moody's investor service

Figure 4: Loan seasoning, Q2 2015



Skandinaviska Enskilda Banken AB

Key points

Strengths

- Leading financial group in the Nordic region and third-largest bank in Sweden.
- High-quality cover pool – 84.3 % Swedish residential mortgages, average LTV of 56.2%, and a TPI leeway of 3.
- High level of over-collateralization (49.8%).

Weaknesses

- No committed level of over-collateralization.
- Duration mismatch between cover pool loans and outstanding bonds - refinancing risk.
- Dynamic cover pool - substitution risk.

Company profile

Skandinaviska Enskilda Bank (SEB) is one of the Nordic region's leading financial groups, and the third-largest bank in Sweden. SEB was founded in 1856 by André Oscar Wallenberg under the name Stockholms Enskilda Bank. It currently operates in the Nordic region, Germany, Poland, Russia and the Baltics and is present in around 20 countries worldwide. SEB serves 4m private costumers, 400,000 SME customers, and 3000 corporates and institutions, and has around 16,000 employees. It functions as a universal bank in Sweden and the Baltics and as a corporate bank in Denmark, Norway, and Germany. The company has a stronger commercial profile than its Scandinavian peers, with corporate lending comprising a larger share than retail lending in absolute terms. The group is moreover a leading asset manager. It has 277 branches in Sweden and the Baltic countries, but loans are mostly distributed via telephone and internet.

Figure 1: Structure of the SEB Group

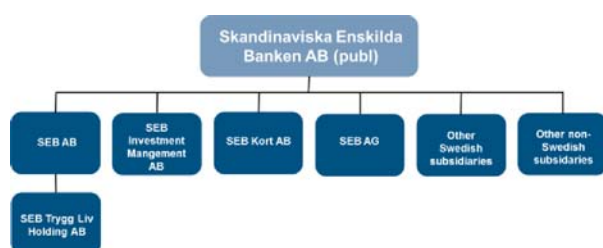
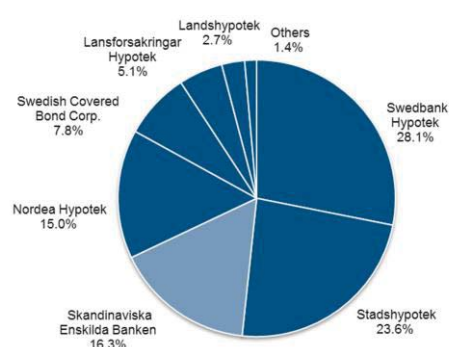


Figure 2: Market share



Source: SEB Annual Report 2014, Bloomberg

Financial performance

After-tax profit for 2014 increased by 30.1% as net interest income increased by almost 5.9%, primarily due to growth in corporate and household lending volumes in Sweden. The after-tax profit includes two one-time items that increased the operating income. Excluding the one-time items, the after-tax profit increased by 11% compared to 2013. Return on equity improved by 2.2% to 15.3% which is above SEB's target of 15%. However, excluding the one-time items, return on equity amounted to 13.1%, which is the same as in 2013. The SEB Group showed an increase in total assets of (6.3%) and decreases in loan losses. At year-end 2014, non-performing loans declined by 21% and as a result, operating profit improved by 13%. Non-performing loans amounted to SEK 10.6bn, of which SEK 4.3bn pertained to the Baltic portfolio.

Table 1: Key figures for the SEB Group

Key variables (SEKm)	2014	2013	Change (%)
Total assets	2.641.246	2.484.834	6,3%
Net interest income	19.943	18.827	5,9%
Net write-offs	986	1.565	-37,0%
Profit for the year (after tax)	19.219	14.778	30,1%
Key ratios (%)	2014	2013	Change (%-point)
Return on equity	15,3	13,1	2,2
Cost/income ratio	47,0	54,0	-7,0
Total capital ratio	22,2	18,1	4,1
Core Tier 1 capital ratio	16,3	15,0	1,3

Source: SEB Annual Report 2014

Cover pool composition

SEB has a cover pool valued at SEK 464.6bn while liabilities are valued at SEK 310.1bn, resulting in a high over-collateralization of 49.8%. SEB has a collateral score of 6.1%, which is higher than most domestic competitors. The cover pool is comprised of 84.3% Swedish residential mortgage loans (among them 26.5% are to tenants of tenant-owned housing cooperatives), 14.4% multi-family loans, 1.4% public loans and 1.4% other assets. The weighted average LTV on residential assets (56.2%) is slightly higher than for domestic peers, but this is still low in an international perspective. A large share (69.4%) of the residential loans is interest only (IO) loans.

ALM and risk

For the cover pool, 68.7% of the loans are floating-rate loans while most of the issued covered bonds (96.4%) are fixed. Because of the mismatch, the investor is exposed to interest rate risk, although the mismatch is modest compared to other Nordic cover pools backing covered bonds. The outstanding covered bonds are primarily SEK-denominated, but also EUR- and USD- and to a lesser extent CHF- and NOK-denominated. As all cover pool loans are SEK-denominated, the issuer is exposed to currency risk. Interest-rate risk and currency risk are eliminated by the use of derivatives instruments. There is credit risk and refinancing risk. Credit risk is, however, deemed low due to the high over-collateralization in the pool (49.8%).

Ratings

SEB AB's covered bond program is Aaa-rated by Moody's, while SEB AB's long-term rating by Moody's/S&P/Fitch is A1/A+/A+. In July 2015, S&P affirmed their negative outlook on SEB AB, indicating that the long-term rating could be lowered at year end due to the likelihood that senior unsecured creditors could incur losses if the bank fails. This is reflecting the possibility of reduction or removal of extraordinary government support for Swedish banks, as bail-in provisions within EU banking resolution frameworks are finalized. SEB AB also has a negative outlook from Moody's. Similar to the ranking of S&P, this is on the grounds of the new EU regulation (Bank Recovery and Resolution Directive and Single Resolution Mechanism) that shifts the risk to the downside.

Graphs and statistics

Table 2: Cover pool statistics

Value of cover pool	
Cover pool value (SEKbn)	464,6
Collateral score	6,1%
Collateral score excl. systemic risk	n/a
Collateral risk (collateral score post-haircut)	4,1%
Refinancing and market risk	10,6%
Collateral composition	
Residential assets	84,3%
Commercial assets	0,0%
Public-sector assets	1,4%
Multi family assets	14,4%
Other assets	1,4%
Interest rate and duration mismatch	
Fixed rate assets in the cover pool	31,3%
Fixed rate covered bonds outstanding	96,4%
WAL of outstanding covered bonds (years)	3,2
WAL of the cover pool (years)	n/d

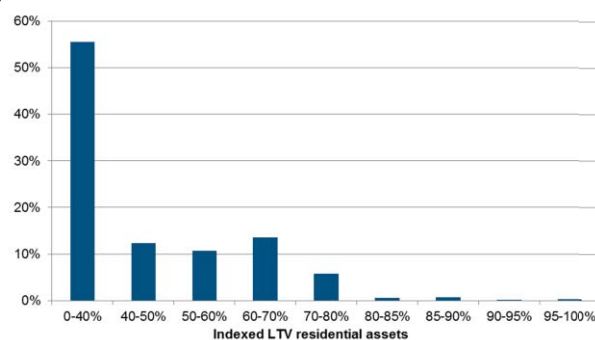
Source: Moody's investor service

Table 3: Rating by Moody's

Rating Moody's	
Rating	Aaa
Current OC / Actual CE	49,8%
Committed OC	0,0%
OC consistent with current rating / Target CE	2,0%
TPI / ALMM risk	Probable-High
TPI Leeway / Unused uplift (notches)	3

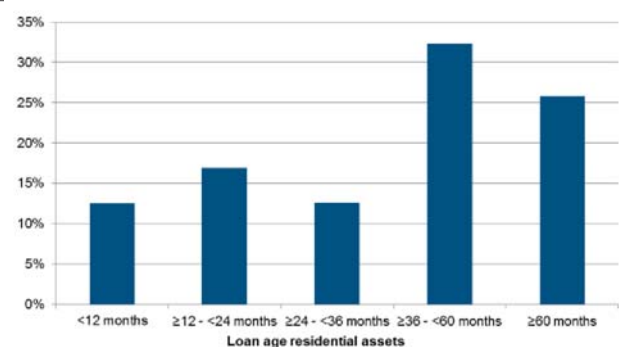
Source: Moody's investor service

Figure 3: Indexed LTV distribution, Q1 2015



Source: Moody's investor service

Figure 4: Loan seasoning, Q1 2015



Stadshypotek

Key points

Strengths

- Part of one of the strongest financial groups in the Nordic region.
- High-quality cover pools with LTVs of 51.3% and 54.0% and collateral scores of 5.6% and 7.4%.
- Strong Swedish covered bond legislation.

Weaknesses

- High collateral concentration in Stockholm area for the Swedish cover pool.
- Relatively low over-collateralization (13.6% and 9.3%) and no committed level.
- Dynamic cover pool – substitution risk.
- Refinancing risk, mismatch in duration between cover pool and issued bonds.

Company profile

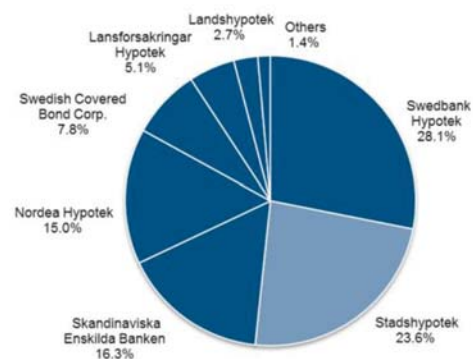
Stadshypotek is a wholly-owned subsidiary of Svenska Handelsbanken, which is among the largest financial institutions in the Nordic region. Handelsbanken offers a full palette of banking service to personal and corporate customers. The bank considers all four Scandinavian countries and Great Britain as domestic markets. The bank has 832 branches in 24 different countries and 11,692 employees. The bank is also expanding in the UK and Netherlands which is self-funded by productivity enhancements in other home markets. The Group has six home markets: Sweden, Norway, the UK, Denmark, Finland and Netherlands. Since the early 1970s, Handelsbanken's organization has been strongly decentralized. This implies that all business decisions are taken closer to the customer in question.

Stadshypotek is a specialist bank, which primarily originates loans secured by mortgages to Swedish residential housing, agriculture/forestry properties and corporate clients. The company dates back to 1865. Stadshypotek has been a subsidiary of Handelsbanken since 1997. It issues covered bonds with collateral in Swedish and a small portion of Norwegian mortgages issued via Handelsbanken's extensive branch network. Stadshypotek has quite recently (2011) established a separate Norwegian pool, which contains mortgages from Norway issued via Handelsbanken's Norwegian activities.

Figure 1: Structure of the Stadshypotek Group



Figure 2: Market share



Source: Svenska Handelsbanken AB, Bloomberg

Financial performance

The Handelsbanken Group recorded an increase of 6.2% in after-tax profit from 2013 to 2014. This would have been higher, if the loan losses would not have increased (49%) in the same period. The net interest income rose by 2.2%. Higher business volumes and rising lending margins boosted the net income, but were offset by decreasing deposit margins in Sweden and decreasing income related to equity, due to declining short-term interest rates. The Handelsbanken Group experienced an increase in total assets from 2013 to 2014 of 13.1%.

Table 1: Key figures for the Handelsbanken Group

Key variables (SEKm)	2014	2013	Change (%)
Total assets	2.816.676	2.489.721	13,1%
Net interest income	27.244	26.669	2,2%
Loan losses (net)	1.781	1.195	49,0%
Profit for the year (after tax)	15.184	14.295	6,2%
Key ratios (%)	2014	2013	Change (%-point)
Return on equity	13,4	13,9	-0,5
Cost/income ratio	45,2	47,0	-1,8
Total capital ratio	25,6	21,6	4,0
Core Tier 1 capital ratio	22,1	21,0	1,1

Source: Handelsbanken Annual Report 2014

Cover pool composition

The Swedish cover pool is much bigger than the Norwegian cover pool with a value of SEK 600.8bn and NOK 21.3m respectively. They both have high collateral scores compared to domestic competitors (5.6% for the Swedish pool and 7.4% for the Norwegian pool), but low in an international perspective. Both pools are mostly comprised of Swedish residential mortgage loans with 67% single-family, 30 % multi-family house loans and 3% public sector assets in the Swedish pool and 68% single-family and 32% multi-family house loans in the Norwegian pool. Both pools have low LTVs (residential assets) compared to both domestic and international peers, the LTVs are 51.3% for the Swedish pool and 54.0% for the Norwegian pool. A fairly large share (66.2%) of the Swedish pool is IO loans. Over-collateralization has improved since last year. However overcollateralization for the Swedish pool remains low compared to other Swedish issuers at 13.6%. Overcollateralization stands at 9.3% for the Norwegian pool.

ALM and risk

For the Norwegian pool, there is no currency risk as both loans and outstanding bonds are NOK-denominated. This is not the case for the Swedish pool where all loans are SEK-denominated but outstanding bonds are primarily SEK-, EUR-, and USD- but also AUD-, GBP-, CHF-denominated implying currency risk if not adequately hedged. For the Swedish pool, 49.5% of the pool loans are fixed-rate loans, while 90.4% of the bonds are fixed-rate bonds. Interest rate risk is mitigated by the use of derivatives instruments. For the Norwegian pool all loans and all issued bonds are floating-rate. For both pools there is refinancing risk as well as credit risk.

Ratings

Stadshypotek's two covered bond programmes are both ranked Aaa by Moody's. Stadshypotek does not have an independent issuer rating, but the parent company Handelsbanken's long-term rating by Moody's/S&P/Fitch is Aa2/AA-/AA-. Moody's upgraded Handelsbanken in June 2015, which reflects the expectations that earnings will remain stable in the low interest-rate environment and that capital buffers will remain solid as the industry-wide pressure to increase dividend payouts mount. The outlook from Moody's is currently stable. S&P considers the long-term rating to be unchanged, with a negative outlook, due to the likely reduction or removal of the potential extraordinary government support for Swedish banks, as bail-in provisions with resolution frameworks are finalized.

Graphs and statistics

Table 2: Cover pool statistics

Value of cover pool	Swedish Pool	Norwegian Pool
Cover pool value (SEKbn/NOKbn)	600,8	21,3
Collateral score	5,6%	7,4%
Collateral score excl. systemic risk	n/a	n/a
Collateral risk (collateral score post-haircut)	3,8%	n/a
Refinancing and market risk	14,4%	n/a
Collateral composition		
Residential assets	67%	68%
Commercial assets	0%	0%
Public-sector assets	3%	0%
Multi family assets	30%	32%
Other assets	0%	0%
Interest rate and duration mismatch		
Fixed rate assets in the cover pool	49,5%	0,0%
Fixed rate covered bonds outstanding	90,4%	0,0%
WAL of outstanding covered bonds (years)	2,5	n/d
WAL of the cover pool (years)	n/d	n/d

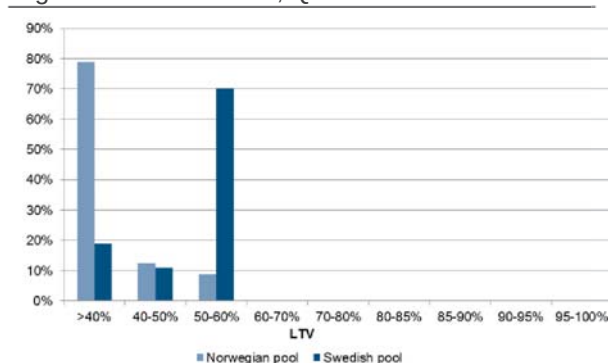
Source: Moody's investor service

Table 3: Rating by Moody's

Rating Moody's	Swedish Pool	Norwegian Pool
Rating	Aaa	Aaa
Current OC / Actual CE	13,6%	9,3%
Committed OC	0,0%	0,0%
OC consistent with current rating / Target CE	2,0%	1,5%
TPI / ALMM risk	Probable-High	Probable-High
TPI Leeway / Unused uplift (notches)	4	4

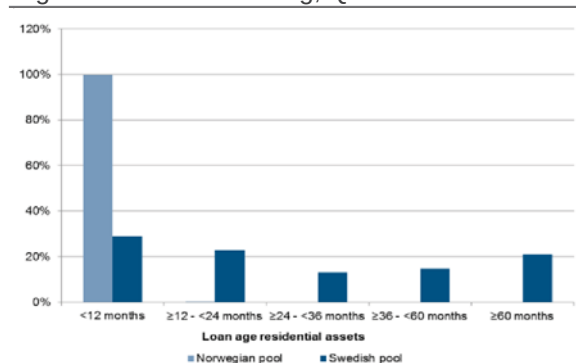
Source: Moody's investor service

Figure 3: Indexed LTV, Q4 2014



Source: Moody's investor service

Figure 4: Loan seasoning, Q4 2014



Swedbank Mortgage

Key points

Strengths

- Parent bank is the largest in Sweden with respect to customer base and a huge distribution network.
- High-quality cover pool – low average LTV (56.8%) and high over-collateralization (61.4%).
- Strong Swedish covered bond legislation.

Weaknesses

- Refinancing risk, mismatch in duration between pool loans and outstanding bonds.
- Cover pool is dynamic – substitution risk.
- A large share (77.5%) of the residential loans is IO loans.

Company profile

Swedbank Mortgage is a Swedish mortgage institution with a leading position in Sweden, where it has over 1m customers and finances more than one-third of all houses. Swedbank Mortgage is a fully-owned subsidiary of Swedbank, which is the largest bank in Sweden in terms of customers with over 4m private customers and 250,000 corporate and organizational customers. Other home markets include Estonia, Latvia, and Lithuania (around 4m private customers and 250,000 corporate customers in these three markets). The group reported total assets of 2,121bn in 2014 and have 14,653 people employed. In February 2014, Swedbank acquired Sparbanken Öresund in order to form the largest savings bank in Sweden (Sparbanken Skåne AB) and strengthen the Group's presence in the growth region of Southern Sweden.

Swedbank dates back to 1820 where the first Swedish savings bank was founded in Gothenburg. Today, Swedbank has a strong distribution network with 550 branches in Sweden, Estonia, Latvia, and Lithuania. Swedbank Mortgage benefits from this as its products are mainly sold through the branch network of Swedbank and the savings banks.

Figure 1: Structure of the Swedbank Group

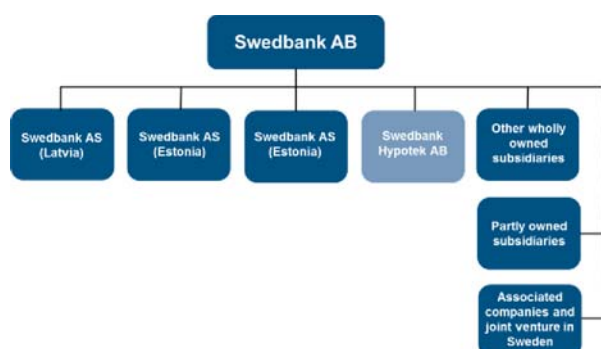
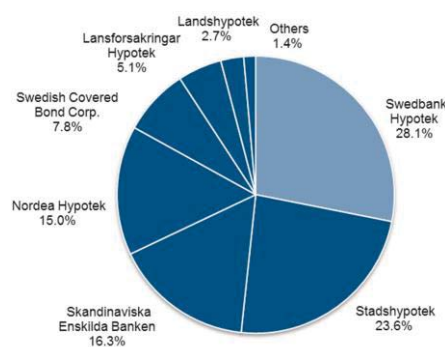


Figure 2: Market share



Source: Swedbank AB, Bloomberg

Financial performance

The Swedbank Group reported an increase in after-tax profit of 27.5% for the year, which can partially be linked to falling impairments and fluctuations in exchange rates, where depreciation in the Swedish Krona against the Euro increased profits. Net interest income rose by more than 2.8% and expenses remained quite unchanged. Cost/income ratio remains unchanged from 2013 at 45%, which is lower than the cost/income ratios of the three other major Swedish Banks i.e. SEB, Handelsbanken and Nordea. Despite low interest rates and higher capital requirements the return on equity increased from 14.7% to 15.2% from 2013 to 2014. This is primarily due to increased efficiency, through decreased expenses.

Table 1: Key figures for the Swedbank Group

Key variables (SEKm)	2014	2013	Change (%)
Total assets	2.121.297	1.824.102	16,3%
Net interest income	22.642	22.029	2,8%
Loan losses	591	840	-29,6%
Profit for the year (after tax)	16.447	12.901	27,5%
Key ratios (%)	2014	2013	Change (%-point)
Return on equity	15,2	14,7	0,5
Cost/income ratio	45,0	45,0	0,0
Total capital ratio	25,5	20,7	4,8
Core Tier 1 capital ratio	21,2	18,3	2,9

Source: Swedbank Annual Report 2014

Cover pool composition

The total value of Swedbank's cover pool is SEK 765.4bn and is of high quality with a low average LTV on residential assets (56.8%) and the highest overcollateralization within domestic peers at 61.4%. Swedbank holds a collateral score of 5.9%, which is in line with the average of the main domestic issuers. The cover pool mainly consists of Swedish residential mortgages (74.7%). Currently, no loans are in arrears. This is a reflection of the Swedish practice of moving non-performing loans to the balance sheet of parent companies. A large share (77.5%) of the residential loans is IO-loans.

ALM and risk

The issuer is exposed to interest rate risk as 33.3% of the cover pool loans are fixed-rate loans, while almost all outstanding bonds (91.6%) are fixed-rate bonds. There is also some currency risk as the issued bonds are mainly denominated in SEK, EUR, USD and to a lesser extent in CHF, NOK, RUB, JPY while all pool loans are SEK-denominated. Both of these risks are reduced by the use of derivative contracts. The lending provided by the issuer is typically on longer terms than the funding meaning that there is refinancing risk. There is credit risk as well, which is however limited due to the high quality of the loans and the high level of over-collateralization (61.4%).

Ratings

The ratings of Swedbank Mortgage's covered bonds are Aaa/AAA by Moody's/S&P. Swedbank Mortgage's issuer rating by Moody's is A1 and this is to a high extent driven by the parent company, Swedbank, which is rated A1/A+/A+ by Moody's/S&P/Fitch. In June 2015 Moody's upgraded Swedbank AB's long term debt and issuer rating from A1 to Aa3 motivated by Swedbank's strengthened risk profile and strong macro profile. In May 2014, Swedbank was part of the banks whose outlook has been reviewed by Moody's from stable to negative also on the grounds of the new EU regulation (Bank Recovery and Resolution Directive and Single Resolution Mechanism) that shifts the risk to the downside. The current outlook from Moody's, however, is stable. In June 2015, S&P revised its outlook from stable to negative, which takes into account the likelihood of diminishing extraordinary government support available to senior unsecured bondholders. This despite the fact that S&P revised Swedbank's stand-alone credit profile to 'a+' from an 'a'.

Graphs and statistics

Table 2: Cover pool statistics

Value of cover pool		
Cover pool value (SEKbn)		765,2
Collateral score		5,9%
Collateral score excl. systemic risk		n/a
Collateral risk (collateral score post-haircut)		4,0%
Refinancing and market risk		10,6%
Collateral composition		
Residential assets		74,7%
Commercial assets		0,6%
Public-sector assets		1,4%
Multi-family assets		16,0%
Other assets		7,3%
Interest rate and duration mismatch		
Fixed rate assets in the cover pool		33,3%
Fixed rate covered bonds outstanding		91,6%
WAL of outstanding covered bonds (years)		3,1
WAL of the cover pool (years)		n/d

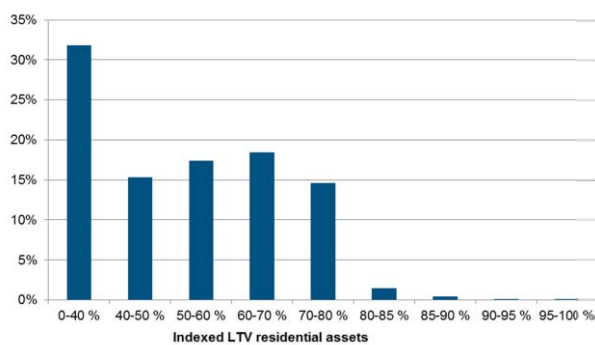
Source: Moody's investor service

Table 3: Rating by Moody's and S&P

Rating Moody's/S&P	Moody's	S&P
Rating	Aaa	AAA
Current OC / Actual CE	61,4%	68,2%
Committed OC	0,0%	-
OC consistent with current rating / Target CE	2,0%	17,4%
TPI	Probable-High	-
RRL	-	aa-
JRL	-	aaa
TPI Leeway / Unused uplift (notches)	3	1

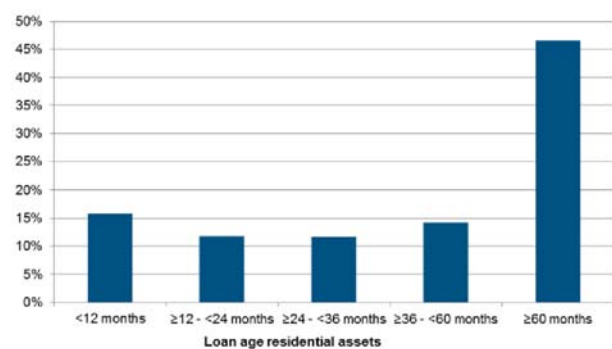
Source: Moody's investor service and S&P

Figure 3: Indexed LTV distribution, Q1 2015



Source: Moody's investor service

Figure 4: Loan seasoning, Q1 2015



Legal framework

Denmark

Legislation

Danish mortgage legislation can trace its roots back as far as Denmark 1797, but the most recent and important change came into force on July 1, 2007 with the implementation of CRD into Danish law. This law enabled a breakaway from the traditional Danish mortgage model based on the principle of matching loans and bonds. With the introduction of the new covered bonds, Danish mortgage banks may today choose from three types of bonds to fund their loans: the traditional mortgage bond (RO), the covered mortgage bond (SDRO) and the covered bond (SDO). The Danish market is a mature market in the sense that it is large and has played an important role for society for centuries. Incorporation of new legislation, changing risk perceptions, has also resulted in a vibrant market where market characteristics are constantly changing in order to adapt, and at the same time fulfilling the needs of both investors and borrowers alike.

Cover pool assets

Cover assets should be registered in the Danish land register, and may, depending on the mortgage type, be made up of different asset types. Særligt Dækkede Realkreditobligationer (SDROs) and Realkreditobligationer (ROs) may solely comprise mortgages (residential, commercial or agricultural) or public sector loans, and Særligt Dækkede Obligationer (SDOs) may on top of this also come in the form of ship mortgages, although ships are not allowed in mortgage banks cover pools. Exposures to credit institutions are capped at 15%, and derivatives are allowed for hedging purposes only. Commercial banks will further maintain a register making it possible to segregate cover assets from its balance sheet.

Danish mortgage banks are pass-through vehicles. This means that there exists a direct link between the bonds issued and the loans (bond loan) borrowers receive. As such, if a borrower wishes to redeem a loan, the mortgage institution will accordingly buy back the equivalent bond in the market. This implies that cover pools of Danish mortgage banks are only semi-dynamic, whereas commercial banks cover pools are dynamic in the traditional European sense, e.g. that cover assets may be added or removed at the will of the issuing commercial bank.

LTV limits and valuation

LTV levels are in line with the levels set out in CRD. LTVs on residential assets cannot exceed 80%. LTV on commercial, agricultural and holiday assets are generally capped at 60%. LTVs may be above the legal minimum, but mortgage banks will have to add collateral to the cover pool accordingly. For commercial banks, only the part of the loan within the legal maximum will be deemed as eligible, and thus in compliance with the legislation.

Property valuation is based on market values.

ALM

Danish financial institutions are subjected to strict guidelines concerning risk. These include interest rate, currency, option, liquidity and prepayment risks. For each risk type a stringent set of rules describes the exact levels of risk which is allowable. The legal ALM setup is split into two categories; the specific balance principle and the general balance principle, and the financial institution has to choose which it will adhere to. Under the general balance principle there are differences between what mortgage and commercial banks need to comply with. This is not the case for the specific balance principle where the rules are the same for both mortgage and commercial banks.

If the issuer provides voluntary overcollateralization this will legally become part of the cover pool, and will therefore be bankruptcy remote.

Segregation and bankruptcy remoteness

Danish covered bond holders have a preferential claim on the cover pool together with derivative counterparties. The assets in the cover pool will remain with the estate in case of bankruptcy. Insolvency or bankruptcy will not trigger acceleration. As long as the cover pool provides full cover to the claims of covered bond holders and derivative counterparties, an administrator is obliged to make timely payment.

Danish covered bonds in the form of SDROs, SDOs and grandfathered ROs (issued before January 1, 2008) fully comply with UCITS and CRD qualifying for a 10% risk weight.

Legal framework

Finland

Legislation

The latest round of legal changes in Finland came into force on August 1, 2010 (Act on Mortgage Credit Bank Operations). The main aspects were the abolishment of the specialist banking rule, revising LTV levels and giving derivatives privileged status on par with covered bonds. With the changes the Finnish legal framework now to a higher degree resembles other common traits in the Nordic area. In Finland issuers can be credit institutions authorised to engage in mortgage credit bank operations.

Cover pool assets

Finnish issuers have generally limited themselves to only include Finnish residential assets in their cover pools, but the legal framework allows for cover assets originating within the European Economic Area (EEA). As for actual asset types, these can comprise of residential assets, shares in Finnish real estate corporations (housing companies), public sector assets and substitute assets. In order to ensure liquidity within the cover pool, substitute assets are allowed up to a maximum amount of 20%. Commercial assets are also allowed, but these can only make up 10% of the cover pool if included.

Derivatives are allowed, but for hedging purposes only.

LTV limits and valuation

One of the most notable legal changes implemented in 2010, was the increase of LTVs on residential assets which are now 70%. LTV on commercial assets is 60%. Assets in the cover pool may have a LTV above the legal maximum, but only the part of the loan within the legal maximum will be deemed as eligible, and thus in compliance with legislation.

Property valuation is based on market values.

ALM

With the 2010 legal revision, there was also the introduction of mandatory overcollateralization levels based on a NPV of 2%. Besides the NPV overcollateralization demand, there co-exists a nominal demand as well. Further tightening was implemented with the 12 month liquidity requirement. Under this rule, the sum of all interest received on cover assets, in any 12 month period, must exceed the interest paid on outstanding covered bonds. Further, assets must be in the same currency as covered bonds unless fully hedged. Non-performing assets (90 days past due) are excluded from cover tests.

The covered bond law prohibits set-off against any mortgage-backed or public sector cover pool assets over which covered bondholders have priority rights and also effectively removes claw-back risk.

Segregation and bankruptcy remoteness

All cover assets are registered in a cover register which is managed by the bank in question, and the bank is supervised by the Finnish FSA. By maintaining the cover register, cover assets will be individually identifiable in case of insolvency, and the assets in question will be ring-fenced, and will not become part of the insolvency estate. Covered bonds and derivatives will in case of insolvency not necessarily be accelerated.

If the claims of covered bond and derivatives counterparties are not fulfilled, by the cover assets, then a claim can be made on the assets of the bank, on an equal footing with ordinary creditors. Covered

bond holders thus have dual recourse with a preferential claim on cover assets, and a secondary claim on the bank's assets.

Following issuer default, a cover pool supervisor is appointed to supervise the interest of covered bondholders. The cover pool supervisor has wide powers to direct the issuer's general administrator and, in particular, will supervise cover pool cash flows and payments to covered bondholders.

Finnish covered bonds fully comply with UCITS and CRD qualifying for a 10% risk weight.

Legal framework

Norway

Legislation

The legal framework in Norway came into force on June 1, 2007. In the Nordic area, Norway distinguishes itself as the only jurisdiction where only specialised institutions are allowed to issue covered bonds. The nascent Norwegian covered bond market was challenged by the financial crisis, but liquidity was ensured by a swap scheme with the Norwegian central bank, Norges Bank, where covered bonds were swapped for treasury bills. The last covered bonds in this arrangement came to maturity in June 2014, meaning that the swap scheme has been phased out. However, this has propelled the Norwegian covered bond market where a large number of banks have established subsidiaries in order to be able to issue covered bonds.

Cover pool assets

Norwegian issuers have generally limited themselves to only including Norwegian residential assets in their cover pools, with only one issuer of public sector covered bonds. The legal framework allows for cover assets originating within the European Economic Area (EEA) or OECD. As for actual asset types, the main asset types allowed comprise residential assets, commercial assets and public sector assets. Other than these, derivative contracts, substitute asset and loans secured on other “registered assets” are permitted in the cover pool. In order to ensure liquidity within the cover pool, substitute assets are allowed up to a maximum amount of 20%. This might however be increased to 30% temporarily.

LTV limits and valuation

LTV levels are in line with and just below the levels set out in CRD. LTV on residential assets is 75%, and LTV on commercial assets is 60%. Assets in the cover pool may have a LTV above the legal maximum, but only the part of the loan within the legal maximum will be deemed as eligible, and thus in compliance with the legislation.

Property valuation is based on market values.

ALM

The legal framework stipulates that the value of cover assets at all times shall exceed the outstanding covered bonds based on market values. To ensure cover pool diversification there is a cap on any single borrower of 5%. A maximum of 15% of the exposure in the form of substitute assets may be exposures to banks. The issuer’s swap counterparties must provide pool collateral (or provide other security) if their credit quality reduces. Further, there is no minimum OC level and there is no nominal asset coverage test. However, issuers may agree to hold a certain minimum amount of OC, and to date have always provided full nominal asset coverage of their bond issuance.

If the issuer provides voluntary overcollateralization this will legally become part of the cover pool, and will therefore be bankruptcy remote. The credit institution shall ensure that cash flows from the cover pool are enough to cover cash out flows, in addition with strict guidelines on liquidity, interest rate and currency risk.

Non-performing assets are excluded from the cover pool tests. However, they may remain in the cover pool and be included in OC calculations. Assets typically become non-performing at 90 days past due.

The issuer’s administrator has the right to re-set on floating-rate mortgage loans with a limited notice period, reducing the length of time the cover pool is exposed to refinancing risk following issuer

default. Currently, almost all loans are floating rate. If the proportion of fixed-rate loans in a cover pool increases, the benefit of the right to re-set rates would diminish.

Segregation and bankruptcy remoteness

Because issuers are specialist credit institutions, the default of the parent or group supporting them would not necessarily trigger the immediate default or insolvency of the issuer. This may enable an issuer to continue solvent operations for a period and possibly gain access to alternative liquidity sources, such as repurchasing (repo) facilities. Norwegian covered bond holders have a preferential claim on the cover pool. The assets in the cover pool will remain with the estate in case of bankruptcy. Insolvency or bankruptcy will not by itself trigger acceleration. As long as the cover pool provides full cover to the claims of covered bond holders and derivative counterparties, then an administrator is obliged to make timely payment.

Norwegian covered bonds fully comply with UCITS and CRD qualifying for a 10% risk weight.

Legal framework

Sweden

Legislation

The Swedish legal framework dates back to July 1, 2004 where it came into force. It has since then been amended in order to become CRD compliant. In Sweden, issuers can be either universal or specialized banking institutions. In practice, with the exception of SEB, all Swedish issuers are specialized banks, fully owned by their parent banks from which they enjoy a strong backing. The Swedish market is a large and mature market, which takes advantage from a strong domestic investor base. This also means that issuers are able to take advantage of the different funding opportunities which are available to them concerning currency, maturity and other.

Cover pool assets

Swedish issuers have generally limited themselves to only include Swedish residential assets in their cover pools. The legal framework, however, allows for cover assets originating within the European Economic Area (EEA). As for actual asset types the main asset types allowed comprise residential assets, commercial assets, agricultural assets and public sector assets. On top of these come site-leasehold rights and pledges against tenant-owner rights. According to Swedish law, cover pools can be mixed, but there is a cap on commercial assets of 10%.

In order to ensure liquidity within the cover pool, substitute assets are allowed up to a maximum amount of 20%, though the Swedish FSA can temporarily increase this to 30% under special circumstances. Derivatives are allowed, but for hedging purposes only. Loans more than 60 days past due are not eligible for inclusion in cover tests. Loan parts that materially exceed the LTV thresholds must be removed from the cover pool, supporting the quality of over-collateralization. Further, cover pools must be stress tested against falls of up to 30% in mortgaged property values. Issuers must report the outcome of the tests to the Financial Supervisory Authority and state how the issuer will improve cover pool matching if price falls are experienced.

LTV limits and valuation

LTV levels are in line with and just below the levels set out in CRD. LTVs on residential assets are 75%, 70% on agricultural assets and 60% on commercial assets. Assets in the cover pool may have a LTV above the legal maximum, but only the part of the loan within the legal maximum will be deemed as eligible, and thus in compliance with the legislation.

Property valuation is based on market values.

ALM

The legal framework stipulates that the nominal value of cover assets at all times shall exceed the nominal value on outstanding covered bonds. In addition, there also exists a NPV requirement. This demands that the value of the cover assets shall at all times exceed the value of the outstanding covered bonds on a NPV basis, inclusive of a stress test. This includes chocking the swap curve by +/- 100bp and a twist of the curve. Currency stress testing involves a 10% change. There are no fixed demands concerning overcollateralization levels. Further, it is common for issuers to have the right to re-set interest rates on residential mortgage loans on a quarterly basis. This reduces the length of time the cover pool is exposed to refinancing risk following issuer default.

Segregation and bankruptcy remoteness

The bankruptcy of the parent or group entity supporting a specialist issuer would not necessarily trigger the immediate default or insolvency of the issuer. This may enable a specialist issuer to

continue solvent operations for a period and possibly gain access to alternative liquidity sources, such as repo facilities. In case of bankruptcy of the issuer, it will maintain a register available to the Swedish FSA. Registration secures the preferential claim bond holders and derivatives counterparties have on the cover assets in the event of insolvency or bankruptcy. Insolvency or bankruptcy will not by itself trigger acceleration. If the claims of covered bond and derivatives counterparties are not fulfilled, by the cover assets, then a claim can be made on the assets of the bank on an equal footing with ordinary creditors.

Swedish covered bonds fully comply with UCITS and CRD qualifying for a 10% risk weight.

The covered bond market

Denmark

Historical perspective

Covered bonds have a long history in Denmark going back to 1797 where the first mortgage bank Kreditkassen for Husejere i Kjøbenhavn was established to help rebuild Copenhagen after the devastating fire of 1795. The first legal framework was enshrined in The Danish Mortgage Credit Act in 1851. Since 1989 several amendments have been introduced to make the Danish covered bond system compatible with the European regulatory framework. The latest amendment dates back to 2007 when a new law was introduced to allow universal banks to issue covered bonds - a right which has so far only been utilized by one bank (Danske Bank).

Types of covered bonds and market volume

Danish bonds

The total outstanding volume of Danish covered bonds issued by mortgage credit institutions and backed by property amounted to DKK 2,954bn by June 2015, according to Statistics Denmark. There was a smaller amount of outstanding covered bonds backed by ship loans (DKK 43bn) and loans to municipalities (DKK 41bn). Denmark has the largest market for covered bonds in the Nordic region and has become the second largest in Europe for the year 2014 after Germany according to ECBC. The outstanding amount of Danish covered bonds increased slightly from 2013 to 2014. The centrality of covered bonds in Denmark is illustrated below. As evident from the table, the value of outstanding covered bonds is almost four times the value of outstanding government bonds.

Table 1: Outstanding bonds in the Danish market by June 2015

Bond	Value (DKKbn)	Percentage
Covered bonds - Mortgage credit issues	2.954	78%
Government bonds	671	18%
Corporate bonds	62	2%
Ship finance	43	1%
Municipality finance	41	1%
SDOs issued by universal banks	23	1%
<i>Total</i>	<i>3.793,97</i>	<i>100%</i>

Source: Statistics Denmark, table DNVPDKBR

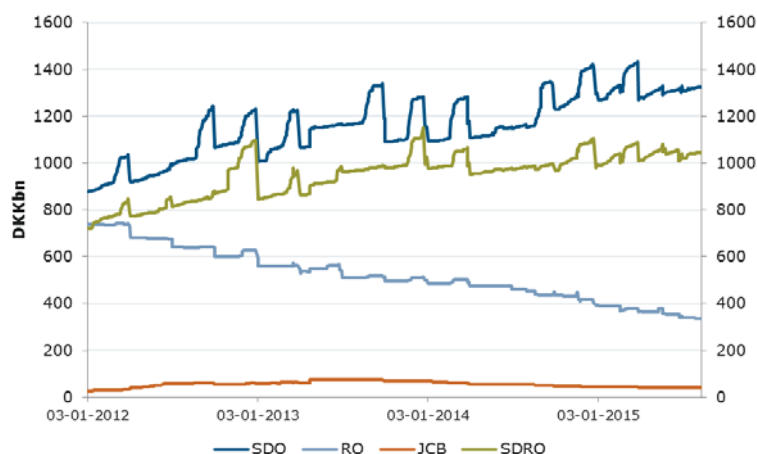
After a decrease in Danish covered bonds issuance by EUR 37bn in 2013, the issuance rose by 4bn in 2014. Danish covered bonds are primarily issued in DKK, and a few series are EUR-denominated. The issuance of SDOs from universal banks amounts to DKK 23bn. Currently, this category only consists of SDOs issued by Danske Bank, which as the only Danish universal bank has used its option to issue covered bonds.

Types of covered bonds

As opposed to other Nordic covered bond markets there are several categories of covered bonds in Denmark: Særligt dækkede obligationer (SDOs), Særligt dækkede realkreditobligationer (SDROs), and Realkreditobligationer (ROs). The main difference between SDOs/SDROs and ROs is that ROs are not CRD compliant if issued after 1 January 2008 since ROs do not fulfil the continuous LTV requirements. ROs issued prior to January 1 2008 have been grandfathered. SDROs satisfy the requirements of the old system, but are also compatible with the European CRD-framework. The types of eligible cover assets also differ among the three types as specified below. Mortgage institutions are allowed to issue all three types of bonds while universal banks are only licensed to issue SDOs.

As illustrated in the figure below, the Danish market is moving away from traditional ROs towards SDROs and SDOs. The non-compliance of CDR will most likely lead to a further decrease in the market for ROs going forward.

Figure 1: Outstanding amounts of SDOs, SDROs and ROs



Source: Nordea Analytics

Loan types

The Danish mortgage market is dominated by three different types of bonds: fixed-rate callables, fixed rate bullets and floaters. The characteristics of these are illustrated in the table below.

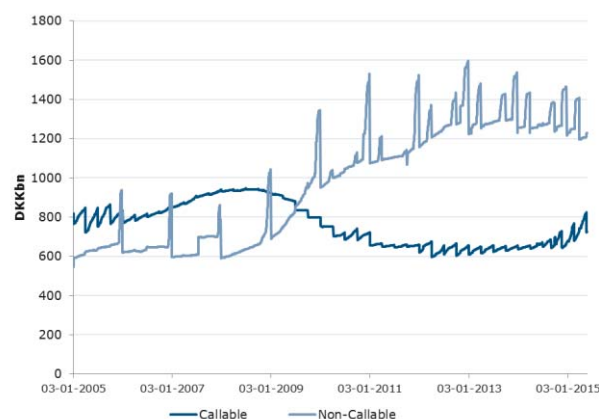
Table 2: Types of bonds

Fixed rate callables	Fixed rate bullets	Floaters (capped/uncapped)
Used to fund fixed rate callable annuity loans.	Used to fund adjustable-rate annuity loans up to the reset day.	Used for funding loans based on floating rate mortgage loans either capped or uncapped.
Callable to mitigate borrowers' prepayment.	Maturities are between 1-10 years.	Annuities with or without interest only periods.
Daily tap issuance.	Daily tap issuance and 4 yearly auctions held in February, May, August and September.	Daily tap issuance or auctions.
		Coupon based on 3M or 6M Cibor or Euribor subject to semiannual or quarterly fixing.

Source: Nordea Markets

The short maturity fixed bullet bonds have previously become increasingly popular, but their share of the market seems to have peaked. Fixed bullet bonds are issued to finance adjustable rate mortgages (ARMs), which are loans where the interest rate is reset according to a specified agreement at 1, 3, 5 or 10 years intervals. This system requires issuance of short-dated securities, which run until the next resetting of the interest rate on the loan. Given that ARM loans turn long-term mortgages into a series of shorter maturity loans they are especially attractive during times with steep yield curves.

Figure 2: Outstanding amounts of different covered bond types



Source: Nordea Analytics

Regarding repayment, the Danish borrowers have the opportunity to choose an interest only (IO) profile, up to a maximum of 10 years. Danmarks Nationalbank has several times pointed to the importance of gradually phasing out the large amount of IO loans. In response to this, the Danish mortgage banks have changed their fee structure in order to give the borrower a greater incentive to choose longer dated bonds.

ALM and risk

Specific and general balance principle

Compared to other European markets the Danish system stands out in a number of ways, most importantly by the use of a strict balancing principle implying a close link between the covered bonds issued and the loans in the cover pool. For many years, all Danish issuers employed a true pass-through system, i.e. the underlying loans perfectly corresponded to the issued covered bond. However, the amendments to the Mortgage Act in 2007 introduced a more European approach, where universal banks along with mortgage banks had the obligation to adhere to either the specific balance principle (a true pass-through system) or the general balance principle in accordance with the Executive Order on bond issuance. For the specific balance principle, there is no mismatch between the payments from borrowers and the payments to the holders of the issued bonds implying that there is no refinancing risk, interest rate risk or currency risk for the issuer. The only risk faced by the issuer is the default risk, i.e. the risk that the borrower does not meet his obligation. Regarding the general balance principle, there is no true pass-through, but the mismatch between loan and bond is, however, limited. All Danish mortgage banks have chosen to apply the specific balance principle and hence use a true pass-through system. Only Danske Bank (a universal bank) and Danmarks Skibskredit are using the general balance principle.

ARMs and refinancing risk

Loans granted by Danish mortgage banks (following the specific balance principle) are funded exclusively through the issuance of mortgage bonds. Thus, proceeds from the issuance must be available on the day the loan is disbursed, which is ensured via tap issuance on a daily basis. Each loan is thus linked to a certain amount of bonds in one or several specific ISIN codes. The daily tap issuance results in no clear distinction between the primary and secondary market.

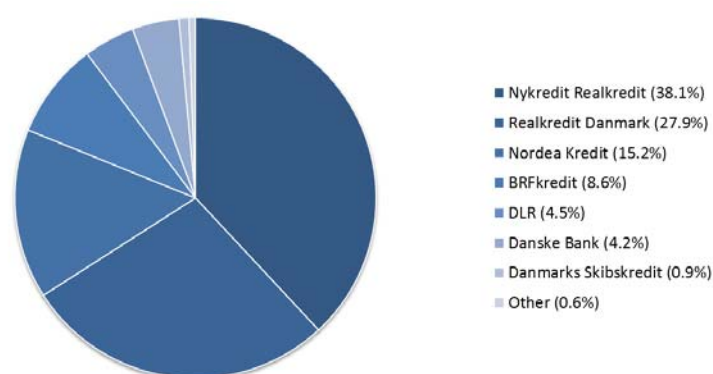
In recent years, the refinancing of ARMs has been spread out over the year to mitigate refinancing risk. Nykredit Realkredit in particular has been successful in spreading out the auctions, which now are held 4 times a year. The interest rate that is the result of the auction is passed directly onto the borrower, implying that the interest rate risk associated herewith does not impact the issuer.

However, a steep rise in the interest rate after an auction could result in the default of the borrower, and thereby a higher interest rate can have an impact on the issuer. Moody's, among others, has recently been critical of the refinancing risk associated with ARM loans. This led to several downgrades of Danish covered bond issuers and banks during 2011 by Moody's. Shortly afterwards, three of the four largest Danish covered bond issuers, Realkredit Danmark, BRFkredit and Nykredit Realkredit, terminated their collaboration with Moody's due to disagreements with the rating methods used by Moody's. Today, all Danish mortgage credit institutions are rated by S&P, and only Nordea Kredit and Danmarks Skibskredit are rated by Moody's. The ratings of the issuers are reported under the individual issuer profiles.

Issuers and market shares

Denmark has six specialist issuers (Nykredit Realkredit, Realkredit Danmark, Nordea Kredit, BRFkredit, DLR kredit and Danmarks Skibskredit) and one universal issuer (Danske Bank). Nykredit is the largest issuer with 38.1% of the Danish market followed by Realkredit Danmark and Nordea with 27.9% and 15.2%, respectively.

Figure 3: Market shares of outstanding amounts by June 2015



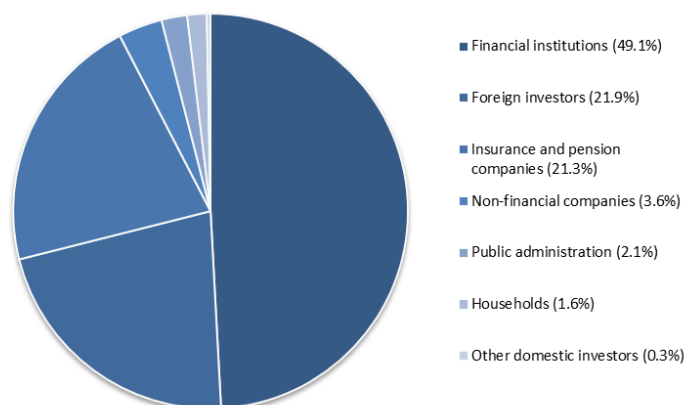
Source: Nordea Analytics

Investors

Market share by investor group

Danish covered bonds benefit from a very solid domestic investor base as about 80% of all covered bonds are held by domestic investors. Especially financial institutions are important investors with 49.1% of the market. The distribution of investors in the Danish covered bond market is illustrated below.

Figure 4: Investor distribution by June 2015



Source: The Danish Central Bank, table DNVDPKR

Over the past decade financial institutions have continuously increased their share of the Danish covered bond market (market share of 24 % in January 2000) but the trend reversed slightly in 2013 as the market share of financial institutions has decreased to 49% from 54% from June 2013 to June 2015. Correspondingly, the share of insurance companies and pension funds rose to 21% from 19% from 2014 to 2015 whereas it had been falling over the previous years (market share of 36% in January 2000). Foreign investors have over time increased their share of the Danish covered bond market and this group is now slightly more important as the group of insurance and pension companies. Public administration's market share increased by 0.2 %-points from 2014 to 2015 and is yet again above 2% in 2015.

The covered bond market

Finland

Historical perspective

The first legal framework for covered bond issuance was adopted in 1999. Several amendments have been made since then, most recently in 2010. With the new Finnish Mortgage Act in 2010, the special banking principle was abolished allowing universal banks to issue covered bonds along with specialized mortgage banks. The new legislation also, among other changes, allowed for mixed pools. The first covered bonds series was issued in 2004 by Aktia Real Estate Bank, and in the following years three additional issuers, Sampo Bank (today Danske Bank plc), OP Mortgage Bank, and Nordea Bank Finland, entered the market. There are currently five issuers of Finnish covered bonds and these issuers have a total of eight covered bond programmes. Out of these eight programmes, three are legacy programmes meaning that they are no longer used for public issuance. Since its entrance in 2010, Nordea Bank Finland has become the market's largest issuer accounting for about 55% of the outstanding covered bonds.

Types of covered bonds and market volume

The Finnish market is relatively small compared to other European markets; with an outstanding amount of covered bonds of EUR 32bn in year-end 2014. Between 2013 and 2014 there was a general drop in EUR-denominated outstanding covered bonds of about 3.7%. Despite this, the outstanding amount of Finnish covered bonds increased to from EUR 30bn to EUR 32bn, which makes the Finnish covered bond market the 14th largest in Europe. Within the Finnish bond markets, government bonds dominate the market accounting for 45% of all outstanding bonds, while non-financial corporations bonds account for 13% and monetary financial institutions bonds for 38% of the outstanding. The share of bonds issued by financial corporations other than MFIs has increased by about 32% since 2013 from EUR 5bn to 6.6bn but still represents a marginal part of the outstanding amount of Finnish bonds (3%).

Table 1: Outstanding Finnish bonds by May 2015

Issuing sector	Value (EURm)	Percentage
Central government	98.450	45%
Monetary financial institutions	82.100	38%
Non-financial corporations	28.932	13%
Financial corporations other than MFIs	6.598	3%
Other general government	585	0%
Total	216.665	100%

Source: Bank of Finland

Since the first issuance in 2004, the Finnish covered bond market has shown substantial growth, especially from 2010 to 2011 with a remarkable growth rate of 85%. Almost all outstanding bonds are fixed rate bonds and EUR-denominated. However, between 2012 and 2013 Finland followed the global trend, as total covered bond issuance in EUR fell. Between these years issuance decreased by about 6bn and stood at EUR 3.7bn at year-end 2013. The transition period 2013 to 2014 marked an end of this negative trend and the total covered bond issuance in EUR in Finland experienced a slight increase in issuance. Issuance increased by 71.5% from EUR 3.7bn to EUR 6.4bn according to ECBC.

Figure 1: Finnish covered bonds outstanding

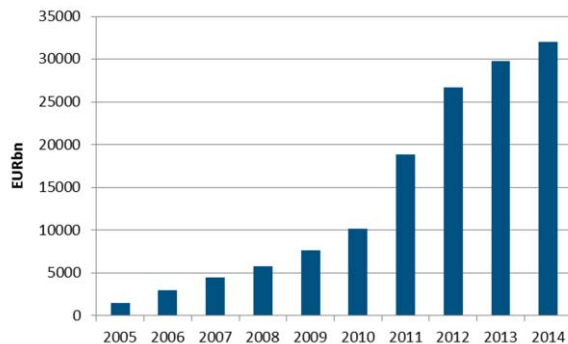
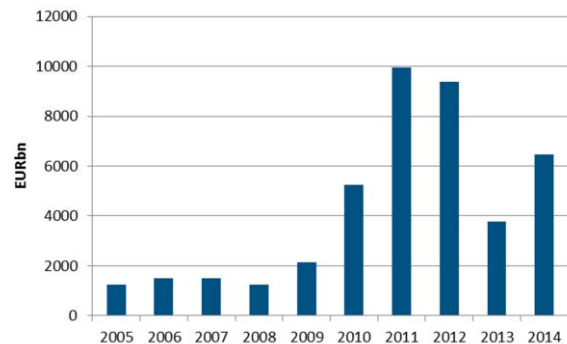


Figure 2: Finnish covered bonds issuance



Source: ECBC and Bank of Finland

Loan types

All cover pool loans are mainly collateralized by Finnish residential mortgages with a high concentration of property in Southern Finland due to the higher population density in this area. Almost all cover pool loans are floating rate loans, different from the funding which is primarily fixed rate bonds. All cover pool loans are EUR-denominated, except from one of Bank of Åland's cover pools, which is SEK-denominated.

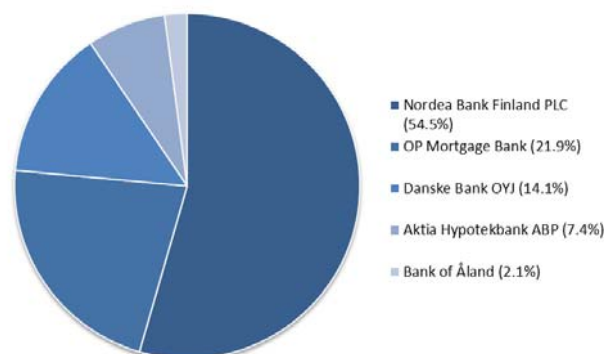
ALM and risk

The consistency in currency between bonds and loans implies that the issuer is not exposed to currency risk, while the mismatch in interest rates implies that there is exposure to interest rate changes if not adequately hedged. The Finnish covered bond market is characterized by high quality cover pools with low collateral scores assigned by Moody's and a high degree of transparency due to all the cover pools consisting mainly of residential mortgages with low default rates.

Issuers and market shares

The market is characterized by relatively few issuers compared to the other Nordic markets which is due to the fact that the market is relatively small in terms of outstanding bonds and relatively young (first issue in 2004). There are currently five issuers of the Finnish covered bonds. Nordea Bank Finland has most recently entered the market (in 2010) and holds the largest market share of 54.5%. The second largest issuer is OP Mortgage Bank (21.9%) followed by Danske Bank plc (14.7%) and Aktia Bank (7.4%). Bank of Åland (Ålandsbanken) is currently the smallest issuer with a 2.1% market share.

Figure 3: Market shares of outstanding amounts by June 2015

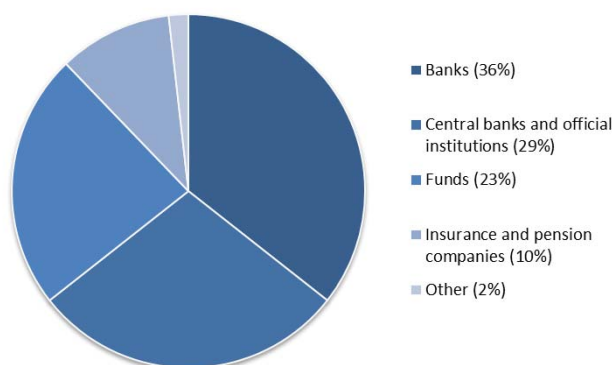


Source: Bloomberg

Investors

As evident from the diagram below, banks and central banks and official institutions dominate the investor base accounting for 36% and 29%, respectively, of the issuance. The third and fourth largest investors in these recent issuances are funds (23%) and insurance and pension companies (10%).

Figure 4: Investor distribution based on weighted average of Euro covered bonds issuance in 2015



Source: Nordea Markets

The covered bond market

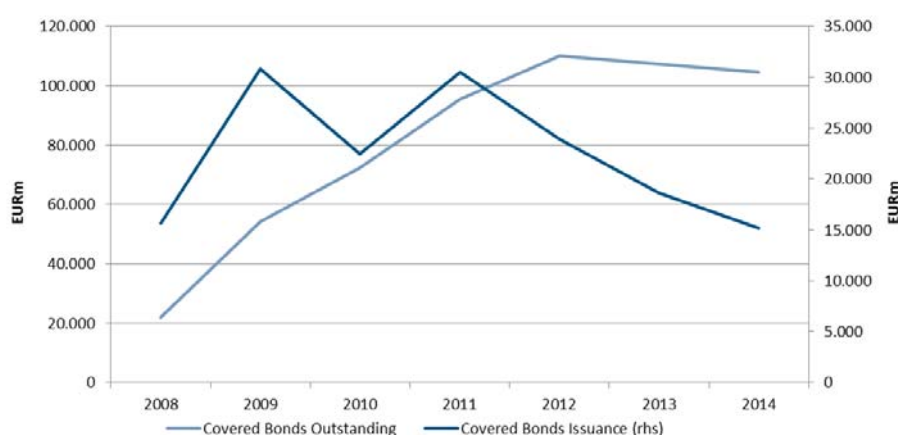
Norway

Historical perspective

The Norwegian covered bond market came into effect in June 2007 with the introduction of a specific legal framework for the Norwegian version of covered bonds: “obligasjoner med fortrinnsrett”. The legislation was drafted in close cooperation with relevant parties to ensure a modern legislation in compliance with European rules. The first Norwegian covered bonds were issued in the second half of 2007. Hence, the market was still in its infancy when the financial crisis erupted. In order to support the covered bond market, the Norwegian central bank opted to swap treasury bills with covered bonds in October 2008. This led to several banks establishing new subsidiaries to benefit from the liquidity scheme. A total of NOK 230bn (EUR 30bn) was swapped. The swap arrangements show the indirect support to the covered bond market by the Norwegian authorities. Today, the market is no longer depending on the swap agreements, which ended in 2014.

According to ECBC, the outstanding amount of covered bonds in the Norwegian market amounted to EUR 104.5bn by year-end 2014. Although this is a decrease of about 3% from year-end 2013, the outstanding volume of Norwegian covered bonds remains above EUR 100bn by year-end 2014. The Norwegian market has exhibited strong growth since 2007, as illustrated in the figure below, and it is reasonable to believe that this trend will continue as the covered bond market is increasingly becoming an important funding channel for financial institutions.

Figure 1: Outstanding Norwegian covered bonds by currency, year-end 2014



Source: Finans Norge

Types of covered bonds and market volume

Norwegian covered bond issuers are issuing bonds denominated in various currencies; NOK, EUR, USD, CHF, AUD, SEK, GBP and JPY, with the NOK- and EUR-issuances being denominating. The NOK-denominated covered bond issues are listed on both Oslo Børs and the Nordic Alternative Bond Market (ABM). Below is shown the value of all outstanding Norwegian bonds on both stock exchanges by issuer. As evident from the table, covered bonds represent a large share of the Norwegian bond market, 34% on Oslo Børs and 14% on the Nordic ABM. Banks' issues of bonds make up a large share of the market at the Nordic ABM as well.

Table 1: Outstanding Norwegian bonds by year-end 2014

Bond	Oslo Børs		Nordic ABM	
	Value (NOKm)	Percentage	Value (NOKm)	Percentage
Covered bonds	338.921	34%	56.645	14%
Government bonds	343.656	34%	0	0%
Industry	214.571	21%	60.327	15%
Bank & Insurance	50.706	5%	271.487	67%
Local government and guaranteed	31.498	3%	2.965	1%
Perpetual Hybrid Tier 1	5.907	1%	1.160	0%
Mortgage banks	14.841	1%	4.541	1%
Government owned enterprises	3.510	0%	0	0%
Foreign	1.206	0%	9.046	2%
Government guaranteed	0	0%	0	0%
Total	1.004.816	100%	406.171	100%

Source: Oslo Børs and Nordic ABM

Of the outstanding amount of covered bonds by year-end 2014 (EUR 104.5bn), 47.8% were NOK-denominated, while the rest were EUR-denominated (39.7%) and denominated in other currencies (12.5%). The share of EUR-denominated bonds is significantly less important than a few years ago; it dropped from 70% in 2007 to 40% of the total outstanding amount by year-end 2014. However, the volume of EUR-denominated bonds has increased gradually since 2010 whereas the volume of NOK-denominated bonds has slowly contracted. In terms of interest rate, the bonds are issued with a floating or a fixed rate. The fixed rate bonds accounted for 63.9% of the market by year-end 2013, and their dominance in the market has increased in recent years after a drop from 2007 to 2009.

Figure 2: Currency denomination by year-end 2014

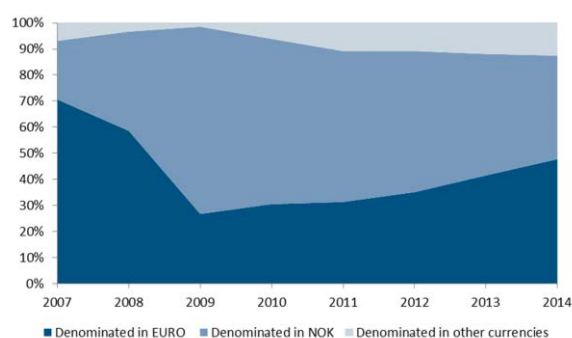
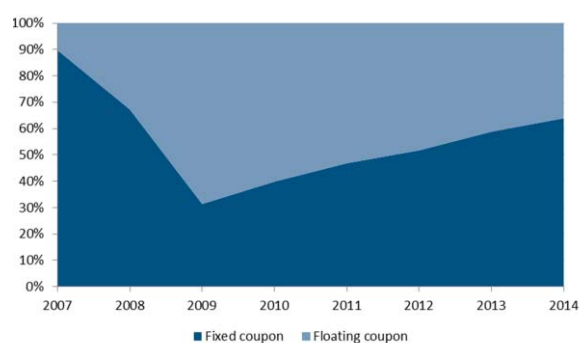


Figure 3: Interest rate type by year-end 2014



Source: Finans Norge

Loan types

All covered bonds are backed by a cover pool of loans. The cover pool may consist of exposures to public sector entities, mortgage loans, group originated Senior MBS, and Senior MBS issued by third parties. Furthermore, the pool may include substitute assets (only certain highly liquid and secure assets) and derivative contracts to hedge the interest rate and currency risk of the issuer. The cover pool is dynamic meaning that the issuer has the obligation to substitute assets in the pool. However, there are some limitations as substitute assets may not exceed 20% of the cover pool, and total exposures to banks (through substitute assets and derivative contracts) may not exceed 15%. Currently, the covered bonds of all Norwegian issuers listed in this book are based on cover pools consisting of only residential assets (and substitute assets). One Norwegian issuer deviates from this, KLP Kommunekreditt, which issue bonds that are backed by pools of public sector assets (and substitute assets).

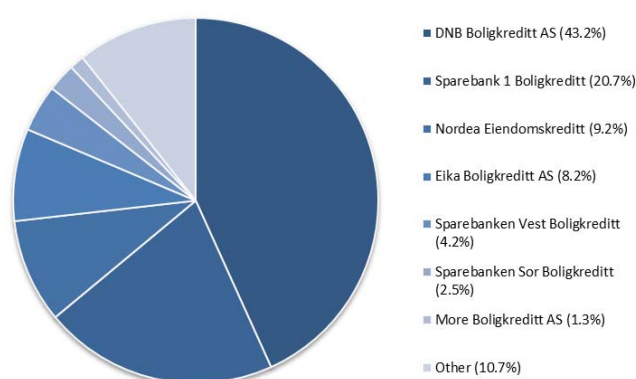
ALM and risk

Due to the fact that there is no direct link between bond and loan, there is currency and interest rate risk associated with the bond issues which is, however, handled by the use of derivative contracts. Norwegian law furthermore sets requirements for limits to interest rate risk, currency risk and liquidity risks. The legal framework furthermore contains a 5% maximum exposure limit to reduce concentration risk. Overcollateralization is not required by law, but many issuers agree to voluntary overcollateralization. Norwegian covered bonds are predominantly issued as soft-bullets, meaning that the issuer has the option to extend the maturity of the bond with an extra year if the issuer is having financial difficulties.

Issuers and market shares

The covered bond market is dominated by DNB Boligkreditt that accounts for 43.2% of the outstanding bonds. The second and third largest issuers are Sparebank 1 Boligkreditt and Nordea Eiendoms kreditt, and in general the market is characterized by a large amount of smaller issuers.

Figure 4: Market shares of outstanding amounts by June 2015

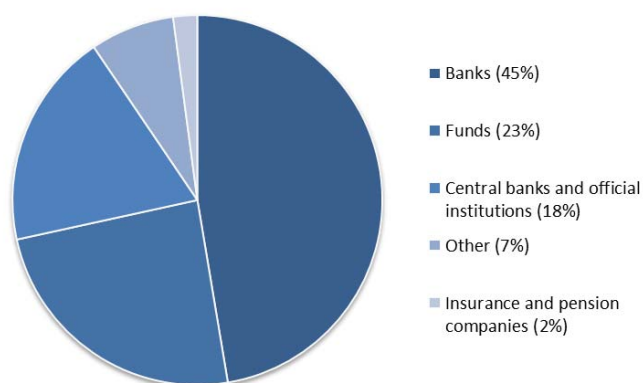


Source: Bloomberg

Investors

As illustrated in the figure below, banks dominate the investor base, accounting for 45%. Funds and central banks and official institutions are the second and third largest investor with an investor base accounting for 23% and 18% respectively.

Figure 5: Investor distribution based on weighted average of Euro covered bonds issuance in 2015



Source: Nordea Markets

The covered bond market Sweden

Historical perspective

The Swedish mortgage bonds market dates back to 1861 when the first mortgage bank was established. The mortgage bond market further developed in the 1980s with several acts of financial deregulation. The formal standards of market-making and issuance formats were established in this period. All mortgage bonds (bostadsobligationer) were continuously converted to covered bonds (Säkerställda Obligationer) after the Swedish Covered Bond Issuance Act (CBIA) was enacted in 2004. Today, all mortgage bonds have been converted to covered bonds. The Swedish covered bond market has shown robustness and longevity during times of crisis including the break with ERM in the early 1990s, the LTCM crisis and the recent financial crisis in 2008. Swedish covered bonds are UCITS and CRD compliant following the legal amendment of 2004.

Types of covered bonds and market volume

Sweden has increased its new issuances and is now the second largest issuer of covered bonds compared to Nordic issuers, with EUR 48.4bn of new issuances in 2014 according to ECBC. The total amount of outstanding Swedish covered bonds experienced a slight decrease of 3.7% from 2013 to 2014 and stood at EUR 210bn. Sweden is thus the fifth-largest market for covered bonds in Europe. Among the Swedish bond market, covered bonds dominate. There is a relatively large amount of issued debt from Swedish banks and the Swedish government as well.

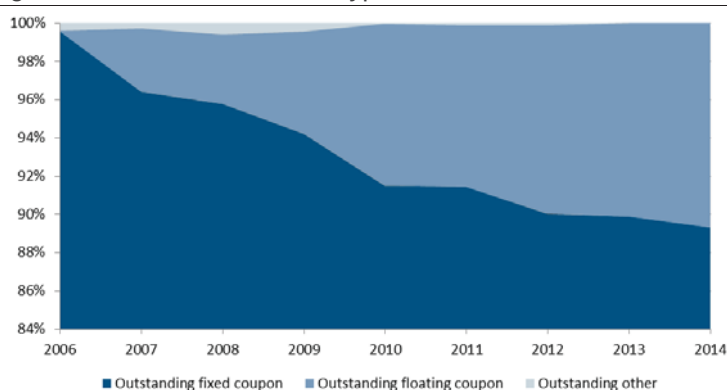
Table 1: Outstanding bonds in the Swedish market by June 2015

Outstanding bonds	Value (SEKm)	Percentage
MFI sector: Banks	2.316.393	33%
MFI sector: Housing credit institutions	1.632.421	23%
Government of Sweden	1.288.047	18%
Non-financial corporations and other	964.620	14%
MFI sector: Other	661.132	9%
Local government	147.590	2%
Total	7.010.203	100%

Source: Sveriges Riksbank (the Swedish Central Bank)

The Swedish covered bonds are issued with both floating and fixed coupons. Fixed coupon covered bonds are dominant in the market (89.3% of outstanding covered bonds). However, the share of floating rate bonds has increased over time from almost no market share in 2006 to 10.7% in 2013.

Figure 1: Outstanding amounts of different bond types



Source: Association of Swedish Covered Bond issuers

Outstanding covered bonds are backed in their entirety by the cover pool. Hence, there is no direct legal link between the individual cover assets and particular covered bond series. Typically, the share of floating rate loans in the pool is larger than the share of floating rate bonds. The Swedish system does allow for prepayments, and the borrower has to compensate the investor for the interest rate differential.

Loan types

Eligible cover assets are mortgage loans, public sector assets and substitution assets. There is no separation and a given cover pool can contain both mortgage loans and public sector assets. Substitution assets may comprise 20% and only include cash and government bonds with zero risk-weighting. The limit can be raised to 30% if approved by the authorities. Neither asset-backed nor mortgage-backed securities may be included as collateral. This being said, mortgage loans will typically comprise the majority of the collateral assets. Besides from the cover pool assets, the issuer can engage in derivatives contracts for hedging and matching purposes. Regarding the composition of the pool, one should be aware that this is dynamic, and non-performing loans are often removed from the balance sheet and often transferred to parent banks.

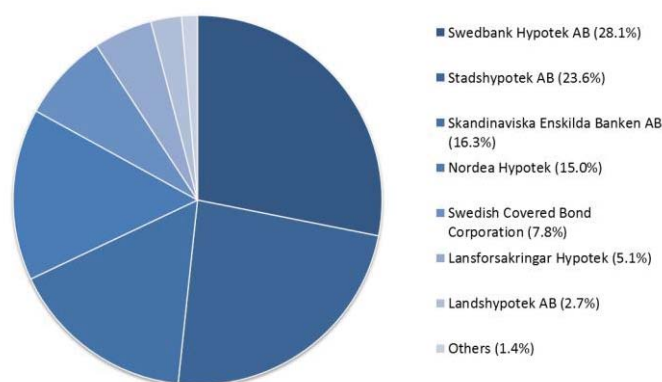
ALM and risk

A key feature of the Swedish covered bond market is the tap issuance system. It allows issuers to tap the market in small and medium sizes. This frequent tapping is conducted via market makers supported by regulations regarding terms of trade, bid-offer spreads, repo functionality of outstanding benchmarks, communication to the market and remuneration to the dealers. This system ensures a minimum of mismatch between assets and liabilities. The market makers have an obligation to quote two-way pricing when an issue reaches SEK 3bn in outstanding volume, which ensures liquidity in the market. The bonds are sold into primary markets via banks acting as agents for the issuer. In the secondary market, these banks also act as market makers. Thus, most mortgage banks are subsidiaries of universal banking groups with large distribution networks facilitating this system.

Issuers and market shares

There are seven major issuers in Sweden. Swedbank Mortgage, Stadshypotek, SEB, and Nordea Hypotek are the four largest measured by outstanding covered bonds as illustrated below. All four major issuers are part of strong financial groups and benefit from a wide distribution network.

Figure 2: Market shares of outstanding amounts by June 2015

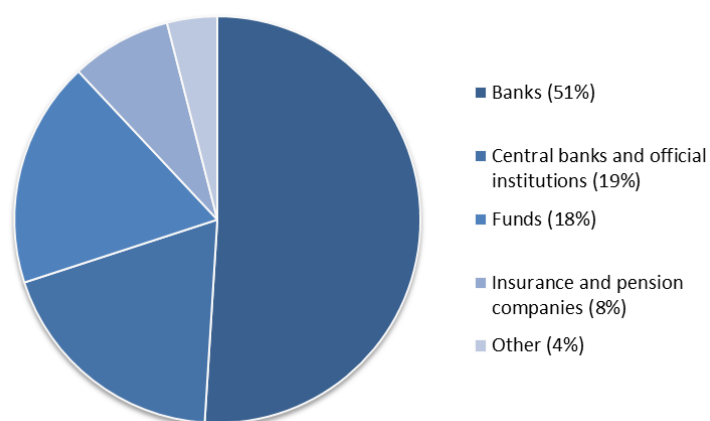


Source: Bloomberg

Investors

A weighted average of the issuance of Euro covered bonds in Sweden in 2015 showed the following investor distribution. Like the other Nordic countries, banks dominate the investor base.

Figure 3: Investor distribution based on weighted average of Euro covered bonds issuance in 2015



Source: Nordea Markets

Macroeconomic conditions

Denmark

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Key points

- Self-sustaining upswing underway.
- Increased investment key to higher growth.
- Labour market moving towards full employment.
- Danish krone back in calm waters.

Danish economic activity has picked up gradually, creating the foundation for a self-sustaining recovery that we expect will gain further momentum in the coming years. Against this backdrop we expect Danish economic growth to be 1.5% in 2015 and 2.0% in 2016. For the first time we also include our projection for growth in 2017: 1.9%.

The biggest threat to the expected recovery is the global economy; especially the current slowdown of activity in many Emerging Markets countries may hit the Danish export sector harder than expected. Obviously, there are other factors that could surprise on the upside. Business investment has been stagnant for a long period, and housing construction activity has remained at a low level. With sustained low financing costs and increasing employment, investment activity could accelerate faster than we assume in our baseline scenario.

Table 1: Danish macroeconomic indicators (% annual real changes unless otherwise noted)

	2012 (DKKbn)	2013	2014	2015E	2016E	2017E
Private consumption	896	0.0	0.7	1.8	2.2	2.1
Government consumption	502	-0.5	0.2	1.0	0.2	0.3
Fixed investment	342	0.9	4.0	0.5	2.9	2.8
- government investment	44	0.3	7.8	0.3	-1.1	-2.0
- residential investment	74	-5.0	6.8	-1.3	4.1	4.2
- business investment	224	3.4	1.7	1.2	3.8	3.8
Stockbuilding*	9	-0.2	0.4	0.0	0.0	0.0
Exports	1,007	0.8	2.6	2.3	3.4	3.5
Imports	907	1.5	3.8	2.1	3.5	3.6
GDP		-0.5	1.1	1.5	2.0	1.9
Nominal GDP (DKKbn)	1,867	1,886	1,921	1,992	2,058	2,125
Unemployment rate, %		5.8	5.1	4.7	4.3	4.0
Gross unemployment level, '000 persons		152.9	134.6	125.3	116.0	105.0
Consumer prices, % y/y		0.8	0.6	0.6	1.5	1.9
Hourly earnings, % y/y		1.2	1.3	1.5	2.0	2.4
Nominal house prices, one-family, % y/y		2.7	3.4	4.3	2.8	2.2
Current account balance (DKKbn)		136.0	120.3	125.0	115.0	100.0
- % of GDP		7.2	6.2	6.3	5.6	4.7
General government budget balance (DKKbn)		-20.0	34.6	-45.0	-40.0	-25.0
- % of GDP		-1.1	1.8	-2.3	-1.9	-1.2
General government gross debt, % of GDP		43.7	45.1	39.1	41.0	42.5

* Contribution to GDP growth (% points)

Source: Nordea Markets, Economic Outlook, September 2015

Benign environment for consumer spending

Household consumption accounts for about 50% of aggregate demand in Denmark. And in the current environment there is a good chance that households will increase their spending. Rising employment and positive real wage growth boost household income, while increasing house prices and financial market gains have lifted household net wealth to high levels. Against this backdrop, and coupled with robust consumer confidence readings, consumer spending growth will likely hover around 2% in coming years.

Investment the key to growth

As in many other countries, investment activity remains subdued despite the brighter economic outlook. Since 2009 net business investment has been in negative territory, which means that the capital stock is wearing out faster than it is being replaced. However, we expect businesses to invest more in step with sustained employment growth and rising demand. Hopefully, this will contribute to jack up productivity, which is decisive for the pace of Danish economic growth in the long run. Higher investment activity will likely also trim the very large current account surpluses due to lower corporate sector savings. But substantial income from Denmark's huge net wealth relative to other countries will ensure robust surpluses also in future.

High uncertainty about foreign trade

As a small open economy Denmark is very exposed to global economic trends. Consequently, the recent string of weak indicators and the decline in global trade suggest that Danish exporters are facing an uncertain future. But trade will be supported by solid demand from key export markets such as Germany, Sweden, the US and the UK. Moreover, exports will be driven by improved competitiveness through a weaker trade-weighted DKK rate and lower average wage increases than in other countries.

A return to full employment

Since mid-2013 the number of employed wage earners has been on the rise, primarily driven by rising employment in the business service sector and within trade and transportation. As a result, unemployment has gradually edged lower, although the effect has been partly offset by an increase in the labour force. We expect employment to expand further in the years ahead. With the prospect of several years of employment growth, idle capacity will gradually shrink. By the end of the forecast horizon the labour market should have returned to full employment, and this will allow the government to gradually tighten fiscal policy to restore the general government balance and prevent government activities from obstructing private sector investment activity.

Rising house prices support growth

Prices in the Danish housing market are once again rising sharply. The explanation is simple: historically low financing costs have made it much cheaper to buy a home, the labour market is improving, consumer confidence is high and the number of newly constructed homes is very low. All in all, this is the perfect backdrop for rising house prices. However, some factors will pull in the opposite direction in the years ahead. Higher down payments and rising mortgage rates will put a damper on any pick-up in house prices, especially in the more expensive areas where the reduced value of mortgage interest relief will have a greater impact.

Figure 1: Prospect of higher GDP growth in Denmark

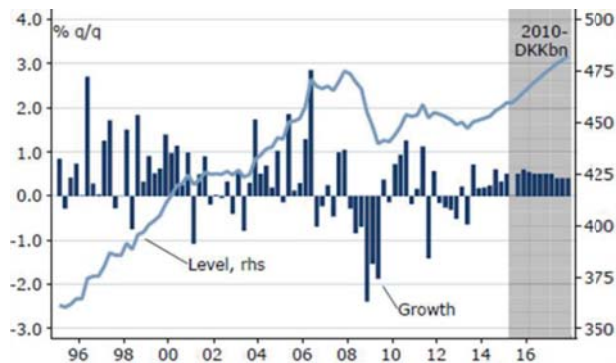
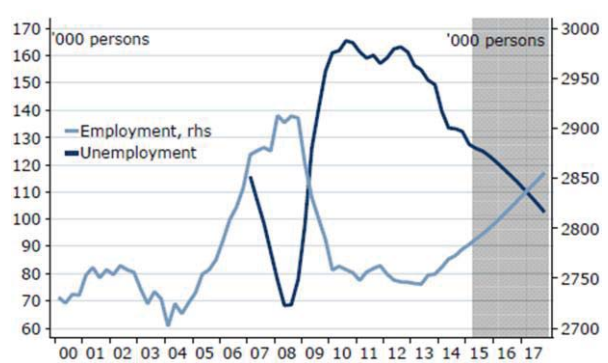


Figure 2: Rising employment & lower unemployment



Source: Nordea Markets, Economic Outlook, September 2015

Higher inflation ahead

Over the past years Danish inflation has been exceptionally low, held down by a combination of declining commodity prices, a lower rate of increase in rents and the rollback of the security of supply tax on fuels from the beginning of 2015. However, going forward inflation will start to pick up as the effect of the decline in oil prices fades. Consequently, the effect of the rising prices of services will begin to show through in the CPI index. As nominal wages are still expected to rise faster than consumer prices, the purchasing power of wage earners will continue to increase. And this is a key precondition for the expected pick-up in household spending.

DKK back in calm waters thanks to central bank

After a dramatic start to the year, the Danish central bank has succeeded in restoring calm to the currency market for the Danish krone. With calm restored, the central bank has managed to reduce Denmark's currency reserves by about DKK 160bn. However, this drop should be viewed in light of the DKK 275bn increase in the currency reserves during the unstable period at the start of the year. Against this background, the central bank has decided to resume issuance of government bonds and this should be seen as yet another step towards a normalization of Danish monetary policy.

Figure 3: Higher inflation ahead



Figure 4: House prices trending up



Source: Nordea Markets, Economic Outlook, September 2015

Macroeconomic conditions Finland

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Key points

- Exports highly unlikely to pick up.
- Structural reforms more important than ever.
- No growth - investments and employment suffer.
- Meagre decrease in public sector deficit.

Exports highly unlikely to pick up

We have downgraded our near-term growth estimates for the Finnish economy. We estimate GDP to shrink by 0.3% in 2015 and to grow by a modest 0.5% in 2016 and 2017 (our previous forecasts for the current year and next were -0.2% and 1.0%). This extends the economy's downward streak to four years, and going ahead, growth will be considerably slower than in our rival economies.

The main reason for downgrading our growth forecasts is that we do not expect a significant upturn in exports. Contrary to earlier market upswings, the global economy is not driven by strong growth in industry and investment, but instead by private consumption across the globe. And Finland's exporting industry, rather than focusing on consumer goods, is more specialised in serving industrial companies and their capital expenditure needs. Demand for the latter will remain weak, so no rapid pick-up in exports is to be expected during the forecast period.

The export industry's difficulties will broadly hit the rest of the economy. With industrial production recovering slower than earlier estimated, the start of investment will also be postponed. Employment will further decline, which will keep growth in household income and private consumption very modest throughout the forecast period.

Finland not reaping the benefits of global recovery

As things currently stand, we will not be making the most out of the global economy's recovery. Finnish exports are enjoying only limited support from a weaker euro. True, the euro has depreciated against the US dollar, pound sterling and Chinese yuan, but against the Swedish krona and especially the Russian rouble it has appreciated. The effect of the euro movements on exports to Germany is not immediate.

The price of crude oil has fallen by almost 60% in dollars and 50% in euros in a little over a year, and oil is expected to continue trading at low prices for a prolonged period. This will not, however, serve as a major driver of growth in consumer spending, as Finnish consumers benefit very little from cheaper oil because of high fixed taxes on fuels.

Table 1: Finnish macroeconomic indicators (% annual real changes unless otherwise noted)

	2012 (DKKbn)	2013	2014	2015E	2016E	2017E
Private consumption	109.1	-0.3	0.5	0.3	0.2	0.4
Government consumption	48.7	0.8	-0.2	-0.2	-0.3	-0.3
Fixed investment	44.5	-5.2	-3.3	-3.9	1.8	2.8
Stockbuilding*	0.4	-0.4	0.4	0.2	0.1	-0.2
Exports	78.9	1.1	-0.7	-0.7	2.3	1.6
Imports	81.8	0.0	0.0	-1.1	2.1	1.7
GDP		-1.1	-0.4	-0.3	0.5	0.5
Nominal GDP (EURbn)	199.8	202.7	205.2	206.4	207.8	210.7
Unemployment rate, %		8.4	8.7	9.6	10.0	10.3
Industrial production, % y/y		-0.6	-0.3	-1.5	1.0	1.5
Consumer prices, % y/y		1.5	1.0	-0.2	0.6	0.8
Hourly earnings, % y/y		2.1	1.4	1.0	0.8	0.7
Current account balance (EURbn)		-3.6	-4.5	-2.2	-3.2	-3.7
- % of GDP		-1.8	-2.2	-1.0	-1.5	-1.7
Trade balance (EURbn)		0.2	0.9	2.5	1.4	0.8
- % of GDP		0.1	0.5	1.2	0.7	0.4
General government budget balance (EURbn)		-5.1	-6.8	-6.3	-6.1	-5.9
- % of GDP		-2.5	-3.3	-3.1	-2.9	-2.8
General government gross debt, % of GDP		112.7	121.1	128.6	135.9	143.1
- % of GDP		55.6	59.0	62.3	65.4	67.9

* Contribution to GDP growth (% points)

Source: Nordea Markets, Economic Outlook, September 2015

Structural reforms more important than ever

With the growth drivers of the economy nowhere to be seen, balancing public sector spending and cutting the budget deficit will become more challenging. And they are set to become a daunting task once the boost from the global economy begins to wane. The peak of the current economic cycle will probably be reached in a few years. The price of oil will most likely rise again, and euro zone interest rates will be hiked by 2018 at the latest. Instead of providing a boost, the global economy will become a drag. It is absolutely crucial that structural reforms for bolstering long-term growth and a sustainable base to public sector financing be implemented rapidly. However, at the moment, they are to a large extent still a work in progress. Fortunately, these measures are still completely in our own hands.

Structure of exports not helping us this time

Exports will not pull Finland out of its mire this time. Updated statistics, however, tell us that the volume of goods exported from Finland has grown five years in a row. The last two years were revised up into growth of a few per cent. We expect export growth to remain as modest in 2016 and 2017, too.

The weakness of Finland's exports is highlighted by the fact that the western countries have enjoyed an upcycle for quite some time now, and even the euro zone has been recovering for a few years, supported by increased private consumption. World trade, on the other hand, is growing very slowly because global industry is taking its time to recover. This in turn is delaying the start of investments. These factors make the structure of Finnish exports a great challenge. Around half of exports consist of various commodities, pulp and intermediate products, and close to 30% of exports are investment goods. Very little is exported in terms of consumer goods.

Demand for capital goods will only pick up once global industrial production begins to grow. Even further down the line is the revival of demand for investment goods. Production across the world will first have to grow sufficiently before companies feel the need to expand their capacity. And only then will demand for new capital goods emerge and their export market pick up. The outlook is not yet promising, especially since there is no quick solution to exports to Russia because of the sanctions imposed on the country.

Figure 1: Structure of exports is not helping this time

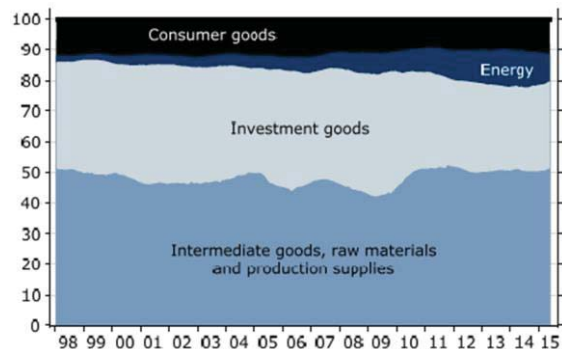


Figure 2: Demand for intermediate goods is weak



Source: Nordea Markets, Economic Outlook, September 2015

No growth – investments and employment suffer

The lack of a growth outlook and one of the weakest sentiments in the EU are a toxic mix for investments and employment in Finland. Private sector investments are at their lowest level in 15 years, and will continue to decline this year. We expect a slight improvement next year with a small recovery in construction.

Unemployment will increase more rapidly than previously estimated and will remain high for a longer period of time. We have raised our forecast for the unemployment rate to 10% in 2016 (previously 9.4%) and 10.3% in 2017. The weakness in the labour market indicates that slow growth in private consumption will continue throughout the forecast period and wage increases will be very moderate. Inflation will remain low, only maintaining purchasing power. Households will save less than usual.

Meagre decreases in public sector deficit

The forecast assumes that public spending will decrease in real terms as the government pushes forward with its fiscal consolidation. However, due to minimal economic growth, the reduction in the public sector deficit will be slow, which means the government will continue to accumulate more debt. Public debt will inevitably edge towards 70% of GDP.

Figure 3: Weak exports lead low machinery investments

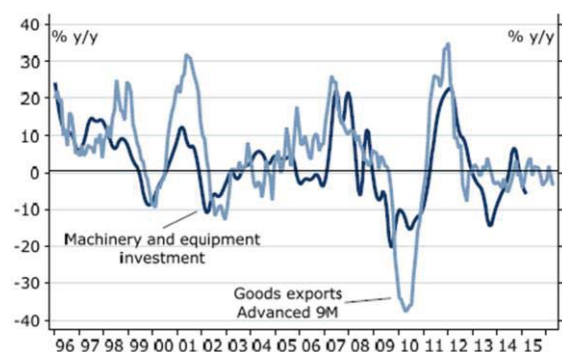
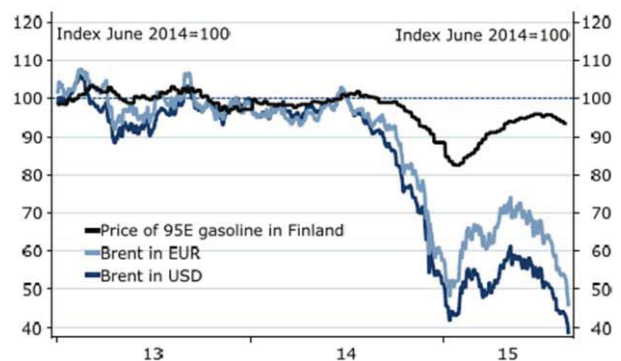


Figure 4: Consumers reaping limited benefit from cheaper oil



Source: Nordea Markets, Economic Outlook, September 2015

Macroeconomic conditions

Norway

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Key points

- Weak growth long term and rising unemployment.
- Sharply declining inflation.
- Norges Bank to cut rates amid NOK weakness.

Sustained weak growth

The drop in oil prices is increasingly showing through in mainland indicators. Output in the oil services industries is declining and employment in south-western Norway is contracting. We expect activity in the oil services industries to slow further in coming years. This suggests weak growth in the period ahead; how weak depends on the spill-over effects on industries not affected by the oil price decline. So far, these spill-over effects have been modest, but they will likely intensify going forward. Lower interest rates will, on the other hand, put a floor under consumption, and the past years' sharp NOK depreciation will boost Norwegian companies' competitiveness at home and abroad. Lastly, government consumption will grow at a good pace. However, this will not be enough to prevent weak growth of around 1½% in the mainland economy over the next few years.

Table 1: Norwegian macroeconomic indicators (% annual real changes unless otherwise noted)

	2012 (DKKbn)	2013	2014	2015E	2016E	2017E
Private consumption	1,176	2.1	2.0	2.5	1.5	2.0
Government consumption	619	1.7	2.7	2.0	2.5	3.0
Fixed investment	660	6.8	0.6	-3.9	-0.9	0.0
- gross investment, mainland	478	2.9	1.7	-0.4	2.4	1.6
- gross investment, oil	175	17.1	-1.7	-13.0	-10.0	-5.0
Stockbuilding*	127	0.5	0.2	0.0	0.0	0.0
Exports	1,204	-3.0	2.7	2.6	1.7	1.1
- crude oil and natural gas	611	-7.6	1.5	1.0	0.6	0.5
- other goods	310	1.0	2.3	5.5	4.0	2.0
Imports	821	4.3	1.9	2.7	1.6	1.8
GDP	2,965	0.7	2.2	1.1	1.2	1.4
GDP, mainland	2,295	2.3	2.2	1.2	1.3	1.6
Unemployment rate, %		3.5	3.5	4.4	4.8	4.9
Consumer prices, % y/y		2.1	2.0	2.1	2.2	1.4
Core prices, % y/y		1.6	2.4	2.6	2.0	1.3
Annual wages		4.0	3.9	2.5	2.5	2.5
Current account balance (NOKbn)		307.7	297.0	188.5	202.5	230.5
- % of GDP		10.0	9.4	5.7	5.9	6.5
Trade balance, % of GDP		10.2	8.7	5.2	5.3	5.6
General government budget balance (DKKbn)		347.7	287.4	201.5	216.0	237.1
- % of GDP		11.3	9.1	6.1	6.3	6.7

* Contribution to GDP growth (% points)

Source: Nordea Markets, Economic Outlook, September 2015

Investment a drag

Oil investment looks set to decline by 10-15% this year. Oil prices are low, and although we expect oil prices to pick up slightly over the forecast horizon, this will not prevent a further slowdown in investment in the years ahead. The ongoing development of many oil fields such as the Johan Sverdrup field will, however, underpin investment and as a result, the slowdown should be less sharp in coming years than during this year.

Mainland investment will show a more mixed pattern. Public infrastructure projects, strong investment growth in the energy sector and growing housing construction will contribute positively to growth, while in other sectors of the economy investment growth is not likely to be that strong. Economic uncertainty is high, and the drop in oil prices affects many industries. Declining offshore investment and weak growth in onshore business investment are the factors behind our relatively modest growth forecasts for the mainland economy.

Everything hinges on consumer spending

How weak economic growth turns out to be largely hinges on the consumers. So far, it seems that consumption has remained unscathed by the oil sector slowdown. Private consumption has grown at a healthy clip in H1 2015, and housing market activity is high. However, as the effects of the oil sector downturn gradually spill over to the rest of the economy, consumers will likely become more cautious.

Lower wage growth, slightly higher unemployment and a higher propensity to save as a result of increased uncertainty about the economy suggest lower consumption growth in the next couple of years. However, lower interest rates, high growth in pension disbursements and tax breaks underpinning household real income growth point in the other direction.

Consumption growth will likely drop to a low of 1.5% next year and then pick up again in 2017. By then, the trend in unemployment should have levelled out and the outlook for the Norwegian economy should be brighter.

We think that low interest rates and a labour market which in most parts of the country is in fairly good shape will prevent an overall decline in housing prices. Prices could fall in some parts of Norway, but for the country as a whole we see a flattening trend in prices.

Public consumption and the NOK also drivers

Going forward, growth will be driven not only by moderate consumer spending growth, but also by a still expansionary fiscal policy leading to high growth in government consumption and investment. With rising unemployment in 2016 and a general election scheduled for 2017, the government may be tempted to continue to increase public spending in its 2017 budget. Growth is also supported by the past years' NOK depreciation of about 20%, which will help Norwegian companies win market share at home and abroad.

Nevertheless, mainland economic growth will be subdued, leading to weak employment growth. Labour supply growth also looks set to slow with a decline in immigration and more people choosing education rather than jobs. Still, labour supply growth will probably contract less than employment growth, so unemployment will likely rise. We expect the LFS unemployment rate to level out at about 5% in 2017.

Figure 1: Oil investments going down

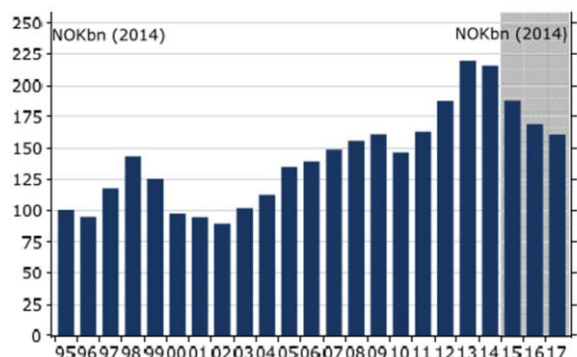
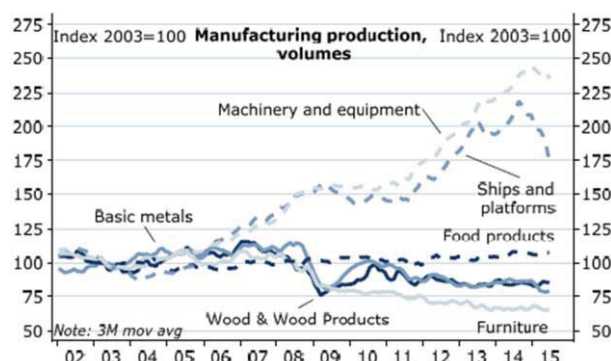


Figure 2: Manufacturing now hit by oil sector weaknesses



Source: Nordea Markets, Economic Outlook, September 2015

Modest wage growth and low inflation

With weak profitability especially in the oil services industries, excess labour supply in many sectors and employers and unions focusing on securing Norway's competitiveness, wage growth should slow. Other drags on wage growth are the migration from high-wage to low-wage sectors and the many people in top wage brackets currently retiring on pension. We expect wage growth to be 2½% in 2016 and 2017. Against this backdrop, domestic inflation looks set to decline. A less heated market for rental housing pulls in the same direction. And the currently all-time high rate of increase in prices of imported consumer goods will gradually decline as importers adapt to the past years' sharp NOK depreciation. We see core inflation dropping to 1-1½% in coming years.

Lower interest rates and sustained NOK weakness

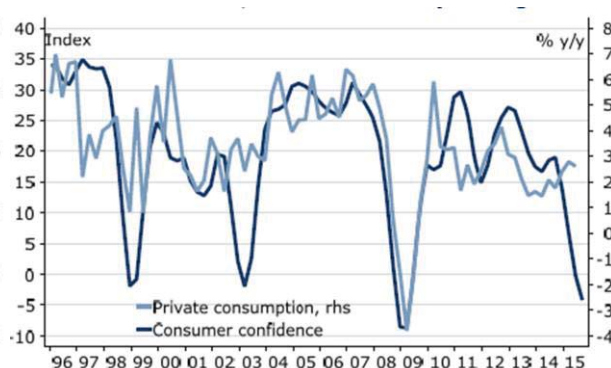
With rising unemployment and low wage growth and inflation, the scene is set for more rate cuts. We expect two rate cuts, one in the autumn and one before summer 2016. More cuts may be sanctioned if the NOK should appreciate sharply and/or house prices begin to fall.

With stabilising and gradually rising oil prices we see the NOK strengthening versus the EUR. But the appreciation will be capped by the projected two rate cuts and the central bank's willingness to ease more in case of excessive NOK strengthening. And despite the NOK strengthening versus the euro, the import-weighted exchange rate is expected to stay weak over most of the forecast period because the SEK, GBP and USD will likely appreciate.

Figure 3: Unemployment going up



Figure 4: Subdued confidence, but consumer spending rises



Source: Nordea Markets, Economic Outlook, September 2015

Macroeconomic conditions

Sweden

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Key points

- Sustained healthy GDP growth.
- Tighter labour market, but modest pay rises.
- Inflation will undershoot 2% target.
- SEK weak this year, but stronger longer out.

Better than normal

Swedish economic growth has hovered around 2.5% over the past two years. We have seen signs of some acceleration in recent quarters. By all indications GDP growth should therefore rise to about 3% both this year and next year, which is above the long-term trend. Further into the forecast period, growth will slow, though, when the highly expansionary conditions fade.

Resource utilisation in the Swedish economy is increasing, prompting rising inflation pressures. Cost pressures will mount, albeit from a low level, and wage growth will remain relatively subdued. Inflation will not reach the 2% target for longer than perhaps a month or two, and so the Riksbank will remain under pressure.

Table 1: Swedish macroeconomic indicators (% annual real changes unless otherwise noted)

	2012 (DKKbn)	2013	2014	2015E	2016E	2017E
Private consumption	1,176	2.1	2.0	2.5	1.5	2.0
Government consumption	619	1.7	2.7	2.0	2.5	3.0
Fixed investment	660	6.8	0.6	-3.9	-0.9	0.0
- gross investment, mainland	478	2.9	1.7	-0.4	2.4	1.6
- gross investment, oil	175	17.1	-1.7	-13.0	-10.0	-5.0
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Exports	1,204	-3.0	2.7	2.6	1.7	1.1
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- other goods	310	1.0	2.3	5.5	4.0	2.0
Imports	821	4.3	1.9	2.7	1.6	1.8
GDP	2,965	0.7	2.2	1.1	1.2	1.4
GDP, mainland	2,295	2.3	2.2	1.2	1.3	1.6
Unemployment rate, %		3.5	3.5	4.4	4.8	4.9
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Trade balance, % of GDP		10.2	8.7	5.2	5.3	5.6
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- % of GDP		11.3	9.1	6.1	6.3	6.7

* Contribution to GDP growth (% points)

Source: Nordea Markets, Economic Outlook, September 2015

Broadly based domestic growth

Investment has been a key contributor to GDP growth since the beginning of 2014 followed by private and government consumption. Net foreign trade, on the other hand, has declined, dragging down growth. Household consumption growth has slowed a bit this year, but we consider this a temporary phenomenon. The strong financial position of households with rising disposable incomes and sharply increasing asset prices suggests that household demand will grow at a healthy clip in coming years.

The pick-up in government consumption is, among other things, ascribable to demographics. The growing population with a rising proportion of elderly people increases the need for healthcare services, care for the elderly and education.

Admittedly, total investment declined quarter-on-quarter in Q1 and Q2 2015, but the decline was due to sharp variations in research and development and therefore considered of a temporary nature. Excluding this item, investment is clearly rising in most sectors of the economy. Housing has seen the sharpest increase. The growth momentum in housing should continue, although the growth rate has probably peaked.

Exports remain an uncertain factor

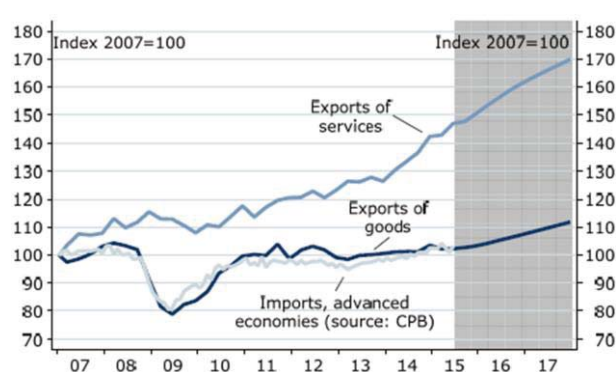
Investment in the manufacturing industry remains subdued, mainly because of the weak global demand. About 75% of Sweden's industrial output is exported, and after almost seven years of stagnant goods exports, the need for investment is limited. Global demand indicators do not point to any improvement near term, so goods exports look set to remain stagnant during the remainder of the year. We look for only a gradual pick-up in coming years.

Exports of services, on the other hand, continue to grow at a fast pace. Especially IT and telecom services show strong growth, as do business and technical services. This positive trend appears to be continuing and as a result, total exports will increase in the years ahead.

Figure 1: Stable GDP growth



Figure 2: Exports increasingly driven by services



Source: Nordea Markets, Economic Outlook, September 2015

Improved labour market, but modest pay rises

The labour market is split. Employment in relation to the population is very high in some groups and low in others. Matching problems also seem to have increased. There are probably available resources in the labour market, but bottleneck problems are nevertheless beginning to emerge in some areas. The labour market improvement will continue going forward, with resulting rising wage drift. However, the pay rises agreed at the upcoming pay talks will likely be lower than those agreed in 2013. The reason is that the beleaguered export industry is the benchmark for the talks. Total wage costs look set to rise, but still remain below the current 15-year average of 3.2%.

The Riksbank balancing on a tightrope

The trade-weighted SEK rate is currently around 10% lower than at the beginning of 2014. The SEK weakening clearly shows through in consumer prices. CPIF inflation excluding energy has risen to some 1.5% during the summer, up from about 0.5% one year ago. Including energy, the pick-up in inflation is less pronounced due to the declining fuel prices.

The SEK has stabilised this year, and we have already seen signs that the effect of the SEK depreciation on inflation is fading. Add to this that wage growth will not be high enough to more permanently push inflation up to 2% in line with the Riksbank's target.

We expect the Riksbank to cut rates and announce an extension of the government bond buying programme to prevent near-term SEK appreciation. However, next year we don't expect the Riksbank to implement more measures to stimulate the economy, because by then inflation will have picked up, albeit still remain below target. Moreover, the pay talks will be over and resource utilisation will have increased further.

Risks balanced for growth

Risks on the downside relative to our growth forecast for the Swedish economy are short term related to the uncertain outlook internationally and long term to the imbalances building in the Swedish housing market. Risks on the upside are mainly attributable to the financially strong households. They may loosen the purse strings more than expected. In terms of monetary policy, risks are tilted towards the Riksbank doing more than we assume in our forecast. The risk of additional measures is highlighted by the fact that we expect the trade-weighted SEK rate to strengthen and inflation to remain below the 2% target over the forecast period.

Figure 3: Labour market improving

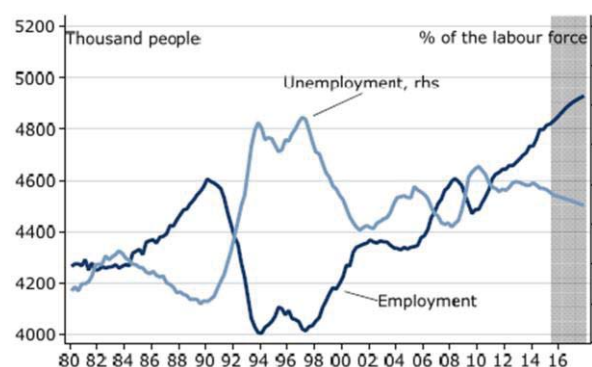
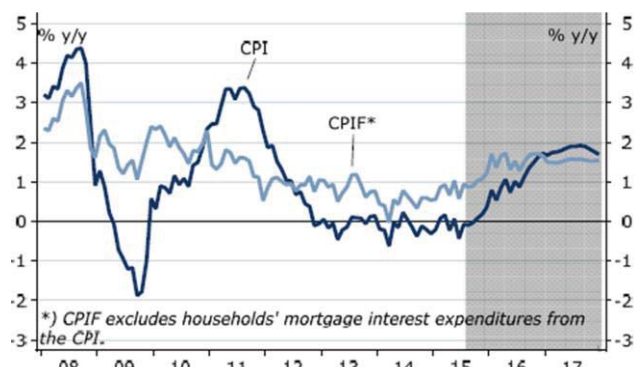


Figure 4: Higher inflation, but still below target



Source: Nordea Markets, Economic Outlook, September 2015

Rating - Approaches and Methodology

Introduction

European covered bonds have traditionally benefitted from Aaa/AAA ratings due to the extensive investor protection inherent in the covered bond structure. However, ratings have been under review in recent years. Rating methodologies have convened towards more focus on the creditworthiness of the issuer, though substantial differences still exist between the three major rating agencies Moody's Investor Service, Fitch Ratings and Standard & Poor's. For all three rating agencies, there is a lower bound for the covered bond rating based on the rating of the issuer. However, their approaches to how a given covered bond programme may receive uplifts differ as discussed below.

The individual ratings of the covered bond programs of all four markets are reported and described in the chapter of issuer profiles.

Moody's Investor Service

Moody's ratings are based on the "joint default analysis" where the credit quality of the issuer as well as that of the cover pool is taken into account. The dual structure is a reflection of the dual recourse protection of investors of covered bonds implying a claim on both the issuer and a cover pool of high-quality collateral. Hence, as long as the issuer is performing there should be no loss to covered bondholders. The probability of issuer default was based on the senior unsecured rating of the issuer. In March 2014, Moody's has changed its rating methodology in order to account for the bail-in exemption of covered bonds outlined in the EU Bank Recovery and Resolution Directive (BRRD). Moody's now starts from rating levels that are between 0 or 2 notches above the senior unsecured ratings of the issuer. The exact level of notches depends on the level of cushion (5% or 10%) of bail-inable debt of a bank.

Moody's rating approach for covered bond is based on a two-step analysis:

- *Step 1:* An application of a quantitative model that produces a maximum potential rating based on (1) the probability that the issuer will cease making payments under the covered bonds (i.e. a CB anchor event) and (2) the estimated losses that will accrue to the cover pool after the CB anchor event. This is referred to as the Expected Loss Covered Bond Model (EL Model).
- *Step 2:* The maximum potential rating that the EL Model produces is then refined to account for certain risks, particular refinancing risk, arising on the occurrence of a CB anchor event. This is done by applying the timely payment indicator (TPI) framework. This framework limits the rating uplift that covered bonds may achieve over the CB anchor and may constrain the final covered bond rating to a lower level than the maximum potential rating under the EL Model.

These two steps are more thoroughly explained below.

1. The EL Model

- a. The EL model determines the value of the cover pool, and key features include the cover pool collateral's credit quality, refinancing risk if funds need to be raised against the cover pool to make payments on the covered bonds and any interest-rate or currency mismatches between the cover pool assets and the covered pool liabilities.

2. The Timely Payment Indicator Framework

- a. The TPI reflects the probability that payments on the covered bond will be made in a timely fashion following a CB anchor event and follows a scale that ranges from “Very High” to “Very Improbable”. An important annotation in this context is that as the issuer credit quality declines, there is a greater risk that (1) the issuer will default, leading to refinancing risk for the covered bonds and/or (2) the issuer may exercise its discretion to make decisions that are credit negative for the value of the cover pool.
- b. Additionally, Moody’s is assessing the potential for systemic or political support in stressful situations. This dimension is based on how mature and systemically important the covered bond markets are in a given nation, since the chances of timely payments will increase if government support is likely in case of issuer default. The relationship between the issuer’s rating and the TPI indicator is illustrated below. Under the TPI framework, the maximum covered bond rating is capped depending on the issuer rating and the TPI factor. For instance, if the TPI factor is “High”, the issuer should be rated at least Baa1 in order to achieve a covered bond rating of Aaa.

Table 1: Moody’s rating methodology - the joint default analysis

TPI	Very improbable	Improbable	Probable	Probable-High	High	Very high
CB anchor						
A1	Aaa	Aaa	Aaa	Aaa	Aaa	Aaa
A2	Aa1	Aa1	Aaa	Aaa	Aaa	Aaa
A3	Aa2	Aa2	Aaa	Aaa	Aaa	Aaa
Baa1	Aa3	Aa3	Aa1	Aa1	Aaa	Aaa
Baa2	A1	A1	Aa2	Aa2	Aa1	Aaa
Baa3	A3	A2	A1	Aa3	Aa2	Aa1
Ba1	Baa1-Baa3	A3-Baa2	A2-Baa1	A1-A3	Aa3-A2	Aa2-A1
Ba2	Baa2-Ba1	Baa1-Baa2	A3-Baa2	A2-Baa1	A1-A3	Aa3-A2
Ba3	Baa3-Ba2	Baa2-Baa3	Baa1-Baa3	A3-Baa2	A2-Baa1	A1-A3
B1	Ba1-Ba3	Ba1-Ba2	Baa3-Ba2	Baa1-Baa3	A3-Baa2	A2-Baa1
B2	Ba2-B1	Ba1-Ba3	Ba1-Ba3	Baa2-Ba1	Baa1-Baa3	A3-Baa2
B3	Ba3-B2	Ba2-B1	Ba1-Ba3	Baa3-Ba2	Baa2-Ba1	Baa1-Baa3

Source: Moody’s Investor Service

Standard and Poor’s

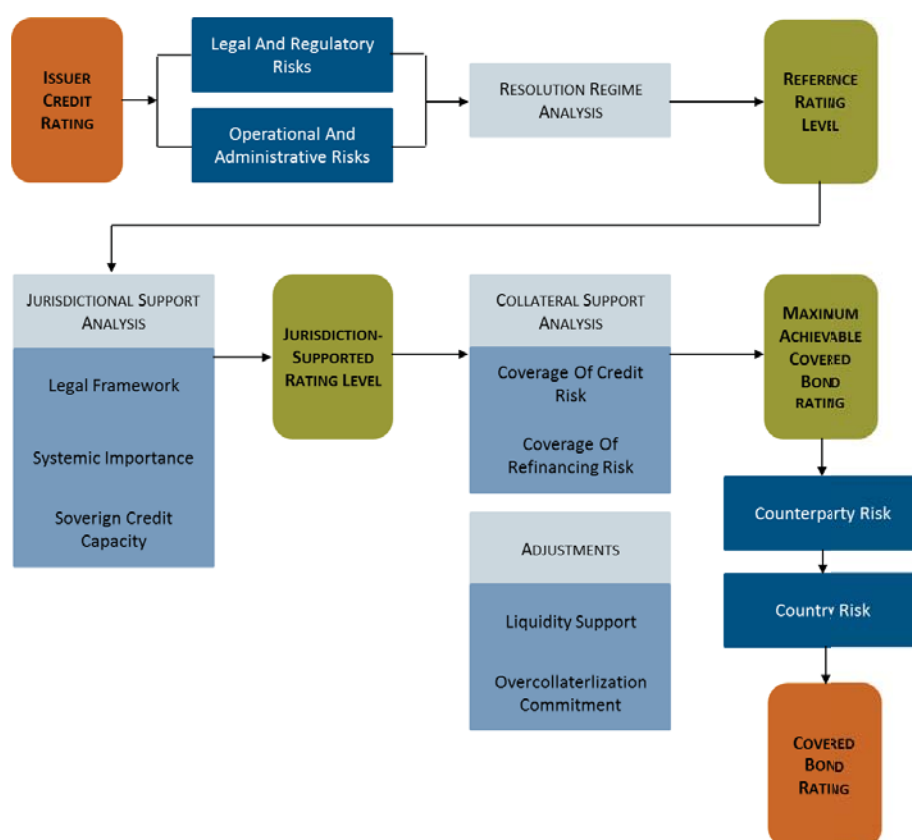
In September 2014 S&P rating changes came into force. Most importantly was the clarification of the country ceiling and the possible maximum uplift above the country-rating. S&P has a covered bond rating framework that organizes the general principles of credit rating into four key steps:

- **Step 1:** Performing an initial analysis of covered bond issuer-specific factors, mainly assessing whether a rating on the covered bond may be higher than the rating on the issuer.
- **Step 2:** Assessing the starting point for the analysis, based on the applicable resolution regimes, to determine the reference rating level (RRL). The RRL assess the likelihood that the issuer would continue servicing its covered bonds without accessing the cover pool or receiving jurisdictional support.
- **Step 3:** Determining the maximum achievable covered bond rating based on cover pool specific factors.
- **Step 4:** Combining the results from the stages above to assign the final covered bond rating by incorporating any additional factors.

Each step is then divided into sub-parts, as described below.

1. The initial analysis mainly assesses whether the rating on the covered bond may be higher than the rating on the issuer and is divided into two parts.
 - a. An assessment of legal and regulatory risks which focuses on the degree to which a covered bond programme isolates the cover pool assets from the bankruptcy or insolvency risk of the covered bond issuer. If S&P's asset isolation analysis concludes that covered bonds are not likely to be affected by the bankruptcy or insolvency of the issuer, then the covered bond programme may be assigned a higher rating than the rating of the issuer.
 - b. An analysis of operational and administrative risks which assesses whether key transaction parties are capable of managing a covered bond programme for as long as any bonds issued remain outstanding. The key transaction party is typically the issuer which originates, underwrites and services the cover pool.
2. The second stage of stage of S&P covered bond rating framework determines the reference rating level (RRL), i.e. the likelihood that the issuer would continue servicing its covered bonds without accessing the cover pool or receiving jurisdictional support. In general the RRL is at least equal to the issuer's credit rating.
 - a. Consider if it is possible that an issuer may continue to service protected liabilities, such as covered bonds, even though it may default on other types of liabilities.
 - b. This takes into account the features of the applicable resolution regime (measures taken by supervisory authorities in case of a bank's failure).
 - c. Under the analysis of jurisdictional support, the jurisdiction-supported rating level (JRL) is determined. This is the assessment of the creditworthiness of a covered bond program once the level of jurisdictional support has been considered.
3. The third stage determines the maximum achievable covered bond rating, i.e. the rating level consistent with the available credit support to achieve repayment on the covered bonds including any ALMM risk.
 - a. The likelihood for the provision of jurisdictional support is considered when the cost of a failed covered bond program to and financial system would be considered greater than the cost of providing support. This is assessed by analysing the strength of the legal framework, the systemic importance of the covered bonds in their jurisdiction and the credit capacity of the sovereign to support the covered bonds.
 - b. A pool-specific analysis is also carried out. This looks into the asset credit quality of residential mortgage loans, commercial mortgage loans, public-sector assets and mixed cover pools. It also looks into payment structure and cash flow mechanics.
4. The aim of the fourth and final step of the covered bond rating framework is to determine whether considerations not directly related to the covered bond issuer and covered bond programme would limit the maximum achievable covered bond rating (based on the previous three steps). This is where the final covered bond rating is assigned. This stage is divided into two sections as well.
 - a. An analysis of the counterpart risk. This is important since a counterpart's failure to perform on its obligations may lead to payment default on the bond. The analysis is focused on obligations arising from third parties that either hold assets or make financial payments that may affect the creditworthiness of the covered bonds.
 - b. An analysis of the country which may further constrain the final covered bond rating.

Figure 1: S&P's rating methodology -



Source: S&P Covered Bond Ratings Framework Overview

Fitch

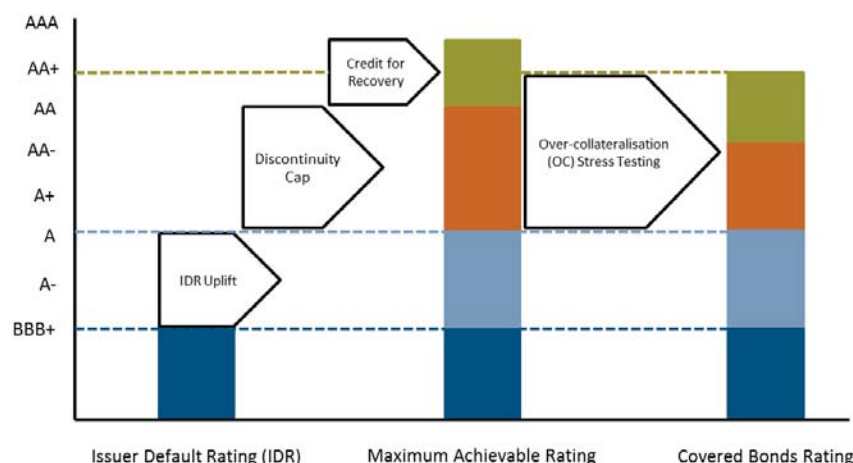
Fitch's covered bond rating mainly address the bond's probability of default (PD), but also include recovery on the bond given default. The rating excludes event risk, such as a change in legislation for a covered bond framework or the merger of an issuer. The rating of covered bonds includes three steps. Step 1 sets the floor for the covered bond rating, by looking at the issuer default rating. Step 2 determines the maximum achievable covered bonds rating by setting discontinuity caps. Finally, step 3 stress-tests the OC. The key rating drivers used in these steps are summarized below:

- **Issuer risk:** Covered bond ratings are linked to the credit risk of the issuing financial institution – as measured by its Long-Term Issuer Default Rating (IDR). Assets and liabilities are dynamic and ratings can be affected by an issuer's decisions regarding cover pool composition, asset/liability mismatches and maintenance of overcollateralization.
- **Bail-in exemption:** In bank resolution frameworks where covered bonds are favourably treated, Fitch's analysis starts with an uplift over the IDR, based on: relative ease and motivation for resolution methods other than liquidation; the importance of covered bonds to the jurisdiction's financial markets; and the extent of any buffer provided by senior unsecured debt.

- **Discontinuity risk:** Most covered bonds are designed to survive issuer insolvency. The potential risk that a covered bond could default under such an event is captured via Fitch's Discontinuity Caps (D-Caps), which determine the maximum uplift from the IDR (adjusted by any IDR uplift) to the covered bond rating on a PD basis. It reflects the highest risk assessment of asset segregation, liquidity gap and systemic risk, alternative management and privileged derivatives, ranging from '0' for full discontinuity to '8' for minimal discontinuity.
- **Systemic risk:** Covered bonds can be vulnerable to systemic crises, which may impact issuer and counterparty credit risk, asset performance and asset liquidity. In countries rated above A+, Fitch assumes an issuer default will stem from idiosyncratic factors, while the financial sector as a whole remains stable. This means cover pool liquidation assumptions are determined on a stressed, rather than a distressed basis which would be associated with systemic crisis. Programmes issued out of lower rated countries are assigned more conservative D-Caps.
- **OC protection:** OC between cover assets and covered bonds is the main source of enhancement. Fitch determines the level of OC it views as sustainable and tests it against assets and cash flow stresses to determine the covered bond rating which can be supported on a PD basis, as well as the recovery uplift for the covered bond rating itself. Cover pools are analysed in line with asset-specific covered bond or relevant structured finance (SF) criteria.
- **Cash flow testing:** Fitch's cash flow model determines the breakeven OC for a given rating. The result is broken down between the cash flow valuation, credit loss and asset disposal loss components. The cash flow model is built on a stressed net present value calculation. Lower stressed refinancing spreads are applied in the discontinuing of the cover assets when modelling recoveries given default than those used to test timely payment.
- **Lack of historical precedent:** Covered bonds have never defaulted, given support for issuers. Hence, there is a lack of historical precedent to test the mechanics of a covered bond's survival under stress. Reasoned opinion, rather than historical precedent, backs Fitch's assumptions.

Taking the Issuer Default Rating (IDR) as a starting point, Fitch's rating methodology for covered bonds is summarized in the figure below:

Figure 2: Fitch Covered Bond Rating Steps



Source: Fitch Covered Bonds Rating Criteria

Country comparison

Covered bond legislation

Table 1: Country comparison of covered bond legislation

	Finland	Norway	Sweden	Denmark (SDO)	Denmark (SDRO)	Denmark (RO)	Germany
Name of instrument	Katettu Joukkolaina	Obligasjoner med Fortrinsret	Säkerställda Obligationer	Særligt Dækkede Obligationer	Særligt Dækkede Realkreditobligationer	Realkreditobligationer	Pfandbriefe
Specialist/Universal banking	Both	Specialist	Both	Both	Specialist	Specialist	Specialist
Cover assets and matching							
Allowed collateral	Mortgage assets, public sector debt and shares in Finnish real estate corporations	Residential mortgages, commercial mortgages and public sector debt	Residential mortgages, commercial mortgages and public sector debt	Public sector debt, mortgage loans, ship loans, exposures to credit institutions	Public sector debt, mortgage loans	Public sector debt, mortgage loans	Mortgage loans, public sector debt, ship loans, aircraft loans
Asset allocation	Mixed pools	Mixed pools	Mixed pools	Separate registers for ships	Mixed pools	Mixed pools	Separate registers for mortgage and public loans
Inclusion of hedge positions	Yes, swap holders rank equal to bondholders	Yes, swap holders rank equal to bondholders	Yes, swap holders rank equal to bondholders	Yes, swap holders rank equal to bondholders	Yes, swap holders rank equal to bondholders	Yes, swap holders rank equal to bondholders	Yes, 12% of pool's NPV
Max LTV residential	70%	75%	75%	80%	80%	80%	60%
Max LTV commercial	60%	60%	60%	60%	60%	60%	60%
Max LTV agricultural	-	-	60% (70%*)	60%	60%	60% (70%*)	60%
Max LTV ships	-	-	-	60% (70%*)	-	-	60%
Max substitute collateral	20%	20%	20%	15%	15%	15%	20%
Mandatory over collateralisation	2% of NPV basis	8% of risk weighted assets	8% of risk weighted assets	8% of risk weighted assets	8% of risk weighted assets	8% of risk weighted assets	2%
Basis for valuation	Market value	Market value	Market value	Market value	Market value	Market value	Mortgage lending value
Valuation check	Regular examination (at least every third year)	Regular monitoring	Regular monitoring	Residential (every third year), commercial (every year)	Residential (every third year), commercial (every year)	No, only up front	Regular examination (at least every second year)
Protection against mismatching	Nominal coverage, 2% O/C NPV coverage, 12 month cash flow coverage, stress testing	Narrow matching of cash flows, NPV coverage	Narrow coverage, NPV coverage	Specific balance principle (pass-through system), General balance principle (European system)	Specific balance principle (pass-through system), General balance principle (European system)	Pass-through system	Nominal coverage, NPV coverage, 180 liquidity buffer
Independent monitor	No	Yes	Yes	No	No	No	Yes
Special supervision	Finanssivalvonta	Finanstilsynet	Finansinspektionen	Finanstilsynet	Finanstilsynet	Finanstilsynet	BaFin
Risk weighting	10%	10%	10%	10%	10%	Issued prior 1/1 2008 (10%), issued after (20%)	10%
Derivatives as collateral	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Bankruptcy proceedings							
Claim on issuer	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Preferential claim on cover assets	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Independent administrator	Yes	Yes	Yes	Yes	Yes	Yes	Yes
International compliance							
UCITS Art. 52 par 4 compliant?	Yes	Yes	Yes	Yes	Yes	Yes	Yes
CRD IV compliant?	Yes	Yes	Yes	Yes	Yes	No	Yes
Eligible for central bank transactions?	Yes	Yes	Yes	Yes	Yes	Yes	Yes

*Contingent upon posting additional collateral

Source: Nordea Markets

Country comparison

Advantages and disadvantages

Table 1: Advantages and disadvantages across Nordic covered bonds

	Denmark	Finland	Norway	Sweden
Advantages	The Danish pass-through system ensures very low risk-taking and mismatches	High cover pool quality - illustrated with low collateral scores	High credit quality and a growing domestic market of covered bonds	High liquidity compared to other bond markets. Was resilient during the 2008 financial meltdown
	The opportunity for borrowers to buy back a loan by purchasing corresponding bonds in the secondary market and deliver them to the mortgage bank increases liquidity	Strong legal framework modelled on the German legislation	Soft bullet structure ensures extra year to maturity in case of financial difficulties	Long record of functioning market, with established system ensuring liquidity
	The tap issuance system ensures a well-functioning market and strong liquidity, which weathered the 2008 financial meltdown	Relative to other Nordic markets the increase in Finnish housing prices has been more moderate	Benefits from low public debt and strong economic performance although it has decreased over recent years	Broad and deep domestic investor base coupled with increasing foreign appetite due to solid quality
Disadvantages	Maturity mismatch and refinancing risk associated with reliance on short-term fixed rate bullets	Relatively new and small market compared to other Nordic markets	Risk of inflated asset prices in the Norwegian housing market	Rapid expansion of credit in recent years are resulting in higher debt/income-ratios
	Recent growth in ISIN-codes has comprised liquidity in some series	Acceleration: If ALM tests are not met payments could be accelerated	Drop in oil price influence the economic outlook negatively	Large supply of bonds is weighting on the market

Source: Nordea Markets

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