



EVOLVING STRUCTURES AND RISKS

IDA WOLDEN BACHE
26 NOVEMBER 2015

2015
**FINANCIAL
STABILITY
REPORT**
VULNERABILITIES AND RISKS

Key vulnerabilities

Change since FSR 2014

High household debt



Persistently strong rise in real estate prices

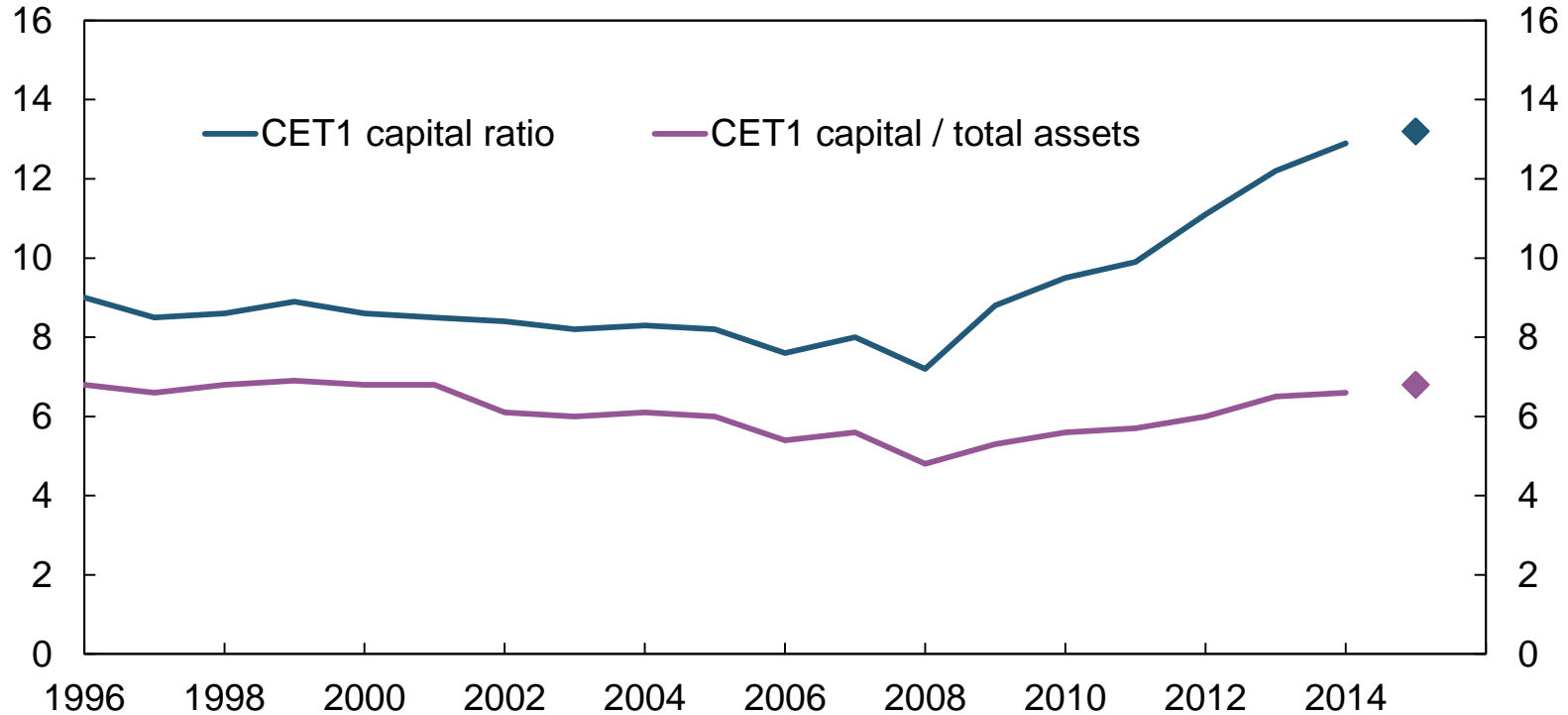


Banks' short-term foreign currency funding



Capital adequacy Norwegian banks

Capital (CET1) as share of risk weighted and total assets. Percent.



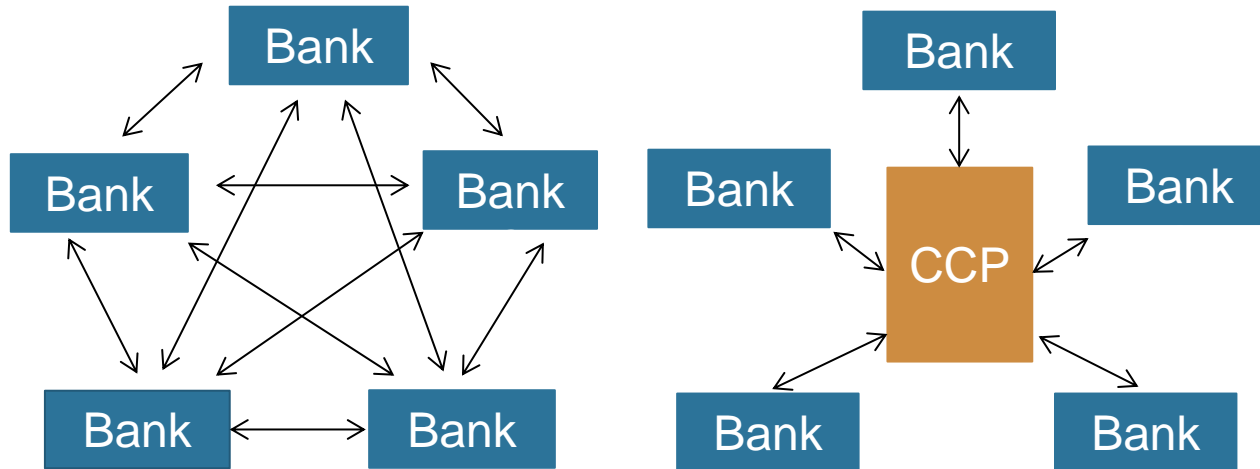
Evolving structures, new risks?

Two developments transforming the structure of the financial market

- increased use of central clearing for OTC derivatives
- Increased use of covered bonds by Norwegian banks



Bilateral versus central clearing



The unlikely heroes of the financial crisis

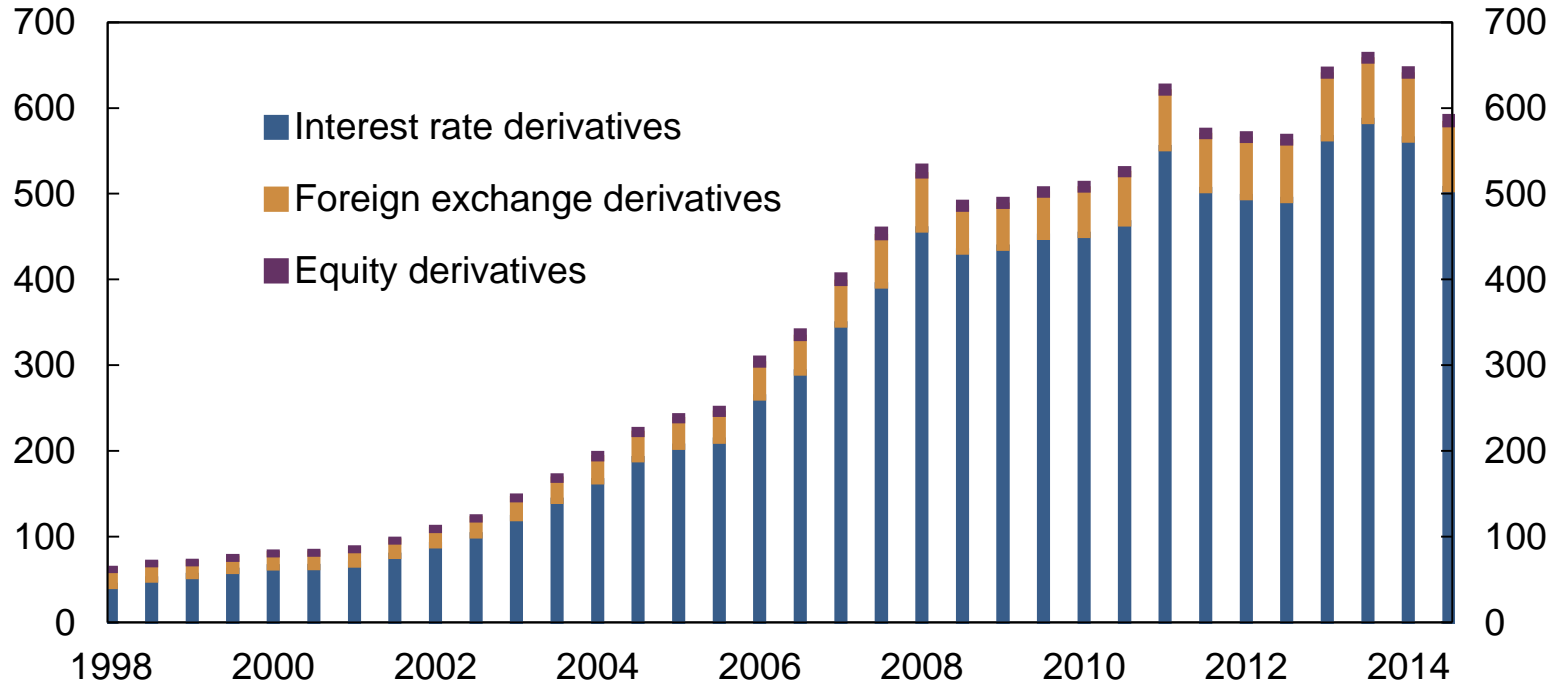
«(...) CCPs stepped in to rescue trillions of dollars worth of trades caught up in the Lehman collapse. Without their action, the global financial meltdown threatened by the failure of the 158 year old investment bank would have been an instant reality.»

Peter Norman: The Risk Controllers, p. 3

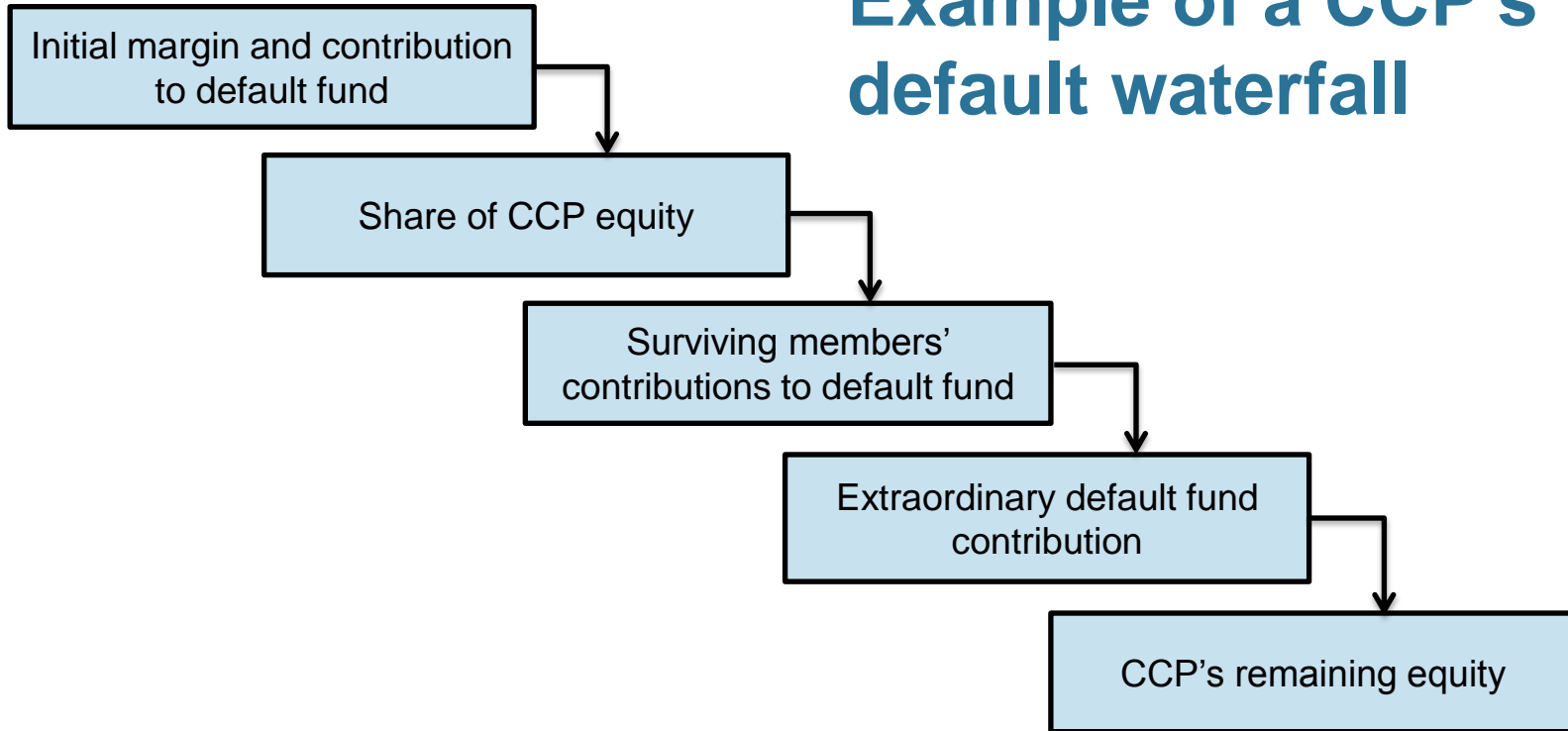


The market for OTC derivatives

Notional amounts outstanding. In trillions of USD



Example of a CCP's default waterfall



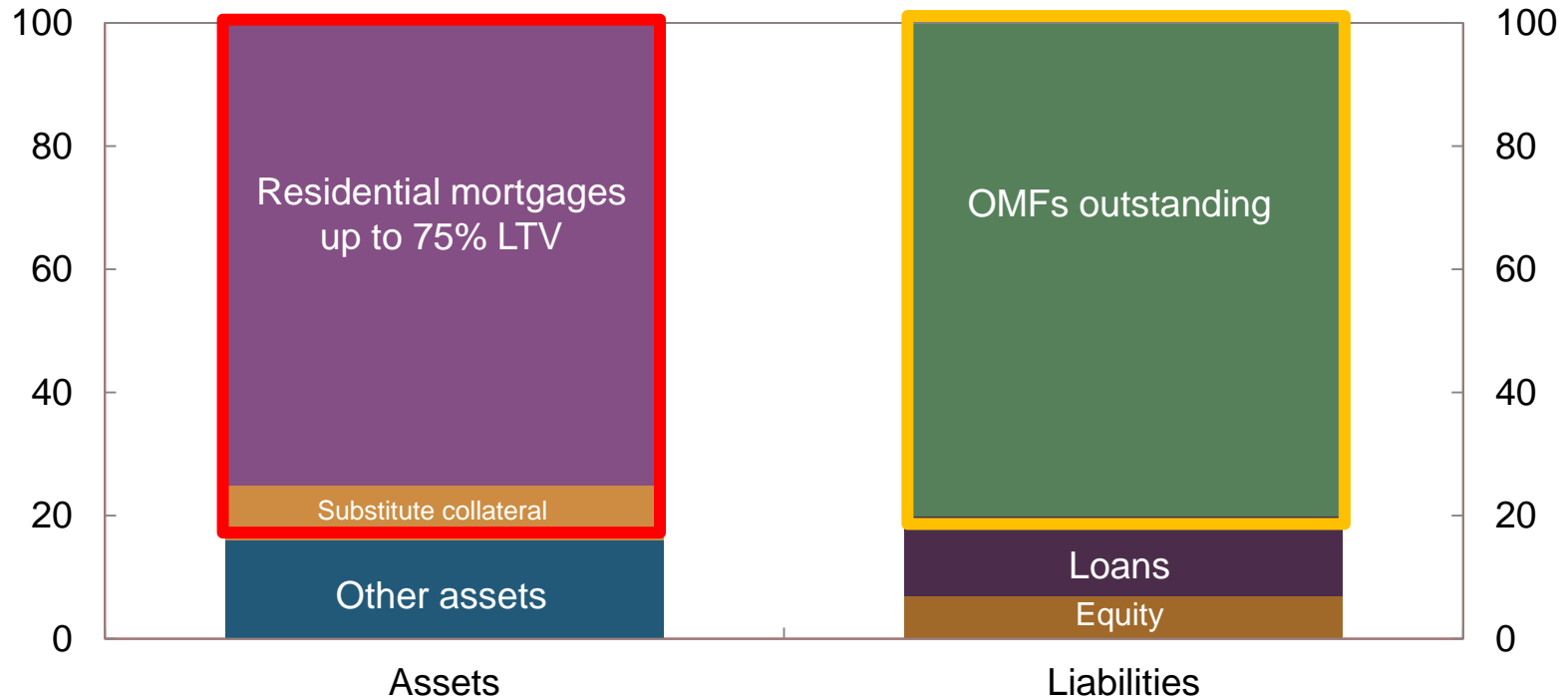
German Pfandbrief – the first covered bond

Prussian King *Frederick the Great* introduced the **Pfandbrief** system in 1769 to ease credit shortage in the aftermath of the Seven Years' War



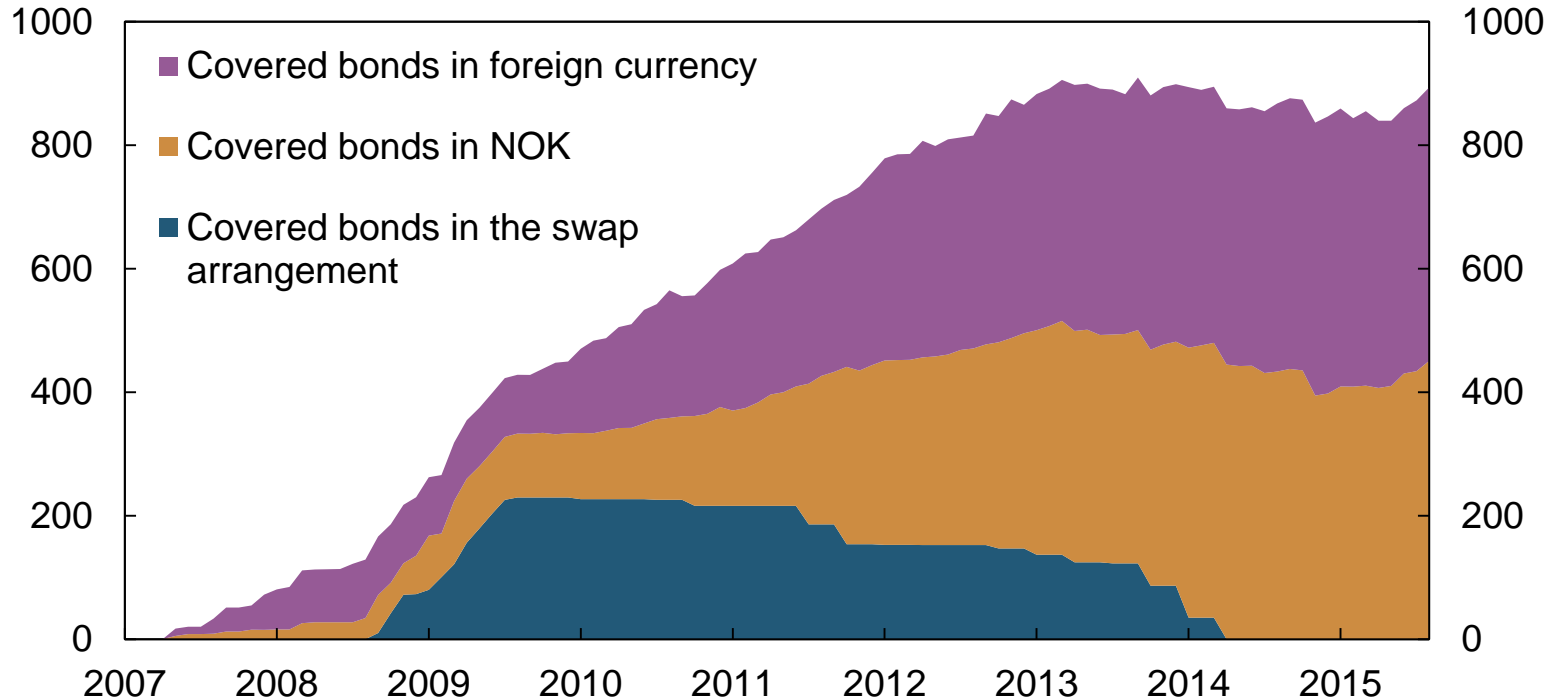
Mortgage company balance sheet

Eligible cover pool (red frame) must be equal to or exceed OMFs outstanding (yellow frame). Stylized example



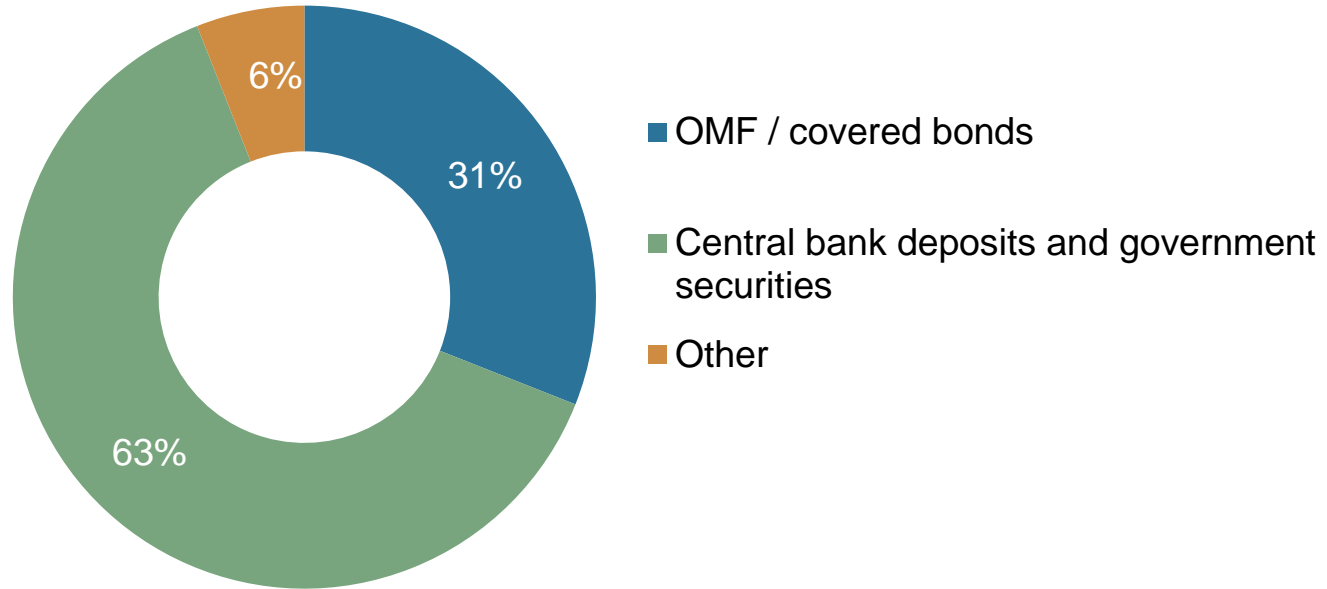
Outstanding covered bonds

Issued by Norwegian mortgage bond companies. In billions of NOK.



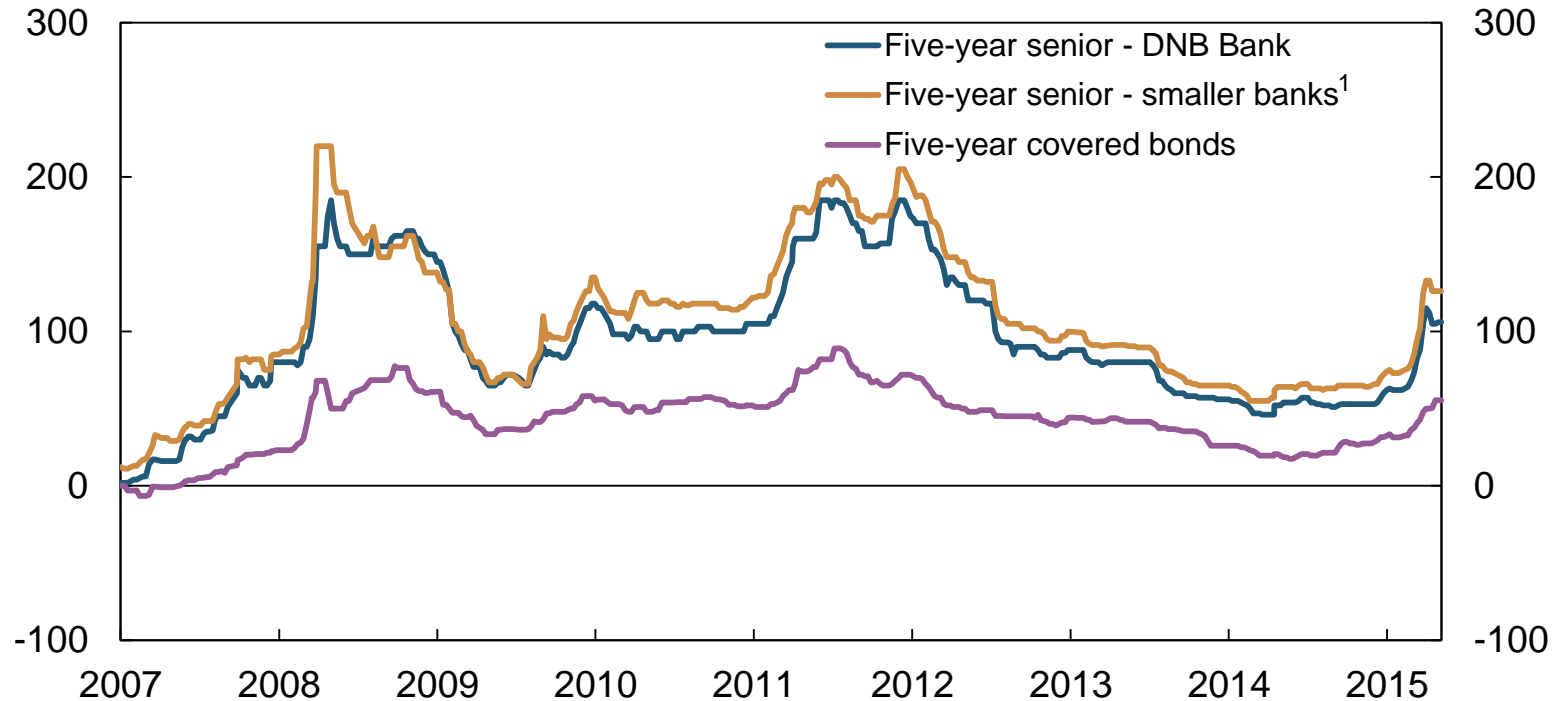
Norwegian banks' liquidity buffers

As of 30 June 2015. LCR definition



Bond risk premiums

Spread against 3-month NIBOR. Basis points.



1) Banks with total assets between NOK 5bn and NOK 15bn with an A rating from DNB Markets.

Sources: DNB Markets and Norges Bank



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