

The Covered Bond Report

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The Nordic Covered Bond Roundtable 2021



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Nordic covered bond issuance in euros has been subdued through the pandemic, but with government and central bank measures helping limit its economic impact, and established domestic markets remaining liquid, the backdrop for returning issuers is strong, according to participants in our Nordic covered bond roundtable, held in July in association with DZ Bank.

Neil Day, The Covered Bond Report: Few countries met the 8 July deadline for transposing the EU covered bond directive into national law. How important is the process for the covered bond market in general and Nordic jurisdictions in particular?

Matthias Ebert, DZ Bank: The process of establishing a European minimum standard for covered bonds is important, as it reinforces one core aspect that is of vital significance, namely investor confidence in covered bonds as an asset class.

Over the last year, the Covid 19 crisis and its implications for asset quality, liquidity and funding have been at the forefront of many discussions. So I'm not surprised that the transposition of the EU covered bond directive into national law was put on the backburner, and that a number of countries did not comply with the deadline. I don't think this is a problem, as the amendments to national legislation are rather small in many countries and I don't doubt

that all EU countries will transpose the directive into national law by the deadline of July next year.

Article 2 of the covered bond directive states that the directive applies to covered bonds issued by credit institutions established in the EU. However, as the Directive also has relevance for the EEA, it is my understanding that Norwegian covered bonds will — alongside other Nordic paper — keep their preferential capital treatment if the directive is transposed into national law.

Day, The CBR: Let's do a quick tour of the Nordics to see how things are progressing in each country. Starting in the Eurozone, Sanna, what can you tell us about Finland?

Sanna Eriksson, OP: In Finland, the national transposition is somewhat delayed, so that the final government proposal is expected in early autumn. We received the draft just before mid-summer, and the new legislation should enter into force before the end of this

year. The Finnish industry is quite satisfied with the government proposal, as we have actively participated in the process of renewing the law, and it seems that there will be no major changes to the current legislation.

Day, The CBR: Anders, Denmark was from the very start very keen to ensure that the harmonisation process was done in a way that didn't damage the country's long-standing model. How significant are any changes to Danish legislation and what stage are you at?

Anders Lund Hansen, Jyske: If we look at the changes that we need to implement into the national legislation, they can be considered minor.

As it stands right now, we would be faced with an OC requirement of 2%. To put that into context, previously the capital requirement was 8% of risk weighted assets, but the average risk weight in Danish cover pools was around 22%, 23%. So if we look at the percentages, we are at roughly the same level.



Roundtable participants (left to right, top, then bottom):

Matthias Ebert, head of covered bonds, DZ Bank

Sanna Eriksson, managing director, OP Mortgage Bank, and head of investor relations, OP Financial Group

Axel Grosspietsch, buy-side research, Ampega Asset Management/Talanx

Anders Hult, head of funding, SBAB

Anders Lund Hansen, head of mortgage ALM, Jyske Realkredit

Fredrik Skarsvåg, CEO, Sparebanken Vest Boligkreditt

Neil Day, managing editor, The Covered Bond Report, and moderator (not pictured)

For Danish issuers, the liquidity requirement within the cover pool is limited — I would maybe even characterise it as very limited. We have the balance principle, with a match between the funding and the cashflows within the cover pool, that limits any liquidity requirement. Furthermore, we already have the soft bullet structure in place — having implemented it into Danish legislation some years ago — which also reduces this.

If we look at the OC requirement, it comes on top of our LCR requirement, and also on top of the loan-to-value collateral, where Danish issuers mitigate any breach of LTV limitations on a loan-by loan-basis, so the pillar of funding that needs to be posted has gone up slightly. So on that note, it has gotten slightly more expensive to run a Danish

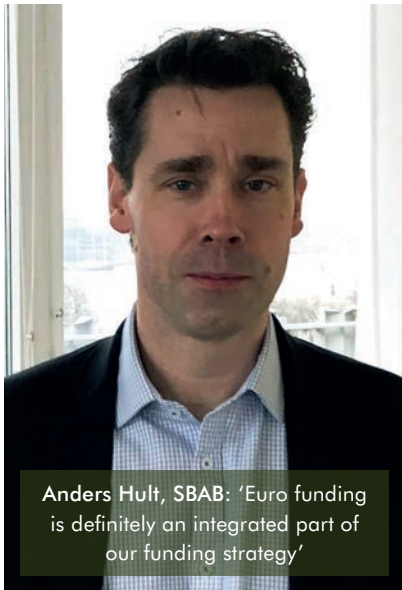
mortgage bank. But again, going back to my initial comments, the changes are minor.

The Danish parliament has been off on summer vacation, so everything has ground to a halt. But what we were keen to ensure was that the changes were implemented in a close dialogue between the issuers and the regulators, and I must say, it definitely has been a constructive dialogue the entire way through.

Day, The CBR: So maybe better to get it right than done on time. In Sweden, the covered bond issuers association was critical of and resistant to the whole need for harmonisation. Anders, how satisfactorily have things progressed?

Anders Hult, SBAB: My general feeling is that Swedish covered bond issuers are pretty OK with the way the implementation of the directive is going. The biggest discussion in Sweden has been around the liquidity requirement and specifically in relation to the usage of soft bullet structures for this purpose, but it remains to be seen where the legislator will finally settle this question.

But we are also in a delayed process. The last thing we heard was that we could see a final proposal for implementation sometime during late autumn, between late October and late November. It's fair to say that the aim is to have the final application date of July next year, although it remains to be seen whether or not that's going to be moved.



Day, The CBR: I'm not sure who's interest it would be in to not delay it if there were countries very far behind, but it's good to hear it's not going to be very disruptive within the EU. As Matthias mentioned, the EEA is also affected. Fredrik, I believe Norway was actually ahead of some of the EU countries in preparing for implementation. What stage are you at and what's the impact going to be?

Fredrik Skarsvåg, Sparebanken Vest: Norway indeed participates in the EU internal market under the EEA, which means that Norway is advised to implement all the EU directives and regulations, especially those related to financial markets. This ensures that Norwegian financial institutions have the same rights, but also the same obligations as institutions established in the EU. Norway is therefore implementing the covered bond directive from July 2022.

As you said, the Norwegians were out with proposals pretty early, but progress stopped during the pandemic and a lot of other regulatory issues arose, so it seems that in usual Norwegian style the legislators will need some extra time, and as issuers we will just have less time to adapt to this. It's fair to say that typically the Norwegian FSA looks to our neighbour countries for a lead on legislation, but as we've already

heard today, it's quite different in Denmark and Sweden and also in Finland.

Since our law is relatively new — at least compared to Germany and Denmark — having been introduced in Norway in 2007, it already looks a lot like what is required under harmonisation.

The main issue is what triggers a soft bullet — a structure Norway has used from the start. We haven't been able to come up with a solution in the Norwegian Covered Bond Council, nor for the liquidity requirement, whether it uses the final or the expected maturity. The Norwegian FSA typically ends up adopting the most conservative approach, so it was good to hear that our friends in Denmark had some constructive talks with their FSA about OC requirements. We are also hoping for a 2% OC requirement in Norway, even though the FSA indicated in early discussions that they wanted 5% for mortgages and 2% for public assets.

We'll see how things go. We expect a lot of answers during the fall, when other regulatory initiatives like NSFR and all the other elements of the banking package will also be set into Norwegian law.

Day, The CBR: Axel, what do you make of what you've heard? How much difference will the new regime make to you as an investor?

Axel Grosspietsch, Ampega: For Ampega as an investor, harmonisation is a positive issue, since it reduces the com-

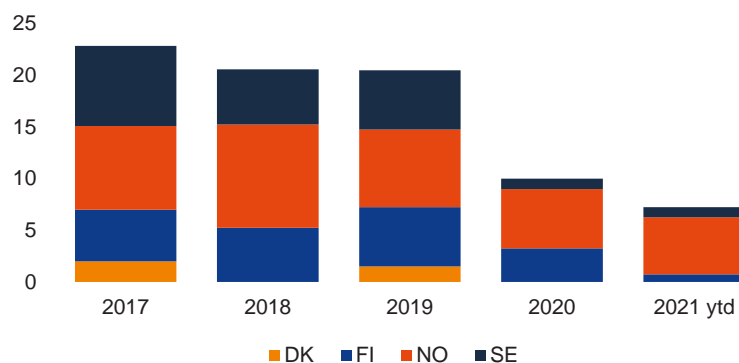
plexity of our work. Moreover, the harmonisation process introduces minimum standards that issuers of all European countries have to comply with.

As we see it, the changes to national laws that have been triggered by this harmonisation process are rather minor and don't make a significant difference to the legal frameworks of most European countries, especially not the Nordic ones. It's different for Spain, where the proposed new covered bond law improves the position of investors, with greater clarity on the separation of the cover pool, the introduction of an independent cover pool monitor, and in case of insolvency a special cover pool administrator representing only the interests of covered bond investors. Overall, from the perspective of an investor, the harmonisation process has been a sort of non-event for most European countries.

Day, The CBR: 2021's euro benchmark covered bond market has been characterised by historic low supply, while spreads have generally remained compressed. What are the key drivers behind these trends?

Ebert, DZ: First of all, cheap central bank money and high deposit inflows led to that drop in euro benchmark supply to just around €46bn in the first half of this year. We now expect gross supply to come out in the region of €75bn for the full year. With redemp-

New issue volume declined significantly in 2020 & 2021 ytd except Norway
Euro benchmark new issue volumes in EUR bn per year



Source: Bloomberg, DZ Bank Research, data as of 26/8/21

tions at around €132bn, this implies a very strong net negative supply of €57bn, which is exceptional if you look at the last number of years. Moreover, we have special circumstances in some countries, such as Canada, where the Canadian banks have needed to fulfil TLAC requirements by 1 November this year, so their focus has largely been on TLAC funding and covered bond funding was basically put on the backburner. Another specific factor that dampened supply in euros was, for example, the covered bond purchase programme that we have in Sweden, which also diverted supply from the euro market.

And in addition to that significant drop in supply, you have the ECB purchase programmes that have a dampening effect on credit spreads for covered bonds.

Day, The CBR: Anders, can you tell us more about how Swedish euro supply has been impacted, and how that may be related to crisis measures?

Hult, SBAB: It's not straightforward to pinpoint one single reason for the lower euro supply from Swedish issuers, since there are a few at play and they differ a bit from issuer to issuer. One reason is, of course, that we have a very good alternative, with a deep and well-functioning domestic covered bond market.

Then, as Matthias said, the Swedish Riksbank started to buy, for the first time, Swedish krona-denominated covered bonds as a support measure during the pandemic. They bought pretty heavily from the start, and are still doing so, and this has resulted in a significant spread compression in domestic covered bonds, and that gave us a relative pricing advantage in favour of SEK-denominated covered bonds compared to the euro market. And together with that, we have had very good overall demand in the domestic market.

But, as Matthias also noted, the larger Swedish banks, at least, have seen very large deposit inflows, and that has affected their overall funding needs.

They have then tended to allocate the need they still have to the domestic market, rather than going to euros. So the lower needs — resulting from the deposit inflows — and the relative pricing advantage in favour of the domestic market compared to euros, I would say, are the two main reasons.

However, for SBAB, while relative pricing is one consideration, euro funding is definitely an integrated part of our funding strategy. The investor diversification you can achieve is one important factor, and you can to some extent also gain access to different tenors. And when it comes to relative pricing, sometimes it's cheaper to issue in the domestic market, but sometimes it could be cheaper in the euro market. We therefore like to maintain a regular presence in euros and be able to choose the market where the best trade is available at any time — it's important

'It's the best of both worlds with the two markets'

to have more than one leg to stand on. So although we had a leap year in 2020 when we did not issue a euro covered bond, this year we returned to the euro covered bond market with a 8.75 year issue in June.

Day, The CBR: I guess you have similar considerations in Denmark, where you also have a very big domestic market. What's your thinking when you are looking at the euro market?

Hansen, Jyske: I couldn't agree more. We have a very strong domestic market. Even in the volatile days of March 2020, we actually had bonds being cleared every day — of course, with great volatility in prices, but the market was there.

Even so, our strategy in the euro market is of great strategic importance to us. We are looking to diversify our investor base and from a treasury point of view to make sure that we have ac-



Matthias Ebert, DZ Bank: 'Cheap central bank money and high deposit inflows led to that drop'

cess to funding at all times. With the current balance sheet we have, we will strive to remain a frequent issuer in the euro market, and investors should expect to see us there roughly once every 12 to 18 months in benchmark format. It's important for us to remain relevant so that investors will keep lines on us.

And this, of course, is not an either/or matter; it's the best of both worlds with the two markets. We have access to some investors on some segments of the curve in euros who we wouldn't ever see if we issued solely into the domestic krone market. So we are servicing both markets and are happy to do so.

We would love to issue more than we do in the euro market, but this is dependent on balance sheet growth. Back in 2016, we issued three euro benchmarks because we repatriated a lot of mortgage loans from another collaboration here in Denmark, so the Jyske group grew its balance sheet dramatically. Now, we are more back to an organic growth pattern for balance sheet growth, and that results in a lower frequency in the euro market, yet still striving to maintain this frequent issuer profile with the one benchmark roughly every 12 to 18 months.

Day, The CBR: You mentioned you could reach some investors who you'd never seen in your Danish krone issuance. How significant is the international presence in the

domestic krone market, and did that fluctuate during the crisis?

Hansen, Jyske: The international investor community is quite important for the domestic market, too. However, the Danish curve is quite segmented, and if we look at where the international investor community has the largest impact, it is in the 20 to 30 year callable segment. That's been an increasing trend in the past four or five years, and the foreign investor now community holds roughly 34% of all outstanding 20 and 30 year callable bonds. It's a quite complex product and for the first several years it was more a domestic product, where Danish lifers, pension funds, etc, were buying it in their asset-liability management, and we didn't see the international community very active. But what we are now seeing is German asset managers being very active and, over the last three years or so, Japanese lifers in particular coming in and taking up large positions in the callable sector of the covered bond market.

Of course, having new investors always leaves you unsure how will they react in times of volatility — will they dump the paper back at the first opportunity? But we have now had a couple of shake-ups — March 2020, at least, was quite dramatic — and the data that we have access to shows that they held their positions through such periods. So the domestic market has benefited from these buy and hold investors, who from an issuer standpoint are the ones you tend to favour.

Day, The CBR: Axel, what's your view on this? I imagine you want as much choice as possible in euros, but can understand their reasons for being absent.

Grosspietsch, Ampega: First of all, we are always interested in having a certain degree of diversification, so we certainly welcome Nordic issuers coming to the market in euros. If Talanx invests in Nordic covered bonds, the vast majority is in euro-denominated issues.



We are not critical if Nordic banks place a large part of their refinancing within their home markets. Indeed, it would be a red flag if they exceeded a certain level of foreign currency funding and if they would be more or less dependent on foreign cash inflows. If

'For us, 2020 was kind of a Goldilocks scenario'

you look at the Nordic markets, mortgage banks are certainly not at such a level yet. It's also quite understandable that there are some foreign cash inflows, because most Nordic countries have growing populations and housing markets with significant demand on the housing side and corresponding demand for refinancing, in spite of high depositary inflows recently.

Day, The CBR: In some of these Scandinavian countries there are smaller issuers doing sub benchmarks of €250m-€300m — are those deals that you participate in, or just the €500m-plus benchmarks?

Grosspietsch, Ampega: We are primarily active in benchmark issues. To initiate coverage of a covered bond programme, we expect a certain investable amount outstanding. Normally this condition is only fulfilled if there is a

certain minimum amount of benchmark issues available.

Day, The CBR: Norway does have a domestic covered bond market, and you have other considerations in funding like deposits and other instruments. What are the considerations for you when coming with a euro benchmark, and when might we see another one from you?

Skarsvåg, Sparebanken Vest: I recognise a lot of what the Anders at Jyske said — we view this as investor diversification, it's very important for us. Then, as I said earlier, the Norwegian covered bond market is quite new, so it's not as big and deep as you see in our neighbour countries. So as a bigger bank in Norway, we are somewhat dependent on going to the euro market in particular — we get approximately half of our funding in euros. And we are very much aware that as a small bank from a small country outside the EU, we have to take what the market gives us, to an extent. We try to be present in the market at least once a year, but if there is no funding need, then we cannot fund ourselves just for fun, much as we might like to issue another euro benchmark.

Like the other Scandinavian countries, the mortgage market in Norway is a little bit different from what you see in many European countries. More than 90% of all Norwegian mortgages are variable rate, set at a margin over Nibor, so naturally the all-in cost of funding once it's swapped back to floating Nibor is most important. The swaps are quite special because they are one-sided — we cannot post collateral as a covered bond issuer — and have quite high credit charges, so typically we have paid up a little versus the Norwegian market when going to the euro market compared. However, that was not the case when we issued our last euro benchmark, in September 2020.

During the pandemic, the Norwegian central bank set up a special liquidity scheme where banks could

borrow unlimited amounts up to one year using retained bonds, but that was more liquidity to calm down the markets than funding — we don't issue one year covered bonds. So when the market recovered in euros we took advantage of it to issue our first green covered bond.

So, for us, 2020 was kind of a Goldilocks scenario. Typically when the ECB is stimulating the market so much, the basis swap gets very expensive, but since they were also stimulating heavily on the other side of the Atlantic, we had both a low credit spread in euros and a low basis swap cost, and it was a lot cheaper than going to the Norwegian market — we actually issued euro benchmarks twice in 2020.

Day, The CBR: The euro market has seemed a little weaker at times in the second quarter. Matthias how would you see the prospects for Nordic issuers approaching the euro market? To what extent is the lack of CBPP3 eligibility for the non-Eurozone issuers a factor?

Ebert, DZ: First of all, one has to consider net supply in euro covered bonds from Nordic issuers, and this year it is around negative €13bn, which is the most negative of all the non-Eurozone issuer communities. Hence, Nordic issuers can expect strong demand from private investors. As you said, spreads bounced off their lows in May and are a bit wider, but funding conditions in the euro market remain very attractive.

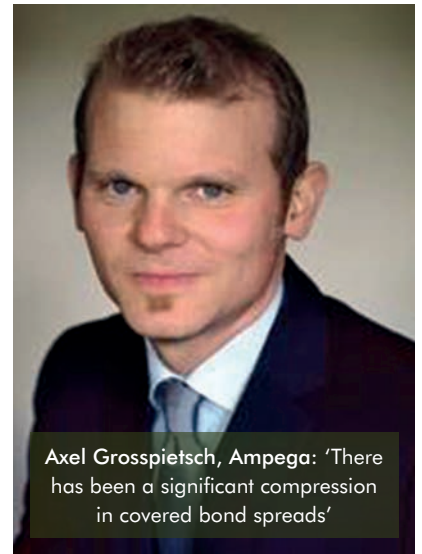
Could one say that the execution risk for a Norwegian issuer is higher than for a German issuer who benefits from central bank purchase programme eligibility? I doubt it. Execution risk is a combination of private investor demand and the bid from the purchase programmes. Nordic issuers benefit from strong private investor demand this year due to the heavy net negative supply and their bonds still offer a small spread pick-up. On the other hand, they don't have the central bank support. In my view, issuers of CBPP3-eligible and

ineligible bonds face a similar execution risk in the euro market, and both have to pay a small new issue concession to compensate investors for the uncertainties that exist.

Day, The CBR: Axel, when you're looking at relative between some of the Nordic credits and the core Eurozone, to what extent does or doesn't that reflect fundamentals?

Grosspietsch, Ampega: There has been a significant compression in covered bond spreads over recent years, so spread differentials between different countries are currently at the lows, and in our opinion the market doesn't differentiate fundamental issues that much anymore. It's also the case if you take a look at spread differentials among Nordic countries. Finnish issues have the tightest spreads, but the differences to non-Eurozone Nordic countries are minor, with 2bp-3bp.

One important issue is ECB support, which should provide some advantage to Eurozone issuers. In the last year about 40% of any new issue book of a Eurozone issuer was from the ECB and the allocation to the ECB was around 20%. But on the other hand, as Matthias mentioned, there is currently much demand in the market from private investors. Declining net issuance — with banks getting sufficient amounts of liquidity from other sources, be it

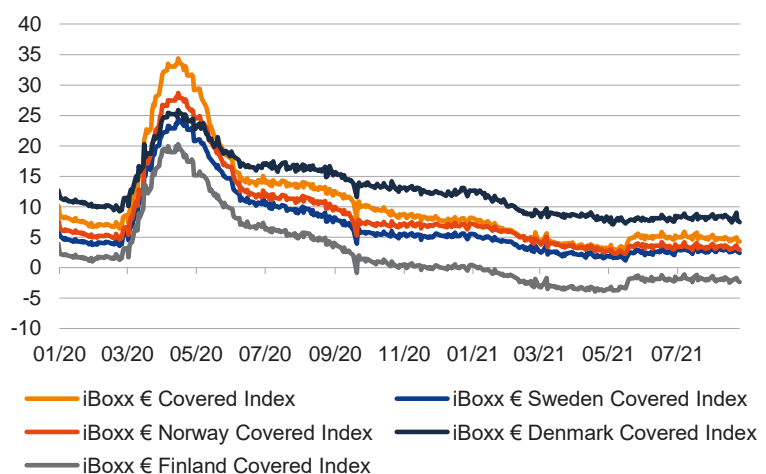


TLTROs, be it ordinary deposits — leaves enough demand in the market that issuers coming from outside the Eurozone shouldn't be put at a significant disadvantage. That's also reflected in the pricing and the new issue premiums that currently can be achieved, which are close to zero.

The CBR: Sanna, you've been relatively active compared to other Nordic issuers and also some Eurozone issuers. What's your view on the impact of the ECB?

Eriksson, OP: There are different motives behind TLTRO participation. As we have seen, some banks really use them to replace ordinary market

Nordic covered bond spreads were very stable in the last couple of months
Swap spread in basis points



Source: Markit, DZ Bank Research, data as of 26/8/21



Anders Lund Hansen, Jyske:
'2020 was definitely a hectic year
in the Danish housing market'

funding. But for others, like us, they don't affect our regular funding, even if we utilise the favourable conditions of the TLTROs. These banks are the most likely to repay them if the favourable conditions are removed in June 2022, so we'll see what happens. As of the end of the first half, we had participated in an amount of €16bn, of which €3bn in June.

Day, The CBR: Let's move on to looking at the Nordic property markets and how they have been supported and have performed since the start of the pandemic. In Denmark, possible overheating and the appropriateness of policies is a perennial topic of conversation. Anders, what's been done policy-wise, what's the current situation, and what's the outlook?

Hansen, Jyske: 2020 was definitely a hectic year in the Danish housing market. If we look back at our Q1 2020 results, we were quite concerned about the development of the Danish housing market, given expectations of increased unemployment, etc, in light of the Covid lockdown — no packages whatsoever were implemented to support the labour market. So, as it clearly states in the old report, we took a management judgement with impairment charges of DKK1bn — in hindsight, we probably couldn't have been more wrong.

Looking at price developments in Denmark last year, house prices went up 6.5%, apartments went up 8.8%, and holiday homes — which had been lagging the market for many years — went up 9.1% as a result of the travel restrictions. I can't recall ever seeing price increases like that in the housing market.

It seems like things have cooled down in the last couple of months during the summer break, both turnover and prices. In the first six months, we've had price increases of approximately 6%-10% for all three segments. Turnover is still high, but not as high as what we saw in parts of last year.

The Danish central bank and parts of parliament are of course concerned about overheating in the housing market, but if we look at the fundamentals right now, private sector financial savings are currently at 8% of GDP, unemployment is lower now than pre-Covid, even after most of the support packages have come to an end. Urbanisation is still a really big factor in price developments — we have seen the larger cities, the urban areas benefiting most from this trend. And when it comes to the housing burden, interest rates are still low — you are able to get a 1.5% fixed rate 30 year mortgage in Denmark, so

'The economy hasn't developed as badly as people thought'

the share of disposable income used to service an amortising fixed rate mortgage, although not at an all time low, is extremely low.

So I think we are looking at lower turnover, and definitely lower growth in prices for the coming period. 2020 was quite a special year, I must admit.

Day, The CBR: What's the situation in Sweden?

Hult, SBAB: We have seen a slightly surprising development in house prices. Prices of apartments and flats have risen approximately 12% over the last

12 months, and house prices have risen even more, slightly above 20% — it has been a one-way market since April-May last year. There are a couple of reasons for that. One is that the economy hasn't developed as badly as people thought when we entered the pandemic situation. But also the extremely low interest rate environment that we see in Sweden — coming from low central bank rates in general, but also from the Riksbank's heavy buying of the covered bonds, which has pushed spreads lower — has supported the market. We've also seen a slight shift when it comes to demand for dwellings: demand for houses and bigger apartments has increased, coming from people working at home to a greater extent, so we have seen a slightly larger increase in prices of larger properties. So a positive development in the Swedish property market, overall.

Day, The CBR: Fast growth in prices can nevertheless come with problems. If investors do have such concerns, what would you say to them?

Hult, SBAB: You get this question all the time, and it's a fair question to ask given the developments we've seen in the Swedish property market. I would say that from a covered bond investor perspective, you should be able to sleep well at night.

If I should pinpoint one factor that I think could jeopardise the price development of the Swedish property market, I would say that a sharp and rapid increase in interest rates would be a less good development. But looking forward over the next couple of years, we do not forecast any great increase in interest rates, so investors should be able to remain calm from that perspective.

In the long run, you still have the demographic development, and households' preference for living in apartments, houses, living in the countryside versus the city, and so forth, which will affect the development in prices.

And if you look at overcollateralisation (OC) in Swedish cover pools, they

all have OC levels that are quite large. Most covered bond issuers operate with a quite generous OC level. At the end of the first quarter, SBAB had an OC in the cover pool of around 30%. We also stress test our cover pool on a regular basis, and when we conducted this stress at the end of March, even with a drop in house prices of up to 30%, we still had an OC level of around 14% without adding any reserves. So from a credit perspective, investors should be able to feel safe.

Day, The CBR: Have things been going up in Finland, too?

Eriksson, OP: The residential market has been strong in Finland, but compared to the other Nordic markets, prices have on average risen fairly moderately, and they are expected to rise 3%-4% this year and slightly less next year. The market is fragmented, with activity brisk in larger towns, but prices falling in rural areas, for example. If you look at the overall housing market by price to rent ratio, it is quite balanced. Building activity is currently picking up, and hence raw material prices are expected to increase. Last year real estate investments declined, but the level was still reasonably good after a couple of peak years. Therefore the situation is rather positive.

While we see that residential properties are currently doing well, the momentum is weaker for office buildings and the outlook is uncertain, because it remains to be seen if we are able to get back to the office, or do we just make our homes larger and stay working remotely next year, too?

Day, The CBR: What can you tell us about how any employment support or similar schemes developed?

Eriksson, OP: Fiscal policy measures in Finland were smaller than in most of the other advanced economies. The reason for this is that the impacts of the pandemic were relatively modest and we have large automatic stabilisers, like

social security including unemployment benefit. So fiscal policy on the whole, including also the EU package, will be fairly neutral in the coming years. Even that is fairly generous, since the economy is expected to be close to potential already next year. So other than parts of the service sector that have been directly affected by the restrictions, the domestic economy here in Finland is already doing quite well.

Day, The CBR: Fredrik, could you give us some colour on the situation in Norway?

Skarsvåg, Sparebanken Vest: If you'd had this talk in April last year, I think nobody would have believed the figures we are talking about today.

As I said, the Norwegian mortgage market is a variable rate market and within a week or two of the onset of the crisis the central bank cut the deposit rate from positive 1.5% to zero, so affordability for most Norwegians was instantly much better. That was the Norwegian version of QE, if I can put it like that.

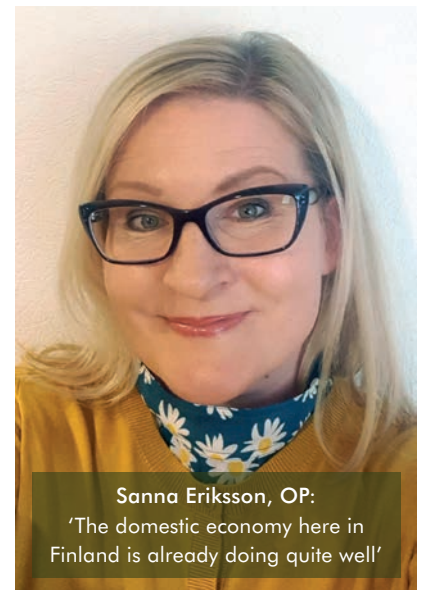
Without wanting to sound harsh, it wasn't the typical homeowner in Norway who got furloughed; it was more people in cyclical industries who have come from other countries to

'The momentum is weaker for office buildings'

work for a period of time and the like. The government was also really quick in putting out 100% unemployment benefit for the first months.

Most Norwegians hoarded a lot of cash: I saw some calculations indicating that NOK105bn has been saved by the population during the pandemic so far. Are they going to spend it now? It will be very interesting to see.

Lockdowns were by far the worst in the capital Oslo, which is also where house prices rose the most. They have now seen a decrease for the last four months, so things are calming down. In



Sanna Eriksson, OP:
'The domestic economy here in Finland is already doing quite well'

Norway as a whole there has been an approximately 10% increase in house prices.

Typically we calm down investors by referring to something we call the "nurse index", which is compiled by a company called Eiendomsverdi. This is a calculation of what share of housing in each city in Norway a single nurse can afford. While it was 1.5%-2% in Oslo at the peak, in Bergen and Stavanger — the second and third largest cities in Norway, and our part of the country — they can afford one-third of all houses in the market. That gives you quite a clear idea of the absolute levels — they are not London or New York prices, or anything like that.

The central bank has indicated that there will be rate hikes in the next four quarters, so a 1% increase in rates, which we expect to calm down house prices going forward.

Day, The CBR: Axel, are you concerned about the outlook in the region?

Grosspietsch, Ampega: Not really. Most Scandinavian housing markets are characterised by strong demand — Finland, where the population isn't growing that much, is a bit of an exception. If that development continues, there should be strong support for the residential housing markets.

As was already mentioned, the situation in Finland is mitigated by far lower

The Nordics, seen from the International Space Station; Source: NASA



household indebtedness compared to other Nordic countries. If you look at debt affordability for households, the current situation is pretty comfortable across the region, even better than what it was some years ago because of far lower interest rates. And even though there might be some tapering ahead of us, I guess it's still some way to go before central banks start to increase rates significantly and change the overall picture.

So yes, we have seen significant price increases over the course of the last year, driven by the special pandemic situation, and if that's to some extent consolidating and abating a bit, we would interpret it as a normalisation.

Ebert, DZ: In Germany, we are discussing the vacancy rate for commercial property, with many people working from home post-Covid, and how that could affect residential property prices in some major cities. Is that a topic for you in the Nordic countries, too?

Skarsvåg, Sparebanken Vest: It's a little early to say. In Bergen, where I'm located, things have been quite normal for

large periods of the pandemic. But I think a lot of people will work more from home going forwards, so I would be surprised if commercial prices were not affected, with companies needing less space. But I don't

'The ECB's purchase programmes could be slowly tapered'

follow the commercial real estate market closely since we only have residential mortgages in our cover pool.

Hult, SBAB: I agree that it's a bit too early to say. OK, it is logical that commercial property prices will go down if less office space is needed, but we need to see what sort of policies companies adopt regarding working from home versus working in the office now that restrictions are slowly being lifted. We might know this in a year's time or so, how it's going to be in the long run. SBAB, as well, has a cover pool that consists of residential mortgages.

Skarsvåg, Sparebanken Vest: Norway will soon get new legislation about

working from home. We had special rules during the pandemic because these were extraordinary circumstances. But if people are going to work from home going forward, this must be regulated formally in the employment contract and employers will have the same requirements as in the office with regards to securing a safe and sound working environment — the seat, desk, ventilation, lights, psychosocial aspects, everything. So I think it's not going to be sufficient to just sit on your kitchen bench if you are going to comply with all the laws in Norway going forward.

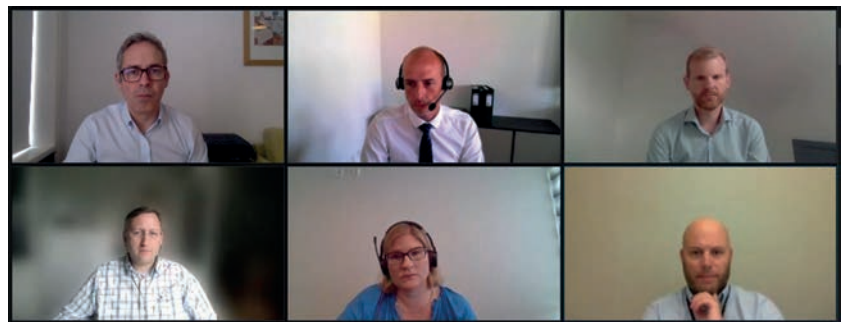
Day, The CBR: What are your expectations in respect of tapering and euro covered bond spreads for the rest of the year, and how the market could develop?

Eriksson, OP: We think that the participation of the ECB's purchase programmes could be slowly tapered. Whatever happens, the communication to the market of any changes will be really important, so we can know what is coming up. What we have seen

during this crisis and many others is that covered bond markets also function in stressed situations, so they should be conscious of taking care of the covered bond market.

Ebert, DZ: “Delta-variant” is the buzzword here. Europe has bounced off its lows on the Covid infection front, and it seems to me that we will get a showdown between immunisation progress and the spread of the delta variant during the fall.

In June, the ECB announced that they will keep asset purchases under the PEPP programme at a significantly higher pace than at the beginning of the year, and the ECB thinks that the current increase in inflation is merely temporary and that inflation numbers will drop next year. So our base case scenario is that the ECB will maintain its high pace of asset purchases, roughly €96bn per month, since the economic recovery in the Eurozone is still in its early stages. The emergency programme has an overall envelope of €1.85tr, of which €1.1tr is currently deployed. We think that this will run until March next year, but that the ECB will comment and make some further announcements on the programme in its December meeting. We expect that they will gradually reduce the emergency purchases under



The roundtable discussion took place on 15 July, with participants invited to join via video or telephone, and to make minor updates to their comments before publication.

PEPP from March next year, and will probably phase it out in August 2022. We expect that the central bank will remain an active buyer in the market via its reinvestments and the other purchase programme, the APP.

As for spreads on euro covered bonds, we expect a slightly widening of around 4bp, to 8bp in the index, by year-end. The key factor in this gradual widening is that tapering fears will cast a shadow over the market throughout the second half. There is also a risk that we will get some spillovers from the US, where we may already see a tapering discussion kicking off post-summer.

Grosspietsch, Ampega: The ECB hardly purchases any covered bonds within its PEPP programme. Instead, they are purchased in the regular asset purchase programmes, and those

are not prone to be tapered. As a consequence, I don't expect the ECB's support for covered bonds to change meaningfully until at least well into the next year — actually as long as the ECB doesn't taper its regular purchasing programmes. So from our point of view, there is strong technical support for the covered bond market.

However, once credit spreads of financial credits widen, the covered bond segment will also be captured by that trend. But we expect the effects on the covered bond market to be far more muted. So, in line with what Matthias mentioned, we expect sideways-moving spreads, for this year, and also well into the next year. Future spread movements will largely depend on the amount and timing of tapering and how well that is communicated into the market. ●

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2021



€ 850 million
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0.010%
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Joint Bookrunner



€ 1 billion
Covered Bond

0.010%
2021/2029

Joint Bookrunner



€ 1 billion
Norwegian
Covered Bond

0.125%
2021/2031

Joint Bookrunner

2020

SR-Boligkreditt

€ 750 million
Norwegian
Covered Bond

0.010%
2020/2027


Joint Bookrunner



€ 750 million
Covered Bond

0.250%
2020/2023

Joint Bookrunner



€ 1.5 billion
Covered Bond

0.010%
2020/2027

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