INNOVATION OF THE YEAR

WINNER: VALE SECURITIES FINANCE 2019-1

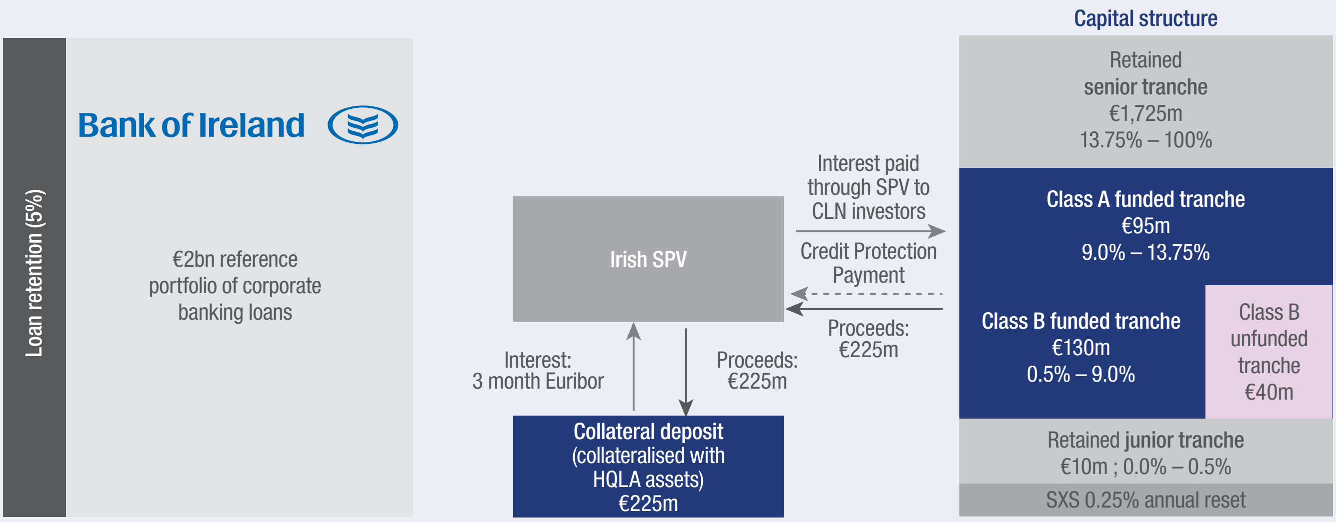
> “BOIG OFFERED CREDIT ENHANCEMENT TO THE DEAL THROUGH BOTH A RETAINED SYNTHETIC EXCESS SPREAD LAYER, WHICH RESETS ANNUALLY, AND A JUNIOR TRANCHE”

Unfunded protection has historically been focused on capital relief trade senior mezzanine exposures, but Bank of Ireland Group (BOIG) debuted a pari passu unfunded tranche alongside a funded junior mezzanine tranche in its €265m Vale 2019-1 deal from December 2019. The transaction also facilitated the refinancing of 2016's Grattan Securities, which had reached the end of its replenishment period. As such, this ground-breaking transaction is awarded SCI's CRT Innovation of the Year.

Vale 2019-1 references a €2bn portfolio of predominantly Irish and UK corporate banking loans. Bank of Ireland and Mizuho were joint arrangers on the deal, with Mizuho acting as sole lead manager.

Risk-sharing was achieved through the placement of class A senior mezzanine (9%-13.75%) and class B junior mezzanine (0.5%-9%) protection, the CLNs on which priced at three-month Euribor plus 4.75% and plus 9.75% respectively. The class A credit protection comprises €95m of CLNs placed with four investors. The €170m class B credit protection comprises €130m of CLNs placed with seven investors and a €40m bilateral unfunded credit protection deed (CPD) between Renaissance Re and BOIG. ▶

Structure overview



Tranche	Size (€m)	Attach – Detach %	Credit protection fee p.a.	Placed / Retained
Senior	1,725	13.75 – 100	NA	Retained
Senior mezzanine (funded)	95	9.0 – 13.75	4.75%	Placed
Junior mezzanine (funded)	130	0.5 – 9.0	9.75%	Placed
Junior mezzanine (unfunded)	40	0.5 – 9.0	NA	Placed
Junior	10	0.00 – 0.50	NA	Retained
SXS	5	0.25	Annual reset	

Source: Bank of Ireland Group

Transaction timeline

- **Pricing date –** 2 December 2019
- **Initial portfolio composition date –** 31 October 2019
- **Payment date –** quarterly commencing 28 January 2020
- **First optional call date –** December 2024
- **Scheduled termination date –** December 2029
- **Amortisation –** pro-rata subject to a subordination trigger event

Source: Bank of Ireland Group

investors, given that the unfunded market is not as developed as the funded market. "We developed the transaction as a funded deal, based on existing documentation, then tried to bring the unfunded investor on board in a way that didn't impact upon the funded side," he explains. "We achieved this by creating a side agreement with RenaissanceRe, which meant we could run both sides of the deal in parallel until the last minute, when the split of funded and unfunded was decided. We had the deal fully allocated as a funded deal as a fall-back position while we completed the regulatory engagement, but ultimately including an unfunded portion was the most economically attractive option."

One additional complication that the arrangers addressed was switching some exposures from a granular and undisclosed portfolio (Grattan) to a less granular and semi-disclosed portfolio (Vale). "The Vale structure wasn't only about creating pricing tension; the primary benefit was expanding the investor base and achieving a de-risked execution. Having a deeper investor base helps, especially in regards to the included undisclosed names in the corporate loan asset class," McNamara concludes.■

The transaction is ground-breaking in that both funded and unfunded investors participate side-by-side in precisely the same risk, based on Clifford Chance's drafting of the unfunded credit protection deed to reference one core CPD. This was achieved by including a condition in the core CPD that provides for a 'multiplier' that determines the size of the funded portion of the class B tranche.

This unique structure allowed Mizuho, in turn, to leverage competitive tensions between both funded and unfunded investors to optimise the efficiency of the deal for BOIG. Oversubscription of the class A and B tranches at circa 1.5x and circa 1.3x respectively at final terms were representative of market support for the deal. A diverse investor base – comprising a mix of new names and some of those involved in BOIG's previous deals – participated in the transaction, with interest from across Asia, Europe, the UK and the US.

BOIG offered credit enhancement to the deal through both a retained synthetic excess spread layer, which resets annually, and a junior tranche. BOIG may replenish the portfolio during the first two years and the transaction features an optional call exercisable after five years.

Alan McNamara, head of financial solutions and markets execution for BOIG, notes that the bank initially focused the marketing of Vale on a group of traditional funded

Alan McNamara, Bank of Ireland Group

> "THE VALE STRUCTURE WASN'T ONLY ABOUT CREATING PRICING TENSION; THE PRIMARY BENEFIT WAS EXPANDING THE INVESTOR BASE AND ACHIEVING A DE-RISKED EXECUTION"

HONOURABLE MENTION: **ELVETIA PROTECTION FACILITY**

Credit Suisse closed in 2Q20 an unfunded dynamic hedge facility that enables it to draw down protection on an undisclosed portfolio of income-producing real estate when needed. Protection is in the form of a financial guarantee provided by RenaissanceRe.

Under the facility, the bank has a recurring option to purchase protection, such that the size of the portfolio and the protection can be adjusted to meet its capital requirements every quarter. This is achieved by pro-rata amortisation, with a trigger to sequential amortisation in the case of a default.

The portfolio can be ramped up to a maximum of Sfr2bn, at which point it will provide roughly Sfr87m of protection. The risk premium payable by Credit Suisse is based on the prevailing tranche size in the respective quarter, subject to a minimum facility commitment fee.