

# Swedish Covered Bonds - Legal Framework (1)

## Overview

- “Säkerställda Obligationer” is a statutory protected term
- Holders have a first ranking priority over an asset pool
- Asset pool may consist of mortgage loans, public loans and certain supplemental collateral
- Issuer needs a license from the Swedish Financial Supervisory Authority (the “SFSA”)
- Compliance is supervised by an independent controller appointed by the SFSA

## Asset pool - mortgage and public loans

- Residential mortgage loans up to 75 % LTV (includes commercially owned multifamily housing)
- Agricultural mortgage loans up to 70 % LTV
- Commercial mortgage loans up to 60 % LTV (commercial means shops and offices)
- Property may be situated in Sweden or other EEA country
- Commercial loans may not exceed 10 % of asset pool
- Loans to governments, municipalities and other public bodies

## Asset pool - devaluation

- Property values must be monitored continuously
- Substantial decrease of property values in asset pool requires issuer to put additional collateral into asset pool or to make a corresponding redemption of outstanding covered bonds

## Swedish Covered Bonds - Legal Framework (2)

### Asset pool - supplemental collateral

- Government bonds
- Subject to SFSA approval, bonds and other securities issued by credit institutions and certain other entities
- Supplemental collateral may not exceed 20 % of asset pool
- Subject to SFSA approval, supplemental collateral may go up to 30 % of asset pool

### Derivatives

- Derivatives may be used for hedging purposes
- Derivatives must be dedicated for covered bonds and have special features
- Counterparties benefit from the same statutory priority right over the asset pool as covered bondholders
- Covered bondholders benefit from the same statutory priority right over cash flows from derivatives as from the asset pool

### The register

- The issuer must enter all covered bonds, all pool assets and all related derivative contracts in a covered bond register
- The register must contain particulars about the covered bonds, the pool assets and the derivatives
- The register must be updated on a daily basis

# Swedish Covered Bonds - Legal Framework (3)

## Matching requirements

- “Nominal” value of bonds must be covered by “nominal” value of assets
- Net present value of bonds must be covered by net present value of assets
- Derivatives may be used for matching purposes
- No formal requirement for overcollateralisation
- The issuer must make sure to have enough liquidity
- The issuer must stress test matching with relevant changes in interest levels etc

## Conversion of outstanding bonds

- To obtain a covered bond license, the issuer must undertake to convert outstanding bonds or give some form of equal treatment to outstanding bondholders
- Equal treatment may be for example an offer to convert on the same conditions as other covered bonds, or bondholder consent
- For EMTN issues made after 10 May 2004 automatic conversion is agreed upon the first new covered bond issue according to Condition 17 of the Instruments

## In case of bankruptcy

- As long as the matching requirements are met, the asset pool will continue to serve the covered bonds on a timely payment basis
- If the matching requirements are no longer met, and cannot be expected to do so, normal bankruptcy procedures will apply