

Social development: First AP Fund grows in infrastructure. Page 6

SBAB borrows to offer mortgages for Swedish dream homes. Page 10

Release

A MAGAZINE FROM RBS NORDIC REGION • NO 3 • OCTOBER 2015

Staying close and stable

By being 'the neighbourhood bank', Norway's SpareBank 1 SMN fends off concerns on the oil market.

Long list of products

RBS is undergoing an interesting process of renewal, which partly entails a geographic concentration to the UK and Western Europe. Our Nordic customers have also previously turned to us primarily for help with their European operations, and we look forward to developing that collaboration.

In terms of product range, RBS remains strong in financial advice and capital raising of on the public and private markets. The same goes for risk management, mainly in currencies and rates, as well as structured finance backed by infrastructure, real estate or other assets.

Moreover, our customers also have access to a range of transaction services. RBS is the leader in cash management in the UK, and is making major investments to stay at the forefront. We can also offer European payment solutions for Nordic companies, since in most cases the country the account is held in is unimportant.

RBS has been voted the Best Supply Chain Finance Provider for eight consecutive years by Global Finance Magazine – this relates to services for reducing businesses' working capital by reducing accounts receivable and inventories, or increasing accounts payable. Here too the bank is making new investments in technology.

Transaction services also include Trade Finance, various guarantees, and so on, where we enjoy many partnerships.

So yes, our product range is extensive, but we are also aware that how we treat customers often determines the choice of bank partner for transaction services. Therefore, top-class customer service is at the top of RBS's agenda throughout the organisation, a fact stressed by RBS Chief Executive Ross McEwan on a recent visit to Stockholm.



Reinhold Geijer
Head of RBS Nordic Region

Release

A magazine from RBS Nordic Region for customers, partners and co-workers.

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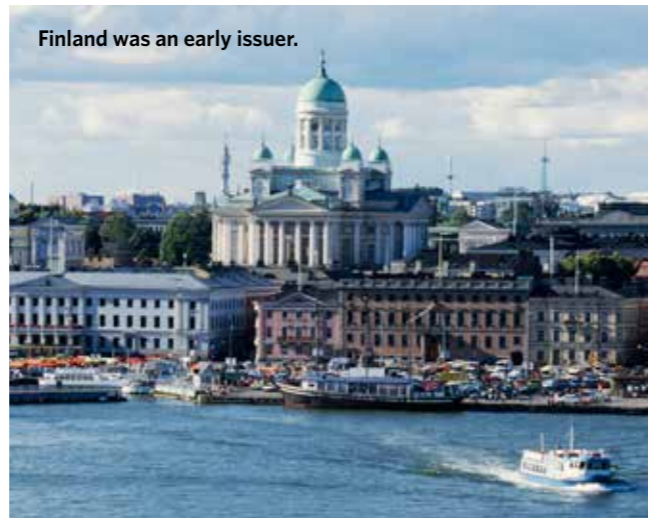
Publisher responsible
Anna Fall

Layout Säflund Designers

Production
Kamlin Kommunikation

Cover photo
William Lee-Wright

Printing Danagård Litho



Finland was an early issuer.

PHOTO: HASSE SCHROEDER

Finnish state issues euro bond

FINLAND WAS THE FIRST state issuer to issue a major euro bond after the summer break, which is something of a tradition. However, one new aspect was that the ten-year bond had an interest rate under 1 per cent (0.875 percent).

The transaction size was € 3bn, which means it is categorised as a benchmark.

The time of the transaction

limited competition from other issuers, making it possible to attract a large number of investors. British investors were predominant with 38 per cent of the issue, followed by Germany/Austria/Switzerland with 17 per cent and Americas with 13 per cent. Banks were the largest single investor category.



Renting solutions can be used for pre-schools and other public service buildings.

PHOTO: FREDRIK STEHN

Renting good for public services

IN MID-SEPTEMBER the Business Arena real estate congress took place in Stockholm.

The programme included a discussion on how Sweden's infrastructure, which needs to be extended and maintained, can be developed in ways other than government funding. Ian Harcourt, Head of Client Management at Nordisk Renting, outlined how

renting could be an attractive alternative to raising taxes, increasing debt or selling properties in the conventional way. For national, regional and local authorities, renting can release capital which can be invested in schools, healthcare and elderly care, for example, without the principal losing influence over the premises.

Ola Neråsen and Dag Olav Uddu at SpareBank 1 SMN in Trondheim, a bank with a long history.



Keeping an eye on the oil

TEXT ANNELI KAMLIN PHOTO WILLIAM LEE-WRIGHT

Taking up space in customers' wallets is the goal for SpareBank 1 SMN. A wide range of services, local presence and a diversified corporate market bring stability also in times of uncertainty for the oil industry.



The Trondheim branch is located in a fine old building.

WHEN WE ASK THE local photographer in Trondheim, who happens to be a Brit living in Norway, to take photos at SMN, he says, “Oh, sure, I know about them. They’re a big deal here.”

A big deal indeed: SpareBank 1 SMN is the biggest in its region and a leader especially among private customers, who come here to access a broad array of services under one roof. The bank is also often visible at local events and in other contexts.

THE BANK’S CEO Finn Haugan puts it differently: “We are the local bank that’s always nearby and easy to walk into; the neighbourhood bank.” SMN is part of a larger alliance of savings banks called SpareBank 1 which was formed in 1996. All the banks in the group work according to the principle of proximity.

“It’s a concept that makes us big and strong,” says Haugan.

There are around 50 local branches in the Central Norway region and 350 branches in the whole alliance. The branch network is the backbone of the operation, also in the digital age.

“We are the bank that’s always nearby

“The perception of being nearby strengthens customers’ relations with us. Even though they rarely come into one of our branches but mainly prefer to use our digital services, having an extensive branch network is a strength for us.”

THE DEVELOPMENT OF digital services is high on the savings bank alliance’s agenda, and a process that is prioritised in the group-wide functions. “SMN aims to be both the traditional 19th century savings bank, and a modern bank. We are already market leaders in certain digital services, and more products will be added in the future,”

says Finn Haugan, who also foresees working with an international partner.

ALL THE BANKS IN the alliance have access to product companies for areas such as insurance. “This structure with an independent branch network, independent lending, some shared functions and specialised product companies has proven to work well over time,” Haugan explains.

“Our strong position also makes us a political force to be reckoned with, and we use this to create a level playing field for domestic and foreign banks. Capital requirements vary today, which tends to distort competition to the disadvantage of Norwegian banks.”

The regional savings bank in Central Norway operates in three geographic provinces.

“The provinces differ in their trade and industry structure, and this spreads the risks for us,” says Ola Neråsen, Chief Risk Officer at SMN.

THE BANK WORKS primarily with companies in real estate, aquaculture and agriculture, fishing, offshore, energy, retail and the public sector. While oil is not the completely dominant sector in Central Norway, it is always a focus area in Norway – more recently because oil prices have fallen dramatically and the development of the oil sector is uncertain. Investments in the industry have decreased markedly this year.

“Even so, this has not yet affected us at SpareBank 1 SMN to any great extent. We remain stable, largely thanks to our tried and tested structure and because our credit rating works well,” says Dag Olav Uddu, Head of Treasury.

“HAVING SAID THAT, we are following developments closely. Economics is not the main issue; psychology is. If the crisis causes consumers concern, it can affect us. So far unemployment hasn’t increased to any great extent, but it is expected to. Interest rates are, however, low and will probably remain so. Therefore, we believe that households



Finn Haugan, CEO of SpareBank 1 SMN, thinks locally and globally.

will be able to pay their mortgages anyway. The hot property market in Norway is starting to cool off, albeit with some local variations. Meanwhile, buffers are being built up to protect the banking system. Borrowers have to be able to afford a rise in interest rates of 5 percentage points, and must pay off 2.5 per cent a year of the loan which is above 70 per cent of the market value.”

THE DECLINE IN THE OIL industry is compensated for partly by positive developments in the rest of the export industry, due to the weakening of the Norwegian krone.

The reason the entire Norwegian economy does not fall into acute crisis when oil prices wobble is also because of the oil fund, the pension fund that administers the financial wealth from the oil industry. Every year the state’s net gain from the oil industry is paid into this fund, along with returns on the not inconsiderable sum of NOK 6 trillion (about € 650bn). It is the world’s largest state investment fund. “Part of the fund can be used to cover expenditure in the state budget. The limit is 4 per cent of the value but it’s currently at 3 per cent, so there’s room for manoeuvre,” says Uddu.

“The state has the financial resources to make infrastructure invest-

ments, for example, and this has a stabilising effect.”

ON A DAY-TO-DAY basis SpareBank 1 SMN handles risks and uncertainties through risk management, working with RBS to hedge interest rates and currencies for instance, but it also works more strategically.

For example, it is currently winding down its commitments in commercial real estate.

“The risks here are double what they are for private home loans. We’re

reducing our exposure to increase lending on the private market,” Ola Neråsen explains.

“WE’RE HOPING to remain strong by carrying on the way we’re going and closely monitoring the credit situation, among other things. We have extremely low credit losses and a robust credit rating. The criteria remain the same during booms and recessions. We continued to lend money during the credit crunch, and our customers still appreciate that.” ×

Trondheim – Vikings and GSM



PHOTO: SUSANNE KRONHOLM

SPAREBANK 1 SMN is headquartered in Trondheim, which used to be called Trondhjem and Nidaros. The town was founded in 997 by Olav Trygvason and was Norway’s capital until 1217.

Today Trondheim is a large

education centre, with research in technology and medicine. There are around 30,000 students in the city. The mobile standard GSM was developed here in the 1980s by Torleiv Maseng.

Looking for infrastructure

TEXT ANNELI KAMLIN PHOTO FREDRIK STEHN ILLUSTRATION MATTIAS KÄLL



"Financial collaboration between the public and private sectors is nothing new," says Oskar Backman of the First AP Fund.

"We actively seek investments both in Sweden and internationally, ideally with a high sustainability profile," says Oskar Backman of the First AP Fund, one of five buffer funds in the Swedish national income pension system.

IN SUMMER 2014, the First AP Fund, with some SEK 300bn in assets, made a strategic decision to invest in infrastructure.

"We want to diversify and want to grow our infrastructure portfolio to 5 per cent of investments over time," says Backman, who is in charge of the investment activities.

"We have been monitoring the infrastructure market for a long time to see how it reacts in relation to other types of asset. For instance, there is only low co-variation between

infrastructure and the stock market. Infrastructure is also an interesting link to inflation development, since agreements and regulation often mean that income follows the rate of inflation to a greater or lesser extent. It is implicit that returns on infrastructure reflect growth in society in the long term."

THE FUND'S REMIT is to make sound investments in the long term, making infrastructure a good choice. "In infrastructure, we actively look

for investments both at home and globally. They should yield high returns in relation to the risks, while they are also part of our endeavour to contribute to sustainable value creation as regards environmental issues, social issues and corporate governance."

THE FIRST AP FUND, as part of a consortium, recently acquired Fortum's power transmission activities in Sweden. The consortium also included Canadian pension fund OMERS subsidiary Borealis Infrastructure, the Third AP Fund and Folksam with subsidiaries.

"This was an exceptional deal, by both Swedish and international standards. It was an excellent opportunity for us to invest in infrastructure while also enjoying a rewarding collaboration with partners that have similar, long-term interests."

BACKMAN SAYS THAT co-operating is of interest to API also globally:

"It's hard to build up general expertise in infrastructure since it's such a heterogeneous asset type. Hydro power plants and motorways, for instance, are completely different kinds of asset. Moreover, the availability of transactions varies dramatically over time."

Investing in infrastructure also requires the ability to assess political risks and predict complex series of events.



Investments in infrastructure are necessary, but are not for short-term investors.

"It calls for thorough preliminary work and specialist expertise, so it's not for investors that don't have a long-term approach to their holdings."

In Sweden one area the fund actively follows is PPP solutions or Public-Private Partnerships, whereby both sectors co-operate on public projects.

"We know there is a strong desire from various quarters that AP funds are involved in this kind of deal. And we are happy to be, provided the investments are in line with our

overriding goal of delivering high returns for current and future pensioners," explains Backman.

"THE PPP MARKET has not yet developed in Sweden. The public sector can

borrow money cheaper, so some would say that the need for private capital is limited. There are however restrictions on how much national and local authorities can borrow, while there is a great need for investment in infrastructure. The risk is that socially beneficial investments are never made. In cases like this private capital can be helpful as in other countries, especially if an income stream from somewhere other than the public sector can be identified."

Backman does explain though that for a PPP to have positive results, it must be run in competition between several parties.

"Generally speaking, it may be better to divide very

large projects into smaller parts to ensure a better overview of the finances. This paves the way for greater competition. It's also important to have a good dialogue between the parties."

BACKMAN POINTS OUT that financial collaboration between the public and private sectors is nothing new.

"But there have been a lot of developments recently. The market is becoming more mature and professional in all quarters," he says, adding that there are similarities between infrastructure and real estate.

"They are both about large, single assets. They are capital intensive, and the income model is either contract bound or governed through regulation, which is good in terms of predictability. Some investors class real estate as infrastructure, especially buildings like schools and fire stations."

The investment calculations are generally quite similar for infrastructure and real estate, he says.

"One major difference is that there are far more investment opportunities linked to properties" ×

The AP Funds

THE NATIONAL AP FUNDS jointly administer more than SEK 1,200bn in the Swedish pension system. Capital is paid into the funds when pension contributions are greater than pension payments. When the contributions are less than the payments, as at present, capital is withdrawn from the funds.

The board of each fund determines the focus of investments, within legal guidelines. The future of the AP Funds is currently under discussion, looking for instance at the scope of the investment opportunities they are granted.

New life for old offices

TEXT ANNELI KAMLIN PHOTO NINA BROBERG & JLL

A new life awaits the Telia property in Farsta. Property owner Nordisk Renting has been active in developing the area and is now passing the baton. Some 3,000 apartments are being built here, a welcome addition to Stockholm's inadequate housing stock.

THOSE MOVING INTO the new apartments in Farsta, a southern suburb of Stockholm, in a few years' time can look forward to skating on Drevviken lake, rambling in the forest and shopping in the Farsta Centrum mall.

This summer it was announced that Nordisk Renting is selling the property that currently houses Telia's Swedish headquarters, after many years as the active owner. At the end of 2016 Telia will move to Arenastaden in another suburb, Solna, to co-locate with other TeliaSonera units.

THE BUYERS ARE IKANO Bostad and Rikshem, which have formed a joint company to build some 3,000 new homes.



Working together: Robert Jaaniste of Ikano Bostad, Monica Schmalensee of White and Ilija Batljan of Rikshem.

+ Housing + Town Centre all in one place. The new version in Farsta also includes a school and public services, although exactly what these will be has yet to be confirmed.

"Farsta has great development potential and we're delighted to be working with Rikshem as we have worked well together before. It also strengthens Ikano Bostad's presence in the southern suburbs, where we already own 3,000 apartments and have been a socially involved property owner for several years."

SOUTHERN GREATER Stockholm is considered to be an area with potential, particularly among the municipalities in question. They work from a Vision for Southern Stockholm, which aims to improve the area through safety and security, education opportunities, trade and industry, the labour market, infrastructure and urban development.

“We are delighted to have sold to these particular stable, long-term owners.”

"We plan to have around 2,000 owner-occupier homes and at least 1,000 rental homes. It's important to offer different types of housing to ensure diversity in the area," says Robert Jaaniste, CEO of Ikano Bostad.

"It will be a new city district and a chance to create a more modern version of an 'ABC district'."

ABC refers to a former Swedish urban development ideal based on the concept of Work



Nordisk Renting has been actively involved in developing the area around Telia HQ in Farsta, Stockholm.

In Farsta, which is part of the City of Stockholm, there has been a targeted development process specifically for the area, some of the objectives being green thoroughfares combined with urban environments, as well as a better district centre.

"At Nordisk Renting we have been involved in the Farsta development project and an active contributor to the City's programme for Farsta, in which we included new homes under the plan Rikshem and Ikano Bostad are now realising," says Lennart Ingefeldt, Relationship Manager at Nordisk Renting.

"We are delighted to have sold to these particular stable, long-term

owners. We have put a lot of work into finding the right buyers, and it is great to help create more homes."

The admin buildings of the government telecom company Televerket, as it was known at the time, were built in several stages between 1962 and 1972. The architects were Bengt Hidemark and Gösta Danielsson.

THE PROPERTY COMPRISES two areas. One is called Vitsand and is comprised of four tall, narrow eight-storey buildings at right angles to Nynäsvägen.

The other property, further south, is called Mårbacka and the buildings here are lower. They are grey, with characteristic red sections around the

windows. Mårbacka was awarded the Kasper Salin Prize in 1969 for its architecture and is now a listed building of the highest grade.

ALL IN ALL THERE are 100,000 square metres of space which will now be partly refurbished and partly supplemented. The four tall buildings may be demolished, while the lower ones will remain. Construction is planned to begin in 2017-2018.

"The area will develop as the details are finalised. But as always with Ikano Bostad we'll be building efficient apartments with IKEA kitchens, which our customers generally appreciate," says Ikano Bostad's Head of Marketing, Tomas Jonson.

Architects' firm White has been commissioned to work on the plan.

"We can see tremendous potential here. We will of course be considering the existing architectural and cultural values, and striving to develop a modern housing area in harmony with these," says Ilija Batljan, Vice President and Head of Business Development at Rikshem. X

About Rikshem and Ikano Bostad

IKANO BOSTAD IS a part of Ikano, which is owned by the Kamprad family. Ikano Bostad owns and manages 6,000 apartments. Ikano also operates in finance, insurance and retail.

Rikshem, which is owned by the

Fourth AP Fund and AMF, owns housing and public buildings in growing municipalities, and aims to be a long-term partner to local, county and national authorities.

A feel for the market: Louise Bergström is Head of Investor Relations at SBAB.



Funds to lend

TEXT ANNELI KAMLIN FOTO HÅKAN LINDGREN

Many homes in Sweden are financed through mortgages from SBAB, which in turn borrows money on the international capital markets. Low, clearly defined risks are appreciated by investors.

MONEY IN AND MONEY out – savings accounts and mortgages. No costly offices, but a popular website and a customer service phone line. No foreign operations, and owned by the government.

This is SBAB in a nutshell, and this is one of the reasons investors like the bank.

“We have an uncomplicated business model that’s easy to evaluate, and investors generally have a positive view of Sweden. Another advantage is that all our mortgages are direct loans. We don’t offer subprime solutions, which are hard to oversee,” says Louise Bergström, Head of Investor Relations at SBAB.

At present, 21 per cent of total

borrowing is covered by customer savings accounts. The state-owned housing institution only began borrowing and became a bank a few years ago.

“**THANKS TO OUR** customers’ savings, we are less dependent on financing from the public financial markets, which is an advantage in many ways. Above all it is seen as a strength and means better terms for us when conducting transactions,” Bergström explains.

SBAB issues covered bonds with its own mortgage loans as security through

its subsidiary SCBC. The bank also issues unsecured bonds.

“In total we borrow around 60 billion Swedish kronor a year. We mainly issue covered bonds with slightly longer terms of five to ten years, and senior unsecured bonds with terms of two to five years, sometimes more.”

EARLY THIS SUMMER, SBAB worked with RBS to conduct a public benchmark transaction of € 750mn, a three-year unsecured bond with variable interest. In financial-ese this is a floating rate senior unsecured bond or floating rate note, FRN. German investors dominated, accounting for 37 per cent.

“Market conditions were just right for this solution. We always monitor the markets carefully and choose whichever combination of covered/unsecured, fixed rate/variable interest, currencies and terms is most advantageous on

each occasion,” says Louise Bergström.

“We conduct several large transactions but also some small ones, when they arise and when we need them, which is sometimes daily. Large international transactions in euro are conducted roughly two to four times a year. We also make regular public issues on the Swedish market, both covered and unsecured.”

OVER 70 PER cent of total borrowing, including deposits, is in SEK. Twenty per cent is in EUR and the remainder in international currencies, including CHF, JPY, GBP and USD. The public euro loans are generally between € 500mn and € 1bn.

The volume of covered transactions is two to three times higher than unsecured.

“We also work actively with currency and interest rate hedging, and almost all borrowing in foreign currencies is swapped back to Swedish kronor.”

AS HEAD OF Investor Relations, Louise Bergström travels often.

“It’s important to have a good, close relationship with investors, also between transactions. Being receptive to different needs creates better opportunities on the market. All investors are important, even small ones. There is a lot of competition for the money we need.”

Investors often ask about SBAB’s ownership structure, and whether the state should continue to own the company.

“It all comes down to political decisions, but there are no concrete plans to sell.”

MANY PEOPLE OUTSIDE of Sweden wonder that SBAB has no physical branches.

Another common question relates to the situation on the Swedish housing market, and whether it is overheated.

“We don’t really think it’s a housing bubble, since demand for housing still exceeds supply,” Louise Bergström concludes. X

Spotlight



Who?

Phil Pearce, Director, Capital Structuring & Advisory

What?

Balance Sheet Advisory for financial institutions & corporates

Where?

London

What can RBS help Nordic banks with when it comes to balance sheet-related issues?

The financial service regulators in Britain have been at the forefront over the past three years, adopting new European bank legislation. Regulators in countries outside the eurozone continue to monitor the development of British banking regulations with great interest. This is particularly true of the Nordic markets, where RBS works closely with local banks.

What is RBS’s role in the process?

We’re very active in the discussions related to the development of new bank regulation in Britain, and can help our customers ‘translate’ what’s happening in the UK into a Nordic context – especially the challenges of integrating EU standards into local rules.

How do Nordic clients benefit from this?

Their contact with RBS can help them understand how important key issues, such as capital adequacy requirements and bank resolution frameworks are approached in the UK. It gives them more of an insight into how changes in regulations might in turn impact them. X



Co-worker portrait: Cecilia Falck

Brought up:
Outside
Stockholm.

Lives: Notting Hill,
London.

Speaks:
The King's
Swedish, but can
easily switch to
Finland-Swedish.

Film tips:
War movie Lone
Survivor and
French relation-
ship drama The
Intouchables.

Last holiday:
Music festival
in Ibiza.

**Dream for the
future:** To engage
in animal protec-
tion. "Maybe I'll
start a cats' shelter
in my old age, who
knows?".

“ Other banks are interesting customers

TEXT ANNELI KAMLIN FOTO HÅKAN LINDGREN

When Cecilia Falck started out in finance, Lehman Brothers had gone bust and the banking crisis had reared its head.

“I was asked to help out with a new issue of 15 billion kronor for a major Nordic bank – quite a first assignment!”

SINCE THEN CECILIA has continued her interest in and work with financial institutions, offering bank services to banks, insurance companies and asset managers, but also to the public and government sector.

“I joined RBS in 2012. We enjoy close co-operation with the Nordic banks and complement each other well. RBS is a large international bank that also has a strong local presence. We have insights into other markets that are of interest to our Nordic customers. For example, we can help them find finance on the global capital markets.”

Cecilia herself has one foot in the

Nordic-based Financial Institutions Coverage team and the other in the London-based Financial Institutions Advisory team, which helps customers across Europe manage their balance sheets.

“Financial institutions are exciting, they are not like other companies. How they are valued is for example very different, and I find it particularly fascinating to keep up with all the changes in regulations.”

WHILE THE REGULATIONS for banks are being overhauled, the structure of the sector is changing with the arrival of fast-moving niche players.

“RBS can advise on regulations and balance sheet issues, but we can also provide support in navigating the digital landscape.”

Away from work, Cecilia likes to relax with a movie in front of her somewhat oversized TV.

“I especially like thrillers and action

movies, ideally with a mob theme. They help me relax.”

She also likes the easy-going movie Notting Hill – which is apt, as she recently moved in with her partner there and has changed workplaces.

“The job is the same, but now I’m based in London rather than Stockholm. I still focus on Sweden, Norway, Denmark and Finland.”

CECILIA’S MOTHER IS Finland-Swedish so she has a strong affinity for Finland, and she can get quite annoyed about how little Swedish people seem to know about the Finland-Swedes.

“We do after all share 700 years of common history. Finland-Swedish is a Swedish dialect, not an accent. When I take the ferry to Helsinki, I always get quite emotional when I see the green domes of the cathedral and the stately Finnish flag. And I love sitting with my gran on her veranda in Espoo.” ×