

3.35 SWEDEN

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I. FRAMEWORK

In Sweden, the issuance of covered bonds is governed by the Swedish Covered Bonds Issuance Act, which came into force on 1 July 2004¹. The CBIA supersedes the general bankruptcy regulation and grants covered bond investors a priority claim on eligible cover assets (CBIA: Chapter 4, Section 1). A new regulatory provision² established by the Swedish Financial Supervisory Authority (Finansinspektionen, hereinafter 'SFSA') complement the legislation. These regulations define in more detail the criteria for obtaining an issue licence, the universe of eligible cover assets, valuation procedures for eligible cover assets, asset and liability management, and the form and maintenance of the cover register.

II. STRUCTURE OF THE ISSUER

The CBIA does not apply the specialised banking principle but allows all banks and credit institutions to issue covered bonds provided they have obtained a special licence from the SFSA (CBIA: Chapter 2, Section 1). The issuer must meet certain criteria to qualify for the licence. These criteria include the submission of a financial plan proving the issuer's financial stability for the next three years, the conversion of outstanding mortgage bonds into covered bonds, and the conduct of business in compliance with the CBIA. The SFSA has the right to withdraw the licence should the institution be in material breach of the CBIA or have failed to issue covered bonds within one year of receiving the licence (Figure 1). If the SFSA withdraws a licence, the authority may determine a plan to wind down the operation.

> FIGURE 1: LICENCE NEEDED TO ISSUE COVERED BONDS

Requirements for issuance licence:

- > The institution's articles of association, by laws or regulations must comply with the CBIA.
- > The issuer must conduct the covered bonds business according to the CBIA and related regulatory provisions.
- > Outstanding mortgage bonds to finance loans that may be included in the covered pool must be converted into covered bonds or administered in an equivalent manner with respect to the creditors.
- > The issuer must submit a financial plan for the next three fiscal years indicating that it is sufficiently stable so that the interest of other creditors is not jeopardised when it issues covered bonds. The report must be substantiated by auditors.
- > The issuers must submit an operational plan that calls for sound management and supervision of the covered bond business (including information of the IT business).

The SFSA may withdraw a licence if:

- > The institution is in material breach of its obligations pursuant to the CBIA; and/or
- > The institution has failed to issue a covered bond within one year of receiving the licence.

Source: Lag 2003:1223, FFFS 2013:01

Prior to the CBIA, commercial banks were restricted on their mortgage lending activities, and mortgage loans were extended by specialised mortgage institutions, which were allowed to issue mortgage bonds. Most of the Swedish mortgage credit institutions have a strong affiliation with Nordic universal banking groups, outsourc-

¹ Lag 2003:1223 om utgivning av säkerställda obligationer [Covered Bonds Issuance Act].

² FFFS 2013:01 Finansinspektionen's Regulations and Guidelines regarding covered bonds.

ing their activities to their respective parent. The degree of outsourcing varies among issuers. The SFSA has published general requirements regarding outsourcing.

The cover assets represent claims of the covered-bond-issuing entity and remain on the balance sheet. There is no subsequent transfer of cover assets to another legal entity. The covered bonds are direct, unconditional obligations on the part of the issuer. Outstanding covered bonds are backed in their entirety by the cover pool. Hence, there is no direct legal link between single cover assets and particular covered bond series. In the event of issuer insolvency, the cover pool is bankruptcy-remote from the general insolvency estate of the issuer and exclusively available to meet outstanding claims of covered bond holders. Moreover, covered bond investors enjoy ultimate recourse to the insolvency estate of the issuer, ranking *pari passu* with senior unsecured investors.

III. COVER ASSETS

Eligible cover assets are mortgage loans and public sector assets (CBIA: Chapter 3, Section 1). The CBIA does not specify separate cover pools for mortgage and public sector cover assets. Both asset classes can be mixed in one cover pool. However, the main emphasis of Swedish issuers is on mortgage covered bonds (more than 90 percent of cover pools).

Eligible assets are mortgages:

- > on real estate intended for residential, agricultural, office or commercial use;
- > on site-leasehold rights intended for residential, office or commercial use;
- > pledged against tenant-owner rights; and
- > against similar foreign collateral (EEA).

The CBIA restricts mortgages against offices and commercial property to 10% of the total cover pool. Mortgage loans can be secured only with collateral comprising property located in Sweden and the European Economic Area (EEA)³. Neither asset-backed securities nor mortgage-backed securities are permissible as cover assets. The mortgage loans must meet valuation procedures and certain loan-to-value ratios defined by the CBIA and the CBR (see section IV).

Eligible public sector assets are defined as securities and other claims:

- > issued by or guaranteed by the Swedish state, Swedish municipality or comparable public body;
- > issued by or guaranteed by a foreign state or central bank, where the investment is in the foreign state's currency and is refinanced by the same currency⁴;
- > issued by or guaranteed by the European Communities, or any of the foreign states, or central banks as prescribed by the Swedish government; or guaranteed by a foreign municipality or public body that has the authority to collect taxes.

The cover pool is a dynamic pool, and non-performing loans due over 60 days cannot be recognised for the purposes of meeting the matching requirements set forth by the CBIA (CBR: Chapter 3, Section 4).

Derivative contracts

The CBIA provides for the use of derivatives for hedging interest and currency risk. The derivatives must be structured such that premature termination is not triggered by an issuer default or on demand of the counterparty. Derivative counterparties must have a minimum long-term rating of A3/A-/A- (Moody's/ S&P/Fitch) at the time the agreement is entered into. The law stipulates asymmetrical collateralisation, in that it requires collateral, a guarantee or replacement language in the event that the counterparty's rating falls below the

³ Countries belonging to the European Economic Area are the EU countries plus Norway, Iceland, Liechtenstein.

⁴ The law does not provide for any explicit geographic restriction.

minimum rating level. There is no reciprocal requirement by the covered bond issuer, given that derivative counterparties have a priority claim on the cover pool (CBR: Chapter 4, Sections 5 to 7). The use of derivatives is not limited to a maximum percentage of the cover pool since they are not included in the nominal matching calculation. Their use is limited to serve the balance between cover assets and outstanding covered bonds when creating a balance in respect of net present value of assets and liabilities.

Substitute assets

Highly liquid assets can serve as substitute assets for up to 20% of the mortgage cover pool. The SFSA can temporarily raise the limit to 30%. Eligible substitute assets include eligible public sector assets plus cash, cheques and postal money orders. These assets qualify for a 0% risk weighting. The SFSA has the discretion to extend the universe to eligible substitute assets (CBIA: Chapter 3, Section 2).

IV. VALUATION AND LTV CRITERIA

The CBIA defines valuation principles for properties that act as collateral for mortgages in the cover pool (CBIA: Chapter 3, Section 4). The valuation relating to residential properties may be based on general price levels. The valuation of any other eligible property class must be based on the market price, which must be determined by individual appraisal by qualified professionals. The market value should reflect the price achievable through a commercial sale, without time pressure and excluding any speculative or temporary elements. Issuers must monitor the market value of the property regularly, and in the case of serious decline must review the valuation, and ensure that the loan to value (LTV) of the related mortgage loan remains within the defined maximum limit (CBR: Chapter 3, Section 7, Chapter 5, Section 4). The valuer is normally an employee of the issuer, but external valuers are also used.

For the various mortgage types, eligible as cover, the following maximum LTV ratios apply (CBIA: Chapter 3, Section 3):

- > 75% of the value for real estate, site-leasehold rights and tenant-owner rights where the property is intended for residential use;
- > 70% of the value for real estate intended for agricultural use;
- > 60% of the value for real estate, site-leasehold rights and tenant-owner rights where the property is intended for office or commercial use.

These LTV limits are relative, not absolute, limits. A loan with a higher LTV ratio can be included in the cover pool up to the legal threshold. The balance must be refinanced with other funding instruments (e.g., senior unsecured funding) (CBR: Chapter 5, Section 3).

An issuing institution shall test and analyse how changes in property values may affect LTV ratios and the value of the cover pool. These tests shall at least be performed once a year. The tests should be based on conservative assumptions.

V. ASSET – LIABILITY MANAGEMENT

The CBIA requires that the nominal value of the cover assets all times exceeds at the aggregate nominal value of claims arising from outstanding covered bonds against the issuer (CBIA: Chapter 3, Section 8). In addition, the law requires that on a net present value (NPV) basis, cover assets, including derivatives, always exceed the corresponding value of the interest and principal of outstanding covered bonds, taking into account the effects of stress-test scenarios on interest and currency risk set by the SFSA. The SFSA defines the stress test for interest-rate risk as a sudden and sustained parallel shift in the reference swap curve by 100bps in an unfavourable direction, and a twist in the swap curve. Likewise, it defines currency risk as a 10% sudden and sustained change in the relevant foreign exchange rate between the currency of covered bonds and the

currency of cover assets (CBR: Chapter 4, Section 3-5). The CBIA have a minimum overcollateralization (OC) requirement of two percent. In addition to this, the issuer can still adhere to a self-imposed OC level for structural enhancement, as the CBIA protects any OC in the cover pool in the event of issuer insolvency.

Finally, the issuing institution shall ensure that the cash flow with respect to the assets in the cover pool, derivatives agreements and the covered bonds are such that the institution is always able to meet its payment obligations towards holders of covered bonds and counterparties in derivatives agreements (CBIA: Chapter 3, Section 9). The issuer should be able to account for these funds separately.

VI. TRANSPARENCY

The issuers are presenting information regarding their cover pool and outstanding covered bond every quarter in line with the harmonized transparency template (HTT). The information is today on every issuers' websites. Some of the issuer report more frequent than quarterly. The content of the harmonized transparency template (posted on the Covered Bond Label website⁵) will be expanded if there are requests for it. The HTT is explained elsewhere in this Factbook. Most of the issuers in Sweden have a subsidiary that issues bonds. Those companies present quarterly or semi-annual reports. Those reports have information regarding the company and its business. The issuer is required to feed the independent inspector with all kinds of information with a rather tight frequency. These requirements have been more detailed recently.

VII. COVER POOL MONITORING AND BANKING SUPERVISION

The covered bond issuers fall under the special supervision of the SFSA. The financial regulator monitors the institutions' compliance with the CBIA and other related regulatory provisions (e.g., CBR). If the covered bond issuer is in material breach of its obligations under the legal framework, the SFSA can issue a warning or revoke the issue license altogether. The SFSA may also revoke a license if the institution has declared that it waives the license or if the institution has not made use of the license within a year from the date of receiving the license. The revocation may be combined with an injunction against continuing the operations and with the imposition of a conditional fine. In any case, the SFSA must determine how the operations should be wound up (CBIA: Chapter 5, Sections 2 to 6).

For each issuing institution, the SFSA must appoint an independent and suitably qualified cover pool inspector (cover pool trustee), who is paid by the covered bond issuer. The duties of the cover pool inspector are to monitor the register and verify that covered bonds, derivatives agreements and the cover assets are correctly recorded. The inspector also ensures compliance with matching and market risk limits in accordance with the CBIA. The inspector must also, nowadays, review the revaluations of underlying collateral that has been conducted during the year. The institution is obliged to provide the covered bond inspector with any information requested relating to its covered bond operations. The cover pool monitor must submit a report of the assessment to the SFSA on an annual basis, and must notify the SFSA as soon as he/she learns about an event deemed to be significant to the supervisory authority (CBIA: Chapter 3, Section 12 to 14, and CBR: Chapter 6).

VIII. SEGREGATION OF COVER ASSETS AND BANKRUPTCY REMOTENESS OF COVERED BONDS

Cover register

The issuer must keep a register of eligible cover assets, substitute assets, derivative contracts, and outstanding covered bonds (CBIA: Chapter 3, Section 10). The law specifies the form and content of such a register, which must be easily accessible for the SFSA and the cover pool inspector. The registration legally secures covered bondholders and derivative counterparties a priority claim on the cover pool in the event of issuer insolvency (CBIA: Chapter 4, Section 4). Prior to an issuer being declared insolvent, cash flows accruing from the cover as-

⁵ <https://www.coveredbondlabel.com/issuers/national-information-detail/24/>.

sets must be accounted for separately by the issuer. In the event of issuer default, covered bond investors and derivative counterparties have the same priority claim on these funds as they have on the cover pool. Moreover, cash flows accruing from the cover assets after issuer insolvency must be registered in the cover pool register.

If the issuer is a subsidiary

Under the Swedish bankruptcy code, the mere insolvency of the parent company does not automatically trigger the insolvency of a subsidiary.

Issuer insolvency

In the event of issuer insolvency, the registered cover assets and the respective covered bonds are segregated from the general insolvency estate. Covered bonds are not accelerated as long as the cover pool fulfils the requirements set out in the CBIA, notwithstanding the existence of “only temporary, minor deviations” (CBIA: Chapter 4, Section 2).⁶ Also, mere issuer default does not trigger the premature termination of registered derivative contracts. Covered bond holders and registered derivative counterparties have a priority claim on the cover pool and cash that derives from the pool, ensuring timely repayment to original agreed terms, as long as the pool complies with the CBIA. However, the cover pool does not constitute a separate legal estate. According to legal opinion, the bankruptcy of the issuer should not lead to a debt moratorium on covered bonds.⁷

Cover pool insolvency and preferential treatment

In the event of the cover pool breached eligibility criteria, covered bonds would be accelerated. Covered bond investors and derivative counterparties would have a priority claim on the proceeds from the sale of the cover assets, ranking *pari passu* among themselves but prior to any tax claims and salary payments (pursuant to Section 3a of the Rights of Priority Act [SFS 1970:979]). If the proceeds are insufficient to repay all liabilities on outstanding covered bonds, covered bond investors and derivative counterparties would have an ultimate recourse to the insolvency estate of the issuer, ranking *pari passu* with senior unsecured investors.

Survival of OC

Any OC present in the cover pool at the time of issuer insolvency is bankruptcy-remote provided it is identified in the cover pool register. Indeed, the CBIA requires full repayment of outstanding claims on covered bonds, and registered derivatives, before cover assets would be available to satisfy claims on unsecured creditors.

The law does not provide for the appointment of a special cover pool administrator. The receiver-in-bankruptcy represents the interests of both the covered bond investors and the unsecured investors. The receiver has the right to use OC to pay advance dividends to other creditors of the bankrupt issuer, if the pool contains more assets than necessary.⁸ If the cover assets later prove to be insufficient, these advance dividend payments can be reclaimed.

Access to liquidity in case of insolvency

In the cases of issuer insolvency, the law does not enable the receiver-in-bankruptcy to refinance maturing covered bonds of the issuing institution by issuing new covered bonds against the cover pool. Likewise, the receiver is not able to substitute ordinary cover assets for alternative assets. However, the receiver can use available liquid substitute assets included in the pool. In addition, the receiver can sell part of the cover pool in the market to create the necessary liquidity without raising debt.

⁶ According to preparatory works to the Act, this would be, for example, “temporary liquidity constraints”.

⁷ There are no means in the Act that could disrupt or delay payment to covered bondholders. However, the Act does not explicitly derogate from the general provision of the Code of Procedures 1948 or the Bankruptcy Act 1987, of which neither explicitly ensures the integrity of payments on covered bonds.

⁸ According to legal opinion, the receiver-in-bankruptcy would have to take into account a substantial safety margin to ensure that the cover pool’s integrity and compliance with the Act is not jeopardized, which would be difficult to prove unless outstanding covered bonds were due to mature imminently.

The receiver-in-bankruptcy has – as of the 1 June 2010 – also got an express mandate, on behalf of the bankruptcy estate, to take out liquidity loans and enter into other agreements for the purpose of maintaining matching between the cover pool, covered bonds and derivative contracts. The receiver has an extensive mandate to enter into agreements, not only to achieve a liquidity balance but also to achieve a balance in respect of currencies, interest rates and interest periods. The receiver should only enter into agreements if, on the date of execution of the agreement, the agreement is deemed to favour bondholders and derivative counterparties and if the assets in the cover pool are deemed to fulfil the terms and conditions imposed in the Act. When the receiver enters into an agreement, the contracting party receives a claim against the bankruptcy estate that ranks ahead of the secured creditors and creditors with rights of priority.

IX. RISK-WEIGHTING & COMPLIANCE WITH EUROPEAN LEGISLATION

The legislation when taken together with the practices, processes and procedures across the industry should fall within the criteria of Article 129 CRR. Swedish covered bonds comply with the criteria of article UCITS 52 (4) UCITS and with the covered bond criteria defined in article 129 in CRR.⁹ Because of the bonds compliance with article 129 in CRR, the risk-weight for the Swedish covered bonds will be as stated in article 129 for banks that use the standard method. The CBIA explicitly lists mortgages against property for agricultural purposes and mortgages against the pledging of tenant-owner rights as eligible cover assets, while the CRR does not. However, general opinion of the parties involved is that the EU CRR's term "Commercial Real Estate" should be interpreted in a broader sense, including agricultural property. In addition, issuers can impose self-restrictions to ensure that their covered bond issues comply with the CRR. Swedish covered bonds are eligible for repo transactions with the Riksbank (the Swedish Central Bank).

The Riksbank's collateral requirements are harmonised with those applied within the Eurosystem. Moreover, Swedish covered bonds denominated in euros are likely to qualify as Tier 1 assets with the ECB.¹⁰

Foreign covered bonds enjoy the same preferential capital treatment in Sweden, if the foreign supervisory authority of that covered bond issuing institution has also assigned those covered bonds preferential risk-weightings (principle of mutual recognition).

The law regulating insurance companies in Sweden (Försäkringsrörelselagen 1982:713) stipulates that Swedish insurance companies can invest up to a maximum of 25 % in the covered bonds of a single issuer. Swedish legislation on investment funds (Lag 2004:64 om investeringsfonder) allows mutual funds to invest up to 25% of their assets in Swedish covered bonds, instead of the 10% generally applicable to other asset classes.

X. ADDITIONAL INFORMATION

Issuing and trading of Swedish domestic covered bonds

In order to issue covered bonds mortgage companies and banks need an authorisation by the Swedish Financial Supervisory Authority (SFSA). Normally the bonds are registered at the Nordic Exchange Stockholm (NASDAQ Inc.), although no actual bond trading takes place there. Offering circulars with the detailed issue conditions are following a standard based on the Prospectus Directive with acceptance from the SFSA, Nasdaq and the market makers. The normally used technique for issues is "on tap".

The Swedish bond market investors appreciate liquidity. Because of these "requirements" the large issuers issue their bonds as benchmarks which mean that large amounts (SEK 3 billion and more) are issued and that a number of dealers, under normal circumstances, show both bid and offer prices. Also, only benchmarks are deliverable in the future contracts. When a new benchmark-loan is issued, the issuers make sure that the

⁹ Please click on the following link for further information on the UCITS Directive and the Capital Requirements Regulation (CRR): <https://hypo.org/ecbc/covered-bonds/>.

¹⁰ In general, the ECB grants marketable debt instruments the status of Tier 1 assets, if the security is denominated in euros, compliant with UCITS Art. 52 (4) and issued by a credit institution situated in the EEA area (ECB: "Implementation of Monetary Policy in the Euro Area", Feb, 2005).

amount issued meets the requirements for a benchmark sized deal. After the initial day of issuance, the issuer can, without further notice, issue "on tap" the size he requires to match the lending.

The bonds are sold into the primary market through banks acting as agents for the issuer. These banks also act as market makers in the secondary market. Currently, there are five banks that act as market makers in covered bonds: Danske Bank, Nordea, SEB, Svenska Handelsbanken and Swedbank. The market for government and domestic covered bonds, as well as treasury bills, is a telephone and screen-based over-the-counter market. Market makers display indicative two-way prices on an electronic information system which is instantaneously relayed by Reuters. Fixed prices are quoted on request and most deals are concluded via telephone. Trading in the secondary market takes place on all business days between 09.00 and 16.15 (local time). The number of bonds to be quoted is regulated in an agreement between the issuer and the market-maker.

Bonds are quoted on a yield basis with bid and ask spread of (under normal market conditions) 2 bp for the liquid benchmark bonds. The settlement day for bonds is three business days after the trading date. T-bills are quoted on a simple yield basis and are settled two business days after the trading day. The normal trading lot in government securities and liquid covered bonds is SEK 200-500m. Of course, prices are given for other lots as well.

Sweden has a liquid and smoothly operating repo market with almost all banks and broker firms involved in the trading. The repo market in Sweden started in the late 1980s, and has developed fast. The Swedish Debt Office offers a repo-facility in government bonds and treasury bills and the covered bond issuers offer their market makers a repo-facility in their own bonds. The repo transaction is viewed as a 'sell-buy back' or 'buy-sell back' deal and the ownership of the security must be transferred. There are no standard conditions for a repo transaction and the counterparties have to agree on maturity, settlement day and delivery for each deal. Most often, though, repos are settled two banking days after the trading day. Repo rates are quoted as a spread vs the Riksbank repo rate.

Almost all public listed securities in Sweden are registered at the Euroclear Sweden. In general, Swedish bonds are domestically settled via the Euroclear. Domestic settlement requires a custodian account with one of the Swedish banks or securities firms. Foreign investors can either have a custodian service with a Swedish bank or securities firm or settle via Euroclear or Cedel.

Accrued interest is calculated from the previous coupon date to the settlement day. The interest rate is calculated by using ISMA's 30E/360-day count – "End-of-month" convention.

Swedish government and covered bonds have five ex-coupon days which means that there is negative yield when settlement occurs within five business days before the coupon date.

Most Swedish bonds pay coupon annually. There are, however, bonds that pay coupon semi-annually. All domestic banks act as paying agents.

Swedish krona bonds redeem at par upon maturity.

The activities of ASCB

The Association of Swedish Covered Bond issuers (ASCB), which was established in 2009, has an ongoing work to further improve the conditions for the Swedish covered bonds.

Further information concerning the LTV-method as well as the Swedish covered bond market is accessible at the website of ASCB (www.ascb.se).

Essential terms and conditions of a typical Swedish market maker agreement

The market maker has a duty to:

- > Help the issuer sell bonds via taps of the benchmark loans in the market;
- > Actively support trading of these bonds in the secondary market; and
- > Continuously quote indicative rates in the information systems used.

These obligations apply to a limited number of the issuer's loans – the benchmark-loans. Typically, 5 to 8 loans of a big issuer have this status with respect to outstanding volume. Using the on-tap issuing technique a loan typically reaches bench-mark status when the outstanding loan amount is SEK 3-5 bn. (At the peak of the life of the bond it typically has a volume of SEK 50 to 70 bn. After that the volume falls due to active repurchase operations by the issuer. With one year to go to maturity a loan is no longer of benchmark status. This paves the way for a controlled redemption of the remaining part of the loan.)

The bid ask spread shall be in line with present market conditions and the trading lots shall typically exceed SEK 500 million.

The obligations of a market maker are conditional upon a number of things of which the following could be mentioned:

- > that no change in the economic, financial or political conditions have occurred which in the reasonable opinion of the market maker would create a major obstacle to the fulfilment of the obligations;
- > that the bonds, in the reasonable opinion of the market maker, cannot be placed in the primary or secondary market on normal market conditions.

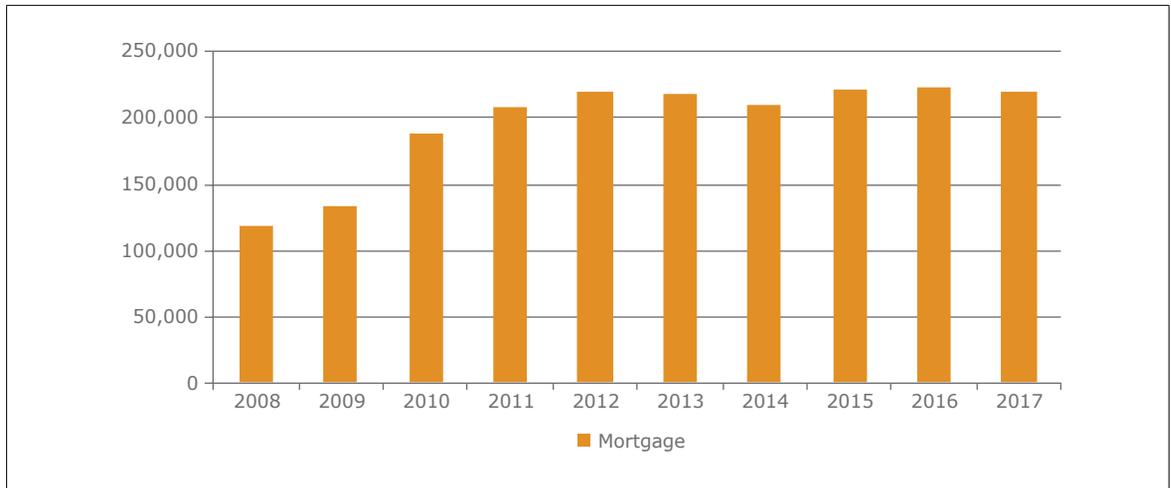
If so, the market maker shall notify the issuer and may withdraw from the duties wholly or in part for a shorter or longer time.

The market maker also has an obligation to trade two futures (2 and 5 year) of the issuer in a similar way as that of the benchmark bonds.

The issuer on his side has an obligation to (under normal market conditions) supply the market maker with a repo facility in the outstanding benchmark bonds. (This facility used to be unlimited. Today, however, the limit is set by the available cover in the cover pool of the issuer.)

With respect to transparency, the issuer shall make public at the end of each week figures on outstanding benchmark loans as of the last day of the previous week.

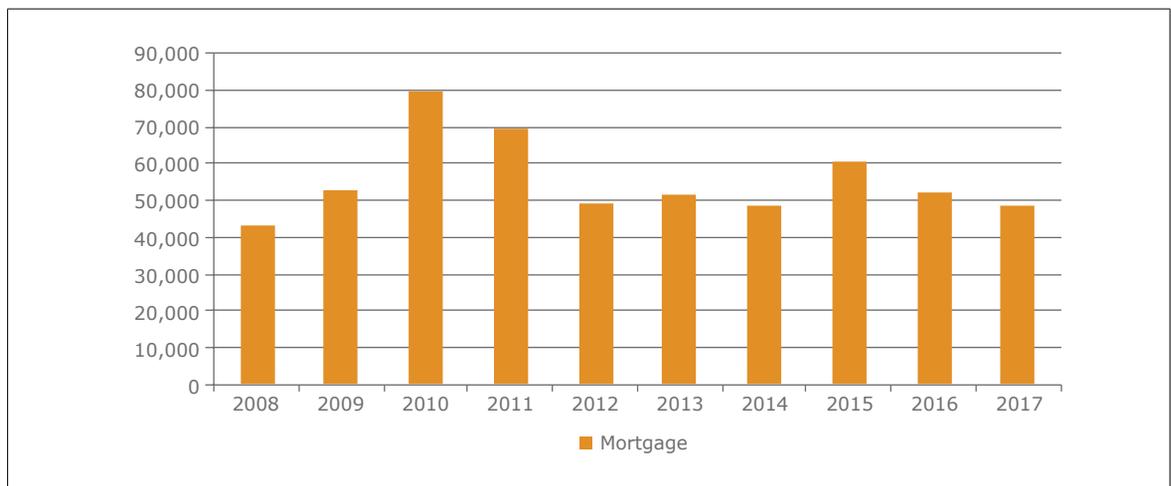
> FIGURE 2: COVERED BONDS OUTSTANDING, 2008-2017, EUR M



Source: EMF-ECBC

Notes: The first covered bonds were issued in 2006 with the application of the Covered Bond Issuance Act. Prior to 2006 only mortgage bonds were issued in Sweden and as they are not directly comparable to covered bonds they are not included in the figures. In the graph only covered bonds are present.

> FIGURE 3: COVERED BONDS ISSUANCE, 2008-2017, EUR M



Source: EMF-ECBC

Issuers: Stadshypotek, Swedbank Mortgage, Nordea Hypotek, Swedish Covered Bond Corporation (SCBC), SEB, Skandiabanken, Länsförsäkringar Hypotek and Landshypotek. The market is dominated by the first five of them and the majority of their exposure is to domestic residential mortgages, with the remainder consisting of commercial property loans and public-sector loans.

ECBC Covered Bond Comparative Database: http://ecbc.eu/framework/47/Swedish_Covered_Bonds.



COVERED BOND LABEL: Länsförsäkringar Hypotek AB (1 pool), Skandinaviska Enskilda Banken AB (SEB) (1 pool), Stadshypotek AB (publ) (3 pools), Swedbank Mortgage AB (1 pool), The Swedish Covered Bond Corporation (1 pool), Nordea Hypotek (1 pool).