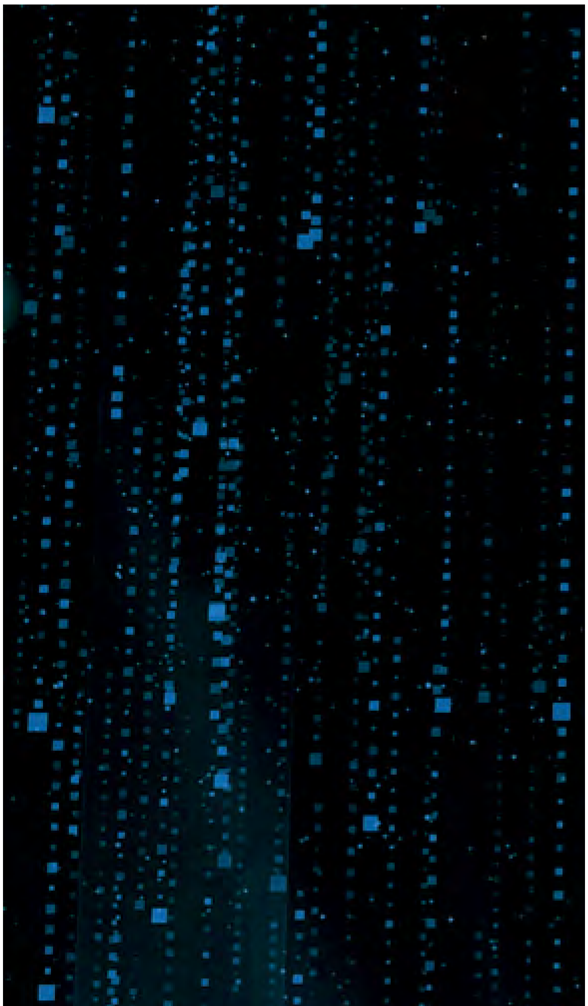
SCI

Capital Relief Trades Awards

2023

CONTENTS



London, October 2023

Significant risk transfer transactions are commonly perceived as niche and regulatory-driven products. While that may have been true 10 years ago, the instrument is now a key part of the capital management strategy of many European banks. Indeed, the clarity gained this year around synthetic excess spread and homogeneity criteria for STS synthetics means that issuers now have a broader toolbox than ever.

At the same time, supply and demand dynamics remain on a positive trend. On one side, there are banks that need to engage in the SRT market because of Basel 4 or global macro events, or because high interest rates mean that there is greater incentive to optimise legacy books. On the other side, investors continue to be attracted to the sector, due to its robust historical performance and the yields on offer on a risk-adjusted basis.

The innovations and innovators recognised in SCI's 2023 Capital Relief Trades Awards certainly point to an industry that is coming of age. From the first deal to include a captive insurance vehicle to the debut transactions from a Canadian bank executing in challenging conditions and a Portuguese bank whose deal is a testament to the progress made during its restructuring journey, the utility of risk transfer technology is demonstrated in abundance.

The awards Roll of Honour on page 4 of this special edition of SCI underlines the vibrancy of the market, in terms of new asset classes, jurisdictions and issuers. Our congratulations to the deserving winners and honourable mentions of this year's awards, as well as to the CRT industry as a whole for its many achievements over the last 12 months.

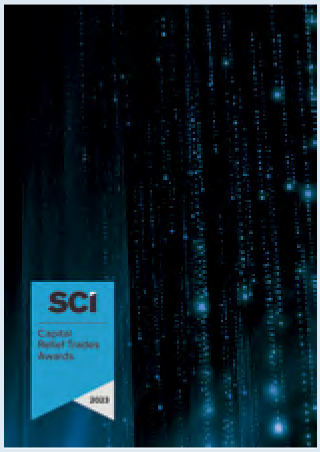
We would like to wholeheartedly thank everyone who submitted a nomination for the awards. Our thanks and appreciation also go to our awards advisory board – comprising Barend van Drooge of PGGM, RJ Shea of RenaissanceRe and Marc Freydefont of Standard Chartered (each of whom was recused from judging an award that they could be nominated for) – for its invaluable input. Final selections for the awards were made by the SCI editorial team, based on the pitches we received, colour from other market participants and our own independent reporting.

The qualifying period for the awards was 1 October 2022 to 30 June 2023.

Looking to the next 12 months, it will be interesting to see the extent to which SRT is embraced by policymakers as a way of tackling the challenges of financing economic activity, as well as addressing ESG concerns. SCI will certainly continue to keep you abreast of these developments and more!

All the best for the year ahead,

Corinne Smith
Editorial Director, SCI



Editor
Corinne Smith
cs@structuredcreditinvestor.com

Design and Production
Andy Peat
andy@andypeatdesign.co.uk

Contributors
Simon Boughey
sb@structuredcreditinvestor.com
Claudia Lewis
cl@structuredcreditinvestor.com
Vincent Nadeau
vn@structuredcreditinvestor.com
Mark Pelham
mp@structuredcreditinvestor.com
Ramla Soni
rs@structuredcreditinvestor.com
Kenny Wastell
kw@structuredcreditinvestor.com

Managing Director
John Owen Waller
jow@structuredcreditinvestor.com

Head of Subscription Sales
Tauseef Asri
ta@structuredcreditinvestor.com

Business Development Manager
David Zaher
dz@structuredcreditinvestor.com

ISSN: 2043-7900

SCI is published by Cold Fountains Media.

SCI Capital Relief Trades Awards 2023 Roll of Honour

TRANSACTION OF THE YEAR

Winner: Project Seed
(MMC, novobanco, RenaissanceRe)

Honourable mention: GARC Corp-5
(Intesa Sanpaolo)

NORTH AMERICAN TRANSACTION OF THE YEAR

Winner: St Lawrence (BNP Paribas, CIBC)

Honourable mention: Merchants Bank healthcare real estate deal (Atlas SP Partners, Merchants Bank of Indiana)

IMPACT DEAL OF THE YEAR

Winner: Project Bocarte
(Newmarket Capital, Santander)

Honourable mention: Room to Run Sovereign
(African Development Bank)

INNOVATION OF THE YEAR

Winner: SLG2 (Credit Suisse)

Honourable mention: Regulator-investor roundtables (IACPM)

CREDIT INSURER OF THE YEAR

Winner: Arch MI

Honourable mention: RenaissanceRe

INVESTOR OF THE YEAR

Winner: AXA IM Alts

Honourable mention: EIB Group

ISSUER OF THE YEAR

Winner: Santander

Honourable mention: Barclays

NORTH AMERICAN ISSUER OF THE YEAR

Winner: BMO

Honourable mention: Santander Holdings USA

ARRANGER OF THE YEAR

Winner: BNP Paribas

Honourable mention: Deutsche Bank

LAW FIRM OF THE YEAR

Winner: Clifford Chance

Honourable mention: Cadwalader

CONTRIBUTION TO CRT

Winner: PGGM

PERSONAL CONTRIBUTION TO THE INDUSTRY

Winner: Bruno Bancal, BNP Paribas

TRANSACTION OF THE YEAR
WINNER: PROJECT SEED (MMC, novobanco, RenaissanceRe)

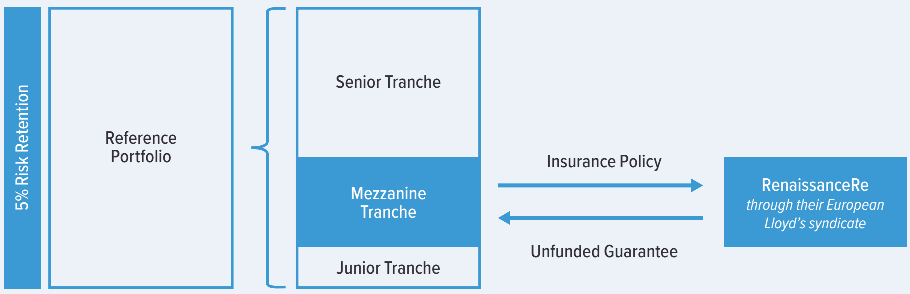
Project Seed represents the first balance sheet synthetic securitisation referencing corporate exposures executed on an unfunded basis in Portugal. But novobanco's ability to successfully execute such a transaction – amid challenging market conditions – is also a testament to the progress the bank has made during its restructuring journey.

Created in 2014 from the resolution of Banco Espírito Santo, novobanco had since 2017 been under a restructuring process supervised by the European Commission, which ended in February 2023. The ambitious restructuring plan included key areas, such as asset quality improvement, cost reduction, operational efficiency and strategic realignment. So much so that during 2022, the bank was able to build an impressive 300bp of CET 1 capital – aided by a de-risking strategy, including the disposal of non-core assets and risk weighted assets optimisation.

Executed in 4Q22, Project Seed references a €1bn granular portfolio of SME, corporate and public administration loans originated by novobanco in Portugal. The transaction is structured in a tranched cover format, with a junior and a senior tranche retained unhedged by the originator and a mezzanine tranche guaranteed by RenaissanceRe. The mezzanine tranche amortises on a pro-rata basis, with triggers to sequential, and features a regulatory compliant time call and a static portfolio with no replenishment periods.

Project Seed was executed in complex circumstances in terms of both macroeconomic and political perspectives, given it closed at a time of volatile sentiment for credit risk and towards the end of a significant restructuring process for novobanco. Mehdi Benleulmi, svp and underwriter at RenaissanceRe, credits the success of the transaction to the high levels of transparency and collaboration between the parties to the deal.

Transaction structure



Source: novobanco

"In such a collaborative environment, novobanco provided high-quality data on the assets that comprise the portfolio. This allowed us to better inform our view of the risk, which in turn enabled us to price it more efficiently through stress testing the portfolio," he explains.

Nuno Duarte, head of Treasury and Financial Department at novobanco, adds: "We were new to the market and therefore needed to understand RenaissanceRe's feedback/rationale, so we tried to make negotiations as transparent as possible. It was a delicate balance: we understood that providing the data that RenaissanceRe required was a key point to improve pricing and to reach our contemplated cost of release of capital."

Duarte concedes that SRT can be challenging – in terms of technology, expertise and execution capacity – especially for first-time issuers. However, he says the board understood what was at stake and the benefits such a transaction would bring, and supported the teams involved in this long process. The SRT was an alternative solution to manage credit risk and capital for novobanco, as bond market access (Tier 2) and market conditions at that ▶

Nuno Duarte, novobanco

Mehdi Benleulmi, RenaissanceRe

"UNDER THE STRAIGHTFORWARD CONSTRUCTION OF A SINGLE CONTRACT, WE WERE ABLE TO MATCH OUR CAPITAL TO THE UNDERLYING TRANSACTION RISK PROFILE"


Together for a sustainable future.
A better future is built through actions, not intentions. That's why our activity and solutions always consider the common good and the well-being of the planet we live in. Examples of this can be seen in the special support we provide to sustainable businesses and the energy transition, the microcredits that empower responsible entrepreneurship, and the various environmental, social, and cultural initiatives that we promote and are associated with. All that allows us to confidently state: to choose novobanco is to take the future into account.
NOVO BANCO, S.A.
3 QUALITY HEALTH
4 QUALITY EDUCATION
5 GENDER EQUALITY
8 DIGNIFIED WORK & ECONOMIC GROWTH
13 CLIMATE ACTION
novobanco

“MARSH AND OLIVER WYMAN TRANSFERRED THE KNOWLEDGE THAT WAS NECESSARY AND SUPPORTED US”

time were not favourable and were prohibitively expensive.

Benleulmi notes that reinsurance capital is particularly suited to these kinds of opportunities. “Project Seed demonstrates the utility of unfunded sources of capital. Under the straightforward construction of a single contract, we were able to match our capital to the underlying transaction risk profile.”

The transaction also exemplifies RenaissanceRe’s purpose statement. “In Project Seed, we believe we achieved our purpose of protecting communities and enabling prosperity by providing capital to the real economy,” Benleulmi observes.

Marsh & McLennan Companies (MMC) was retained by novobanco as sole advisor and arranger of the transaction. Jaime Lizarraga, partner at Oliver Wyman, notes that the MMC proposition draws upon the combined competences and deep expertise of both Marsh and Oliver Wyman to deliver a market-leading and comprehensive advisory, arranger, structuring and market placement service in the securitisation and risk transfer space. Lizarraga adds that the close and continuous interaction with the regulator was key to deliver a smooth transaction in the required time frame.

Marcus Miller, md from Marsh, comments that the recognition for Project Seed represents another milestone for MMC, following the landmark ING DiBa AG residential mortgage SRT transaction – dubbed Project Simba – back in 2018.

“Marsh and Oliver Wyman transferred the knowledge that was necessary and supported us with the structuring, technology and in the optimisation exercise,” Duarte confirms.

Marcus Miller, Marsh

Novobanco expects to be a regular issuer on the credit markets going forward, demonstrating the bank’s strategic decision to leverage synthetic securitisation as an integral part of its capital management strategy for the foreseeable future. “We now have SRT in our capital management toolbox. So, whenever needed, we can tap the market for balance sheet optimisation purposes and can take advantage of a broader investor base in this market segment,” Duarte observes.

This transaction marks another milestone in the recent successes of novobanco, positioning the bank for the next stage of its development and reinforcing its position as a strong and independent domestic bank.

Jaime Lizarraga, Oliver Wyman

HONOURABLE MENTION: **GARC CORP-5 (Intesa Sanpaolo)**

GARC Corp-5 represents the largest portfolio ever securitised in Italy, as well as the second largest in Europe in 2022. The transaction allowed Intesa Sanpaolo to transfer the first-loss risk arising from a €7.5bn portfolio of corporate and large corporate loans granted to circa 4,500 borrowers. It involved the placement of a large (€500m) junior tranche in a challenging economic scenario, resulting in a €2.7bn RWA saving for the bank.

NORTH AMERICAN TRANSACTION OF THE YEAR
WINNER: ST LAWRENCE (BNP Paribas, CIBC)

It has been a busy period in the Canadian SRT market. For years, it has been dominated by Bank of Montreal, but in the last 12 months the remaining members of the Big Five have got in on the act. One transaction, however, stood out in our awards year: the debut from Canadian Imperial Bank of Commerce (CIBC), dubbed St Lawrence "Project Waterloo". This is SCI's North American Transaction of the Year.

The deal was brought to the market by arranger BNP Paribas in April 2023 and referenced a pool of US$4.5bn corporate loans for a face value of US$261m. It was structured as a credit-linked note incorporating an embedded financial guarantee, with an attachment point of 0.5% and a detachment point of 6.3%.

So far, so good, but the deal also included several features that, at first sight, could be considered somewhat aggressive. For one, the reference pool was blind, constituting investment grade and non-investment grade corporate loans with an average credit rating of low investment grade. Beyond these details, no other specifics were supplied. The reference pool was kept blind to preserve client confidentiality.

Waterloo also featured a three-year replenishment period, so that CIBC maintained some flexibility and was able to extract the full value of the deal.

Considering, however, that Waterloo had to compete with the inaugural SRT trade from Toronto Dominion (TD) – which was in the market at around the same time, but was anchored and had a fully disclosed pool – these features appear startlingly bold. But BNP Paribas was able to secure the full and unflinching support of 10 European and North American investors.

This commitment was put to the test immediately. On the day scheduled for allocations, Silicon Valley Bank (SVB) collapsed amid a firestorm of headlines and predictions of ensuing turmoil for a wide range of US lenders. Yet the deal was upsized by 50% from US$3bn to US$4.5bn and pricing tightened by 25bp from initial guidance.

In the end, the investors scarcely flinched in the face of these events. "For the inaugural deal, we had a relatively modest size in mind. To be able to upsize, and to have such depth of investor base, is testament to the strength of the underlying asset quality and the process we followed," says Dave Yoon, vp, capital management, treasury at CIBC.

Waterloo is not expected to be a one-off transaction. It is the starting point of what will be an ongoing programme. In addition to large corporates, the bank believes mid-market commercial loans could be a good fit for future deals, but it is also considering specialty banking assets.

"We saw the opportunity to bolster capital generation and provide additional flexibility. We have a growth strategy but need to fund that efficiently, so this is about expanding our tool kit," explains Yoon.

Though the bank began to mull the possibility of issuing in this market a couple of years ago, serious planning began only in the summer of 2022. So it took perhaps nine months from inception to issuance – underlining CIBC's determination to move in a deliberate and measured manner.

There were multiple difficulties encountered en route in what was a novel transaction for the bank. But perhaps the most taxing was the need to co-ordinate the efforts of many different groups within the institution, all with different priorities, and get them all to face in the same direction.

It did not, however, encounter boardroom opposition. It sought, and attained, approval from senior management at the very earliest stages of the entire operation.

"We did all that work upfront, before any RFP. We had good buy-in from the senior management from the beginning," says Yoon.

"WE HAD GOOD BUY-IN FROM THE SENIOR MANAGEMENT"

There are two main reasons why CIBC decided to venture into the SRT space. First, the Canadian regulator, the Office of the Superintendent of Financial Institutions (OFSI), has taken a stern line with regard to capital adequacy. In June this year, it upped the Domestic Stability Buffer by another 50bp, taking it to 3.5%, and Canada is one of the first jurisdictions to implement the Basel 4 output floor, which came into effect in 2Q23.

But perhaps more importantly is the flexibility that an SRT programme brings to the bank that wants to grow its business. With the resumption of more normal business conditions after lockdown conditions were eased, capital began to be consumed once again. It was at this point that the treasury began to look at the regulatory capital market.

CIBC pitched to a handful of North American and European banks, but BNP Paribas's experience as both an issuer and an arranger proved winning. The two banks have longstanding relationships in other business areas, of course.

"Waterloo" is the starting point for an SRT programme that will attain meaningful capital reduction for CIBC. As a blind portfolio, with replenishment, sold into some of the most turbulent market conditions seen for a couple of years, the debut deal also represents first-rate execution.

Dave Yoon, CIBC

HONOURABLE MENTION: MERCHANTS BANK HEALTHCARE REAL ESTATE DEAL (Atlas SP Partners, Merchants Bank of Indiana)

Merchants Bank of Indiana's US$158m transaction references a US$1.13bn portfolio of healthcare real estate loans. Notably, the deal was executed at the end of March, at a time of maximum stress for US regional banks. In bridge-to-HUD financings, it also securitises a non-traditional asset class.

IMPACT DEAL OF THE YEAR
WINNER: PROJECT BOCARTE (Newmarket Capital, Santander)

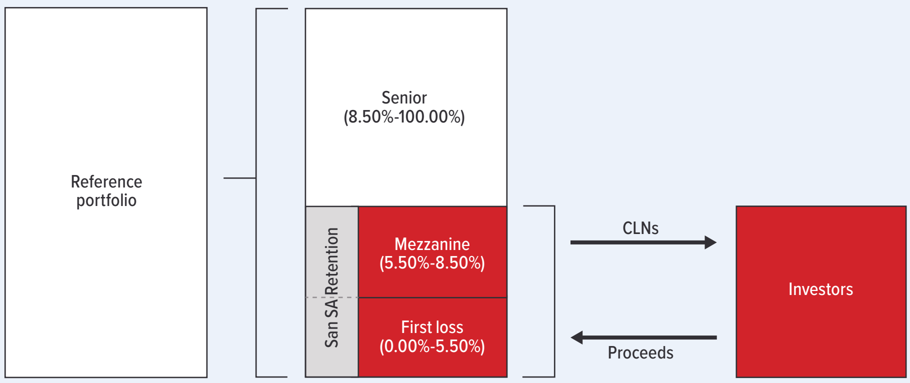
Project Bocarte has won Impact Deal of the Year in this year's SCI Capital Relief Trades Awards. Bocarte is a significant risk transfer transaction executed bilaterally between Banco Santander and Newmarket Capital. The deal's ESG components and ramp-up mechanism provide clear and impressive impact features.

The transaction – which closed in Q4 last year – provides first loss credit protection on a €1.6bn portfolio of project finance loan facilities issued by Santander. In addition to incorporating a number of structural impact and sustainability features, the initial portfolio is comprised of nearly 50% renewable energy assets, spread primarily across Spain, the UK and the US.

Bocarte is Santander's fourth project finance SRT and the second SRT to align with Santander's ESG strategy, incorporating additive coupon step-down incentives upon meeting specified ESG targets. The transaction introduces an innovative "ramp-up" feature, enabling portfolio and notes to increase pro-rata utilising committed investor capital at the same initial coupon rate, with the ability to bilaterally agree further increases and extensions. Additionally, Bocarte is Santander's first project finance securitisation to meet the synthetic STS regime and the second of its kind in Europe.

Looking at the deal's structure, the funded credit protection is provided to the Santander portfolio via a direct CLN referencing first-loss and mezzanine tranches. The referenced portfolio assets are capitalised through the 'slotting' approach, with the retained notes utilising SEC-IRBA as well as STS treatment, resulting in a highly efficient capital saving.

Project Bocarte structure diagram



Source: Santander

Furthermore, the impact incentive is triggered upon meeting certain ESG targets linked to both Santander's Sustainable Finance Classification System (SFCS) and the group's wider renewable energy lending. Specifically, should Santander achieve a pre-set fixed growth rate in this type of lending for certain years of the transaction's life, a coupon step-down mechanism will be triggered. In order for this mechanism to be quick-started, Bocarte's growth hurdle targets have been set ambitiously, taking into account the industry growth.

The portfolio ramp-up's mechanism is designed to increase portfolio and notes pro-rata over 24 months at a constant initial coupon rate. The transaction uses pro-rata amortisation, with a trigger mechanism in place for a switch to sequential amortisation aligned to the EBA's final RTS on synthetic STS performance-related trigger.

Commenting on the transaction's alignment to Santander's SFCS, Elena Eyries, MD and Denis Aranburu, MD at Santander, note: "The transaction is tailored to Santander's new SFCS. And since we have this coupon incentive, it allows the investor to foster new lending from the bank in the ESG sector. The incentives linked to the ESG objectives for the replenishment of the portfolio, the ramp-up mechanism and the STS feature are all prominent innovations. We feel that all the stars were aligned, both from an investor and issuer perspective."

Similarly, Molly Whitehouse, MD at Newmarket Capital, praises Bocarte's forward-looking impact features. She notes: "Santander's SFCS system goes into so much detail across different ESG-oriented criteria. To be able to align our risk transfer transaction with this new classification system is something that we're very proud of. I think that the challenge in any transaction ▶

"THE TRANSACTION IS TAILORED TO SANTANDER'S NEW SFCS. AND SINCE WE HAVE THIS COUPON INCENTIVE, IT ALLOWS THE INVESTOR TO FOSTER NEW LENDING FROM THE BANK IN THE ESG SECTOR"

Elena Eyries, Santander

Molly Whitehouse, Newmarket Capital

in which you're trying to have some kind of forward-looking impact criteria is to make sure that you are getting the definitions right, such that you can track targets and have very solid reporting. I feel we have achieved this with Bocarte and it was a pleasure to partner with Santander at the forefront of their thinking around green considerations and around impact."

She concludes: "I believe Bocarte's targets speak to Santander and Newmarket's aligned ambition in accelerating renewable energy growth. Our hope is that Bocarte, like other Santander and Newmarket transactions, will serve as a path for others to follow and encourage financial institutions and investors alike to think creatively about how they can embed positive impact into their own strategies."

"OUR HOPE IS THAT BOCARTE, LIKE OTHER SANTANDER AND NEWMARKET TRANSACTIONS, WILL SERVE AS A PATH FOR OTHERS TO FOLLOW AND ENCOURAGE FINANCIAL INSTITUTIONS AND INVESTORS ALIKE TO THINK CREATIVELY"

HONOURABLE MENTION: **ROOM TO RUN SOVEREIGN (African Development Bank)**

Room to Run Sovereign (R2RS) marks the African Development Bank's return to the risk transfer market, following its landmark synthetic securitisation in 2018. R2RS references a US$2bn sovereign loan portfolio and features a US$400m first-loss tranche (bought by AXA XL, Axis Specialty and HDI Global Specialty) and a US$1.6bn second-loss tranche (bought by the UK's Foreign Commonwealth and Development Office). The objective of the transaction is to reduce the capital consumption of the AfDB's sovereign loan book, in order to free up capital to redeploy in African climate finance projects.

INNOVATION OF THE YEAR
WINNER: SLG2 (CREDIT SUISSE)

Credit Suisse's SLG2 transaction is SCI's Innovation of the Year for pushing the envelope in the SRT market in not one, but three ways. Most notably, the deal features a captive insurance vehicle that enables the participation of reinsurance companies that cannot enter into an insurance policy.

SLG2 is a dual-tranche SRT transaction, whereby Credit Suisse buys credit protection on a multi-currency portfolio of sponsored mid-market loans that will be ramped up over three years. The loans may be denominated in euros, Swiss francs and US dollars.

As the protection notional amount in respect of each loan is stated in the same currency as the loan, the underlying portfolio comprises of three sub-portfolios and the equity tranche of three vertical sub-tranches – each denominated in one of the three currencies, which are cross-collateralised and have cross-default mechanics. Such a structure is designed to avoid a currency mismatch between the hedge and the loans.

At the same time, the mezzanine tranche is denominated in euros only. This is thought to be the first time that an equity tranche has been denominated in three different currencies, with the mezzanine tranche denominated in just one currency.

Featuring several aspects to facilitate reinsurer involvement, the mezz was placed with a syndicate of insurance and reinsurance companies in unfunded format. "We used a transformer SPV to turn the CDS into an insurance contract, while behind the SPV there is a syndicate of insurers – including a captive vehicle – that effectively writes an insurance policy to the SPV and receives back-to-back protection from reinsurers," explains Hannes Wilhelm, md at Credit Suisse.

> "WE USED A TRANSFORMER SPV TO TURN THE CDS INTO AN INSURANCE CONTRACT, WHILE BEHIND THE SPV THERE IS A SYNDICATE OF INSURERS"

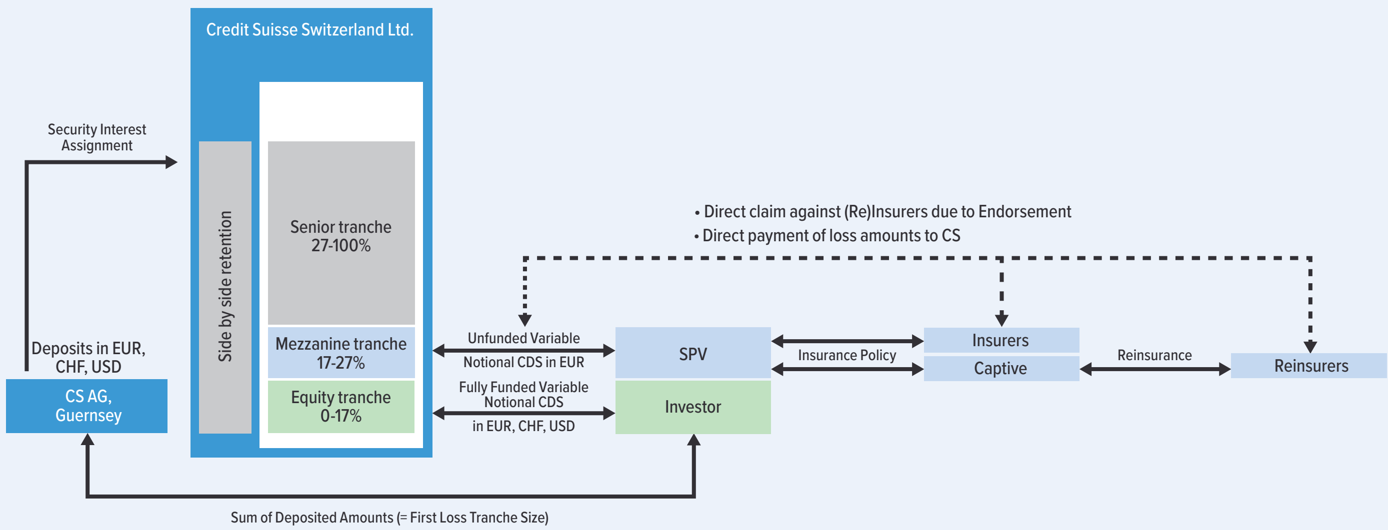
He continues: "The aim was to expand the reinsurer investor base. It's important to facilitate access for new investors, especially for those who had previously been prevented from becoming involved."

Adding to the complexity of the transaction is that Credit Suisse, as protection buyer under Basel regulation, needs to have a direct claim to a rated company or a company collateralised by cash. The captive vehicle in SLG2 isn't rated, so there needed to be a cut-through to the reinsurer behind the SPV.

Furthermore, the structure includes CLO features – such as a cash-trapping mechanism – to rebuild the equity tranche, should it be eroded beyond a certain threshold by losses. "Cash trapping acts as further protection for the mezz (and, by extension, the senior) tranche. If

Hannes Wilhelm, Credit Suisse

Transaction structure



Source: Credit Suisse

Dimitris Chalikopoulos, Credit Suisse

the equity tranche falls below a certain threshold, instead of paying coupons directly to the equity investor, the cash is paid to the collateral accounts, increasing therefore the thickness of the equity tranche," says Dimitris Chalikopoulos, credit structurer – director at Credit Suisse.

While the deal's ramp-up phase is pro rata, the amortisation phase can switch from pro rata to sequential upon certain forward- and backward-looking triggers. "The ramp-up process allows us to grow the portfolio linearly over time. At close, the facility had a 10% utilisation, but increases pro rata as loans are added to the portfolio. This increases the efficiency of the transaction because we can hedge as we originate," observes Chalikopoulos.

"AT CLOSE, THE FACILITY HAD A 10% UTILISATION, BUT INCREASES PRO RATA AS LOANS ARE ADDED TO THE PORTFOLIO"

He adds: "Investors also appreciate it because we're adding new credit. As the ramp-up phase spans across a longer period of time, underwriting criteria are adapted to changes in the economic environment, reducing cyclicality risk in the portfolio."

SLG2 closed in November 2022 at approximately €100m and can grow up to €1bn. Equity investors have veto rights until the portfolio reaches a certain size.

HONOURABLE MENTION: **REGULATOR-INVESTOR ROUNDTABLES (IACPM)**

In recognition of the International Association of Credit Portfolio Managers (IACPM) finding new ways to effectively advocate for a healthy capital relief trades market. While the IACPM has organised regulator workshops and roundtables before, over the past year, the association has enhanced its advocacy efforts by bringing regulators directly in contact with a representative group of SRT investors to discuss topics of interest. These roundtables fill a need by regulators for such interactions and the IACPM is well-placed to organise them, given its members include a large cross-section of both banks and investors active in the CRT space.

CREDIT INSURER OF THE YEAR
WINNER: ARCH MI

Following two years of significant growth in the European SRT space, Arch MI has been named Credit Insurer of the Year in SCI's 2023 CRT Awards. The firm has significantly increased the aggregate value of its insured SRT book, expanded its team and increased its deal volume, most notably in central and southern Europe.

> "UNLIKE CERTAIN CASH INVESTORS, WE ARE WILLING TO WRITE TRANSACTIONS WITH LONGER MATURITIES"

With a significant presence in the Australian and US mortgage insurance sector, Arch's global mortgage group views SRT as a positive balance sheet diversification play. Since writing its first unfunded mortgage trade in 2018 in Germany, the firm's European division has expanded into more than 10 geographies.

Ruairi Neville, head of European origination in Arch's international mortgage division, says the expansion into European SRT provides Arch with access to a growing sector spread across a broad range of geographies. "SRT allows us to grow our book in a prudent manner across both asset class and geography," he notes. "We like the structural aspects of the trades, which allow us to attach at various risk points, depending on our appetite for a given asset class."

He adds: "Arch has established direct relationships with Europe's leading banks since we wrote our first credit insurance transaction in 2012. Many of the transactions we wrote in 2022 are repeat trades with banks we have established an existing partnership with."

"Strong relationships are key," says Neville. "We want to do business with people and institutions we trust. The banks we transact with have been excellent counterparties and we have developed positive relationships with them. We understand what they want and need from a transaction, and importantly what they can deliver in terms of data and background to the risk. "

Neville stresses the importance of Arch's ability to structure cover in accordance with a client's needs. "We have written transactions in both the insurance and financial guarantee format and have participated in structures where there is a mix of funded and unfunded investors."

He adds: "At Arch, we also see a growing demand for SRT transactions from both IRB and SA approach banks and we have concluded transactions across both regulatory approaches. Many SA approach banks are often first-time issuers and we work closely with these institutions to find a structure and portfolio which makes economic sense for both parties."

This openness to diversify when faced with compelling opportunities has also been a catalyst for the expansion of Arch's global mortgage group into new countries throughout Europe. The firm has been particularly active in Italy, Spain and Portugal – jurisdictions where it likes both the risk and structure of the deals it has come across. It has also recently written trades in the CEE region.

"We're not afraid to break ground," Neville says. "We have the appetite, capacity and expertise to write SRT trades in countries where they haven't been written before. If the bank is a credible counterparty with strong underwriting standards and the country at a macro level is supportive of a transaction, then Arch has the ability to execute the trade."

In Italy, for example, Arch has worked towards a material presence through relationship-driven repeat transactions with existing customers. The division's ventures into central Europe last year saw it write the region's first private unfunded mortgage SRT trade. Also last year, the business wrote the first private unfunded SRT trade in the Iberia region, which Neville says was a landmark transaction in terms of geographic location, asset class and the size of the underlying tranche.

Ruairi Neville, Arch

When asked what differentiates Arch from the traditional SRT funded investor, Neville says: "As an insurer, we provide a diversified and stable source of capital to our clients and unlike certain cash investors, we are willing to write transactions with longer maturities. From a commercial point of view, given the widening of cash spreads, insurers can be competitive versus funded investors."

Over the past 12-18 months, Arch has focused heavily on building out its SRT team. "We have invested significantly in our team, building our expertise across underwriting, actuarial, legal, banking and finance to ensure we have the in-house capabilities to review and conclude transactions which fall within our risk appetite," Neville says. "With this additional strength on our bench, we believe we are strongly resourced to provide a best-in-class service to our clients."

He concludes: "Arch has a deep commitment to the SRT sector and we view it as a core growth area going forward. We have accomplished a lot in the last two years, but I believe we are just taking off and there is a long and very interesting road ahead of us."

HONOURABLE MENTION: RENAISSANCERE

With a credit team comprising 13 professionals from multiple disciplines, RenaissanceRe's broad expertise differentiates the firm from its peers and allows it to develop risk transfer solutions with a unique insight and tailored approach. Since its first SRT transaction in 2018, the firm has grown its credit portfolio to over US$1bn of gross written premium across many asset classes, jurisdictions and originating banks in a variety of formats. Looking forward, RenaissanceRe is continuing to advance its strategy as a leading P&C reinsurer through the acquisition of Validus Re. The transaction is expected to close in 4Q23 and will provide access to a diversified portfolio of over US$3bn gross written premium.

INVESTOR OF THE YEAR
WINNER: AXA IM ALTS

AXA IM Alts has won Investor of the Year in this year's SCI Capital Relief Trades Awards. A global leader in alternative investments, AXA IM Alts is equally a seasoned and dominant investor in the credit risk transfer (CRT)/significant risk transfer (SRT) space, with over 20 years of experience across nine generations of funds and more than 90 transactions.

"MANY LARGE FINANCIAL INSTITUTIONS, WHETHER IN EUROPE, THE US OR ASIA, HAVE OR ARE CONSIDERING INVESTING IN THIS SPACE. FIVE YEARS AGO THIS WAS NOT THE CASE"

The firm's SRT team, co-led by Milan Stupar and Edward Robinet, is composed of seven investment professionals with an average investment experience of circa 20 years in the industry and sits within the group's Alternative Credit business line. "I feel that what sets us apart is our experience, having been present since the inception of the market, as well as our ability to look at all asset classes and long-established relationships with more than 50 originating banks," notes Milan Stupar, co-head of the SRT team at AXA IM Alts.

AXA IM Alternative Credit, through both its dedicated teams and AXA IM's shared resources, benefits from strong research capabilities across corporate credit (investment grade, high yield, SME, commercial real estate, mortgages etc). This specific set-up gives the team access to a large range of underlying assets and access to borrowers not available in the public market and under any form of credit exposures (notably revolvers, loans, trade finance, subscription lines, counterparty risk etc).

As 2022 saw another record year in terms of issuance, AXA IM Alts launched its nineth generation of SRT funds (AXA IM Partner Capital Solutions IX), with initial closing at the end of August 2022, targeting €1.5bn. The SRT team has already executed 13 trades with 13 different counterparties in the fund.

Such transactions included a wide array of underlying assets, which were both relatively traditional (large corporates, mid-cap, SME) but also some more esoteric segments of the market, including capital call and consumer loans, across a variety of jurisdictions. Transactions were executed under a variety of structures (SPV, direct issuance, direct financial guarantee, cash securitisation), with around 90% being bilateral trades.

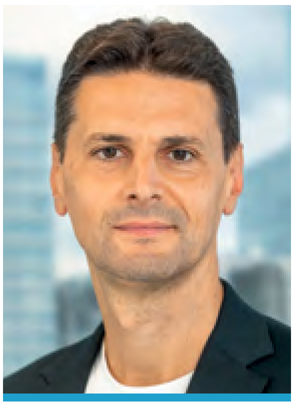
Commenting on the sector's recent and consistent growth, Stupar describes a "growing appetite for the asset class," notably from large financial institutions. He says: "Many large financial institutions, whether in Europe, the US or Asia, have or are considering investing in this space. Five years ago this was not the case."

Stupar further highlights a shift in the broader regulatory approach. He notes: "There will always be technical details to adjust, like the p-factor or the excess spread treatment, yet the overall regulators' view is positive on SRTs across many jurisdictions. Most regulators now clearly support and understand the benefits of SRT transactions."

Looking ahead, Stupar identifies the US and its pipeline as a clear opportunity for further and exponential growth. He says: "What is expected as a big event of sorts, later this year or early next year, is the return of large US banks and consequently significant SRT deals. This had been impeded by US regulatory uncertainty so far, but we expect this to change."

Outside of the US, Stupar expects continued growth and diversification to remain the new norm. He states: "It is a market which has been growing year-on-year. The trend of the market of becoming more global (as experienced with the Canadian banks) is set to stay."

He concludes: "We are expecting new countries, new banks and new asset classes. And volumes are expected to continue to grow."



Milan Stupar, AXA IM Alts

HONOURABLE MENTION: EIB GROUP

The EIB Group (EIBG) has historically supported European SMEs and small mid-caps, but it is now also turning its focus on climate action and environmental sustainability lending. In this context, EIBG is a pioneer investor in adopting the use-of-proceeds approach for SRT transactions, being strongly motivated by the desire to support a smooth and fast transition to a green economy. During the awards period, the group deployed €3.4bn in funded and unfunded transactions providing capital relief across seven jurisdictions and new asset classes, collaborating with other investors and insurers to provide ad-hoc solutions and facilitate new lending of up to €6.5bn.

[1] Source: AXA IM data (unaudited). All figures as of 30 June 2023. Not for Retail distribution: This document is intended exclusively for Professional, Institutional, Qualified or Wholesale Clients/Investors only, as defined by applicable local laws and regulation. Circulation must be restricted accordingly. This promotional communication does not constitute on the part of AXA Investment Managers a solicitation or investment, legal or tax advice. This material does not contain sufficient information to support an investment decision. Issued in the UK by AXA Investment Managers UK Limited, which is authorised and regulated by the Financial Conduct Authority in the UK. Registered in England and Wales, No: 01431068. Registered Office: 22 Bishopsgate, London EC2N 4BQ. In other jurisdictions, this document is issued by AXA Investment Managers SA's affiliates in those countries. Design & Production: Internal Design Agency (IDA) | September 2023 | 19-11185 | Photo Credit: Gettyimages.

ISSUER OF THE YEAR
WINNER: SANTANDER

Santander has won the Issuer of the Year category in this year's SCI Capital Relief Trades Awards. Such recognition further illustrates the bank's leading and predominant position in the CRT market.

Despite a volatile and challenging wider macro environment, the group successfully issued a total of 15 capital relief securitisations in the 12 months to September 2023. All transactions have been structured, arranged and placed by Santander CIB.

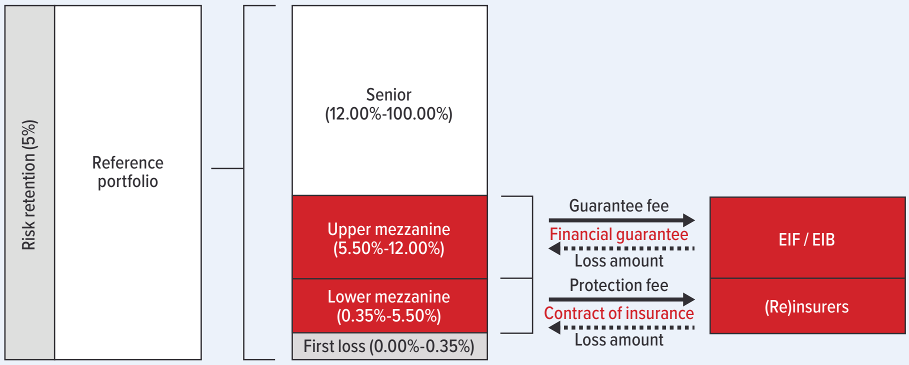
One particular area of growth for Santander during the period has been the arranging of SRT transactions for third-party banks, utilising its significant experience to help and support new issuers in the market. During the last 12 months, Santander has worked on five mandates for third-party issuers, across multiple jurisdictions and asset classes, as well as different transaction structures.

Furthermore, last year's record activity was further accompanied by various innovative transactions and asset classes, including Santander's first and second synthetic residential mortgage SRT transactions, including both unfunded public and private investors (Project Aracataca and Fortaleza respectively).

Project Aracataca was the inaugural synthetic unfunded RMBS securitisation issued by Banco Santander S.A. and the first-ever synthetic RMBS securitisation launched in Spain. The transaction references a €1.6bn pool (net of risk retention) of Spanish prime residential mortgages granted to natural persons and originated by Banco Santander in Spain. In terms of execution, the lower mezzanine tranche was initially sold to (re)insurers.

Santander also closed its first pan-European CRE portfolio (Project Gomber) and pro-rata amortisation structure in the UK, and first issuance from the Motor programme, to combine both secured conditional sale and unsecured fixed sum loans (Motor 2022-1). The bank was additionally prominent in the project finance sector, acting as arranger on Project Boreas and Project Bocarte (Banco Santander).

Project Aracataca structure diagram



Source: Santander

> "THE GROUP SUCCESSFULLY ISSUED A TOTAL OF 15 CAPITAL RELIEF SECURITISATIONS"

HONOURABLE MENTION: BARCLAYS

Barclays completed nine first-loss transactions with a notional face-value of US$1.4bn and an aggregate reference portfolio worth US$17bn during the awards period under its Colonnade programme.

Notably, the bank also executed its first unfunded SRTs, closing nine mezzanine deals with insurers for US$155m notional. The portfolios comprised a mix of corporate, SME and commercial real estate loans.

NORTH AMERICAN ISSUER OF THE YEAR
WINNER: BANK OF MONTREAL

Bank of Montreal (BMO) is both a veteran of the SRT market and a highly frequent issuer. But it is not content to rest on its laurels and has introduced a couple of striking innovations within the last 12 months. For its longevity, its energy and its inventiveness, the Canadian lender is SCI's North American Issuer of the Year.

BMO unveiled its first SRT platform in 2017 and now has six platforms running, each of which covers a different asset class. It added another platform and asset class during the period of 2022/2023 under consideration.

It is by far the biggest North American bank in the regulatory capital trades market and last year by any measure – whether talking about calendar 2022, fiscal 2022/2023 or by SCI's awards period – was the most voluminous yet. This exceptional bout of activity was largely the result of BMO's acquisition of Bank of the West for US$16.3bn in 2021, a move which was finalised in February 2023. At the time of the purchase, California-based Bank of the West had assets of US$105bn.

BMO is now a top-10 US bank and one of the top-five commercial lenders in North America. The US units contributed around 45% of net income in 2Q23. It is now active across 32 US states and has over 1,000 branches.

Decisions taken by the Canadian regulator, the Office of the Superintendent of Financial Institutions (OSFI), in the last 12 months have made the virtues of the SRT market appear more strikingly abundant. First, the Basel 3 output floor was applied to Canadian lenders from 2Q23; and then, in June, the Domestic Stability Buffer was hiked by an additional 50bp.

"It was a big year for us. The standout was the number of different platforms we issued from. While in the past, we might have issued from Algonquin or Muskoka, this last year was characterised by different platforms and different asset classes," says Jamie Payne, an md in BMO's risk and capital solutions group in Toronto.

The debutant was the US$2bn Taiga 1, which closed in November and securitised commercial real estate assets. It appeared on the scene only two months after another debutant – the Killarney 1 trade, which offered exposure to equity subscription line facilities.

Taiga 1 referenced a US$1.75bn portfolio, with a 12% tranche worth US$210m sold into the market. Like the Killarney transaction, Taiga incorporates an 18-month renewal period, during which BMO can add loans to the reference pool. This structure, which the lender believes is unique to it, was first inaugurated with the debut Sauble deal in 2020.

> "THE STANDOUT WAS THE NUMBER OF DIFFERENT PLATFORMS WE ISSUED FROM"

Jamie Payne, BMO

It sees these types of transactions as more akin to partnerships with a select pool of investors. Buyers have only a limited right of denial, so it is important that the legwork is done when every new deal is initiated to make sure the preferences of both borrower and buyer align.

While attaining regulatory capital relief is important to these types of deals, they also serve another, perhaps more important, purpose: allowing BMO to grow its origination business. "In addition to risk mitigation, the transactions allow us to recycle capital for new opportunities," says Payne.

In October and November 2022, the lender also priced the biggest deals yet seen on its Muskoka and Algonquin platforms. The 5NC2.5 US$8bn Muskoka 2022-1 – which securitised larger corporate loans – offered four tranches, worth a total of US$617.5m, to the market. The first loss tranche priced at SOFR plus 10.25%, which was considerably within where comparable deals priced, says the bank.

Less than three weeks later, another whopper came to the market. The 5.25NC2.75 Algonquin 2022-4 referenced a US$10bn pool of US and Canadian SME loans. BMO placed the entirety of the class E (0%-6.25%) and very small amounts of the B, C and D classes for total notes sold of US$670m.

Not only did this transaction represent the largest one from the Algonquin platform, but it was also the largest North American dollar deal in 2022 – underlining the primacy in the North American market which BMO holds.

Four of the 10 SRT deals BMO sold in 2022 were bilateral trades and though it has launched a new platform with a new asset in the last year, it tends to work with the same group of tried and trusted investors. "For new asset classes, we tend to work with investors that know BMO well. Our deals are designed as partnerships. They have to be comfortable with our underwriting standards and origination process and we have built trust that leads to support for future opportunities," explains Payne.

In mid-2023, there is considerable hope that domestic US banks are to issue in the SRT market in increasing numbers. But any new issuer has a long way to go before it can hope to match BMO's footprint in the North American dollar SRT market. At the moment, it's BMO, a lot of blue sky, and then everybody else.

HONOURABLE MENTION: SANTANDER BANK, N.A.

Santander Bank, N.A. issued three US SRT transactions during the awards period, including the US$131.6m SBCLN 2023-MTG1 referencing US$2.5bn of residential mortgage loans – the Group's first-ever funded US residential mortgage SRT – placing the bank as one of the most active issuers in the jurisdiction. Santander US Capital Markets LLC (SanCap), part of the Santander CIB business in the US, acted as an initial purchaser. Additionally, the bank continues to develop the investor base for SRT trades, with 80 unique investors allocated – including 12 newcomers to Santander CIB SRT programmes.

ARRANGER OF THE YEAR
WINNER: BNP PARIBAS

BNP Paribas (BNPP) declares it is that rarest of beasts in the jungle of significant risk transfer: a flow monster. "We like taking an illiquid product and making it mainstream," says Bilal Husain, head of EMEA securitised products and real assets syndicate, in London.

For not only its prominence in this market, but also for its influence in shaping the development of the sector and bringing it to the attention of an increasing number of clients and investors, BNP Paribas is SCI's choice of Arranger of the Year for the 2023 Capital Relief Trades Awards.

The bank's role as arranger grew out of its role as an issuer. In March 2022, the securitised products group (SPG) was put in charge of coordinating and executing risk weight asset optimisation solutions for the entire BNPP group. This gave it not just a window into every business at BNP Paribas, but also the knowledge of what internal clients needed to do with regards to hedging.

BNPP's SPG is a client-facing business, so, possessed with all this new knowledge and data, it seemed criminal not to deploy the expertise it had gained about the regulatory capital market for the benefit of external clients. Without exaggeration, it is fair to say that its business as an arranger has grown from strength to strength and it has marched lock in step with BNPP's prominence as an issuer. The two functions draw vitality from each other.

"We have a complete took-kit that was very relevant for other issuers and have a global investor placement strategy that we felt would be very powerful. We didn't want to waste this institutional knowledge," says Husain.

Over the preceding 12 months, the bank has arranged three cash and nine synthetic deals for third-party clients and various BNPP entities, for a total portfolio size of €27.6bn and a corresponding €9bn placed in the debt markets.

There were some firsts among this number. In 4Q22, it brought LBBW to the private investor market for the first time and also at a time of uncertainty for German banks as energy prices were climbing seemingly inexorably. In the face of these difficulties, BNPP was able to bring to the table a group of investor relationships that it knew well and trusted to deliver a debut trade for its client.

But it was with Canadian issuers that BNPP has really made its presence felt. Hitherto, Bank of Montreal had been the only Canadian lender with a developed reg cap trade programme. But in 2023, Canadian Imperial Bank of Commerce (CIBC), Scotiabank and Toronto Dominion Bank (TD) all unveiled debut deals as capital pressures soared, mainly thanks to initiatives undertaken by the domestic regulator.

Two of these – for CIBC and Scotia – were arranged by BNPP. Not only were they firsts for the borrower, both transactions possessed features which reflected credit upon the arranger. The inaugural transaction for CIBC, dubbed 'Waterloo', securitised a mixed portfolio of investment and sub-investment grade large corporate loans. Binding bids on the transaction were due on Friday 10 March, with final execution and signing to take place over the following weeks.

However, in the interim, Silicon Valley Bank collapsed, in the third largest bank failure in US history and the biggest since the financial crisis of 2008/2009. Over that weekend, BNPP had to field numerous calls from investors worried that the deal was not going to go ahead. In fact, not only did it go ahead as planned, but it was also upsized from an initial US$3bn to US$4.5bn and pricing tightened by 25bp.

Bilal Husain, BNP Paribas

> "WE LIKE TAKING AN ILLIQUID PRODUCT AND MAKING IT MAINSTREAM"

"Size increased and pricing tightened due to the strength of the transaction and sponsor, but also because of the long-standing institutional investor relationships BNPP had. As an investor, you weren't just dealing with BNPP on an isolated SRT deal, but BNPP across the entire structured finance platform. This is the strength of our franchise," says Husain.

The Scotiabank deal possessed some eye-catching features as well. It was a debut deal, yet securitised a pool of investment grade loans of no less than US$9bn, making it one of the largest-ever inaugural transactions and the biggest SRT deal in 2023 to date. This too was upsized from an original US$5bn.

Over a dozen investors participated in the deal, with around half the transaction anchored among a core group of institutional investors, while the remainder was broadly syndicated. The CIBC trade was broadly syndicated, with 10 different buyers as well.

This practice underlines one of the basic tenets of BNPP's philosophy in the SRT market. While the bilateral market is more straightforward and easier to negotiate, the syndicated space can – under propitious circumstances – offer superior execution.

Syndicated deals do not always offer the easiest path, but BNPP believed it is its job to demonstrate to the client, in a transparent manner, that best execution is being attained. This is especially true as such strategic trades must get signed off at board level.

BNPP also beat competition from both sides of the Atlantic to get the seat at the helm for both the CIBC and the Scotia transactions.

Like many onlookers, Husain expects that the tier one US bank market will produce many more deals in the second half of 2023 and beyond, than has been the case for the last few years. The SRT market is becoming de rigeur. And few banks have played a more important role in that development than BNPP.

HONOURABLE MENTION: DEUTSCHE BANK

In recognition of the firm's thorough and measured approach to investor outreach and supporting debut issuers throughout the execution process.

LAW FIRM OF THE YEAR
WINNER: CLIFFORD CHANCE

Clifford Chance's stated objective is to be the leading law firm in the CRT market, advising on nearly every transaction and leading the sector's evolution. In recognition of its success, the firm is SCI's CRT Law Firm of the Year.

Given how both the firm's practice and the market have grown over the last 20 years, Clifford Chance views its CRT activity as a partnership with the industry. "There are the originators, the investors and the regulators, and we see ourselves as the next pillar in delivering both economically and from a regulatory perspective in terms of what each party is trying to achieve. This model that we've been pursuing from the get-go has meant that we're with all of those participants through both the good times and the dark days," says Jessica Littlewood, a partner in the London office.

Tim Cleary, a partner at the firm, adds: "Our goal has always been to have the biggest team with the most expertise; to be in a position to advise market participants, regardless of their strategy, what type of transaction they're looking to execute and which jurisdiction they're in. We are the only firm that offers this full-service approach."

Cleary explains that the firm seeks to be at the forefront of market evolution. "A key development this year has been the expansion of the Canadian CRT market, which went from one originator to a position where now all five of the large Canadian banks are active. Another growing market has been Poland, where there had been a very small amount of activity with the EIF in the past, but last year saw a number of private sector transactions come to market. We advised on all of those and are involved with a number of further transactions in the Polish market," he adds.

Gareth Old, partner at Clifford Chance in New York, expects the US to be the next big CRT market to open up. He says there are three strands to this development.

"First is the regulatory side, with the introduction of the new Basel 3 Endgame. We are working through this lengthy document and we're acting for the trade groups in terms of the responses to that and making sure that it works and aligns with practical and executable transactions that are consistent with the way the market needs to develop," he explains.

Then there is the wider regulatory framework, he points out. "There's one thing for the bank to say it couldn't get the capital relief that it's looking for. But there are other aspects, like how does this work with insurance rules and commodity pool regulation. There are a lot of non capital-based regulatory, safety and soundness issues, which banks really need to work through with experts. So that's what we are doing, where we sit alongside the banks and their regulatory accountants, as they're developing their expertise."

The third aspect is that the US market appears to be developing in two parts. "There are the specialist investors who are the CRT experts and they are particularly active in areas such as corporate credit and subscription loan transactions. They're looking at this as being a specialised market, but the real differentiator for the US is actually in terms of the consumer assets and residential mortgages, where a lot of the growth will come from traditional investors in the cash securitisation market getting comfortable with the synthetic model. This is where an awful lot of the scale is going to come in the US market," Old observes.

Investors are also interested in being able to use CRT investments in the same way as they can in the cash securitisation market. "For example, repo and loan-on-loan type financing and leverage based on those exposures. So, we're also working with investors to build that up. One of the things that's interesting is that in many transactions, we act for the issuer in terms of issuing the securities, as well as acting for the investors setting up entities to hold their investments," Old says.

He continues: "It's clear that capital requirements are increasing for banks, and that includes small, medium and large banks. It's also clear that capital is very expensive for them and that the regulatory requirements for enhanced capital is not going to let up, so what I think we are experiencing already is bank treasurers and bank risk managers recognising that is the current state of play. And they're moving towards issuance of credit risk transfer transactions, which are the alternative capital management tool to raising more capital."

> "I THINK WE'LL SEE A STEADY EVOLUTION OF THE MARKET – DEEPENING AND BROADENING – AS IT GROWS IN A HEALTHY WAY"

Looking ahead, Littlewood does not expect revolution in the market this year, but instead a continued expansion. "There are some jurisdictions where it would be nice to see the regulator open the doors. Australia is still one where it doesn't look like the regulator is budging, but we live in hope. I think we'll see a steady evolution of the market – deepening and broadening – as it grows in a healthy way."

Indeed, largely driven by the STS framework, standardised banks are becoming a larger constituent of the market. "Standardised bank issuance volume is never going to come close to that of the larger banks. But the CRT product bedding down throughout the industry has been a really interesting development and one that I think is going to continue, notwithstanding some of the headwinds that come up," Cleary concludes.

HONOURABLE MENTION: CADWALADER, WICKERSHAM & TAFT

Cadwalader has seen a meteoric rise within North American CRT endeavors throughout the award's timeline, serving as legal counsel for issuers and investors in the majority of transactions that came to the market. The firm showcases proficiency in both legal and structural aspects, including on-market commercial terms, and a deep bench of first-in-class representation. Its leading CRT services are complemented by top-tier practices in relevant asset classes, pivotal to effective risk transfer.

CONTRIBUTION TO CRT
WINNER: PGGM

PGGM has closed 79 transactions since the inception of its credit risk-sharing (CRS) mandate in 2006, investing €16bn globally across diverse asset types and partnering with 19 global and regional banks through the GFC, Covid-19 pandemic and now during the current environment of inflationary pressures and geopolitical unrest. The firm is SCI's pick for the Contribution to CRT award not only because it is one of the most experienced and largest end-investors in the risk transfer field, but also in recognition of its promotion of high transaction standards and a robust market, as well as its industry advocacy and engagement.

The CRS mandate fits within PGGM's broader ambition to contribute to a sustainable financial system. By engaging in CRS transactions, the firm helps both the banking sector to manage credit risk efficiently and the financial sector to reduce systemic risk. At the same time, it generates attractive total returns through unique credit exposures not available in public markets.

PGGM is focused on building long-term risk-sharing relationships and, as such, rolls over transactions when they mature. The firm is often among the first private market investors for its risk-sharing partners. By staying close to a bank's management of its loan book and by agreeing realistic constraints on eligibility and portfolio criteria, it has also managed to be there for its risk-sharing partners, in both good and bad times.

"We managed through the pandemic by knowing what kind of risks we are willing to take and how to deal with the unknown. We've increased stresses in certain areas and reduced our exposure to certain risks. We adjusted, but we ensured that we were able to continue working with our risk-sharing partners," observes Mascha Canio, head of credit and insurance-linked investments at PGGM.

She continues: "Governments and central banks have been accommodative; we are yet to see any significant defaults, which means that the CRS market has not truly been tested. The instrument will demonstrate its true strengths when defaults begin rising. We anticipate CRS to remain a valuable instrument for banks, in terms of freeing up capital, and for investors to make a decent return in adverse market conditions."

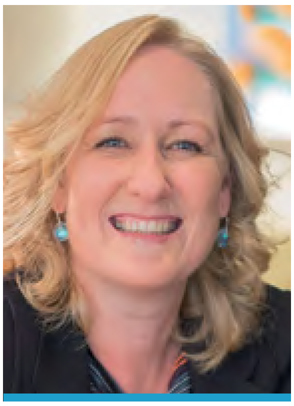
As a prudent long-term pension fund investor, PGGM has consistently applied its own high 'pension fund standards' to its CRS transactions based on understanding the underlying and a genuine sharing of credit risk between the bank and the investor. Indeed, the firm applies three key principles to its investments: adequate risk alignment of 20%; mitigation of counterparty credit risk to the bank by collateralising the funded notional; and having the right data to evaluate the credit risks of the loan portfolio and estimate expected losses throughout the economic cycle.

PGGM also influences the adoption of high-quality transaction standards through its co-investment agreement with Swedish pension fund Alecta, with the goal of helping the CRS market to grow further on a sound and sustainable basis. So far, the pair have closed 21 transactions together under the co-investment partnership.

Furthermore, PGGM strongly believes that financial return and social responsibility go hand-in-hand. Consequently, the firm incorporates ESG standards in its investment decision process as part of a responsible investment philosophy.

By focusing on the real economy as a whole, CRS can positively contribute to the transition to meet the Paris climate goals. Therefore, the firm looks beyond what is already green and supports the shift of all sectors and companies, in order to make the biggest impact.

Meanwhile, PGGM believes that the long-term viability and sustainability of the CRS market is only achievable if the long-term interests of banks are balanced with those of investors and regulators. Because of this conviction, the firm is a vocal advocate for harmonisation of practices, appropriate standards for healthy transactions and transparency.


Mascha Canio, PGGM


Barend van Drooge, PGGM

For example, it began pioneering efforts to establish an STS framework for CRS in 2015 and participated in the High Level Forum on the Capital Markets Union. It continues to be active in supporting a sustainable and healthy CRS market in current active jurisdictions, as well as advocating CRS to regulators in potential new markets.

"We've been investing for a long time and take our role seriously in terms of trying to advance the CRS market in several ways, including by espousing high transaction standards and advocating for the STS synthetics regime. We believe CRS transactions are beneficial to the economy, if undertaken in a healthy and sustainable way," explains Barend van Drooge, deputy head, credit and insurance-linked investments at PGGM.

So far, the firm has invested €1.6bn in nine STS-qualifying transactions, with a total underlying loan notional of €30bn.

Overall, van Drooge believes the market is heading in the right direction, but he says that greater certainty as to what the US regulator expects from issuers would be beneficial. "The US market represents huge potential that is yet to be tapped. We continue to engage with regulators in other jurisdictions – the more that open up, the deeper the CRS market will become. The standards set in Europe are having a positive impact on other jurisdictions and helping regulators to get comfortable with the instrument," he concludes.

PERSONAL CONTRIBUTION TO THE INDUSTRY
WINNER: BRUNO BANCAL, md within the securitisation product group at BNP Paribas

In the significant risk transfer space, BNP Paribas has gone from French ground-breaker to international powerhouse and throughout that journey it has been led by Bruno Bancal, md within its securitisation product group. Described as the bank's "driving force" by one investor, Bancal has also filled a similar role for the market more broadly, as both a leading advocate with regulators and educator through industry conferences and third-party advisory roles.

As with all good leaders, Bancal is more than aware of the role others play in his success. "The quality of people that I am fortunate to work with – from colleagues to investors, to lawyers and so on – is outstanding, making our business both a success and a pleasure," he says.

Bancal's involvement in the SRT market began back in late 2009, when – having gained extensive experience as a structurer and a trader across all asset classes – he got the opportunity to move internally to BNP Paribas' credit portfolio management operation as head of the transaction group. "The idea was to redevelop and rebuild portfolio management activity, in terms of credit hedging, capital and risk management for the corporate and institutional banking division or CIB," he explains. "Very early on we became convinced that synthetic securitisation was a very efficient and powerful tool to manage the bank's credit risk."

However, it would take several years for such a transaction to materialise. "When we began, the market was virtually shut for French institutions, largely due to bad press surrounding securitisation in the financial crisis," recalls Bancal. "Potential for window dressing was also a concern for regulators following a few trades executed by financial institutions that claimed prudential benefit with little or no actual credit risk transfer."

As a result, BNP Paribas – led by Bancal – began extensive discussions with the French regulator, to rebuild the trust and demonstrate true risk transfer for its inaugural transaction under Basel 2. The path to success was to create the "simplest and most transparent structure possible". A concept that foreshadowed Bancal's heavy involvement years later in market dialogue with the EBA around the case for an STS framework for synthetic securitisation.

The result of the earlier discussions was BNP Paribas' first SRT transaction – Resonance I – in 2013. The deal also acted as a proof of concept for both the regulator and, perhaps as importantly, internally within the bank.

Bancal explains: "Internally, we had to convince everybody that going down this route made sense, because this type of transaction has to gather senior management support to onboard stakeholders from many departments within the bank. We invested countless time to educate and onboard people from the loan business, coverage, risk, legal, finance, ALM to get there. While it was a long journey, the first transaction got done and paved the way for future issuances."

Since then, the bank has gradually and systematically built its franchise in the SRT space. Not least thanks to Bancal and his team building strong relationships with committed investor partners that have accompanied them throughout the development of the business.

At the same time, the bank has widened the scope of the underlying assets that could be used for SRT transactions and grown the range of the BNP Paribas entities and business lines that can utilise the product. "Over 10 years, we have reached a very significant volume that is now an important tool for the bank, for prudential capital management as well as credit risk management," Bancal says.

BNP Paribas' evolution reflects that of the broader market. "In the context of changing regulation and increasing cost of capital, the market evolved from exclusively Tier 1 banks to a broader issuer base including Tier 2 and Tier 3 banks and became geographically broader," observes Bancal. "Capital management is now something that is more and more prevalent for all banks – we've witnessed it ourselves where initially it was only our CIB division that was looking at managing capital, whereas now it has spread to all areas of the bank."

The market has not only expanded in terms of issuers, but also investors. Bancal notes that both the number and range of investors is continuously growing, with pension funds, official institutions, private credit funds, credit insurers and reinsurers being joined by the likes of trade insurers and dedicated SRT funds.

Overall, he says: "There is a market infrastructure that is now really robust and developed for these types of transactions. There is no real reason why the market will not continue to grow – though it will, of course, need to continue to adapt as regulations change and bring new constraints."

Wherever the market goes from here, Bancal aims to remain part of it, not least because he still enjoys the job. He says: "What I like about the job is that there is first an entrepreneurial type of experience and that takes place within a very big institution – it's a very specific type of challenge to onboard people and to keep them potentially out of their comfort zone in an institution that is very much process oriented. It is quite challenging, but also very exciting."

Bancal continues: "The second point is that I enjoy the ecosystem of the market very much and the people working in it. For instance, our investors are great people; very seasoned, experienced professionals that are eager to build long-term relationships and have knowledge of how complex it is for us to do this type of transaction. So, they are usually very open to adapt structures and come up with solutions while sharing our preference for those solutions to be as simple as possible."

As Bancal concludes: "At the end of the day, our job is to close transactions and find simple solutions to complex problems. On the one hand, we strive to industrialise our processes and standardise everything to achieve simplicity. On the other hand, we always face new challenges pushing us to design new responses and be innovative – so it is not about innovation for innovation's sake, but rather innovation to solve specific problems."