



# The Swedish covered bond market

Charlotte Asgermyr  
charlotte.asgermyr@seb.se  
+46 8 506 23 166

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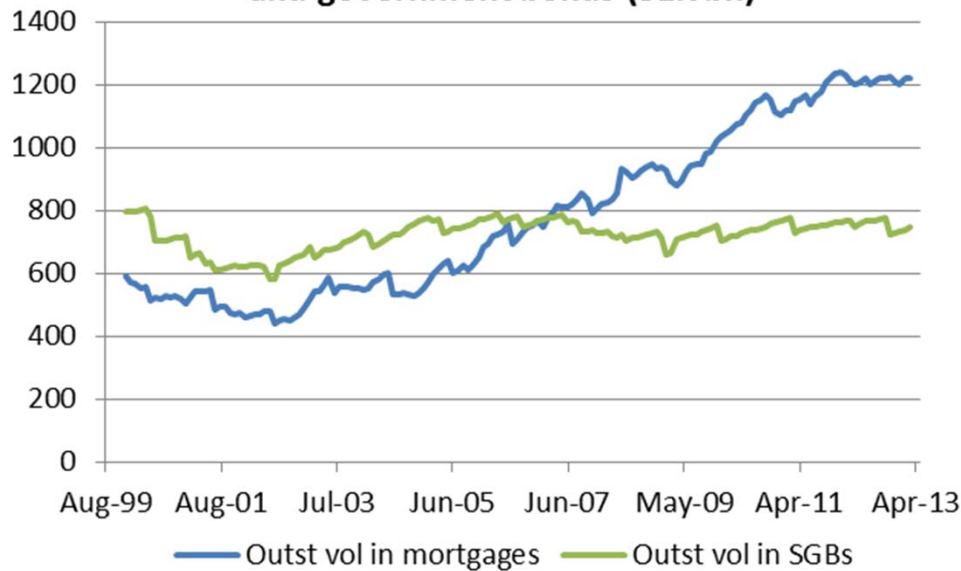
SEB

# Basics about the market

# Sweden third largest mortgage covered bond market in Europe

- Swedish covered bond market well-established
  - Long tradition of mortgage bonds.
  - Covered bond legislation entered into force July 1, 2004.
  - Conversions to covered bonds started in 2006.
- Almost double the size of Swedish government bond market
- Third largest mortgage covered bond market in Europe

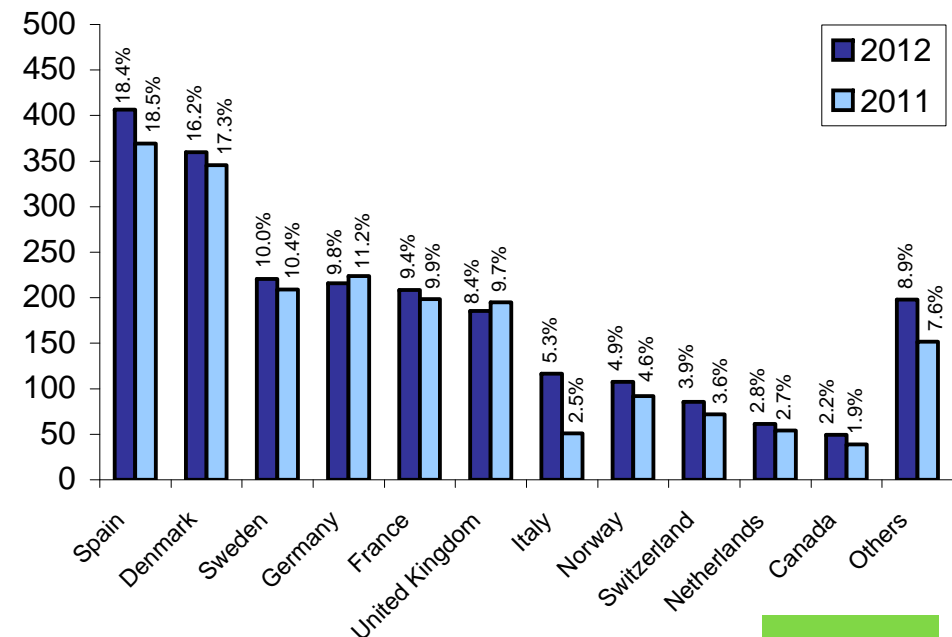
Outstanding volumes in Swedish SEK covered and government bonds (SEK bn)



Source: Statistics Sweden

Outst vol's in mtg CBs in the EU (YE12, EUR bn)

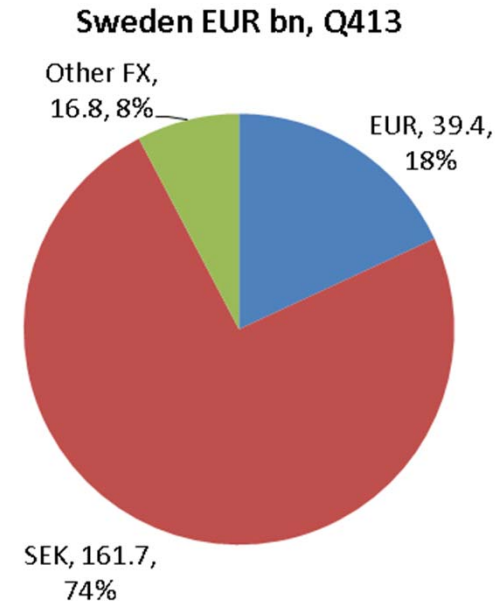
Bar % shows the share of total EU mtg CB market



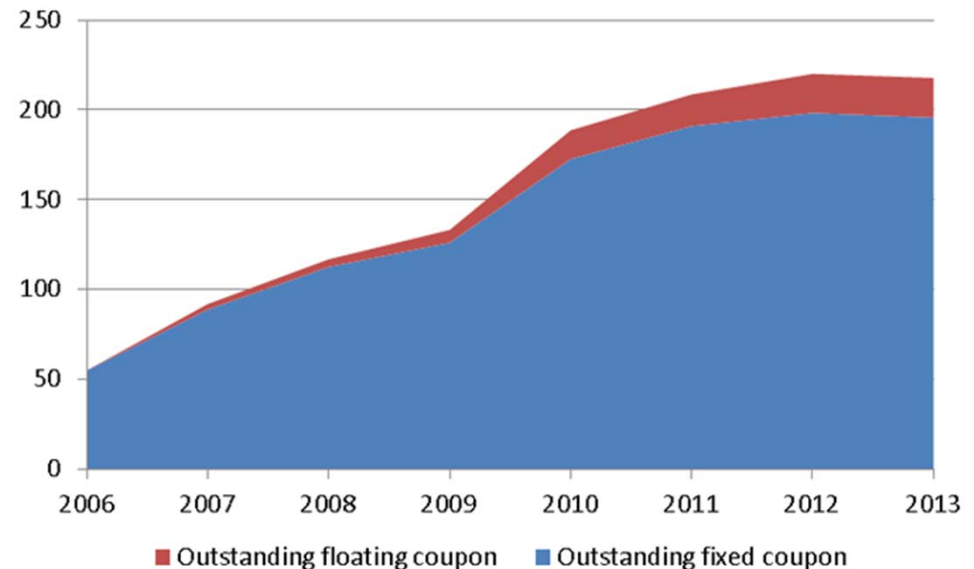
Source: European Covered Bond Council

# Market structure

- Local currency market core
- Outstanding volumes in foreign currencies approx. 25%
- Domestic market predominately a fixed bullet benchmark market.



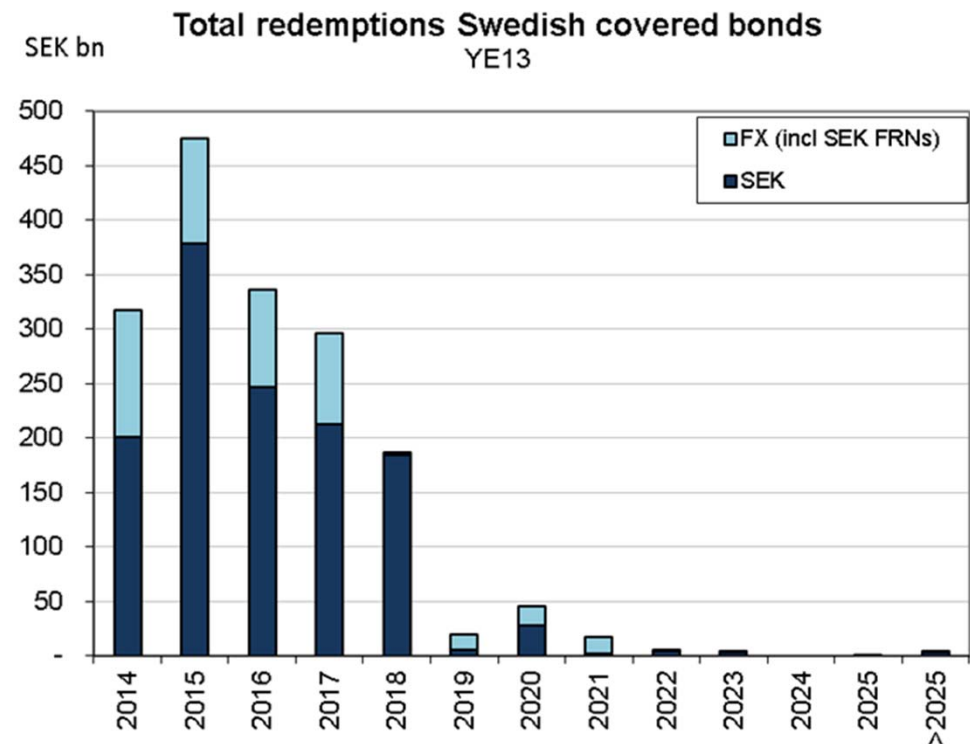
Source: ASCB



Source: ASCB

# Outstanding volumes concentrated in 2-5y

- Outstanding volumes in SEK covered bonds (CBs) are normally fairly large. Historically this has been the case especially for shorter maturities.
- The normal procedure for Swedish CB issuers ahead of bond redemptions is to buy back the bond in the market mostly offering investors the opportunity to switch to a longer maturity.
- Consequently, Swedish CB issuers' market practice regarding redeeming bonds should act to smooth refinancing risks over time.
- Hence, the liquidity risk concerning bond redemptions should be relatively low by international standards.

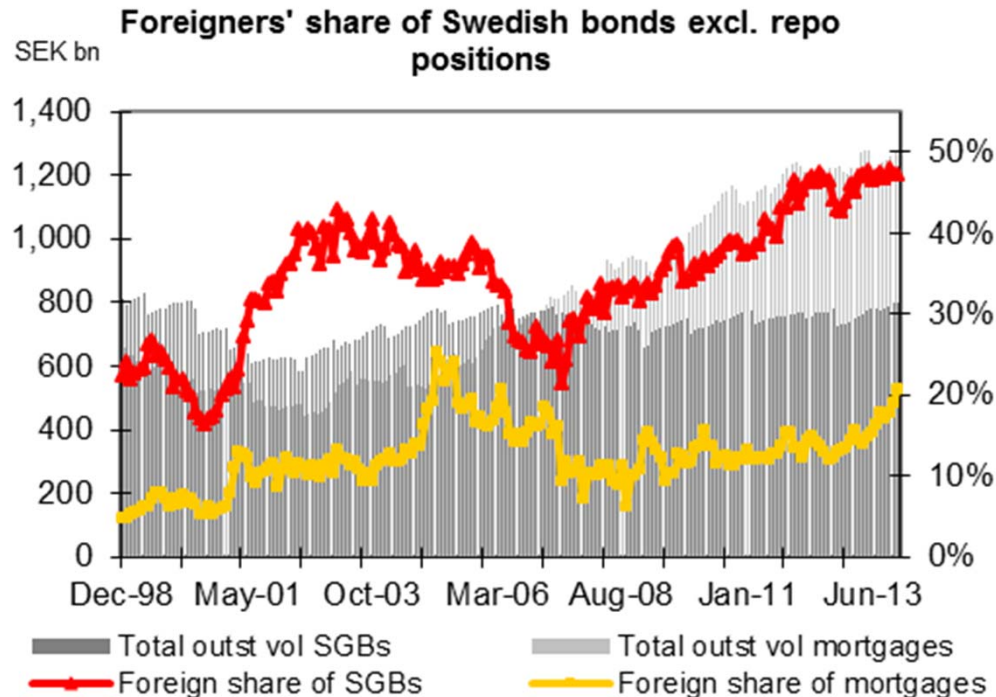


Source: Company information, Bloomberg

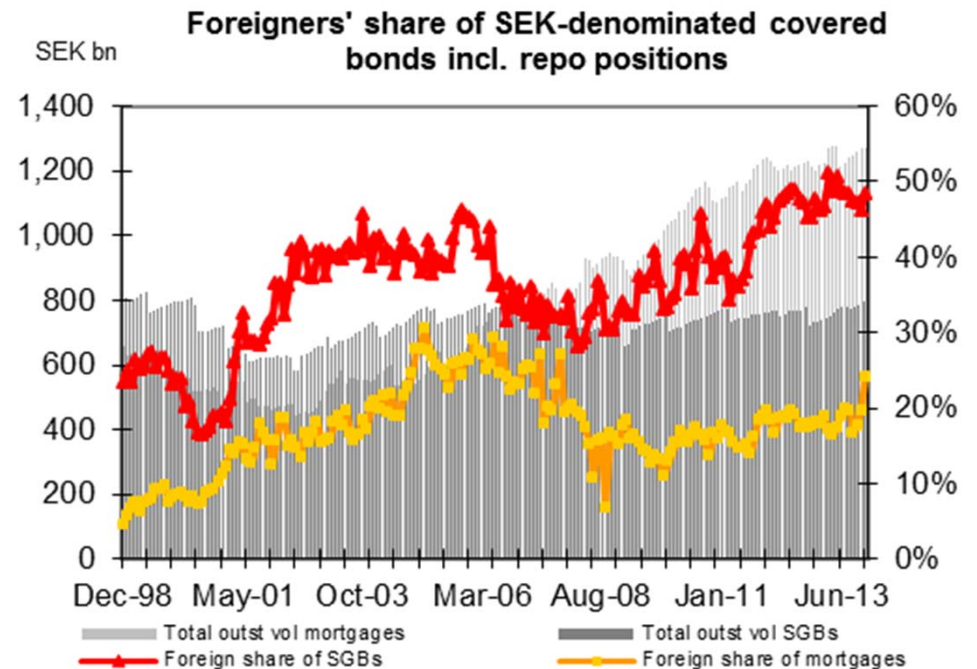


# Strong support from domestic investors

Foreign holdings of outstanding bonds denominated in SEK



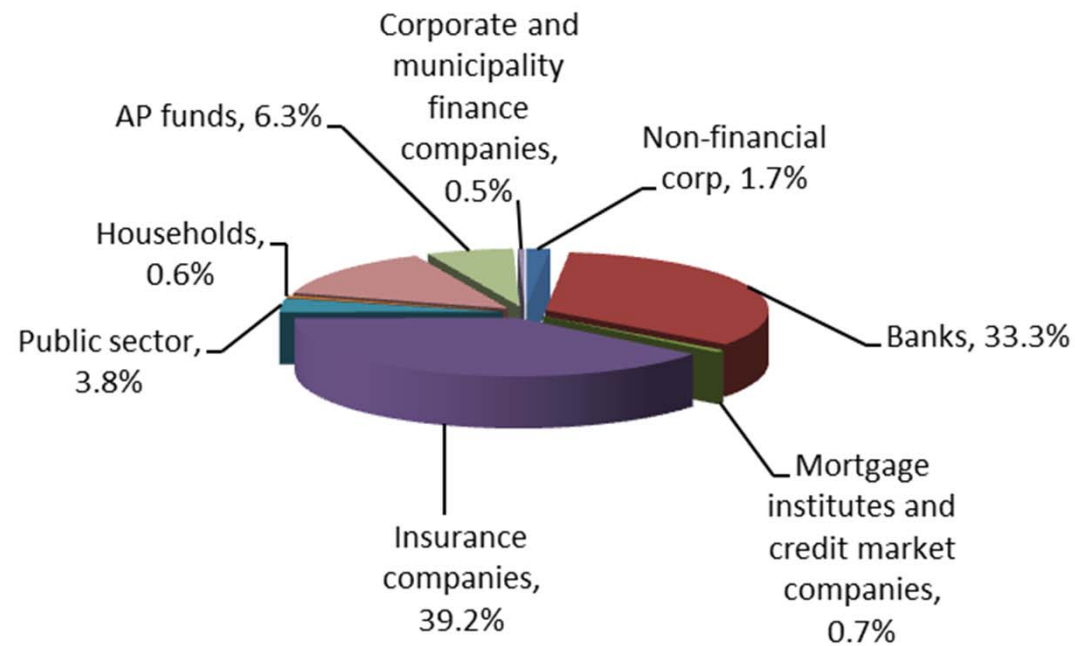
Source: Statistics Sweden



Source: Statistics Sweden

# Domestic investor base

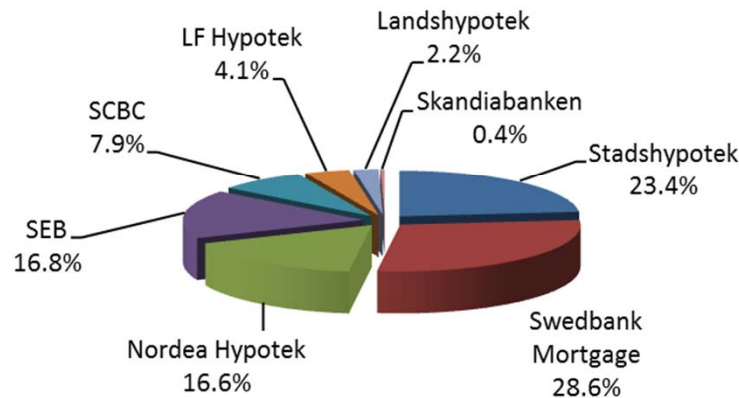
Domestic holders of Swedish covered bonds Q413



Source: *Statistics Sweden*

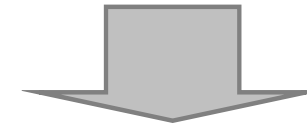
# The Swedish covered bond market

Market share in terms of cover pool notional, YE13

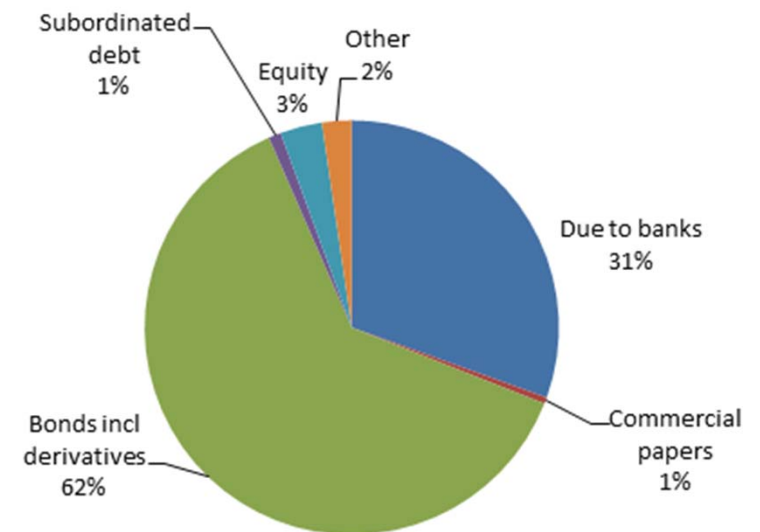


Source: Company reports, SEB

## Mortgage institutions' funding sources



Mortgage institutions' funding sources, YE13



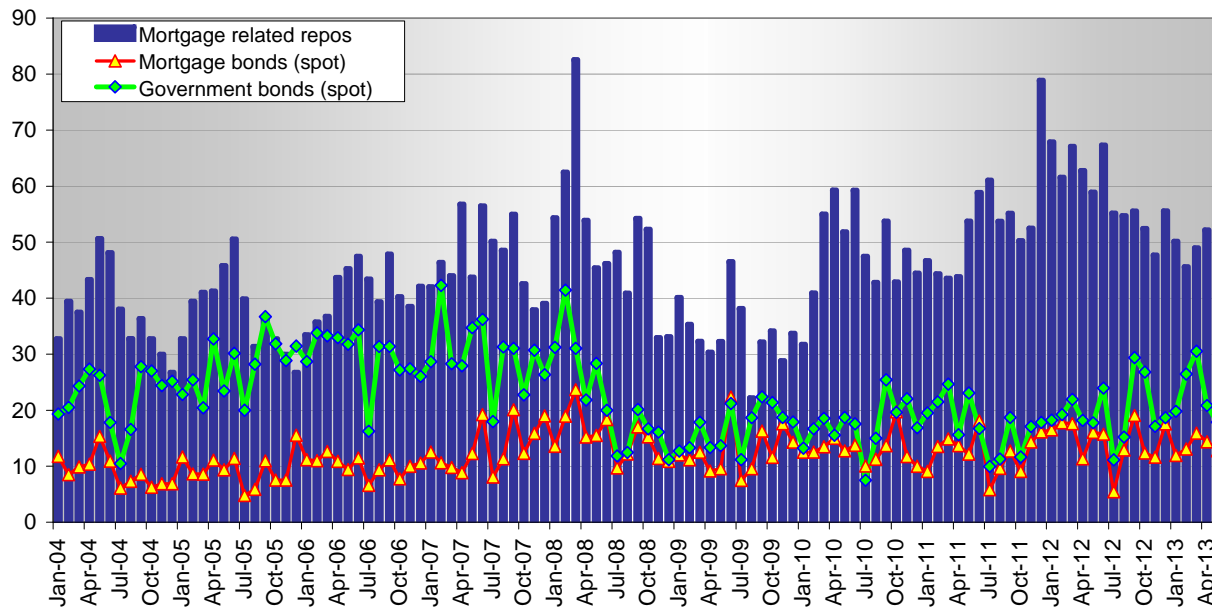
Source: Statistics Sweden

## Market share in terms of lending



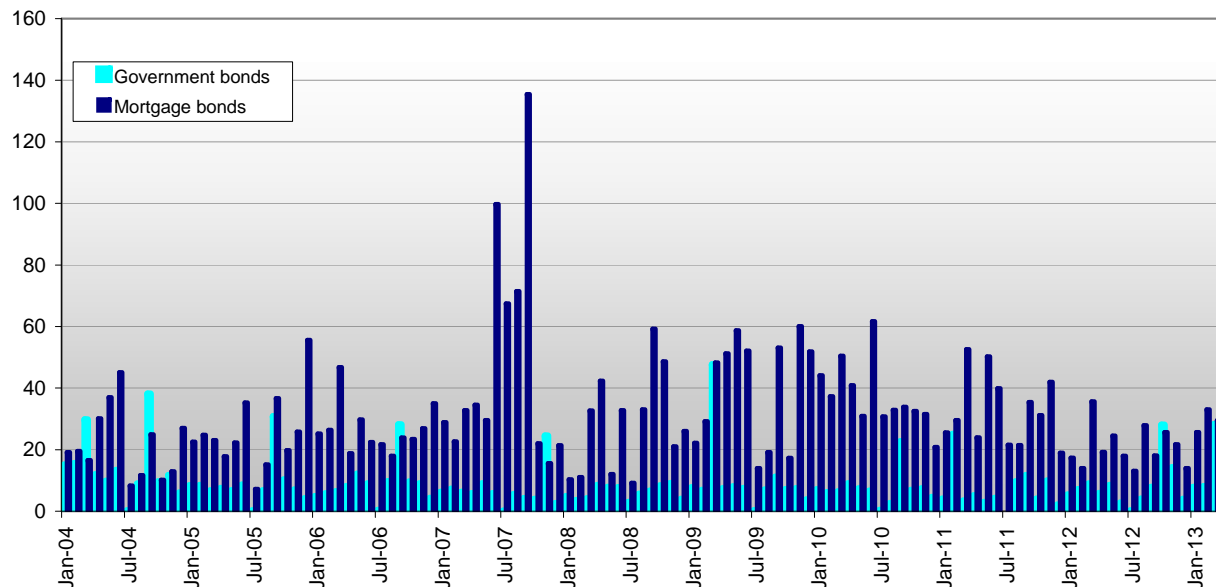
# Swedish market open throughout the financial crisis

Average daily turnover in Swedish mortgage bonds and mortgage related repos, SEK bn



Source: The Riksbank

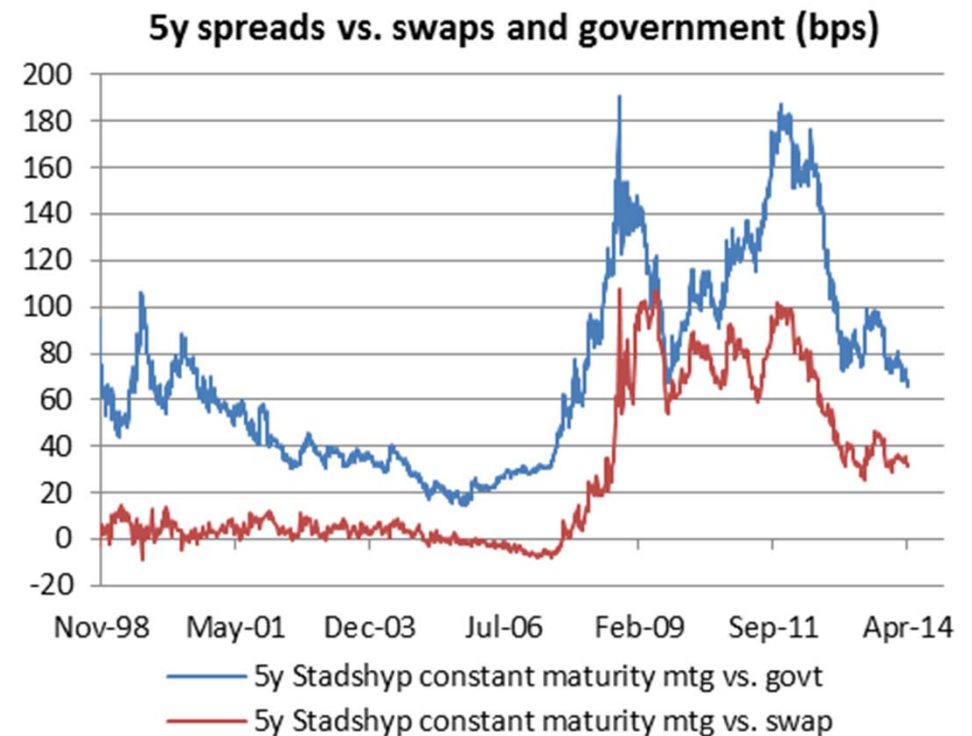
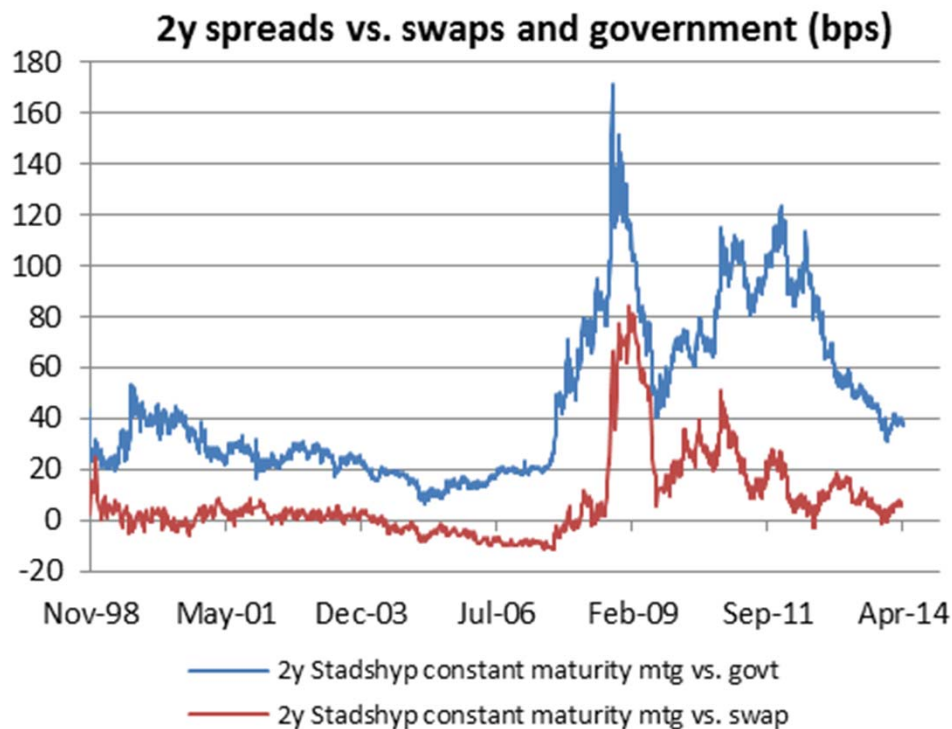
Gross issuance volumes in SEK bonds (SEK bn)



Source: Statistics Sweden

- Throughout the financial crisis, Swedish mortgage institutions were able to access liquidity through tapping the bond market.
- Although volumes were smaller and bid/ask spreads wider, the turnover in Swedish mortgage bonds must be deemed as decent also in 2008-2010.
- Tap issuance, strong domestic support and quickly implemented extraordinary measures by the Swedish NDO and the Riksbank helped the SEK CB market to remain open throughout the crisis.

# Swedish covered bond spreads



Source: SEB

# **Strong cover pool credit quality**

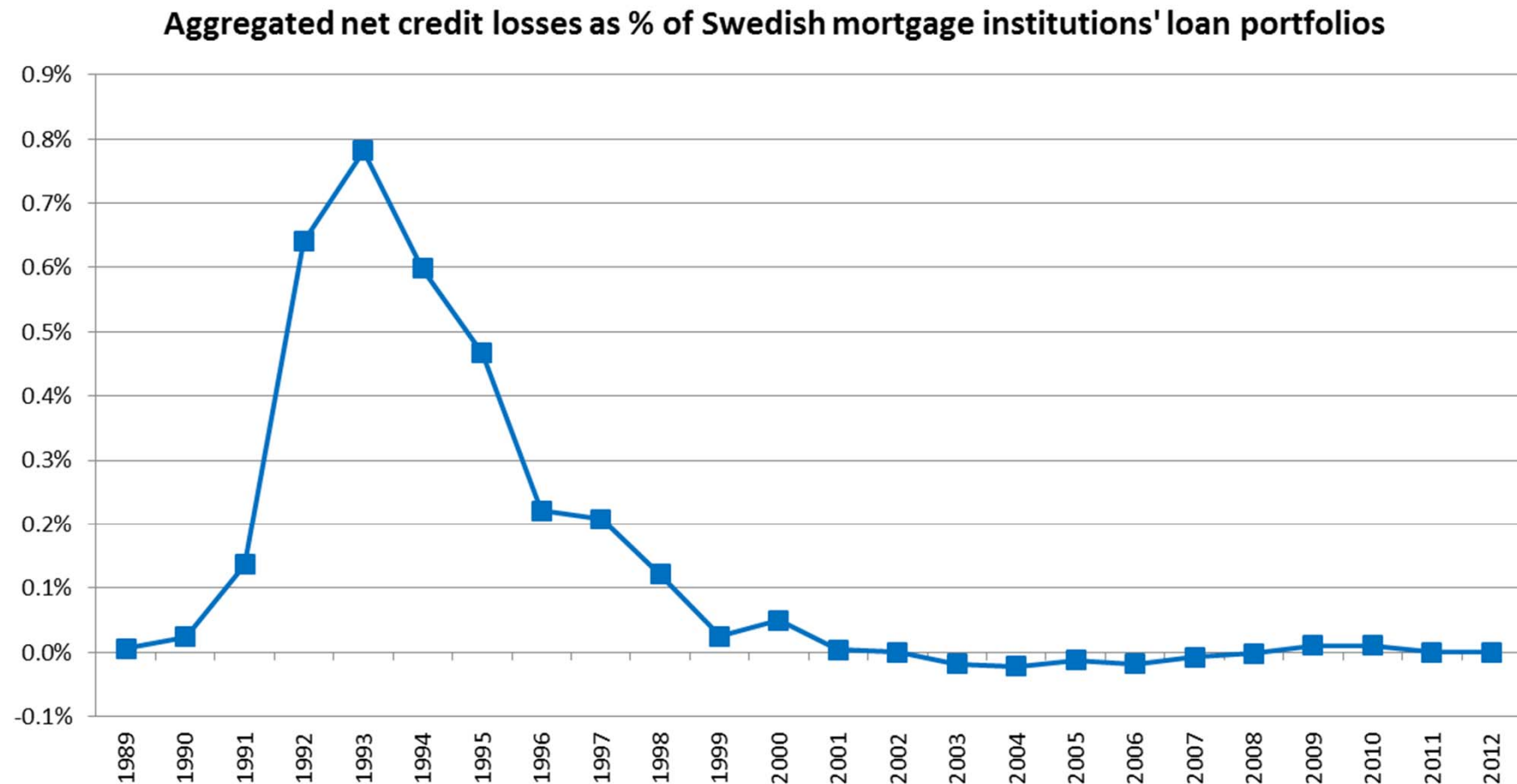
# Maximum LTV ratios

- When granting a mortgage loan, the loan may be included in the cover pool to the extent that the loan, relative to the collateral, lies within:
  - 75% of the market value, regarding real property, site leasehold rights and tenant-owner rights intended for residential purposes,
  - 70% of the market value, regarding real property intended for agricultural purposes, and
  - 60% of the market value, regarding real property, site leasehold rights and tenant-owner rights intended for commercial or office purposes. Further, commercial property is limited to 10% of the cover pool.

## Eligible cover assets

Cover assets	Restrictions	Loan-to-value (LTV ratios)
Mortgage loans	European Economic Area (EEA)	Residential 75% Agricultural 70% Commercial 60% (max. 10% of cover assets)
Public sector loans	EEA or OECD	
Substitute assets	<b>Restricted share:</b> Max 20% of total cover assets. In special circumstances, SFSA may, in an individual case, allow the proportion of substitute collateral to be at most 30% of the cover pool during a limited period of time. <b>Restricted type: Highly liquid and secure</b> Cash and 0% risk weighted assets (govt bonds). Upon application, the SFSA may allow certain debt instruments issued by credit institutions (>0% risk weighting) and other bodies.	

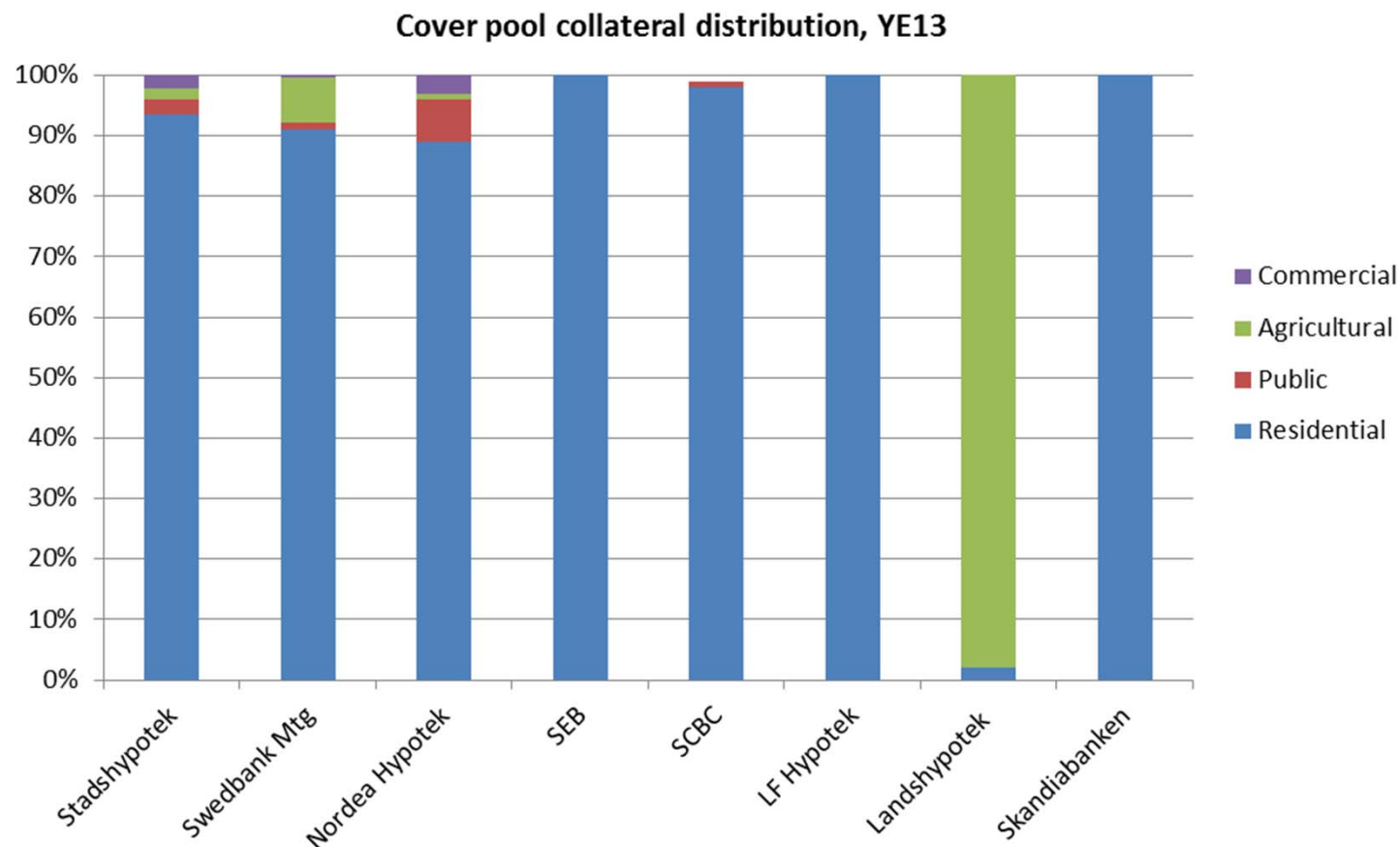
# Net credit losses in Sweden 1996-2012





# Underlying assets in Swedish cover pools mostly residential

- Mostly residential in Swedish cover pools
- In Sweden, commercials capped at 10% by law.
- The borrower remains personally liable until the entire loan is repaid.



Source: Company reports, SEB

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