Feature

WHEN LESS IS MORE

Although largely sheltered from the fallout of the sub-prime debacle, most Nordic issuers will be cutting funding over 2008. *KangaNews* explores the transitions in funding strategies of issuers from this sector in the context of how this will impact their funding in non-core markets such as the Kangaroo, Maple and Kauri bond markets.

BY KIMBERLEY GASKIN

At A$400 million (US$363 million), issuance from the Nordic sector in the Kangaroo bond market in 2008 has already equaled the volume achieved in full year 2007, thanks to enthusiasm from the Finns. Helsinki-based supranational, Nordic Investment Bank (NIB) – the most frequent Nordic issuer in the Kangaroo market – wasted little time as the year got underway, issuing a A$300 million increase to its 2011 Kangaroo on January 10. Just four days later, Finnish local government agency Kuntarahoitus, otherwise known as Municipality Finance (MuniFin), followed suit with a three-year A$100 million top-up to its April 2011s.

Although far for the dizzying heights of 2006, in which issuers from the Nordic region drew some A$1.7 billion from the Kangaroo market, the issues in the first month of this year indicate that non-core markets are still on the radar screen for this sector, in spite of the turmoil in global credit markets. Feedback from issuers suggests that while many are scaling back their funding programmes over 2008 for a variety of reasons, the Kangaroo, Maple, Kauri and Samurai markets are expected to contribute significantly to funding, with most issuers at pains to stress they have by no means abandoned their diversification strategies.

With the exception of Iceland, which is currently wrestling again with its traditional twin demons – currency/CDS volatility

"We want to be a responsive issuer after entering the Maple market earlier, but it may take some time. The pricing in the Maple market is not working right now."

JENS HELLERUP NORDIC INVESTMENT BANK and Moody's Investors Service (Moody's) (see box on p14 for an in-depth discussion on Icelandic banks), issuers report that the countries that comprise the Nordic region – Denmark, Norway, Sweden and Finland – have largely withstood the devastation of the US sub-prime crisis, with no markets significantly exposed to questionable assets. Says Timo Ruotsalainen, head of international funding at MuniFin: "If anything stood up during the crisis it was the Nordic market. Most financial institutions have been fairly conservative in choosing what to invest in and consequently escaped a big impact."

In spite of its relatively insulated status, issuers are still subject to rises in funding costs – particularly those who fund significantly offshore – and although most Nordic region financial institutions do not expect a big impact on their business operations, five out of the 10 issuers interviewed for this feature indicate their borrowing will be smaller than 2007 (see table on this page). Eksportfinans and NIB will fund the same as 2007 and Kommunalbanken Norway (KBN) and MuniFin will increase funding a little.

FEAR OF EXECUTION RISK

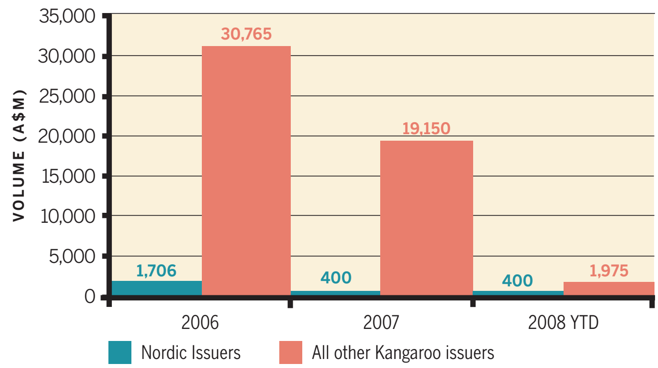
Given the highly internationalised nature of these Nordic funding bodies – most issuers are deriving well over half their funding outside their domestic markets – a key challenge some issuers are coming to grips with right now is the heightened execution risk being felt across all markets – particularly the US and European benchmark markets.

Thomas Møller, executive vice president and chief financial officer at KBN, notes that execution risk is higher than it was one year ago. The USD and to a certain extent the euro benchmark markets have so far, with a few exceptions, favoured supranationals, explicitly guaranteed entities and sovereigns. Møller believes it is more an issue of investor comfort and perception than anything else as none of the Nordic municipal funding agencies' assets are affected by the current market volatility. He adds that KBN will time its 2008 benchmark issuance to meet with market demand.

Richard Anund, head of funding at Swedish Export Credit Corporation (SEK), agrees there is a gap in pricing and appetite between triple-As and "super" triple-As which carry sovereign guarantees. "We are 100 per cent owned by the Kingdom of Sweden but we don't have an explicit guarantee. We have noticed that this makes a difference in public markets right now."

For some issuers, conditions in the US and euro markets have been such that they have been looking at other funding strategies. Danske Bank's funding team roadshowed a Danish covered bond in Europe in January, but eventually decided to issue the transaction domestically because investor trepidation was undermining price and maturity expectations too much (see p18 for more detail). Comments Knud Erik Kristensen,

NORDIC ISSUERS
IN THE KANGAROO MARKET



SOURCE: KANGANEWS FEBRUARY 15 2008

NORDIC ISSUER FUNDING VOLUMES

ISSUER	FUNDING VOLUME 2007	FUNDING VOLUME TARGET 2008
Danske Bank	€22bn	€15bn
Eksportfinans	US$15bn	US$15bn
Glitnir Bank	€5bn	€2.5bn
Kaupthing Bank	€8.2bn	€3-4bn
Kommunalbanken Norway	US$8.5bn	US$8-9bn
Kommunekredit	€6.5bn	€4-5bn
Kommuninvest	N/A	N/A
Municipality Finance	€2.1bn	€2.7bn
Nordic Investment Bank	€4.3bn	€4.3bn
NYKredit	€43bn	N/A
Swedish Export Credit Corp.	US$17bn	US$12.5bn

SOURCE: KANGANEWS FEBRUARY 15 2008

"If anything stood up during the crisis it was the Nordic market. Most financial institutions have been fairly conservative in choosing what to invest in and consequently escaped a big impact."

TIMO RUOTSALAINEN MUNICIPALITY FINANCE

FROSTY TIMES IN *ICELAND*

TWO OF THE THREE BIGGEST ICELANDIC BANKS HAVE ISSUED IN THE KANGAROO BOND MARKET. BUT FURTHER ISSUANCE HAS BEEN HAMPERED FOR THE BANKS BY THE ACTIONS OF MOODY'S INVESTORS SERVICE (MOODY'S), WHICH IN THE LAST YEAR HAS DISPLAYED EXTRAORDINARY SHIFTS WITH REGARD TO THIS SECTOR.

Icelandic issuers aren't happy. On January 30 2008 Moody's placed on review for possible downgrade the Aa3 long-term ratings and C bank financial strength ratings (BFSRs) of both Landsbanki Islands (Landsbanki) and Glitnir Bank (Glitnir). The ratings agency maintained the review for possible downgrade on the Aa3 long-term ratings and C BFSR of Kaupthing Bank (Kaupthing).

According to Moody's the rating review was triggered by a weaker earnings outlook for 2008 for all three banks. The report states: "Moody's has concerns with regard to the Icelandic banks' market-sensitive business model, in which the majority of income is derived from investment banking- and corporate banking-related activities. Given the difficult market conditions going forward, this could bring additional volatility to the banks' earnings in 2008."

The Q4 2007 pre-tax profits of Landsbanki and Glitnir were down over 50 per cent from the corresponding period in 2006. Kaupthing's Q4 2007 net profit fell 48 per cent, mainly due to net financial losses.

Glitnir ended the year with a respectable 19.3 per cent return on equity – in line with targets, though not nearly as good as previous years.

Kaupthing says the turbulence in the financial markets did affect earnings in Q4, but on a positive note the bank saw a 60 per cent increase in net interest income and 19 per cent increase in commission income. The bank saw deposits increase by 90 per cent in 2007 to €15 billion (US$22 billion) from €8 billion. There is no doubt the phenomenal growth rate of Icelandic banks will slow, says David Stefánsson, senior funding manager at Kaupthing. "The credit crisis has affected our market and we will see a general slowdown in both the growth of the banks as well as in the economy overall. But we are not dependent on the Icelandic market and we expect our offshore initiatives to continue to do well."

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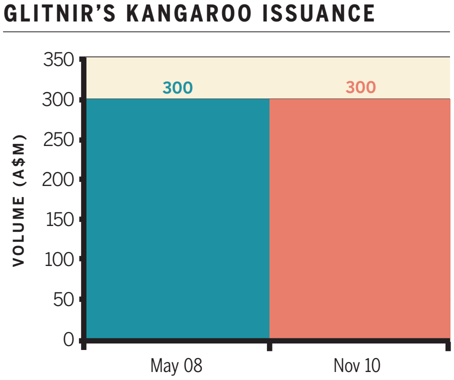
DAVID STEFÁNSSON KAUPTHING BANK

By the end of last year just 27 per cent of Kaupthing's loan book was based in Iceland, 35 per cent in Scandinavia and 20 per cent in the UK. Glitnir's loan book is 34 per cent Icelandic and 34 per cent Nordic (mostly Norwegian), with the balance from other parts of Europe.

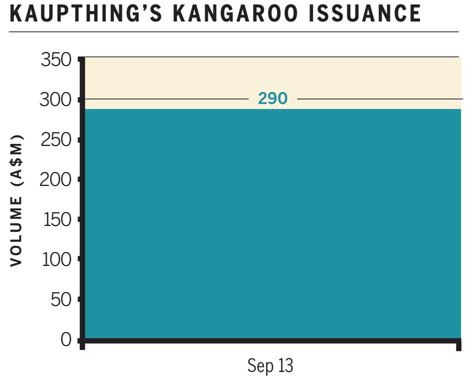
The other key concern is the state of Iceland's overall economy, which remains subject to wild volatility in CDS spreads and currency levels. But this dual volatility is an old phenomenon. Iceland has long had one of the most volatile currencies in the world – in spite of having one of the most prosperous economies according to GNP per capita.

In addition, Iceland's 13.75 per cent repo rate acts as a magnet for carry traders, creating more upwards pressure on the kronur. Comments William Symington, executive director, long-term funding at Glitnir in London: "Although some carry traders have suffered losses due to the volatility of the kronur, they continue to buy because the currency is still high-yielding. This means there is a continuous bid for the product keeping the kronur slightly higher than its sustainable level."

GLITNIR'S KANGAROO ISSUANCE



KAUPTHING'S KANGAROO ISSUANCE



SOURCE: KANGANEWS FEBRUARY 15 2008

Symington believes the activity in Icelandic bank CDS spreads is directly attributable to speculation by London-based hedge funds: "The CDS market for Icelandic banks is very easy to manipulate. It is a very thin market and you can move it easily, generating substantial volatility and therefore profit for the hedge fund."

For Symington, the news from Moody's is even more frustrating than movements in CDS spreads and currency. Moody's upgraded Glitnir and the other two big Icelandic banks to Aaa, under its joint default analysis methodology in February 2007. The move, predicated on an assumption of a strong implicit guarantee from the Icelandic central government, was greeted with hoots of derision from many market participants, and had a considerably disruptive effect on the funding strategies of Icelandic issuers. Moody's backtracked one month later pulling the Icelandic banks' ratings back to Aa3.

In spite of the frustration, Symington believes many investors are simply discounting Moodys' Icelandic ratings rollercoaster – it certainly hasn't changed his funding strategy, he says. But other dynamics have – particularly the slowing of growth. Glitnir funded €5 billion in 2007 via six public trades, but 2008 will be a different story. "We need to refinance €2.5 billion this year, and there won't be much if any growth beyond that," says Symington.

The impact of the widening of CDS spreads may encourage Glitnir back into non-core markets from which the bank was completely absent in 2007. "The tail is wagging the dog – when it comes to pricing deals, CDS rather than comps are the benchmark used. So these markets are much less appealing than non-core markets right now."

Glitnir (then called Íslandsbanki) opened the Kangaroo market for the Icelandic bank sector with a A$300 million (US$272 million) deal issued in May 2005, which matures in May this year. The issuer followed with a A$300 million November 2010 Kangaroo bond, issued in 2005.

With one of its Kangaroos maturing this year, Symington is looking closely at the Kangaroo market. But he has yet to commit to which non-core market he will visit: "We are also looking at the Kauri, Samurai and Maple markets."

For Kaupthing, the Moody's announcement is somewhat curious, given that the bank's rating review was originally instituted following its August announcement of plans to purchase NIBC Bank. The acquisition has since been cancelled due to changes in the market environment. "We arrived at a mutual decision not to proceed," comments Stefánsson. "We still maintain NIBC Bank was a good strategic fit for Kaupthing with regard to geography, business culture and product. But given the deterioration in credit markets we would not have benefited from the originally-projected synergies."

The Moody's decision is based on the rating agency's fear that the bank's business model is heavily dependent on investment banking and capital market activities. But Stefánsson points out that 62 per cent of Kaupthing's income is derived from other activities, such as banking and private banking.

In 2007 Kaupthing raised €8.2 billion via private placements and 12 public deals, including a C$500 million (US$499 million) Maple bond. The year 2008 will be much leaner on the funding side, due to the massive growth in the bank's deposit base. "We have moved from 30 per cent deposit-to-loan ratio to 42 per cent in a one year and we plan to get to 50 per cent by the end of 2008," says Erikur Jensson, head of funding, group treasury. Kaupthing has a lower level of redemptions and a lower rate of lending growth – a consequence of volatile credit markets – which will in turn lead to a tightening cycle of lower funding needs and lower redemptions. "Consequently we will only need to raise €3-4 billion this year," says Stefánsson.

Kaupthing intends to derive equal amounts of its funds from Europe, the US and non-core markets, but the funding team has yet to decide on the exact composition of its funding programme.

The bank issued its inaugural Kangaroo in 2006 – a privately-placed A$290 million September 2013 deal – but Jensson does not see enough momentum yet to guarantee a public deal this year. However, he is keeping a close eye as the year unfolds.

It is too early for Kauris, Jensson believes, but the success of the bank's debut Maple in 2007 and its ¥28 billion (US$260 million) Samurai issue means non-core market competition will be stiff. "We want to maintain our presence in the markets we have issued into, but our decision on where to go depends on where there is enough momentum to carry a successful trade," says Stefánsson.

"The tail is wagging the dog – when it comes to pricing deals, CDS rather than comps are the benchmark used. So other markets are much less appealing than non-core markets right now."

WILLIAM SYMINGTON GLITNIR BANK

"We cannot keep and lend AUD at the moment so the basis swap is extremely important to us. Right now it is not working."

RICHARD ANUND SWEDISH EXPORT CREDIT CORP

chief funding manager at Danske Bank: "We saw real lack of flexibility in the euro market, where investors remain very cautious and we availed ourselves of a very strong bid for our covered bonds in the domestic market."

EKSPORTFINANS

Norwegian export credit agency, Eksportfinans also had some difficulties accessing the euro market at the end of 2007. Traditionally the largest Nordic SSA issuer, the credit agency was forced to postpone a €1 billion (US$1.5 billion) two-year bond in November when the bookbuild stalled at €600 million. The move came hot on the heels of a NOK64 million (US$11.9 million) loss for the first nine months of 2007, related to its liquidity portfolio and a change in its Aaa outlook to negative from Moody's.

Martine Mills-Hagen, head of funding at Eksportfinans, says the postponement of the euro benchmark was a result of extreme market volatility after books opened rather than investor nervousness regarding Eksportfinans's business, portfolio or liquidity. She comments: "The euro market was difficult for most issuers at the very end of 2007. During the first month of 2008 we saw investors staying away from most but the highest-rated, guaranteed entities."

Overall, the agency actually had a stellar funding year in 2007, with five benchmarks executed – two USD globals, an inaugural euro global, a yen global and a euro-sterling issue. Japan was particularly hot for Eksportfinans, with some 32 per cent of the US$15 billion raised by the issuer coming from the Uridashi and structured private placement markets.

Mills-Hagen expects to raise close to the same amount of funds over 2008, making her firm one of few Nordic issuers which plans to maintain issuance volumes achieved last year. She also expects the benchmark markets to be open to Eksportfinans over 2008 – eventually. "But we will wait before re-entering public markets at least until our fourth quarter results are released mid-February," she says.

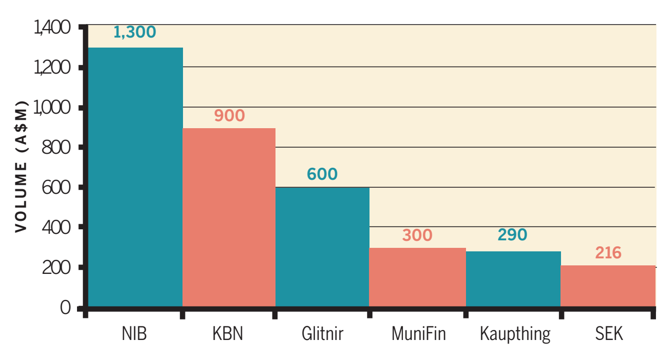
Mills-Hagen has looked at the Maple market – in fact the issuer did a non-deal roadshow just prior to the credit crisis taking hold in August 2007. "There is potential for us there when things normalise. We hope to issue this year," she comments. Kangaroos and Kauris are on the radar, she adds, but are not immediate priorities.

SWEDISH EXPORT CREDIT CORPORATION

For SEK the last nine months, while challenging, have been far from disastrous given the flight-to-quality impulse driving most investors. According to Anund, the firm had a record funding year in 2007, raising US$17 billion in long-term funding after raising US$9.2 billion in 2006. Taking advantage of appetite for its paper, the agency has prefunded to such an extent that it will only require US$12.5 billion in 2008.

Over 2007 SEK issued three US dollar and one euro benchmark deals. The agency also issued a NZ$500 million (US$394 million) Kiwi global and its first Maple bond – a C$300 million (US$299 million) 12-year transaction. SEK has issued

OUTSTANDING KANGAROOS FROM NORDIC ISSUERS



SOURCE: KANGANEWS FEBRUARY 15 2008

"There is potential for us in the Maple market when things normalise. We hope to issue this year."

MARTINE MILLS-HAGEN EKSPORTFINANS

Kangaroo bonds – in 2006 the issuer brought a A$200 million deal to the market – but Anund says the pricing is not right for a re-entry to this market at the moment, particularly as SEK no longer has any lending activity in Australian dollars. "We cannot keep and lend AUD at the moment so the basis swap is extremely important to us. Right now it is not working," he comments.

SEK is active in New Zealand-dollar globals but has no immediate plans to migrate to Kauri format. "The demand has largely come from US and Europe – the global format is therefore easier for us," says Anund.

The issuer's dream run is still continuing, with SEK issuing some US$2 billion in structured private placements by the beginning of February this year. The agency is focusing on increasing its reach into emerging market currencies where its clients are active, such as Latin American and Asian currencies.

THE SUPRA VIEW:
NORDIC INVESTMENT BANK

For NIB, the only supranational issuer in the region, the flight to quality has been notable. "We have definitely benefited," says Jens Hellerup, deputy head of funding. Last year NIB raised €4.3 billion and this year's target is similar.

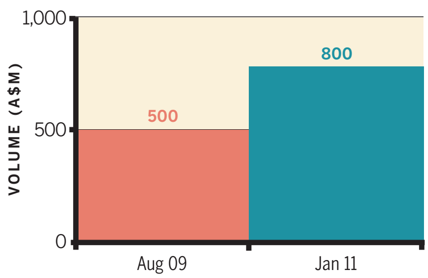
In January 2007 NIB launched and priced its first US$1 billion global benchmark issue with a 10-year maturity. A second benchmark of US$1.5 billion, which was increased by US$500 million due to high-quality orders, was launched in mid-September with a three-year maturity. NIB also issued its biggest Norwegian kroner fixed-rate bond issue totalling NOK1.75 billion and its first bond in Russian roubles – a RUB2 billion (US$81 million) fixed rate 2011 deal. The supranational also re-entered the public sterling market with a £250 million (US$490 million) three-year deal and executed its biggest Uridashi transactions to date – a dual-tranche NZ$345 million deal with a two-year maturity and a three-year A$209 million transaction.

The favourable conditions for supras also made it possible for NIB to tap its way through non-core markets. In September the supranational launched its debut Kauri, a three-year NZ$400 million deal, which it increased in December by NZ$250 million. In January 2008 NIB opened the Kangaroo market for Nordic issuers with a A$300 million increase to its 2011 Kangaroo. NIB would like to issue a new maturity in the Kangaroo bond market this year and to access the Kauri market again to show commitment to the markets as well as to enable the bank to build up more comprehensive yield curves.

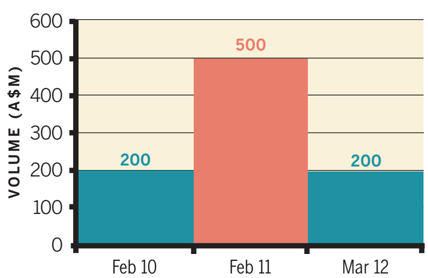
In a 2007 full of firsts, NIB also entered the Maple market with its inaugural 10-year C$300 million deal. NIB would like to return to the Maple market as it offers a new investor base and diversification is critical. "We want to be a responsive issuer after entering the market earlier, but it may take some time. The pricing in the Maple market is not working right now," says Hellerup.

Will NIB go even more non-core than its current non-core programme? The issuer has approval from the local authorities to issue in Thai baht and Malaysian ringgit but has yet to do so, due to market conditions, according to Hellerup. "On the lending side the bank has been focusing more on the Russian rouble market in 2007 and 2008. On the borrowing side we'd like to be more present in the Russian market but also across other currencies in Central and Eastern Europe to support the lending," he comments.

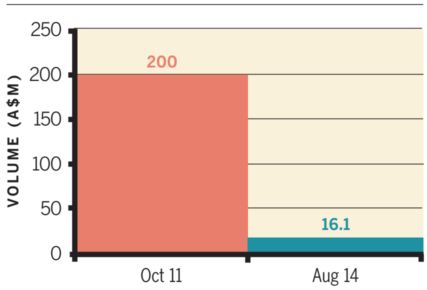
NIB'S KANGAROO ISSUANCE



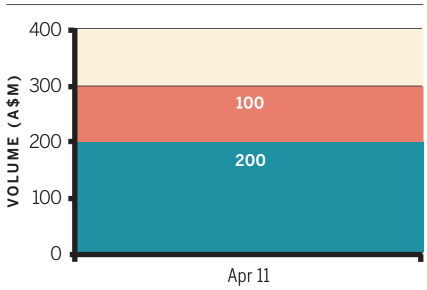
KBN'S KANGAROO ISSUANCE



SEK'S KANGAROO ISSUANCE



MUNIFIN'S KANGAROO ISSUANCE



SOURCE: KANGANEWS FEBRUARY 15 2008

"We are constantly monitoring the markets and we are still very committed to issuing Kangaroo and Kauri transactions in 2008."

THOMAS MØLLER KOMMUNALBANKEN NORWAY

COVERED BONDS – *SWEDEN AND DENMARK*

AS NORDIC BANKS NAVIGATE CHANGES IN THEIR FUNDING PROFILES, MARKET PARTICIPANTS INDICATE THAT SOME COVERED BOND MARKETS ARE BEGINNING TO GAIN REAL MOMENTUM. SO MUCH SO THAT POTENTIAL NEW KANGAROO ISSUERS FROM THE NORDIC REGION ARE LIMITED AS THEY FOCUS ON DOMESTIC COVERED BOND MARKETS.

While many European covered bond markets are still struggling with chronic spread chaos and investor fear, issuers into the Swedish and Danish covered bond markets report that their markets remain open and relatively stable.

Far from retreating from the product, these issuers plan to grow the proportion of their funding derived from the covered bond market, particularly as funding levels on senior unsecured transactions remain very wide. As a result, big issuers from Denmark and Sweden are monitoring the Kangaroo and Kauri bond markets but have no imminent plans for debut deals.

New legislation envigorates Danish covered bonds

The Danish covered bond market is the second-largest in Europe and the largest mortgage covered bond market, with a 32 per cent market share, according to data from European Mortgage Federation and the European Covered Bond Council – outstripping Germany (24 per cent) and Spain (22 per cent).

Historically the sphere of specialised mortgage lenders only, in 2007 new legislation was enacted to allow banks to issue covered bonds directly on their balance sheets. Comments Knud Erik Kristensen, chief funding manager at Danske Bank: "The new legislation introduces flexibility but is still very restrictive compared with other covered bond frameworks."

The legislation also amended the status of the balance principle, under which issuers had to be completely match funded.

"The complete pass-through system meant funding mirrored lending," comments Pernille Lohmann, investor relations manager at Danish mortgage specialist lender NyKredit. As a result, NyKredit was restricted to issuing covered bonds in the domestic market only. "We were unable to issue bullet jumbo covered bonds in a European format due to this restriction. Now that it has lifted we will be looking to extend into that market," she comments.

Danske Bank's home market success

To date Danske Bank has issued two covered bonds – a DKK10 billion (US$1.97 billion) four-year deal in 2007 and a DKK8.5 billion 10-year transaction issued this year.

The bank had originally intended to enter to euro market with its inaugural issue, but was stymied by oversupply. "We roadshowed in Europe in January 2008, but the cautious attitude among European investors caused us to reconsider. We were approached by Danish investors who wanted a 10-year maturity," Kristensen says, "and we achieved levels and maturities in the domestic Danish market we could never have achieved in euro."

Kristensen plans to derive a large portion of his total funding from the covered bond market, primarily in longer maturities. The bank has €10 billion (US$14.7 billion) in redemptions over 2008 and will look to covered bonds as its first source to cover its funding needs.

Despite the covered bond focus, Kristensen is interested in the diversification offered by the Kangaroo and Maple markets, but needs pricing to rival other markets.

NyKredit stays at home

Last year NyKredit issued €43 billion, of which €13 billion was due to refinancing of adjustable-rate mortgages in December. "The strength of the domestic market is highlighted by the fact that the bid-to-cover ratio at the December refinancing auctions was 3.6, and the bonds were sold at tighter spreads than German Pfandbriefe," says Lohmann.

NyKredit funds itself entirely through covered bonds. At this stage it is comfortably funded through the Danish domestic market, although its investor base is not strictly domestic. "Overall, 17 per cent of our funding comes from international investors. But on our large benchmarks up to 35 per cent can go into offshore hands," says Lohmann.

Positive outlook for Swedish covered bonds

Participants in the fourth-largest mortgage covered bond market in Europe, Sweden (6 per cent market share), are equally enthusiastic about the market's prospects.

Catharina Thornell, head of long-term funding at Swedish National Housing Finance Corporation (SBAB), says liquidity in the domestic covered bond market is good compared with the European and US markets. "Pricing has been more volatile than in the first half of 2007 but the market is in good shape."

SBAB likes ability to tap in Swedish market

In 2007 SBAB funded more than planned in covered bonds, issuing SEK22.6 billion (US$3.6 billion) into the Swedish domestic market over the course of the year, accounting for 50 per cent of total covered funding. "In the future I'd like to maintain the split between international and domestic covered bonds at 50:50," comments Thornell.

She says a key differentiator which has helped the Swedish market withstand some of the pressures the euro covered bond market has fallen prey to is the ability to issue taps. "You don't need to issue huge €1 billion or €2 billion equivalent deals – you can issue down to SEK20 million," she comments. Average deal size tends to be between SEK100 million and SEK500 million. "As we are a small company it is much easier for us to issue smaller amount from time to time rather than do one big deal," says Thornell.

SBAB has SEK110 billion outstanding in covered bonds. The issuer raises some 50 per cent of its funds in the Swedish domestic covered bond market, which is fortunate given the euromarket went off the boil for some issuers in the later part of 2007. SBAB issued a €1 billion benchmark just before the crisis, but has not returned to the benchmark market since. "The secondary market certainly isn't in the best shape," says Thornell.

SBAB has issued yen in Samurai format in the past, and Thornell says the funding team has looked at Maples and Kangaroos, but no major public non-core deal is imminent. Says Thornell: "We are focusing on our covered bond and benchmark programmes."

Hellerup points out that the change in the market environment has been notable especially during the beginning of this year. When NIB issued its first USD benchmark of 2008, the issue size reached USD$1 billion in 45 minutes and USD$2 billion in two hours. Thus the deal had to be closed quickly and to satisfy some of the investor interest, it was increased to USD$1.25 billion.

AGENCY ACTIVITY

For the key Nordic agencies – Kommunekredit, KBN and MuniFin – 2007 was a topsy-turvy year, with flight-to-quality benefiting them all and stimulating serious reverse-enquiry market for private placements. They also fielded demand for shorter-dated paper. "Maybe it was the credit market conditions, the steep curves or outright levels, but we certainly saw demand centered strongly around three years in the latter part of 2007," comments Møller at KBN.

KOMMUNALBANKEN NORWAY

KBN was able to hit its target of US$8.5 billion in 2007, funding just as much in the latter half of the year as in the former, says Møller. The agency will raise US$8-US$9 billion in 2008, on the back of expected asset growth of 10-15 per cent. In 2007 40 per cent of issuance was done via public deals in USD, AUD, CAD, GBP and NZD, with tenors ranging from three to 12 years.

In the year to come, Møller expects to fund 10-20 per cent of his target volume through one to two benchmark deals – although the timing will depend on market conditions going forward. Some 30 per cent of funding will come from private placements "We are finding good appetite from Asian central banks for this," says Møller.

Twenty to 30 per cent of KBN's funding this year will come from public deals in non-core markets, says Møller, but he has yet to determine which ones. KBN has been active in the Kangaroo, Maple, Swiss and sterling markets.

The issuer also brought its inaugural Kauri to the table in 2007 – a three-year NZ$500 million deal. Møller says pricing and basis swap aren't far off the right levels for a Kangaroo or Kauri issue. "We are constantly monitoring the markets and we are still very committed to issuing Kangaroo and Kauri transactions in 2008. KBN also plans to update Australian and New Zealand investors via a roadshow later this year," he adds.

The rest of KBN's funding will be raised through retail markets – particularly Uridashis. As of mid-February the agency had already locked in US$2.5 billion or about 30 per cent of its total funding volume for 2008 in a mix of public transactions, private placements and retail issuance.

MUNICIPALITY FINANCE

A second agency is also planning a funding increase in 2008 – albeit a small one. Finnish agency MuniFin will raise €2.7 billion over the year, up from €2.1 billion in 2007 – a record year, says Ruotsalainen. "We increased our lending market share to 65 per cent from 50 per cent, which underpinned the increased funding need," he comments. MuniFin expects lending volume to grow around 8 per cent this year and the issuer has some redemptions to finance, hence the small increase in funding.

Danish retail and private placement markets were MuniFin's funding destinations of choice in 2007, but the agency also issued three taps to public markets over the year, including a debut Kangaroo transaction – a A$200 million three-year deal which has already been tapped this year to total A$300 million.

MuniFin is undergoing a transformation of sorts in terms of the balance between private and public issuance. Generally the issuer has derived some 60-80 per cent of its funding from private placements, but Ruotsalainen has ambitions to launch the issuer's first benchmark deal in euro this year. "We have kept avenues to both major benchmark markets open but the euro market looks more stable. The tenor and timing depends on the feedback we get from investors," he says. Ruotsalainen is planning to meet with investors before issuing at the end of the first quarter or beginning of the second.

KOMMUNEKREDIT

For Danish local government financing vehicle, Kommunekredit, 2008 will be a leaner funding year. In 2007 the issuer raised €6.5 billion – well over its original estimate of €4 billion – thanks to heavy demand. But head of funding and senior vice president, Eske Hansen, estimates issuance will contract back to around €4-5 billion this year. "Investors like our credit as we are the closest thing they get to a proxy for Danish government bonds," he says.

Hansen adds that while the robust demand has been positive, allowing his team to prefund to a certain extent, he has been a little limited by the lack of quality counterparties. "We can do deals at great levels, but we have very strict guidelines on counterparties, requiring two double-A ratings. With the turmoil putting pressure on ratings, the field of suitable counterparties is narrowing significantly," he comments.

The issuer derives a lot of its funding – up to 60 per cent – from the local Danish market via plain vanilla bullets and amortising structures (20 per cent) and structured issuance (40 per cent). The balance of funding comes through the agency's MTN programme.

As for non-core markets, Hansen roadshowed in Canada last year, but like Eksportfinans just missed the window of opportunity in the Maple market due to the credit crisis. "Canadian investors clearly prefer local names now and the basis swap certainly isn't working," says Hansen. He continues to keep a watchful eye on the Kangaroo market, but has not yet committed to establishing a programme. •