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Nov-Dec 2016

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**EUR 1,000,000,000**

1.875% Tier 3  
Due 2022

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SEPTEMBER 2016

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**EUR 1,000,000,000**

4.750% Subordinated Debt  
32NC12  
Due 2048  
Global Coordinator,  
Sole Structuring Advisor  
& Sole Bookrunner

Joint Bookrunner

SEPTEMBER 2016

**LANDESBANK BADEN-WÜRTTEMBERG**

**EUR 500,000,000**

Tier 2  
September 2026  
(10-year Bullet)

Joint Bookrunner

SEPTEMBER 2016

**AXA SA**

**USD 850,000,000**

4.500% Undated  
Subordinated Debt  
PerpNC5.5

Joint Lead Manager

MAY 2016

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MAY 2016

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4.375% Subordinated  
T2 Notes Due 2027

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MAY 2016

**CRÉDIT MUTUEL ARKEA**

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3.250% Tier 2  
Subordinated Note  
Due 2026  
Global Coordinator,  
Joint Structuring Advisor  
& Joint Bookrunner

Joint Bookrunner

MAY 2016

**SCOR SE**

**EUR 500,000,000**

3.625% Subordinated Debt  
32NC12  
Due 2048

Joint Bookrunner

MARCH 2016

**AXA SA**

**EUR 1,500,000,000**

3.375% Subordinated Debt  
Due 31.25NC11.25

Joint Structuring Advisor  
& Joint Bookrunner

MARCH 2016

**COMMERZBANK**

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Tier 2  
March 2026

Joint Bookrunner

JANUARY 2016

**CRÉDIT AGRICOLE S.A.**

**USD 1,250,000,000**

8.125% Additional Tier One  
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& Sole Bookrunner

NOVEMBER 2015

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Subordinated  
Tier 2 Notes 5.179%  
Due 2025

Joint Bookrunner

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# Get with the programme



As surely as night follows day, the turn of the year is accompanied by nuggets of wisdom for the coming year, and the perennial favourite is as popular as ever: timing will be everything.

But is that really the right attitude?

Agreed, we have increasingly witnessed a “windows market”. However, after the surprises of Brexit and president-elect Trump, surely market participants should be getting used to being wrong. And if market prices better reflect this, windows should be getting wider, not narrower.

Signs of the market adopting such pragmatism were evident after the defeat of Matteo Renzi in Italy’s constitutional referendum (remember our Italian cover, anyone? Dave’s “Your problem now, Matteo?”). One syndicate head even went as far as to suggest the Italian prime minister’s loss and resignation was a non-event.

Will the reaction be so sanguine if Wilders or Le Pen win in 2017?

Fortunately, the powers that be are helping smooth the transition to the new normal of known unknowns.

The European Commission seems to have taken on board many voters’ rejection of Brussels’ prior direction in its agenda with its new financial regulatory package. Meanwhile, the central banks of the world appear ready, if not happy, to act even as political movements appear to go not forwards, but backwards. Whatever it takes, indeed.

In the UK, Brexiteers have dubbed those who voted to remain in the EU Remoaners, determined to find bad news rather than face facts. While such criticism may be hard to take — coming from those who themselves seem at times detached from reality — it does at least speak for a forward-looking approach.

Issuers who accept reality rather than fight it will be the winners in 2017.

Neil Day,  
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# Market news

## Expectations high after year-end upside surprise

Financial institutions issuance enjoyed an unprecedentedly buoyant year-end in 2016, with a trio of European issuers selling Additional Tier 1 (AT1) instruments in a variety of formats, and 2017 is also expected to open with an historically high level of activity.

In spite of the traditional year-end overall winding down of supply, BNP Paribas reopened the AT1 market on 7 December with a \$750m 6.75% perpetual non-call 5.25 year deal. Issued off the back of reverse enquiries, the transaction ultimately attracted some \$6bn of orders. Swedbank then took advantage of the apparent demand for the asset class two days later to sell a \$500m 6% perpetual non-call 5.25 year deal on the back of almost \$3bn of demand.

The extent to which the market remained open was then highlighted by a Eu500m AT1 private placement by UniCredit on 14 December, just 10 days after prime minister Matteo Renzi's loss in Italy's constitutional referendum and resignation, and in the midst of efforts to support Banca Monte dei Paschi di Siena.

"UniCredit decided to proceed with the transaction after the positive market response to their 2016-2019 strategic plan, Transform 2019, announced yesterday and to continue to strengthen its capital base especially in view of the new SREP which will now factor in a Tier 1 and Total Capital Ratio requirement," said the bank.

The perpetual non-call 5.5 securities were priced with a coupon of 9.25%.

"It just demonstrates the appetite for high beta instruments with high coupons in a context where you clearly see and feel that the quantitative easing in place keeps on delivering in full effect," said a syndicate banker.

Indeed, the delivery of an anticipated extension of the European Central Bank's asset purchase programme on 8 December to at least December 2017 maintained market confidence, even if a reduction in buying from Eu80bn to



Eu60bn per month led to a semantic discussion over whether or not this constituted any tapering.

In the midst of the AT1 activity Crédit Agricole and Société Générale on 13 and 14 December, respectively, launched the first French senior non-preferred deals (*see separate news article and case study*), attracting an aggregate Eu8.5bn-plus of demand for their Eu1.5bn 10 and Eu1bn five year issues.

**'The QE in place keeps on delivering in full effect'**

"The good news obviously came from Draghi on the 8th, with the extension of QE," said Vincent Hoarau, head of financial institutions syndicate at Crédit Agricole CIB. "It was apparent in early December that the market is extremely liquid, with many investors not necessarily keen on delaying investment and waiting until January — which is a little bit surprising, but we witnessed that on BNP, Swedbank, UniCredit — despite the Italian context — and thereafter CASA and SG.

"To be frank, it was quite amazing for the late time of year, but the success of these deals is very promising for the beginning of 2017."

The French bank itself on 27 December mandated a dollar follow-up to its senior non-preferred opener and Hoarau said he understands other issuers to be targeting similarly early issuance.

"I expect, more than ever, borrowers to front-load massively in January," he said. "I can see it already from the number of calls we had mid-December with issuers even willing to test the market just after our senior non-preferred transaction."

The rationale for the front-loading could, however, ultimately lead to spread widening and is furthermore based partly on concerns about hiccups further into the 2017 calendar.

"We don't know what is going to happen after Trump's inauguration on 20 January, and then you have the Dutch election [March] and French election [April], where you could have some bad surprises," said Hoarau, "and we all know that tapering will definitely be a topic again at the beginning of Q2. You could therefore have some volatility on the gov-vie front, which could trigger a spillover into covered, then senior and into higher beta instruments. Meanwhile, supply in TLAC/MREL-eligible instruments may be excessive.

"So I suspect everyone will try to do all they can before they enter their black-out periods in January." ●

## CASA primes EU-wide senior non-preferred mart

Crédit Agricole launched the first issue of the new class of French senior non-preferred debt on 13 December, a Eu1.5bn 10 year issue that came just two days after the respective law was promulgated and three weeks after European Commission proposals positioned the French instrument as a blueprint for the rest of the EU.

After CASA's inaugural issue attracted over Eu5bn of demand, Société Générale the next day attracted some Eu3.5bn of orders to its debut, Eu1bn five year senior non-preferred transaction, and already Crédit Agricole has mandated for a dollar issue in the New Year.

The new class of debt has been created to give French banks an instrument that sits in between traditional senior unsecured debt and subordinated instruments, above Tier 2 in the capital structure, thereby allowing them to meet TLAC/MREL requirements without clashing with any other types of debt outstanding — as other proposed solutions have — and without having a HoldCo/OpCo structure.

In a package of regulatory proposals on 23 November, the European Commission put forward such a senior non-preferred instrument as an EU-wide solution — a move that only amplified the importance of the French opening.

"2017 will be the year of senior non-preferred," said Vincent Hoarau, head of financial institutions syndicate at Crédit Agricole. "In some jurisdictions issuers are now trying to anticipate the transposition of the directive into their domestic legislation and adapting documentation so that they can even issue before anything is done and dusted."

Crédit Agricole was first to show its hand, announcing on Thursday, 8 December its intention to market a euro or dollar benchmark after the anticipated promulgation of Loi Sapin II, the package of measures including the senior non-preferred legislation that ultimately came into effect on Sunday, 11 Decem-



France's Assemblée Nationale  
Photo: Gpesenti/Wikimedia Commons

ber. This paved the way for the French bank to announce a 10 year euro on the Monday and launch the landmark trade on Tuesday, 12 December.

The deal — rated Rated Baa2/BBB+/A — was priced at 115bp over mid-swaps, following initial price thoughts (IPTs) of 125bp-130bp and guidance of 120bp plus or minus 5bp. Market participants put the pick-up over Crédit Agricole's outstanding senior preferred debt at around 40bp, positioning the deal around 30% of the distance between its senior preferred and Tier 2 issuance.

"The facts demonstrate that investors understood the deal perfectly well because the total size of the book was above Eu5bn, which is quite unusual and very notable for senior debt," said Olivier Bélorgey, head of the financial management department, Crédit Agricole.

*(See case study for more on Crédit Agricole's deal.)*

Société Générale chose the five year maturity for its senior non-preferred debut, going out with IPTs of the 105bp area, then guidance of 95bp plus or minus 5bp, before pricing for the Eu1bn issue was set at 90bp over mid-swaps on the back of some Eu3.5bn of orders.

A syndicate official away from the two deals said that the relative pricing stood the nascent asset class in good stead.

"The deals are performing in the secondary market and therefore should represent a further good pricing reference in the global MREL/TLAC saga," he added.

Crédit Agricole in late December mandated a five and/or 10 year dollar follow-up to its inaugural trade and supply of the new instrument is now expected to pick up — initially from French peers, whence BNP Paribas is deemed the biggest potential source of supply, and subsequently from elsewhere in Europe.

"Market participants are looking forward to the proposed introduction of a harmonised insolvency framework for EU banks and the addition of senior non-preferred debt at EU level proposed in the Commission's reform package, thereby enabling EU banks to have a dedicated Eligible Liability for MREL purposes other than current Own Funds (CET1, AT1, Tier 2)," said Doncho Donchev, capital solutions, DCM, Crédit Agricole CIB. "The Commission has a priority on this legislative proposal and wants to see it ideally transposed by Member States by end-June 2017, with validity in national law from 1 July 2017.

"Clearly, significant number of EU jurisdictions without national solutions are interested in this proposal, notably the Netherlands, Sweden, Spain, Italy and others." ●

## DNB reopens AT1 post-DB part II with \$750m

DNB attracted over \$5bn of demand and 350 accounts to a \$750m perpetual non-call 2022 Additional Tier 1 transaction on 11 October that was the first AT1 benchmark in dollars or euros in over a month and the first since renewed concerns around Deutsche Bank had hit sentiment.

Only two benchmark AT1 transactions had been launched in either dollars or euros since the summer break, with Barclays having issued a \$1.5bn deal on 24 August and Société Générale \$1.5bn on 6 September.

DNB had indicated at the start of the year that it planned to approach the market with a new AT1 transaction in 2016 to fill up its 1.5% bucket, but market conditions had earlier in the year not proven accommodating, according to Thor Tellefsen, head of long term funding at the Norwegian bank (*pictured*).

"Deutsche Bank upset the whole market in springtime," he said, "then there was a small rally in the summer, but then Deutsche came and upset it again. So it was a question of being prepared and ready to go, and after the market calmed down after the second Deutsche upset we decided to go to the market.

"There were a lot of unforeseen things that could have happened in the latter part of the year — the presidential elections, Fed and ECB meetings, etc — so it was a good idea to get it done. And in the end we thought it was a great outcome."

Leads Bank of America Merrill Lynch, DNB, Goldman Sachs, Nomura and UBS went out with initial price thoughts of the high 6s before moving to guidance of 6.5%-6.625%, will price in range, and ultimately set the level at 6.5%. The order book totalled \$5.2bn, comprising around 350 investors, against a deal size of \$750m (Eu706m, Nkr6.42bn), which Tellefsen said is the amount DNB needed to fill its 1.5% AT1 bucket.

"It came out at a very good level," he said. "Since the last AT1 transactions the market had been quite turbulent, so this transaction represented something of a reopening of the market and the price visibility wasn't that great."

"It traded very well and continued to



tighten," he added, "which is probably not surprising with an order book of \$5.2bn for a \$750m issue. It was very encouraging that there were more than 350 different investors in the book."

Dollars were chosen for two reasons, according to Tellefsen.

"The main reason is that we need dollars more than we need euros, because dollars suits our balance sheet better and gives us a hedge versus Norwegian kro-

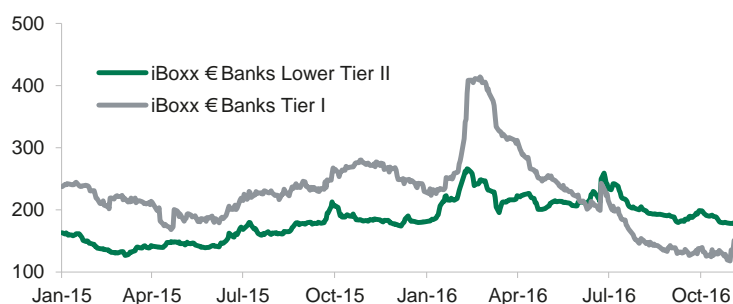
ne/dollar movement," he said. "The second thing is simply the after-swap cost: the cost of the dollar transaction was significantly lower than a euro transaction would have been."

Outstanding DNB AT1 were caught up in previous bouts of volatility partly because of headlines around the oil price — something the Norwegian issuer discussed in marketing ahead of the new issue.

"It was of course important for us to give an update on the Norwegian economy and show the market that in spite of the oil price drop Norway is still doing much better than most countries in Europe," said Tellefsen. "Norway still has one of the lowest unemployment levels, is still one of the few countries to run a budget surplus, and our oil fund is actually still increasing — although not as fast as previously.

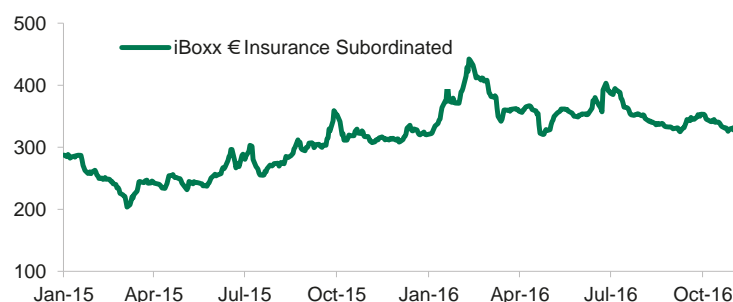
"And the fact that we still have a central bank rate of +0.5% should also tell you something about the Norwegian economy." ●

Secondary bank subordinated indices



Source: Markit, Crédit Agricole CIB

Secondary insurance subordinated index



Source: Markit, Crédit Agricole CIB



## DBS sets coupon low in debut US\$1bn AT1

DBS Group Holdings achieved the lowest ever coupon on a US dollar Additional Tier 1 benchmark on 30 August when it sold its first AT1 issue outside its domestic Singapore dollar market, a \$750m perpetual non-call five deal.

After a two day Asian roadshow and conference calls taking in European accounts, bookrunners DBS Bank (sole global coordinator), Citi, Deutsche, HSBC and Société Générale went out at the Asian open with initial guidance of the 4.00% area on the back of some \$2bn of indications of interest. With books approaching \$8bn as European interest started to come in, guidance was tightened to 3.65% plus or minus 5bp. The order book totalled around \$6.5bn at the ultimate 3.60% coupon.

"This was a challenging transaction, and the outcome was a strong endorsement of the firm, as well as a vote of confidence in the regulatory environment," said Yeoh Hong Nam, head of wholesale and structured funding at DBS (pictured).

"We feel it important to be fair to our investors and have always tried to price our transactions so they tighten modestly when trading opens," he added. "I think we settled on the correct coupon in the end, with the bonds trading tighter the next day, before settling above par."

He attributed the record pricing to a variety of factors, such as the rare investment grade AT1 ratings of A3/BBB+ from Moody's and Fitch.

"We were also at the end of a long summer break, during which significant cash levels had built up with the investor base," he added. "The absolute level of yields had also been squeezed much lower as central banks had flooded the market with liquidity following the Brexit vote.



"While the market was very conducive, the most important step was to get the story in front of investors. To that end we held detailed conversations with over 100 clients, mainly across Singapore and Hong Kong."

Yeoh said that other than the credit story and how DBS manages its exposures, investors were interested in the implementation of Basel standards in Singapore.

**'The outcome was a strong endorsement of the firm'**

"The regulatory environment in Singapore is known to be demanding, but this also worked in our favour as it means that the bank is coming from a position of strength, and is subject to the highest standards," he said.

A key difference in DBS's instrument to European AT1s was that it does not include a CET1 trigger. Loss absorption is only at the point of non-viability as determined by the Monetary Authority of Singapore (MAS).

"Following the Basel standards, Singaporean regulations do not require AT1 instruments to have CET1 triggers if cer-

tain requirements are met," said Yeoh. "This allowed us to offer an AT1 instrument where investors did not have to worry about a contractual CET1 trigger."

The transaction was DBS's first outside its domestic Singapore dollar market and Yeoh said that the issuer met its objective of diversifying and broadening its investor base.

"We have significant loan books and hence RWAs in US dollars whereas the majority of our capital base is in Singapore dollars," he said. "Adding US dollar capital is thus always of interest, as long as it's at a cost that is close to what is available in our home market. Diversification of the investor base has also been a theme over the last years, so we welcomed the opportunity to engage with the US dollar investor base in Asia.

"We were very happy with the high quality nature of the distribution," he added. "Even the allocations to private banks emphasized accounts that that we felt were holding the bonds for the long term and on an unleveraged basis. We also saw a large number of institutional names in the book who were new investors to DBS."

The transaction was only the second AT1 out of Asia, after ICBC (Asia) had in July priced a \$1bn perpetual non-call five deal, rated Ba1, at 4.25%.

Yeoh said that DBS's activity in bank capital should be modest in 2017.

"The bank is very well capitalised, with 16.5% Total CAR, 14.4% CET1 and a leverage ratio of 7.8%," he said. "So if we do come to market for capital in 2017 it is unlikely to be in very large size.

"The preference for US dollar capital remains, so we would most likely prioritise that market assuming pricing was close to what we can achieve in Singapore." ●

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## SEB tempted into early Tier 2 prefinancing

Skandinaviska Enskilda Banken (SEB) took advantage of attractive funding available in Tier 2 to prefinance a 2017 call with a punchy Eu850m 12 year non-call seven subordinated issue on 24 October that underlined the tight levels achievable by top Nordic names.

SEB had announced its third quarter results four days before launch, on 20 October, and as one of the first European banks to emerge from its silent period, the Swedish issuer could tap a window ahead of its peers — the trade was the first euro Tier 2 benchmark since LBBW sold a Eu500m 10 year bullet on 19 September.

According to John Arne Wang, head of funding and liquidity management at SEB, the bank felt that the levels available were too good to miss.

“The rationale for going to the market was not because we needed to raise any capital right now — far from it — but was purely based on how attractive we considered levels to be,” he said. “The transaction is to refinance a call coming up way into 2017 — in September 2017 — but even taking into account the negative carry we would have until then versus senior, the levels available looked quite attractive.”

Wang added that SEB also took into account the swings in Tier 2 spreads that have been a characteristic of much of 2016.

“There has been a lot of uncertainty when it comes to valuation of Tier 2s,” he said. “After a rather volatile spring, we saw Tier 2s trading way too cheaply in June, when everything else had rallied. That changed significantly during the summer months, when Tier 2 spreads tightened substantially, but we decided to prioritise a dual-tranche senior dollar benchmark which we went out with in early September.”

A further hurdle emerged on 20 September when the Swedish government fleshed out plans to end the tax deductibility of coupon payments on subordinated debt, which the country's banks had lobbied against. This raised concerns that tax calls on outstanding



Swedish Tier 2 securities could be exercised, hitting their spreads — even those, such as SEB's, without tax calls — in a market also feeling the fall-out of renewed concerns around Deutsche Bank's capital situation.

However, the market then settled down and provided the opportunity for SEB to tap the market after announcing its results.

“We didn't necessarily think that the market would turn again, but we felt that it had improved for some time and conditions looked quite promising, and this is the type of instrument that you want to issue when the market is constructive on all fronts,” said Wang.

**‘The levels available looked quite attractive’**

Lead managers Bank of America Merrill Lynch, BNP Paribas, JP Morgan, SEB and UBS went out with initial price thoughts of the 150bp over mid-swaps area for the Eu850m 12 non-call seven transaction, rated Baa1/BBB+/A+, and were ultimately able to price the issue at 135bp over on the back of over Eu2.2bn of orders from almost 160 investors.

Bankers away from the leads said the new issue premium was minimal and well inside the 10bp-20bp levels that other issuers might pay on subordinated issuance.

“When you think pretty much everyone who is coming in senior is paying 10bp new issue premiums, to get a sub deal away at their level is impressive,” said one. “One reason is that there hasn't been many deals, so there is pent-up demand.”

“But I think it is mainly that that region is just seen as very high quality, or rather, very low volatility.”

Wang said he saw the new issue premium in the low single-digits.

“I think it illustrates the fact that we represent a very strong credit,” he said, “and in the capital space in general we are a rare issuer with fairly limited outstandings. There has been rather significant ongoing demand for Tier 2 as well as AT1 from high quality issuers, and on that basis I don't find it that surprising that the NIPs then become quite compressed.”

The Tier 2 is SEB's first since May 2014. The Eu850m size was dictated by next year's Eu750m call and SEB's expected medium term Tier 2 needs, according to Wang.

Asset managers were allocated 64.3% of the new issue, pension funds and insurance companies 23.6%, banks 7.9%, hedge funds 2.1%, SSAs 1.2%, and corporates 0.9%. France took 32.3%, Germany 20.8%, the UK and Ireland 14.5%, the Benelux 12%, Finland 5.4%, Italy 4.1%, Switzerland 3.3%, Spain 2.5%, Sweden 1%, Canada 0.8%, Asia 0.3%, and others 3.0%. ●





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## CNP Eu1bn opens Tier 3, while insurers get USD fix

CNP Assurances launched the first euro benchmark Tier 3 transaction under Solvency II on 12 October, a Eu1bn six year that provided a highlight as most insurance companies turned to the dollar market for subordinated debt.

The French company's deal was the first Tier 3 from the insurance industry under Solvency II with the exception of a C\$450m 4.5% May 2021 issue sold by the UK's Aviva in spring.

Jean-Philippe Médecin, director for ALM and funding, said that the issuer fulfilled its several goals of adopting the new instrument: "Taking advantage of the new Solvency II regulation that allows Tier 3 subordinated debt as the cheapest form of regulatory capital; reducing the average cost of outstanding subordinated debt; partially fulfilling the Tier 3 regulatory bucket, which, unlike other insurance companies, is empty because of the absence of net deferred tax asset (DTA); and diversifying the investor base by issuing a more investor-friendly structure than the usual 30NC10 Tier 2 bond."

The BBB+ deal was priced at 190bp over mid-swaps, following initial price thoughts (IPTs) of the mid-swaps plus 225bp area and guidance of 190bp-200bp, on the back of an order book of over Eu5.5bn. This compared to outstanding CNP subordinated debt, 2045 non-call 2025s and 2047 non-call 2027s, trading at plus 360bp and 370bp, respectively.

"Today's transaction confirms that Tier 3 instruments can provide substantial cost-savings in comparison to traditional 30NC10 Tier 2s," said a syndicate official at Crédit Agricole, citing as key factors: no optional coupon deferral; mandatory deferral based on an MCR rather than SCR trigger; the shorter duration; and the absence of call option/extension risk.

"We expect the investor base to be receptive to follow-on transactions from the majority of insurers in Europe," he added.

(See CNP Assurances Q&A for more details.)



Elsewhere, insurers targeted the US dollar market, where the "fixed-for-life" structure had enjoyed a renaissance for the first time since 2013 after Prudential reopened the sector in May with a \$1bn 5.25% perpetual non-call five deal. According to a banker involved in the supply, the segment was opened after earlier financial institutions trades in Reg S format, notably bank AT1s, had elicited strong demand from Asia.

### 'Tier 3 can provide substantial cost-savings'

"So there were signs that there was money to put to work there," he said, "and then Prudential was the first one to go with the fixed for life format, which is a more aggressive structure without the normal step-up. As it's still recognised as Tier 2 capital, they get the benefit of this fixed for life structure and it's anyway cost efficient versus euros, which is all beneficial from an issuer standpoint."

Zurich, Allianz, then Prudential, and finally Axa all issued in the format from July though to September, with demand fluctuating alongside the development of yields, falling from the \$11bn-plus initially enjoyed by Prudential as coupons fell as low as 3.875% when Allianz

sold a \$1.5bn perpetual non-call March 2022 at the end of August.

"That was a bit of a reality check and traded down quite heavily," said the syndicate official. "It's very rates driven and hence became a bit more challenging with the US election and FOMC coming up."

"However, Prudential and Axa were still able to take advantage of the very attractive pricing. From an issuer's perspective, they managed to raise very efficient capital at very competitive levels."

A Eu1bn 32 non-call 12 Tier 2 issue for Crédit Agricole Assurances on 20 September reopened the euro market post-summer break for the format. The deal was priced at mid-swaps plus 435bp, following IPTs of the 450bp area, on the back of Eu2.5bn of demand from 170 accounts.

"It could have been Eu750m and we decided to go to Eu1bn thanks to the success of the deal," said Grégory Erpelin, CFO, Crédit Agricole Assurances (CAA). "It's a very good transaction for CAA."

(See CAA case study for more details.)

Norway's Gjensidige Forsikring meanwhile on 29 August launched the first Restricted Tier 1 (RT1) instrument, although the Nkr1bn transaction, coming from the periphery of Solvency II's sphere of influence, was deemed something of an idiosyncrasy. ●

## Dai-ichi Life sets \$2.5bn benchmark before HoldCo move

Dai-ichi Life sold a \$2.5bn subordinated perpetual non-call 10 issue on 13 July with the lowest coupon for such an issue among its peers, ahead of an October move to a HoldCo/OpCo structure for Japan's largest life insurer.

Dai-ichi Life Insurance Company's 144A/Reg S benchmark — rated A- by Fitch — was priced at 4%, the tight end of guidance of 4.125% plus or minus 0.125%, which followed initial price thoughts of 4.375%-4.50%, by leads Citi, Goldman Sachs, JP Morgan, Mizuho and Morgan Stanley.

"We are satisfied because both deal size and coupon level were better than our initial expectations," said Toshiaki Sumino, general manager, group management headquarters and corporate planning department, at Dai-ichi Life (pictured).

He said the issuer was able to take advantage of the prevailing low interest rate environment and tighter credit spreads in the dollar market, even though the market was temporarily volatile after the Brexit vote on 23 June.

"We internally discussed whether investors would be able to accept the timing of the note issuance, since it was only two weeks after the Brexit vote and two months before our structural change to be a holding company scheduled for October," said Sumino. "But once the deal process begun, we were amazed by the very positive feedbacks from investors."



"We originally thought we might have a low 4% coupon, but demand was so strong that we could go beyond that and achieve 4%. We really appreciate investors' deep understanding of the Japanese insurance industry as well as their support for our strategy."

The issuer previously sold a \$1.3bn perpetual bond in 2011, was the first Japanese insurer to raise hybrid capital in the format, and last tapped the dollar market in 2014.

"It is our basic policy to raise hybrid capital when it is necessary for our mid-to-long term growth strategy," said Sumino. "Going into 2016, we observed that dollar primary market conditions were

quite good, and it presented us with a great opportunity to strengthen our capital base for future growth as well as to mitigate downward pressure caused by BoJ's Negative Interest Rate Policy."

The move to a HoldCo/OpCo structure became effective on 1 October, but Sumino said that Dai-ichi Life's capital strategy will not change.

"We will continue to elaborate our group management further, including group capital strategy," he said.

"When issuing new notes we will decide the appropriate issuing entity taking into account use of proceeds, financing cost, etc." ●

### League tables

Bookrunners all European FI hybrids (euros and US dollars)  
01/01/2016 to 19/12/2016

	Managing bank or group	No of issues	Total EUR m	Share (%)
1	HSBC	27	8,574	10.9
2	BNP Paribas	26	7,598	9.6
3	UBS	29	7,021	8.9
4	Barclays	17	5,759	7.3
5	Citi	27	5,059	6.4
6	JP Morgan	25	4,397	5.6
7	Deutsche Bank	17	3,808	4.8
8	BofA Merrill Lynch	23	3,804	4.8
9	Goldman Sachs	21	3,436	4.4
10	Crédit Agricole CIB	12	3,357	4.3
11	Morgan Stanley	20	3,000	3.8
12	Credit Suisse	13	2,443	3.1
13	Société Générale CIB	14	2,105	2.7
14	Natixis	10	1,756	2.2
15	Standard Chartered	8	1,320	1.7
Total		138	78,243	

Source: Dealogic, Thomson Reuters, Crédit Agricole CIB

Bookrunners all financials (euros)  
01/01/2016 to 19/12/2016

	Managing bank or group	No of issues	Total EUR m	Share (%)
1	Goldman Sachs	44	18,425	9.8
2	Crédit Agricole CIB	31	14,990	8.0
3	HSBC	51	14,581	7.8
4	BNP Paribas	47	13,109	7.0
5	Deutsche Bank	43	11,414	6.1
6	Société Générale CIB	34	10,317	5.5
7	Citi	33	10,183	5.4
8	UBS	31	9,491	5.0
9	Morgan Stanley	28	9,318	5.0
10	Barclays	45	8,866	4.7
11	Natixis	19	7,957	4.2
12	JP Morgan	42	7,254	3.9
13	Credit Suisse	24	5,545	2.9
14	Commerzbank	22	4,444	2.4
15	BofA Merrill Lynch	26	3,875	2.1
Total		316	188,062	

Includes banks, insurance companies and finance companies.  
Excludes equity-related, covered bonds, publicly owned institutions.

# Senior non-preferred **CASA opens new segment**

Crédit Agricole launched the first senior non-preferred benchmark on 13 December, just days after the respective French law became effective and in the wake of the European Commission proposing EU-wide adoption of such an instrument. Crédit Agricole's Olivier Bélorgey and colleagues at sole bookrunner Crédit Agricole CIB discuss the landmark.

**Was issuing the first senior non-preferred deal an objective of yours?**

**Olivier Bélorgey, head of the financial management department, Crédit Agricole:** It was not really an objective. However, we felt that we had the strength and the legitimacy to offer investors a new asset class because right now we are among French banks the one with the strongest ratios — in terms of CET1, total capital, and TLAC, with no shortfall anywhere — and rank third among European G-SIBs. We have a total ratio of 19.2%, and if you add in 0.5% for Tier 2 debt that has a remaining maturity below five years and is therefore not taken into account in regulatory ratios but still counts towards TLAC/MREL ratios, it makes 19.7%, which — given the amount of our RWAs — equates to around Eu100bn of protection ahead of this new asset class.

And the corollary of that is that Crédit Agricole's needs by year-end 2019 are quite small versus its peers. For that reason, setting the benchmark for this new segment ahead of our peers made sense. The market understood clearly that they wouldn't have to require any kind of premium for strong supply that might have polluted the first reference for this new instrument.

**Bernard du Boislouveau, FI DCM, Crédit Agricole CIB:** That's also a reason why a bullet structure was chosen instead of a callable — to offer a pure benchmark that is based on the

quality of the balance sheet of the issuer in question and not polluted by external factors like call options, as we have seen in other similar segments. And a 10 year is the best possible benchmark in the euro market to reflect the issuer's needs, market depth, and also the prestige of this long maturity versus shorter terms.

**Bélorgey, Crédit Agricole:** Regarding the timing, we had also indicated to the market in March, when discussing our Medium Term Plan, that we had Eu3bn to do per year in senior non-preferred before the end of 2019 but including 2016, because at that time everybody thought that the new French law would be approved more quickly than it was. The

## Setting the benchmark for this new segment made sense

market of course fully understood that we had to postpone our plans a little given that the law hadn't been voted on, but it was a good sign for the market that we try to deliver as soon as we could.

And it was good ALM management to issue before year-end so that we have a little less to do in 2017, because we had indicated to the market that we had Eu6bn to do before the end of 2017. All these figures have to be taken with some caveats due to possible external factors, but under the as-





sumptions behind our Medium Term Plan we now only have Eu4.5bn to do in 2017.

**To take a step back, what was the French government's key aim of introducing this type of instrument, of which we have seen other variants in other countries?**

**Bélorgey, Crédit Agricole:** I want first to mention that this solution was elaborated by the French banks globally and was the solution presented by the French banks to the French government as their preferred option.

We wanted to find a way to replicate for banks which do not have a holding company (HoldCo) and operating company (OpCo) structure a way to achieve TLAC requirements with a dedicated instrument — this new senior non-preferred

though we have not yet disclosed the funding programme for 2017, if you imagine that they will remain in the same area of Eu14bn, then even with Eu4.5bn of senior non-preferred to do, you can clearly see that we still have reasonably large pure funding needs.

This really is an issue for every French bank because due to tax incentives a lot of household savings are going through life insurance companies or regulated savings accounts partially centralised to Caisse des dépôts et consignations (Livret A), and the loan to deposit ratio of French banks is over 100%, around 115%. So French banks still have a need to fund themselves in the wholesale markets even if they have to comply with very high TLAC requirements.

**To what extent might this new instrument replace Tier 2?**

**Bélorgey, Crédit Agricole:** It won't, because in order to optimise the capital structure you have to retain 2% of Tier 2, or you can have perhaps 2.5% — each institution will decide. And if you want this instrument to be really different from Tier 2 in terms of pricing, you have to maintain a Tier 2 layer of sufficient thickness.

**You announced the deal on the Thursday, then had an intensive marketing period. What were the key messages you were getting across, and how did investors respond?**

### Investors understood the deal perfectly well

is more or less the equivalent of the debt that is issued by the holding company of a bank with a HoldCo/OpCo structure.

Many investors asked us if we will continue to issue senior preferred debt, and so the answer is yes. Our total funding programme at Crédit Agricole SA level for 2016 was Eu14bn, of which we planned to do Eu4bn in hybrid instruments — Eu1bn of AT1 and Eu3bn of senior non-preferred — and al-

**Bélorgey, Crédit Agricole:** The facts demonstrate that investors understood the deal perfectly well because the total size of the book was above Eu5bn, which is quite unusual and very notable for senior debt.

There were questions about why we were issuing at this time, and on top of what I have already said it was because the market is good right now. We are in a windows market, so even if we were clearly just before Christmas, the market remained very bullish and we wanted to take advantage of that.

Investors also wanted us to confirm our needs in terms of bail-in-able debt, while other questions centred on the structure itself: Is it really a bullet? Is it really vanilla? There were a couple of questions on the ratings, too, because rating agencies' methodologies for this instrument are clearly not at all alike and the outputs are very different: Moody's rates this new bond Baa2, S&P BBB+, but Fitch A. Even if the rating agencies say that we shouldn't compare ratings between agencies but with between issuers, it is remarkable to have such a difference. So even if investors are somewhat familiar with the rating agencies' methodologies, they wanted me to confirm them and comment a little.

**Doncho Donchev, capital solutions, DCM, CACIB:** This difference in rating methodologies is anyway something already well known among investors. If we take the HoldCo issuance, the same rationale applies. Investors are used to that. Beyond these rating methodologies, investors were fully aware of the advantages for them of investing in this brand new instrument.

**Du Boislouveau, CACIB:** We also had various questions on the strategy — i.e. are you intending to go for a bullet trade, maturity, choice of currency, size of the contemplated transaction(s), etc — and the needs of Crédit Agricole globally, but no real specific questions from a pure structuring point of view, meaning that these investors were to a certain extent up to speed on this product. And indeed we saw that when we decided to go ahead on Monday the following week.

**Bélorgey, Crédit Agricole:** In terms of maturity and currency, we have answered that we will fulfil the vast majority of our needs in our two main currencies of issuance, euros and dollars, and that we will favour long-dated instruments. At the end of the day, our total needs for old-style Tier 1, Tier 2 and bail-in-able debt will be around Eu30bn, and if you don't want to have amortisation concentration, you need to have rather long term instruments, and this means we will issue between five and 15 years for this new instrument.

Given the fact that we will anyway issue in euros and dollars and between five and 15 years, we didn't have something



Olivier Bélorgey, Crédit Agricole

specific in mind for this first deal, because we will adjust and adapt our maturity profile and relative needs in terms of currencies issue after issue. We were therefore absolutely listening to investors' needs, indicating that we were fully flexible and that we will issue the deal in the currency and with the maturity fitting the biggest investor interest, and obviously in this instance this was for 10 year euros.

**What do you think of the pricing outcome in relation to where senior preferred and Tier 2 are priced?**

**Bélorgey, Crédit Agricole:** The trade came fully in line with our expectations for a first deal. And that was part of the core of my presentation: what rationale do you have to take in order to price this kind of instrument. We think that the first rationale is the capital structure, and the strength of the capital structure, the amount of capital and debt you have to protect this instrument. The second element is the supply and the amount you intend to issue, which can obviously have an impact on the price. For those two elements, we thought that we had some competitive advantage versus our French peers.

A way to consider the valuation of this instrument is to compare the price for bail-in — what kind of spread you have above senior preferred debt — relative to the price for subor-

**This new instrument is indeed closer to senior**

dination — the spread between Tier 2 and senior preferred. So if you calculate the ratio of the spread of this debt above senior debt, and the spread of Tier 2 above senior debt, you exclude the price of pure funding, pure liquidity, and you have the ratio between bail-in and Tier 2 subordination. And in our case, if you do the maths — and also take into account the fact that for a primary deal you have some need to pay a new issue premium, so work with the fair value of the deal — we issued with a ratio of around 30%.

**Vincent Hoarau, head of FI syndicate, CACIB:** We are paying 30% of the distance, so it's a good result. Very few investors had a strong view that this product should price closer to Tier 2 than senior.

Overall, the price sensitivity was very limited and the performance in the secondary market proved we were spot-on, taking into account the size element. The bonds traded three basis points inside re-offer when the market closed for the year.

**Michael Benyaya, capital solutions, DCM, CACIB:** This new instrument is indeed closer to senior and also logically

trades tighter than a HoldCo bond, having no downstream constraint on the use of proceeds. Actually, this new bond category benefits from a clear positioning in the waterfall and investors understood that perfectly.

**That all seems very positive. Were there any particularly challenging elements to getting the deal done, apart from waiting for the law to come in?**

**Bélorgey, Crédit Agricole:** Actually that was the biggest challenge. The main other point of discussion was the currency (choosing between US dollars and euros), because we had very strong interest in each, and it was a question of considering where the interest was the strongest. This was not an easy solution considering the very supportive feedback we had on each currency but the deal proves we made a very good choice.

### The so-called French solution is very simple

**Hoarau, CACIB:** We considered all options in terms of maturity and currency, but on Monday everyone was screaming for a euro trade. Being a French bank, it was a little bit more natural to open up the domestic market before doing dollars, though feedback was extremely positive across the board and the pricing difference was marginal. Appetite for the long end was very clear after Draghi gave clarification on what's going to happen in terms of QE, so the ground was there for a good trade.

**Are you anticipating a broader interest in this new funding tool across Europe?**

**Bélorgey, Crédit Agricole:** In its draft of BRRD2 the European Commission requires member states to introduce this new instrument into their national law — also giving some grandfathering for the German solution. At the end of the day,



Vincent Hoarau, Crédit Agricole CIB

the idea is that across Europe you have effectively two dedicated instruments, one for TLAC and one for funding.

How did we achieve that? I think it's because the so-called French solution is very simple: a new instrument very clearly positioned in the capital structure from the beginning to the end of the product. It fits an effective requirement. Allows to optimise the cost of the total TLAC requirement. Well, I think that's why it has been adopted by the Commission. Of course, we had to go and see some other banks in other countries to

explain what we have done, but we were very well received by the other banks globally, which had also lobbied towards their own governments to go that route.

**Might you market this to retail?**

**Bélorgey, Crédit Agricole:** Potentially yes, we could, but we will be very careful in terms of distribution, because if we do, we have to distribute it in a manner whereby clients will understand very clearly what kind of product they are buying, with no confusion between two instruments that can be called senior — senior preferred and senior non-preferred. So if we distribute it in our network, we will take all the necessary precautions, and perhaps we can also more or less dedicate it to private banking or something like that so that the product is very well understood, without any mis-selling.

**Can you say anything further beyond what you indicated earlier in terms of 2017, even if budgets are not yet finalised?**

**Bélorgey, Crédit Agricole:** We said that the funding plan is not yet finalised because of our ongoing budget process, and we do not yet know the needs of our businesses. But it shouldn't be so different from 2016, in the same region but probably slightly above, at least because we will have to take into account the financing of Pioneer. ●

**Issuer:** Crédit Agricole SA, acting through its London branch

**Instrument:** Senior Non-Preferred Notes

**Issue rating:** Baa2/BBB+/A (Moody's/S&P/Fitch)

**Issue size:** Eu1.5bn

**Maturity:** 20 December 2026

**Coupon:** 1.875%

**Re-offer price:** 99.504%

**Re-offer spread:** 115bp over mid-swaps; 156.6bp over the 0% August 2026 Bund

**Sole structuring advisor and sole bookrunner:** Crédit Agricole CIB

**Distribution:**

UK and Ireland 40.3%, France 17.3%, Germany and Austria 11%, Benelux 9.1%, Italy 6%, Switzerland 5%, Nordics 4.4%, Spain 2.5%, others 4.3%

Asset managers 69.8%, insurance companies & pension funds 15.2%, private banks & banks 7.8%, hedge funds 5.5%, central banks & official institutions 1.6%, others 0.1%





**Issuer:** Woori Bank

**Issue type:** Basel III-compliant Additional Tier 1 subordinated notes

**Issue rating:** Ba3/BB+ (Moody's/S&P)

**Issue size:** US\$500m 144A/Reg S

**Maturity:** perpetual

**Coupon:** 4.50%

**First call date:** 27 September 2021

**Re-offer price:** 100.00

**Re-offer spread:** CT5+330.6bp

**Launch date:** 20 September 2016

**Non-viability event:** Designation of the Issuer as an "Insolvent Financial Institution" pursuant to the Act on the Structural Improvement of the Financial Industry

**Bookrunners:** BAML, Citigroup, Commerzbank, Crédit Agricole CIB, HSBC and Nomura (all active), BNP Paribas and Morgan Stanley (both passive)

**Distribution:**

Asia 60%, Europe 20%, US 20%

Fund managers/asset managers 71%, insurance companies 24%, banks/others 5%

Woori Bank launched the first foreign currency perpetual Basel III-compliant AT1 from South Korea on 20 September, a US\$500m perpetual non-call five deal. Here, Young Ho Suh, executive, and Hee Seung Yea, team head, foreign currency team, in Woori Bank's treasury department, explain the deal's background and execution.

**What was the rationale for this transaction?**

**Woori Bank:** It was to refinance the hybrid securities issued under Basel II which are maturing in May 2017.

**What were the determining factors for the currency and tenor?**

**Woori Bank:** Taking into account that the main purpose was to refinance the US dollar-denominated bonds, US dollars was considered a priority. And the investor demand for Korean won-denominated hybrid securities is somewhat weaker in the domestic market, so Woori Bank decided to tap the global capital markets with a US dollar issue, where there is ample investor demand for such securities.

The tenor was selected in line with market demand alongside Woori Bank's mid/long-term debt maturity profile.

**What was the feedback/response from investors during your roadshow?**

**Woori Bank:** From 11-20 July, Woori Bank conducted 26 one-on-one meetings and many group meetings with renowned institutional investors across the globe. Investors showed a lot of interest around various topics, including Woori Bank's privatisation process, Korea's implementation of Basel III, capital requirements from regulators, and Woori Bank's funding strategy.

Some investors asked questions about the restructuring of Korea's troubled shipping and shipbuilding industries, and how the restructuring process would adversely impact the asset quality of Woori Bank. However, investors were relieved of such woes, as Woori Bank's key ratios, such as NPL and delinquency rates, have constantly improved, on the back of the bank's proactive efforts to maintain high asset quality.

Consequently, Woori Bank was able to successfully launch the AT1 bond as numerous investors from the roadshow also participated in the offering.

**The market backdrop has not been easy to navigate this year. How did you pick your execution window to ensure a successful outcome?**

**Woori Bank:** It has been a difficult year to find optimal issuance windows, due to heightened market volatility stemming



from Deutsche Bank's capital woes, Brexit, and uncertainties around the Fed's rate hike. The pricing date was just one day ahead of the FOMC's rate decision, but Woori Bank decided to proceed considering there would be competing supply and heightened volatility caused by events such as the US election. We have to admit that it was a difficult choice, but consequently it was the right choice for Woori Bank.

**Were you satisfied with the pricing outcome and the order book?**

**Woori Bank:** Woori Bank issued the first Basel III-compliant AT1 bond in Korea last year with a coupon of 5.00%, the lowest ever achieved globally for its kind at that time. This year, we were able to further tighten the coupon rate by 50bp, i.e. to 4.50% on the back of a strong reception. And the investor base was also well diversified, with Asia taking 60%, Europe 20%, and the US 20%. In addition, it was the first foreign currency perpetual bond out of Korea.

**How do you see the AT1 market evolving for Asian issuers?**

**Woori Bank:** Asian hybrid securities have been deemed relatively safer investment tools versus European comparables, as can be seen in the defensive performance of secondary trading levels of Woori bank's AT1 bonds in spite of the adverse market sentiment amid Deutsche Bank's capital concerns. Korean hybrid securities are especially investor-friendly in terms of the structure and PONV, etc, as the bonds do not have any hard CET1 ratio trigger and are not eligible for sequential write-down. We believe that investor demand for Korean hybrid securities will remain robust, supported by the sufficient buffers and high chance of pre-emptive government support in the event of possible default.

**Would you like to comment on how you prepare your future issuance plans?**

**Woori Bank:** The funding plan for 2017 hasn't been decided yet, but given that the significant portion of loan loss reserve will be added back to CET1 upon the recent changes in banking regulations, we are expecting that our CET1 ratio will be enhanced by approximately 1.40%-1.50%. Therefore, we currently foresee no need to raise capital through AT1 or Tier 2 bond issuance. ●



# CNP Assurances

## Tier 3 open for business

CNP Assurances launched the first Tier 3 transaction under Solvency II in the euro market on 12 October. Here, Jean-Philippe Médecin, director for ALM and funding, and Stéphane Trarieux, funding department, at the French insurer explain how the new instrument fits into its capital stack and the implications for investors, as well as the execution of the landmark deal.

### What was the rationale for issuing a Tier 3 transaction?

**Jean-Philippe Médecin, CNP:** As for most European insurers, subordinated debt is a key element in our financial structure. The Tier 2 instrument has hitherto been widely used by issuers in the sector, and well known in the market. Under Solvency II, Tier 1 and Tier 3 instruments had barely been used, at least not in a major currency.

However, we considered that the Tier 3 format offered a lot of advantages and allowed us to better optimize our capital structure: firstly, it is fully eligible for regulatory capital requirements, as long as it respects the limits; secondly, it includes terms that are more investor-friendly than Tier 2 instruments, which makes tighter pricing possible. At the end of the day, the specific features we chose, notably a six year bullet maturity, allowed us to reach new accounts.

### What are the pros and cons for an issuer relative to other instruments?

**Stéphane Trarieux, CNP:** As we mentioned, a Tier 3 structure offers a number of benefits, especially for issuers who currently have a large bucket not used by DTAs (deferred tax assets).

The only drawback of this instrument is that it is ineligible for Total Adjusted Capital (TAC) in Standard & Poor's methodology. We considered that CNP Assurances already had a high level of TAC for its current rating and that the cost-saving compared to an S&P-eligible bond was significant enough to justify our choice.

### Were there any specific challenge in the structuring of this new instrument?

**Médecin, CNP:** Even though there were no Tier 3 precedents in the euro market, we did not encounter any major difficulties in structuring the instrument. The only point of discussion concerned its rank in the hierarchy of debt. Indeed, the old Tier 2 bonds we issued until 2014 did not allow the appearance

of a new class of "senior subordinated" instrument ranking between senior unsecured and Tier 2 instruments. At the same time, we had the feeling that a ranking senior to Tier 2 could improve the pricing on our side. So we opted for a dynamic subordination rank that we clearly specified in the prospectus: as long as old instruments are still outstanding, Tier 3 instruments will be considered as "ordinary subordinated"; thereafter they will become "senior subordinated".

### Could you explain why this instrument is considered the most investor-friendly insurance structure?

**Trarieux, CNP:** Out of the types of insurance subordinated debt, Tier 3 is the least risky instrument for investors. Indeed, there is neither optional coupon deferral, nor the possibility of deferral at the discretion of the regulator in the absence of a trigger being reached. Ultimately, coupon deferral may only occur in the event of a breach of the Mini-





CNP Assurances, Paris  
Photo: Philippe Eranian for CNP Assurances

mum Capital Requirement (MCR) — a very remote scenario. In our case, as of 30 June 2016, the distance to this trigger was Eu12bn (equivalent to a MCR coverage ratio of 280%). That can be compared to a distance to the SCR of Eu8.5bn for the Tier 2 issues. It is clear that in both cases we are far from the triggers, but even more so for the Tier 3. Finally, the six year maturity of our new Tier 3 issue represents a very low risk of extension, since the structure is not a 30NC10 like most of the Tier 2 issues.

#### How did you go about preparing the transaction and approaching the market?

**Médecin, CNP:** We have had the idea of issuing a Tier 3 instrument in mind for quite a long time. Nevertheless, we had to wait for Solvency II to come into force (1 January 2016) and to take into account the various constraints that every issuer faces.

Once the decision was taken, we vali-

dated with our bookrunners the strategy for approaching the market, which included a marketing phase a little more developed than for a Tier 2, though reduced in time to limit our exposure to market developments.

#### Why did you conduct some one-on-one investor calls?

**Trarieux, CNP:** CNP Assurances is a well-known name among investors, thanks to our regular roadshows and presence on the screens. We considered that the marketing of the new structure was the crux of the matter at least as much as explaining the group's latest developments. By carrying out many one-to-one investor calls over a limited period of time we were able to thoroughly explain the structure. Anyway, around two-thirds of the questions were related to the characteristics and the position of this instrument in our financing structure. A physical roadshow would probably not have been as efficient in this context, but we will of course keep or-

ganizing non-deal roadshows. The success of the transaction leads us to think that the one-and-a-half-day's of marketing through these investor calls allowed us to arouse the interest of and convince investors.

#### How do you go about pricing such a new instrument?

**Médecin, CNP:** You can imagine that, with no comparables on the euro market, the price discovery angle was prominent in this project. Two approaches were possible: starting from senior debt and adding the premium for the subordination and the deferral clause; or starting from a Tier 2 instrument and removing the spread linked to the less investor-friendly features. The two approaches ultimately arrived at results that were not so far apart, with a landing point around 200bp, new issue premium included. At the end of the day, the Tier 3 instrument came out at very competitive levels versus a Tier 2 instrument, and our goal was fulfilled.



Stéphane Trarieux and Jean-Philippe Médecin, CNP Assurances

#### What was the response from investors like?

**Trarieux, CNP:** Investors were very interested in the new structure. They recognised the relevance of the instrument for both CNP and their bond portfolios. Their views on the pricing differed, but they almost all validated the final level by maintaining or even increasing their orders.

#### Was the level of demand in line with your expectations?

**Médecin, CNP:** We were expecting a strong demand on this relatively low-duration subordinated instrument because of the wider conditions on the

credit markets: we were offering an attractive yield in a market distorted by the CSPP (Corporate Sector Purchase Programme). We were not worried about the reception this instrument would get, and price discovery was ultimately very satisfactory for us.

#### Was the distribution in line with your previous transactions? Did you see any new investors thanks to the bullet format?

**Trarieux, CNP:** We found that among the 335 investors, most were accounts we already knew. The trickiest part to estimate is the presence of specific funds of well-known asset managers that usually do not take part in 30NC10 issuance

because of their mandate. We think that this was the case, but without necessarily being able to quantify it.

#### Did you achieve your objectives?

**Médecin, CNP:** Our main goals were the following: taking advantage of the new Solvency II regulation that allows Tier 3 subordinated debt as the cheapest form of regulatory capital; reducing the average cost of outstanding subordinated debt; partially fulfilling the Tier 3 regulatory bucket, which, unlike other insurance companies, is empty because of the absence of net deferred tax asset (DTA); and diversifying the investor base by issuing a more investor-friendly structure than the usual 30NC10 Tier 2 bond. We consider that they were all fulfilled.

#### Do you expect to continue to be active in this format? Do you have any other capital issuance plans you can outline?

**Trarieux, CNP:** We think that Tier 2 will remain the most used instrument in the sector because it is the one with the greatest capacity for issuance under Solvency II. We see Tier 3 as an opportunistic complement, but in limited amounts due to the bucket size and its variability. In the future, CNP should of course remain active in the bond market, with a well-established curve. ●

**Issuer:** CNP Assurances

**Issue rating:** BBB+ (S&P)

**Description:** Tier 3

#### Key features:

- Bullet maturity
- No option deferral
- Deferral trigger is based on the MCR
- No mandatory deferral upon regulator's request

**Issue size:** Eu1bn

**Maturity:** 20 October 2022

**Coupon:** 1.875%

**Issue/re-offer price:** 99.719%

**Re-offer spread:** 190bp over mid-swaps

**Bookrunners:** BAML, BNP Paribas, Citi, Crédit Agricole CIB, Natixis, Nomura

#### Distribution:

France 33.8%, UK and Ireland 23.8%, Italy 12.1%, Northern Europe 7.9%, Benelux 7.7%, Germany and Austria 5.6%, Switzerland 4.7%, Southern Europe 0.8%, others 3.6%

Asset managers and hedge funds 87%, insurance companies & pension funds 7%, official institutions 3%, banks and intermediaries 3%

# CAA

## Growing in assurance

Crédit Agricole Assurances launched a Eu1bn 32NC12 Tier 2 transaction on 20 September, the first such benchmark from the insurance sector since the summer break, and attracted Eu2.5bn of demand from 170 accounts. Grégory Erphelin, CFO, Crédit Agricole Assurances (CAA), and those involved in the transaction at global coordinator Crédit Agricole CIB (CACIB) discuss the execution and strategy behind the trade.

### What was the rationale for this subordinated transaction?

**Grégory Erphelin, CAA:** Until 2014 Crédit Agricole Assurance's funding was totally provided by Crédit Agricole SA (CASA). We then decided to change this policy so that we would have external hybrid funding provided by the market and not only by CASA. This was for two main reasons, notably the new prudential framework of Solvency II, and also changes in Standard & Poor's rating methodology.

However, the rationale for this particular transaction differs in its objective. It was not to finance the early redemption of intra-group debt, as was the previous hybrid issuance. The notes CAA has just issued are to finance its future growth and also to strengthen its capital position. CAA has many ambitious goals in terms of future commercial growth and has to find a way to finance this. In the current low yield environment, the new solvency framework also forced CAA to go and tap the market.

It is important to understand that CAA's long term objective remains the same, namely to reduce intra-group funding, but CAA wants to retain the flexibility to issue internal or external debt.

### Could you give us an overview of CAA in its market and within the Crédit Agricole Group?

**Erphelin, CAA:** 100%-owned by Crédit Agricole SA, CAA is a fully-fledged and diversified insurer, operating in savings and retirement, protection, and property and casualty. CAA is a key player in the European insurance market: the eighth largest insurer in Europe and in 2015 CAA became the largest insurance provider in France. CAA is also the largest insurance subsidiary of any of the French banking groups.

CAA's model is based on a high degree of integration within

Crédit Agricole Group, and benefits from the strength of Crédit Agricole Group's retail banking networks, mainly in France, Italy and Poland. Insurance activities are core businesses for Crédit Agricole Group and its universal customer-focused retail banking model. CAA provided roughly one-third of CASA's net income in 2015, close to Eu1.2bn (excluding non-recurring items).

And, as disclosed in the Medium Term Plan of the Group, the ambition is to continue developing this successful bancassurance model in the coming years.

### What are the key differences between the perpetual subordinated notes issued in 2014 and 2015 and this 32NC12?

**Michael Benyaya, DCM solutions, CACIB:** The 32NC12 has the same subordination and ranking as the perpetual notes. One of the differences lies in the interest deferral conditions: in this transaction, the mandatory interest deferral condition overrides the dividend pusher mechanism in order to be fully compliant with the Solvency II regulation.

We have also inserted an "Insolvent Insurance Affiliate Winding-up" clause to meet the requirements based on the interpretation of Recital 127 of the Delegated Acts. Finally, the mandatory replacement with equal or better quality capital period in case of a redemption for a gross-up event is applicable for 10 years from the issue date to comply with the ACPR's guidelines in terms of tax calls.

### What drove the choice of a Tier 2-style, 32NC12 issue?

**Erphelin, CAA:** It is a classic Tier 2 instrument and during the roadshow we got the impression that investors were very familiar with this kind of structure. It is indeed very similar to recent euro dated callable Solvency II Tier 2 securities issued





Photo: CAA

by other European insurance companies.

The 32NC12 maturity structure was driven by our wish to create a curve and to manage our debt profile. We were very open during the roadshow to hear feedback from potential investors, to know if a 31 or a 32 non-call 11 or 12 was better, but it was not a major topic for them, so we chose a 32NC12 to fit with our debt profile.

**What were the main topics of discussion on the roadshow?**

**Erphelin, CAA:** We had previously announced that CAA is going to be a regular issuer and CAA came back in 2016 after its two previous trades — one in 2014 and one in 2015. The day we announced the roadshow the feedback from investors and analysts was very encouraging: they wanted more information on CAA, as the name is much better known than it was two years ago.

### The name is much better known than it was two years ago

During the four days we effectively spent “roadshowing”, there were three foremost topics in the discussions. Firstly, it was the capital management under Solvency II, how CAA is managing this new solvency framework. The second point was the level of interest rates, and how can we deal with this new economic situation.

And then, it was about the strategy of CAA within the scope of the Crédit Agricole Group. We took a lot of time to explain the group Medium Term Plan, how CAA is going to increase the diversification of its activities, especially in the protection and property and casualty businesses.

**The deal was also launched into a more volatile market than before the summer and in the wake of renewed worries about Deutsche Bank. Were you concerned about market conditions?**

**Erphelin, CAA:** Obviously that was in the background and we were a little concerned about it, but when we decided to proceed with the deal we were quite confident because of the positive feedback we had from investors during the roadshow. We also adopted a consensual approach to pricing, as CASA has done. Taking that into consideration CAA is going to be a regular issuer — it was important to us that the trade performed well in the secondary market.

**Bernard du Boislouveau, FI DCM, CACIB:** The market was indeed quite shaky, but at the end of the day these kinds of transactions have a certain scarcity value for investors. When you are comfortable with the CA group, with CASA, with CAA, and you know that you have this opportunity to get some extra yield compared to the very low beta transactions we usually see in the financial institutions space, it's an eye-catching offer.

Within one hour we had more than Eu1.25bn in the order book, which was a sign of very strong momentum, and we were ultimately in a position to price at the tightest end of the range, at 435bp over mid-swaps after initial price thoughts of the 450bp area. So, the Deutsche news was not very supportive globally in terms of spreads, but this particular transaction was frankly just a wonderful success.

You also have to compare this success to what was going on in other markets: with this transaction CAA was to an extent reopening the Tier 2 subordinated insurance market in Europe, while the Asian-targeted US dollar market was drying up.

**Erphelin, CAA:** Investors brought up the situation in that market during the roadshow and they were very happy with our decision to go to the euro market. It is very important to be aware of such investors' feedback.

I would add that we wanted to do a benchmark transaction. It could have been Eu750m and we decided to go to Eu1bn thanks to the success of the deal. It's a very good transaction for CAA.

## We are clearly going to be a regular issuer

**Du Boislouveau, CACIB:** You could even have done Eu1.5bn without any problem. The final book was above the Eu2.5bn mark with 170 investors — we had almost everyone in the global investor community in the book. So it was not only for a success for CAA in terms of pricing and funding strategy — on top of that it's an excellent refresh in terms of acceptance of the signature among investors.

### What are your plans for 2017 onwards?

**Erphelin, CAA:** We are clearly going to be a regular issuer — there is still intra-group funding provided by CASA in CAA's book that we need to refinance in the coming years. We also



Grégory Erphelin, Crédit Agricole Assurances

would expect strong growth from the insurance group during the Medium Term Plan. However, we cannot yet say anything more precise on our funding plans.

One of the key takeaways from this deal is that we are going to increase the information we provide to the investor community. It was very useful to go and see investors face to face because they all told to us that they want more information and we will go on non-deal roadshows.

### The insurance Tier 3 sector was recently opened in Europe — is this of interest to CAA?

**Erphelin, CAA:** Tier 3 is an instrument that could interest CAA in the future. Back in September when CAA issued, there was still room for Tier 2 and CAA wanted to issue a classic instrument, so Tier 2 was appropriate. But yes, in the future, CAA could consider looking at this kind of instrument. And why not, maybe in the longer future, look at a Tier 1 transaction? ●

**Issuer:** Crédit Agricole Assurances SA

**Issue type:** dated subordinated resettable notes

**Issue rating:** BBB- (S&P)

**Issue size:** Eu1bn

**Maturity:** 27 September 2048

**Coupon:** 4.75% fixed until the first call date; then reset every five years at the prevailing five year EUR mid-swap rate plus margin (including 100bp step-up)

**Call option:** 27 September 2028 and each interest payment date thereafter

**Issue/re-offer price:** 99.133%

**Re-offer spread:** 435bp over mid-swaps

**Launched:** 20 September 2016

**Global coordinator, sole bookrunner, sole structuring advisor:** Crédit Agricole CIB

### Distribution:

France 33.8%, UK and Ireland 23.8%, Italy 12.1%, Northern Europe 7.9%, Benelux 7.7%, Germany and Austria 5.6%, Switzerland 4.7%, Southern Europe 0.8%, others 3.6%

Asset managers and hedge funds 87%, insurance companies & pension funds 7%, official institutions 3%, banks and intermediaries 3%

# Take two

Proposals for the next iteration of CRR/CRD and BRRD have been unveiled just as negotiations over Basel III revisions reach a critical stage and an unknown new administration arrives in the US. The EU moves augur well for the second stage of post-crisis financial regulatory reform, but the key question of overall capital requirements remains up in the air.

On 23 November 2016 the European Commission officially moved post-crisis reforms of the European financial architecture into their second phase, with the announcement of changes to key pieces of EU legislation, including the Capital Requirements Regulation (CRR) and the Bank Recovery & Resolution Directive (BRRD).

“Europe needs a strong and diverse banking sector to finance the economy,” said Valdis Dombrovskis, Commission vice-president responsible for Financial Stability, Financial Services & Capital Markets Union, announcing the package of measures in Brussels. “We need bank lending for companies to invest, remain competitive and sell into bigger markets and for households to plan ahead.

“Today, we have put forward new risk reduction proposals that build on the agreed global standards while taking into account the specificities of the European banking sector.”

The package included measures addressing both capital requirements themselves and the instruments that banks can use to meet these requirements, with amendments to CRR, CRD IV and BRRD transforming the pieces of legislation into CRR II, CRD V and BRRD II. According to Crédit Agricole

CIB’s capital solutions team, the main amendments and additions deal with: TLAC implementation; MREL update; FRTB introduction; Leverage Ratio as Pillar 1 requirement; Interest rate risk in the banking book (IRRBB); Large Exposures; Pillar 2 technical application and harmonisation; Additional Tier 1 amendments; SME supporting factor and infrastructure investments; exposures to central counterparties; and updated Pillar 3 requirements.

Key highlights of the measures picked out by CACIB include:

- The unification of MREL and TLAC, with both set on an RWA and leverage bases
- The implementation of a split between Pillar 2 requirements and Pillar 2 guidance
- Priority of AT1 coupon payments over dividends and variable remuneration payments in MDA  
(See table over for more details.)

The overall package of measures was on the whole welcomed by market participants.

“The overhaul has been many months in the making and is not expected to be complete until the end of January 2017,

but some of the issues announced yesterday have clarified a number of well-discussed points that should be well received by the investor community,” said Gary Kirk, partner and portfolio manager at TwentyFour Asset Management.

“It is worth highlighting the most salient points, which support our earlier views that the deeply subordinated banking sector offers some of the most attractive returns available in fixed income, and these latest changes merely endorse that view.”

## AT1 impact

Two key changes affect the treatment of Additional Tier 1 securities.

Firstly, in the event that an institution is subject to MDA restrictions, AT1 payments are given absolute priority over CET1 distributions (such as dividends) and discretionary remuneration (such as bonuses). While the move is not as strong as the introduction of a “dividend stopper” akin to those seen on old-style Tier 1 instruments, which had been rumoured but also resisted by the European Banking Authority, the prioritisation of AT1 payments was welcomed by market participants.

“This provision is a clear positive for AT1 investors as they would have pri-





Commission vice-president Valdis Dombrovskis  
Photo: EU/EC Audiovisual Service/François Walschaerts

ority of payment claims,” said Pauline Lambert, financial institutions analyst at Scope Ratings.

Balanced against this is a proposal that prior permission must be obtained to reduce, redeem or repurchase AT1 securities, as well as Tier 2 and eligible liabilities, before their contractual maturity, with the supervisor consulting the resolution authority before any call decision. The decision must take into account the economics of the call and replacement.

“They are pushing much more towards approving calls on an economic basis, which means that the extension risk could be heightened,” said Doncho Donchev, capital solutions, debt capital markets, Crédit Agricole CIB. “So while they are giving up flexibility on the coupons, they are taking away some flexibility on the call dates.”

He noted that a proposal to now allow calls prior to year five, while giving greater flexibility to issuers, could be viewed detrimentally by investors.

“So it sounds to me rather unlikely that AT1 will move much into being a substantially cheaper instrument,” said Donchev.

The Commission’s package also included confirmation of a split of Pillar 2 into Requirement and Guidance, with only the

former included in MDA calculations. This move had been well anticipated, with various media reports on discussions within the European institutions in the first months of the year later confirmed via separate announcements by the EBA and ECB in July, after uncertainty about the approach to Pillar 2 had contributed to volatility in the AT1 market early in 2016 when fears of more likely restrictions on coupon payments had risen.

The impact of the move was most evident when BNP Paribas on 28 October became the first ECB-supervised bank to disclose its 2017 SREP requirement and reported a reduction in its Pillar 2 requirement from 2.5% in 2016 to 1.25%.

“The 50% reduction in Pillar 2 relevant for AT1 coupons is positive news as it appears to be ahead of market expectations,” said Crédit Agricole CIB’s capital solutions team, and other banks that subsequently disclosed their Pillar 2 requirements also came out with substantial reductions.

*(See market section for more on the introduction of senior non-preferred to meet TLAC/MREL requirements.)*

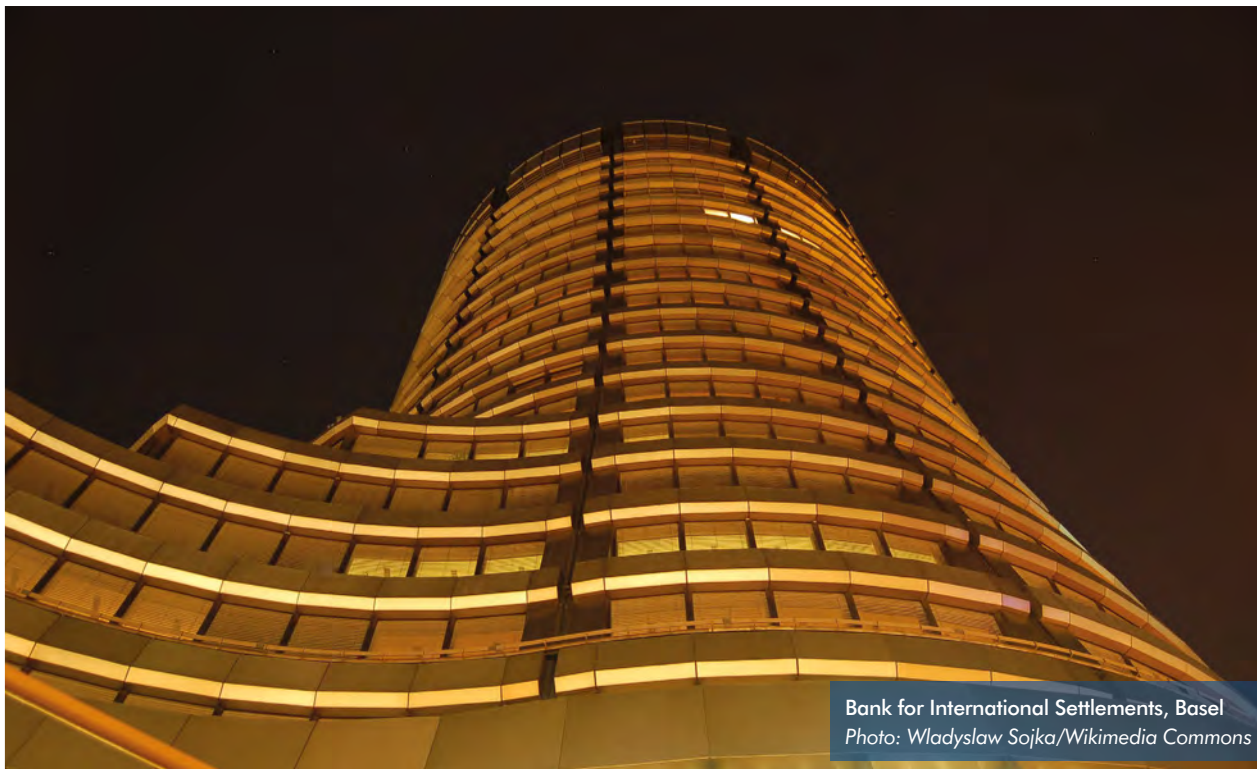
#### Basel awaited

Notably absent from the European Commission’s package of measures was an in-

crease in capital requirements for banks — something that has nonetheless been a focus of negotiations over revisions to the latest iteration of the Basel Capital Accord.

Members of the European Parliament’s economic and monetary committee (ECON) had two weeks earlier, on 10 November, called on the ECB and European authorities to ensure that EU banks are not disadvantaged under upcoming Basel Committee on Banking Supervision changes to Basel III (a.k.a. Basel IV). They voted for two principles to be adhered to: firstly, for revisions to the framework “not to increase significantly overall capital requirements, while at the same time strengthening the overall financial position of European banks”; and secondly, “that the revision should promote the level playing field at the global level by mitigating — rather than exacerbating — the differences between jurisdictions and banking models and not unduly penalizing the EU banking model”.

Talks in Santiago, Chile on 28-29 November failed to yield a final outcome to Basel revisions in time for their scheduled deadline, although Stefan Ingves, current chairman of the Basel Committee and governor of Sveriges Riksbank, said afterwards that “very good progress” had been made and “the contours of an



Bank for International Settlements, Basel  
Photo: Wladyslaw Sojka/Wikimedia Commons

agreement are now clear". At a high level, he said, this includes (in his words):

- A revised standardised approach to credit risk. This will be more risk-sensitive than the current standardised approach and more consistent with the internal model-based approaches. It will also be neutral in terms of its capital impact;
- The revised framework will largely retain the use of internal models but with the safeguards provided by input floors and revisions to the foundation IRB approach;
- A revised standardised approach for operational risk will replace the four existing approaches, including the Advanced Measurement Approach, which is based on banks' internal models. I expect this will also be capital-neutral overall, but there will no doubt be increases and decreases in operational risk capital requirements for certain banks;
- A leverage ratio surcharge for global systemically important banks will be introduced to complement the risk-based G-SIB surcharge;
- Finally, I expect an aggregate output floor will be part of our package

of reforms. It will be based on the standardised approaches and the final calibration of the floor is subject to endorsement by the GHOS.

- It is important to note that a lengthy implementation and phase-in period is likely to be part of this package. This would allow for banks to migrate to the new framework in an orderly and manageable fashion.

Whether a compromise acceptable to all involved is possible remains to be seen. Ahead of the talks, Bundesbank executive board member Andreas Dombret in a speech laid down demands that included objection to an output floor, and concluded with a warning interpreted by some as meaning that Germany might walk away from an unsatisfactory outcome.

"Currently, we are seeing many citizens calling our globalised world into question, with more and more looking for answers in separation or regionalisation," said Dombret. After expressing "strong hope" that cooperation on the Basel Committee will continue under the new administration in the US on the basis of mutual trust, he nevertheless stressed that "the Bundesbank is not prepared to reach an agreement at any price".

### Dodd-Frank trumped?

The surprise victory of Donald Trump in the 8 November US presidential election added yet another unknown into the regulatory agenda.

US bank stocks rose in the wake of the Republican's victory, amid speculation that his administration will roll back key elements of the US's key post-financial crisis reform package, the Dodd-Frank Wall Street Reform & Consumer Protection Act. Securities & Exchange Commission chair Mary Jo White became the first major Obama appointee to resign in the wake of Trump's win.

Former SEC commissioner and Dodd-Frank critic Paul Atkins is a key member of Trump's transition team and considered a potential nominee for either SEC or Federal Reserve chair.

Looking forward to 2017, 60% of economists surveyed by the Securities Industry & Financial Markets Association (SIFMA) said in December that they expect improved financial regulatory policy, if enacted, to raise US GDP growth by 50bp.

"Regulation costs over \$1 trillion a year," said one respondent.

"Eliminating and simplifying some of it would be the equivalent of a massive tax cut." ●

## Overview of key draft amendments proposed by the European Commission

Relevant law	Subject matter	Key Change
<b>AT1 amendments</b>		
CRD5	Priority of payments when MDA imposed	In the event an institution is subject to MDA restrictions, AT1 payments are given absolute priority over CET1 distributions and discretionary remuneration
CRD5	TLAC/MREL requirements not fulfilled	In the event the CBR is otherwise fulfilled, however, Eligible Liabilities are reduced due to maturity restrictions or for a “cure” period of 6 months, then the MDA is considered not to apply.
CRR2	Call Conditions	The Supervisor must consult with Resolution Authority prior to any call decision. Requirement for call decisions to take economics of call and replacement into account (i.e. replacement only where replacement instrument is cheaper). Calls prior to Year 5 for reg. cap. instruments now permitted, provided replaced with instrument of same or better quality and on better economic terms, s.t. regulatory assessment.
CRR2	Repurchase for Market Making Purposes	Now permitted. Definition of market-making purposes to be determined by the EBA.
<b>TLAC</b>		
CRR2	Impacted institutions	EU G-SIBs and resolution entities of non-EU G-SIBs within the EU
CRR2	Calibration	In line with TLAC Term Sheet - 18% capital requirement, consisting of 8% Pillar 1 and 10% top-up, and 6.75% min. metric based on LR
<b>MREL</b>		
BRRD2	Impacted institutions	Only institutions subject to partial or full application of the bail-in tool.
BRRD2	Applicable Balance Sheet	Unlike TLAC, not directly applicable to whole Balance Sheet but might be adjusted for bank activities s.t. partial transfer.
		Hard requirement: Max: higher of $2 \times (P1 + P2R)$ or $2 \times LRE$
BRRD2	Calibration	Soft requirement: MREL “Guidance”, effectively for likely losses in excess of MREL amount and “market confidence” buffer > CBR. If repeatedly breached, soft becomes hard requirement.
<b>Eligible Liabilities</b>		
		Extensive. For conditions on call, cf. also AT1 instruments above.
CRR2	Criteria for eligible liabilities	Explicit requirement for contractual clause authorising the bail-in by the resolution authority.
		In addition, MREL-only institutions may escape the Subordination Requirement.
<b>Deductions of Eligible Liabilities</b>		
CRR2	TLAC/MREL Eligible Liabilities	In line with BCBS Standard on TLAC Holdings, except that Holdings are deducted against Eligible Liabilities, not against Tier 2.
<b>Structured Notes</b>		
CRR2 and BRRD2	Eligibility for MREL/TLAC	G-SIBs cannot include structured notes in the TLAC requirement. D-SIBs can include structured notes for as long as a “given” amount is known in advance.
<b>Pillar 2</b>		
	Composition	Split in P2R and P2G. P2R to cover specific risks only, not systemic or macro-prudential risks.
CRD5	Calibration	P2R covers specific risks only not covered by P1, e.g. concentration risks, IRRBB, pension deficits and ICAP/LAP and governance shortcomings. Thus, likely to be a sub-set only of overall P2 to date.
	Composition of P2R	To reflect relative tiering proportions of P1 - CET1 at 56%, AT1 at 19%, T2 at 25%.
	Positioning	P2R sits under the CBR and becomes binding for AT1 restrictions. P2G appears to sit in parallel with the CBR.
<b>Leverage Ratio</b>		
CRR2	Calibration and role	The LR becomes a binding ratio under Pillar 1, in line with BCBS recommendations.
<b>Large Exposure Limits</b>		
CRR2	Calibration and eligible capital for numerator	In line with EBA pronouncements on the topic.

Source: Crédit Agricole CIB



# Latest regulatory updates

**EBA publishes the final report on MREL:** On 14 December, the European Banking Authority published its final report on the implementation and design of MREL. It follows the interim version that the EBA provided to the Commission and published for public consultation on 19 July 2016. The final report provides further recommendations on areas not addressed in the interim report and should be read in conjunction with the proposed amendments to the Capital Requirement Directive and Regulation published on 23 November. Of note, the EBA has not cross-referenced its recommendations with the CRR2/CRD5/BRRD2 proposals.

Key takeaways of the final report include:

- The recommendations to use RWAs as the reference base for MREL, MDA interplay/MREL stacking order and grace period in case of a breach of CBR arising from the failure of an institution to roll over or issue sufficient MREL-eligible debt, are in line with the CRR2/CRD5/BRRD2 proposals.
- Regarding O-SII, the EBA believes that there is a merit in introducing a *subordination requirement at a level of 13.5% of RWAs* (CACIB emphasis, based on understanding of 16% minimum MREL requirement for O-SIIs – 2.5%\*RWA exemption for Eligible Liabilities ranking pari passu with Excluded Liabilities, in line with lower requirement of TLAC term sheet), with an appropriate transitional period. There is no such hard requirement in the current CRR2/CRD5/BRRD2 proposal. In addition, resolution authorities should be provided with a power to adjust that requirement for an O-SII on a case-by-case basis.
- In terms of redemption and maturity management, the EBA recommends that the legislative framework should contain:
  - a requirement for resolution authorities to monitor the maturity profile of the MREL-eligible instruments of each institution for which an MREL requirement has been set.
  - a power for the resolution authority to request an institution to modify the maturity profile of its MREL stack.
  - a redemption approval regime should be introduced for MREL-eligible instruments. For non-capital instruments that are being counted towards MREL, the resolution authority would ultimately be responsible for approving the redemption. *In the absence of approval, the institution should not be entitled to redeem the instrument* (CACIB emphasis).



Photo: EBA

\* This last point seemingly goes beyond the requirement of Art. 77 and 78 of CRR2, which are focused on regulating call applications, not final maturity of the instrument.

In terms of quantitative findings and MREL needs, the EBA has updated its analysis. The Scenario A (*see below*) presented in the interim report has been removed, while the sample has been expanded to 133 banks. The scenarios do not reflect the fact that a subordination requirement will be applied to G-SIBs and, potentially, to some other banks.

The overall needs are much lower compared to the interim report, notably due to the use of a consolidated scope.

**BCBS proposes RWA “output floor” of 75%:** In a leaked document dated 6 December, the Basel Committee on Banking Supervision (BCBS) proposes, among others, the following adjustments to the Basel IV package, in order to advance towards a consensus on the topic:

**Output Floor IRB compared to SA:** BCBS proposes to add an output floor when banks use the IRB approach. The floor factor is multiplied with the risk-weighting outcome under the standardised approach and in case the result is greater than the IRB result, then the floor result becomes the binding constraint for RWA calculations. The floor would start from 2020 at 55% and would rise by 5% per

## Financing needs on the basis of two hypothetical scenarios (in EUR billion)

	LA buffer				Buffer/8%			
	G-SIBs	O-SIIs	Other	TOTAL	G-SIBs	O-SIIs	Other	TOTAL
MREL	10.0	44.6	12.0	66.6	79.7	110.6	30.2	220.5
MREL ex dep	27.4	80.1	16.4	123.9	101.0	160.1	37.0	298.1

Source: EBA, Crédit Agricole CIB

year until 2025, reaching the final calibration of 75%.

**Input Floor Revisions:** The BCBS also proposes revisions to the IRB framework by reducing the LGD for unsecured corporate exposures from 45% to 40% and by setting an LGD input floor for residential mortgages at 5% (instead of 10%).

**Leverage ratio From 1 January 2020:** G-SIBs would have a higher leverage ratio requirement by applying a scaling 50% factor to their RWA-based G-SIB buffer (*e.g. a 1% RWA G-SIB buffer translates into a maximum Leverage requirement of 0.5%, resulting in total leverage requirement of 3.5%*). The calculation of the Leverage Ratio Exposure is also being reviewed, with potential positive revisions for banks (*e.g. Central Bank reserves could be excluded temporarily from LR calculations, based on national discretion*).

#### ECB publishes outcome of SREP 2016 and recommendations on dividends and variable remuneration for 2017:

On 15 December, the European Central Bank SSM (Single Supervisory Mechanism) held a conference call chaired by Korbinian Ibel, in charge of micro-prudential supervision, on the 2017 SREP methodology and published an updated SREP methodology booklet.

- P2G is derived from the Adverse Stress Test scenario, but it does not reflect shortfall in that scenario alone. Hence, it cannot be derived from the SREP 2015 and the currently disclosed P2 Requirements
- Since both the CCB and P2G (in one aspect only) cover shortfalls of capital arising from the adverse stress scenario, they partially overlap;
- This means that with the phasing-in of the CCB, the P2G decreases in proportion.
- Even though P2G can decrease over time with the phasing-in of the CCB, it is still expected to remain a positive amount at the end of the phasing in period. This reflects *e.g.* other factors determining P2G, such as qualitative factors (*e.g.* quality of governance).
- In this context, it is important to consider that on the Riskiness Scoring Table of the ECB, 87% of the SSM banks fall in categories 2 and 3 and further 11% in category 4 (the riskiest category), with only 2% falling in category 1 (the least risky category) (cf. page 10).
- The ECB underlined its intention that (i) banks will have to respect P2G at all times and (ii) that any potential breach of P2G must be immediately notified to the ECB, which would then undertake “fine-tuning measures”. The ECB was, however, focused on stating that P2G does not automatically result in MDA restrictions.
- However, the ECB did not provide a comment on whether a repeated failure to cover P2G by a bank would result in an increase of P2R.
- For 2017, they result in an increase in P2R (thus, pushing



up the MDA threshold), but appear to also result in a simultaneous reduction in P2G.

- This may act as an incentive to banks in the SSM zone to cover AT1 and Tier 2 shortfalls, yet without putting more immediate pressure on banks by increasing the absolute amount of capital required. This may mean that banks have (limited) flexibility to cover AT1 and Tier 2 shortfalls in good market conditions.
- For banks with shortfalls vs. fully-loaded requirements a linear path of CET1 progression is expected. Thus, *e.g.* dividend and remuneration policy may have to be adapted to be consistent with conservative capital planning.
- IFRS 9 and potential Basel IV impacts may be addressed in the 2018 SREP.
- MREL and doubling of CBR and P2G: “SRB Territory”, according to the ECB, not addressed by them.
- MDA:
  - The ECB is of the view that limited losses resulting in only negligible CBR breach should not result in automatic MDA application.
  - Also, they are against a pre-defined hierarchy of AT1 coupon payments vs. dividends and variable remuneration, but would like to leave this element to banks’ discretion
- Other:
  - Confirmed that the ECB will carry out a non-public stress test (part of SSM supervisory obligations), even if the next EBA public stress test is not due until 2018.
  - Focus for 2019: Business model and viability analysis; BCBS 239 compliance; preparedness for IFRS 9
  - Brexit impact also a focus: (i) for impact on SSM banks and (ii) for UK banks wanting to establish subsidiaries in the SSM (*e.g.* the ECB must be in a position to undertake additional supervisory duties).



Federal Reserve Photo: Wikimedia Commons

**FSB consults on proposed guidance to support resolution planning and promote resolvability:** On 16 December, the Financial Stability board (FSB) released two consultation papers for guidance on the implementation of the “too-big-to-fail” framework.

- Guiding principles on Internal TLAC. The consultative document proposes a set of guiding principles to support the implementation of the internal TLAC requirement, covering:
  - Identifying material sub-groups
  - Size of internal TLAC requirement and structure (i.e. trigger mechanism)
  - Interaction between G-SIB home and key host authorities
- Consultation Paper on guidance on continuity of access to Financial Markets Infrastructures (FMIs) for a Firm in Resolution. A key objective of the framework is to ensure the continuity of a firm’s critical function in resolution, including those provided by FMIs

**US Fed released final TLAC rules applicable to GSIBs and US operations of foreign G-SIBs:** On 15 December, the US Federal Reserve System issued its Final TLAC rules that require US G-SIBs to maintain significant amounts of external Long-Term Debt (LTD)

- Eligible external Long-Term Debt is defined under the draft final rule as a debt instrument that is issued directly by the HoldCo, is unsecured, is “plain vanilla,” is governed by US law, and has a remaining maturity of more than one year.
- G-SIBs would be required to maintain external LTD higher of:
  - i. 6% of RWAs plus G-SIB buffer
  - ii. 4.5% of Leverage exposure

- LTDs issued before 31 Dec 2016 that do not meet the criteria (not governed by US law or acceleration clauses) will be subject to grandfathering.

- TLAC comprises CET1 + AT1 + LTDs and the requirements are higher of

- i. 18% RWAs plus Capital Conservation buffer (CCB) of 2.5% + G-SIB buffer under Method 1 (i.e. the relevant FSB G-SIB buffer) + Countercyclical buffer (CcyB) = 20.5% + G-SIB buffer + CcyB\* relevant RWA

- ii. 7.5% of Leverage denominator plus 2.0% TLAC buffer = 9.5%\*Leverage denominator

- Foreign IHCs (Intermediate Holding Companies) with an MPE (Multiple point of entry) resolution strategy can now issue debt through the structure to meet internal and external TLAC requirements. Foreign IHCs with an SPE (Single Point of Entry) resolution strategy will have to issue the LTD requirement to the foreign parent.

- Resolution IHC (i.e. with MPE strategy) is subject to higher of (i)  $(18\% + 2.5\% \text{ CCB} + \text{CcyB}) * \text{RWAs}$ , (ii)  $6.75\% * \text{Leverage denominator}$  and (iii) 9% of average consolidated assets

- Non-resolution IHC (i.e. with SPE strategy) is subject to (i)  $(16\% + 2.5\% \text{ CCB} + \text{CcyB}) * \text{RWAs}$ , (ii)  $6.0\% * \text{Leverage denominator}$ , and (iii) 8% of average consolidated assets

- Internal LTDs requirements for all IHCs is higher of (i)  $6\% * \text{RWA}$ , (ii) 2.5% Leverage exposure, and (iii) 3.5% of average total assets

- There is no mention of the treatment of holdings of TLAC debt amongst G-SIBs

- Use of TLAC buffer (G-SIB + CCB + CcyB) will lead to automatic restrictions on capital distribution and bonus payments.

- Similar to MDA, if the breach is within the 4th quartile i.e. 75% of the buffer requirement then only 60% of distributions can be paid out

- Breach of internal TLAC buffer (CCB + CcyB) will result in limitations on capital distributions and bonus payments

- No mention of treatment of callable securities as not explicitly mentioned in the draft final rule but likely to be allowed as it matches the requirements and grandfathering covers everything issued as of 31 Dec 2016

- Compliance date brought forward from 1 Jan 2022 to 1 Jan 2019

**ECB launches public consultation on draft guidance on leveraged transactions:** On 23 November, the European Central Bank launched a consultation period from 23 November 2016 to 27 January 2017 on draft guidance to develop clear and consistent definitions, measures and monitoring with regard to leveraged transactions.

- The ECB guidance is designed to ensure that banks con-



duct leveraged activities in a safe and sound manner.

- What constitutes a “Leveraged Transaction”?
  - ECB guidance proposes loans or exposures where the borrower’s post-financing level of leverage exceeds a total debt to EBITDA ratio of 4.0 times;
  - Loans or exposures where the borrower is owned by a financial sponsor (i.e. an investment firm that undertakes private equity investments in, or leveraged buyouts of, companies with the intention of exiting the investment in the medium term)
- The guidance is of non-binding and of qualitative nature. There will be a public hearing on 20 January 2017 in Frankfurt.

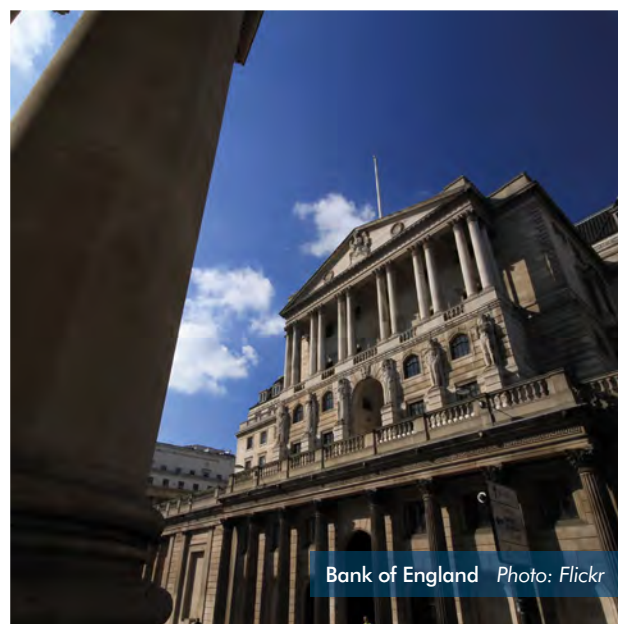
**EBA launched a qualitative survey on internal ratings-based (IRB) models:** On 16 December, the European Banking Authority launched a survey on IRB models impacted by the draft Guidelines on the estimation of non-defaulted exposure (i.e. probability default (PD) and loss given default (LGD)) and the treatment of defaulted assets. Institutions are invited to submit their responses by 27 January 2017.

**EBA comments on the implementation of the exemption from bail in for “liabilities” in a fiduciary context ((Article 44(2)(d)) BRRD):** On 9 December, via the Q&A tool, the EBA to a question on the implementation of the exemption from bail-in for “liabilities” in a fiduciary context:

**EBA’s answer:** “Article 44(2)(d) of Directive 2014/59/EU (BRRD) refers to protection ‘in general’ under insolvency or civil law. The article concerns third-party-owned assets; who owns the asset will depend on the applicable contractual law. The protection that one would expect to be afforded by insolvency or civil law would be the right of the owner to reclaim the asset in the insolvency proceedings. Other protection afforded could be the duty of the bankruptcy trustee to preserve the value of the asset, until it is given back to the owner.”

**EBA sees high NPL levels and low profitability as the main risks for EU banks:** On 2 December, the European Banking Authority published its ninth report on risks and vulnerabilities in the EU banking sector.

- The report is accompanied by the EBA’s 2016 transparency exercise for 131 banks across the EU
- Overall, banks have further strengthened their capital position, allowing them to continue the process of repair
- The report identifies as the key challenges in that process the remaining high levels of non-performing loans (NPLs) and sustained low profitability
- Operational risks also appear to be on the rise and volatility in funding markets remains high



**PRA’s approach to the implementation of the systemic risk buffer:** On 5 December, the UK Prudential Regulation Authority published a Statement of Policy (SoP) that sets out its approach to the systemic risk buffer (SRB):

- The SRB Regulations require the PRA to apply the framework set out by the FPC on the SRB from 1 January 2019
- This SoP is relevant to ring-fenced bodies (RFBs) and large building societies that hold more than £25bn in deposits and shares
- Where it has decided to impose an SRB on an SRB institution, the PRA will invite that firm to apply for a requirement to be imposed on it under section 55M of FSMA in order to set the SRB. Where firms do not apply, the PRA would consider imposing such a requirement on its own initiative
- SRB institutions will be prevented from using capital maintained to meet the SRB to meet 3.3 any other capital requirements or buffers
- As indicated in the FPC leverage ratio policy statement and the FPC’s SRB framework, SRB 3.6 institutions subject to an SRB would also be subject to an additional leverage ratio buffer (ALRB) rate, calibrated at 35% of the SRB rate
- When setting the 2019 SRB rates, the PRA will announce the SRB rate of each SRB 4.7 institution and the date from which each SRB institution will have to apply the buffer. The PRA expects to announce the first rates in early-2019 and apply them three months after the date of the announcement.

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## Insurance

### EIOPA releases Discussion Paper on the review of specific items in the Solvency II Delegated Regulation

The European Insurance & Occupational Pensions Authority (EIOPA) on 8 December released a report on the review of specific items in the Solvency II Delegated Regulation, the first step in the preparation of its response to the Call for Advice received from the European Commission in July 2016. Comments on the Discussion Paper are due by 3 March 2017. Roundtable discussions with relevant stakeholders will be organised in the course of 2017 and the Final Advice will be submitted to the European Commission by February 2018.

The Discussion Paper covers a wide range of topics, including a proposal for simplified calculations for the SCR formula, reducing reliance to external credit ratings (and potential alternatives), refinements of various risk modules, loss absorbing capacity of deferred taxes, risk margin and own funds.

The comments below only cover the section related to own funds and capital instruments.

#### Comparison of own funds in insurance and banking sectors

EIOPA has carried out a high level comparison of the features determining the classification of debt instruments in Tier 1 or Tier 2 in the banking and insurance regulation. We note that Tier 3 is not part of the assessment.

A number of differences exist (e.g. coupon deferral in insurance Tier 2, stricter requirement for redemption and repurchase under Solvency 2) but EIOPA focuses on 2 specific issues:

**Principal loss absorbency mechanism (PLAM) in Tier 1 instruments:** EIOPA acknowledges that in most cases the PLAM under Solvency 2 will not increase the quantum of own funds and therefore the breach of the capital requirement would not be cured. This issue was identified a long time ago and EIOPA is seeking input on possible changes in the regulation to address it.

**Treatment of tax and regulatory calls:** The insurance regulation applies a general rule which requires the replacement of the called instruments if the redemption occurs in the first five years (10 years in France for gross-up call). This is not the case in the banking regulation where competent authorities may permit institutions to redeem Additional Tier 1 or Tier 2 instruments before five years subject to certain conditions but with no automatic replacement obligation. In terms of level playing field, insurance and banking regulations may deserve a better alignment on such clauses.

Capital instruments only eligible as Tier 1 up to 20% of total Tier 1  
EIOPA is seeking comment on the potential consequences of the removal of the 20% limit applicable to RT1 instruments, notably:

- Need for a specific limit applicable to grandfathered Tier 1 instruments in case the 20% limit is removed
- Potential changes in Article 71 (Tier 1 eligibility criteria) in case the 20% limit is removed
- Market impact (cost and appetite) for instruments with a higher trigger or longer first call date

Should the limit be removed, the impact would be immaterial at the European market level. In addition, Insurance companies are unlikely to be willing to issue RT1 instruments just because the 20% limit is removed.

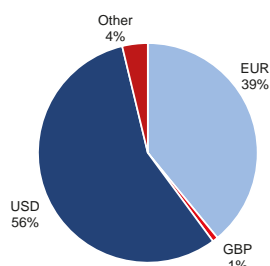


**EIOPA releases 2016 Insurance Stress Test results:** On 15 December, EIOPA published the results of its EU-wide insurance stress test:

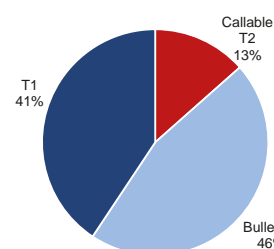
- In the pre-stress situation participating undertakings appear adequately capitalised on an aggregate basis
- The stress test focused on two major market risks: A “low-for-long-yield” and a “double-hit” scenario
- “Double-hit” scenario to have a negative impact on the undertakings balance-sheet of EUR160bn and “low-for-long” an impact of EUR100bn
- When the viability of the business model is at risk, EIOPA recommends National Supervisory Authorities (NSAs) consider requesting the cancellation or deferral of dividend distribution ■

# Currencies, structures and distribution

Bank hybrid issuance by currency (2016 ytd)

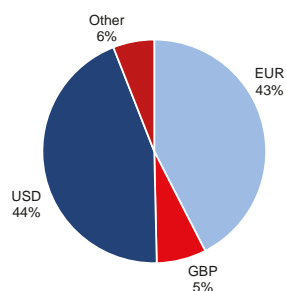


Bank issuance by instrument/structure (2016 ytd)

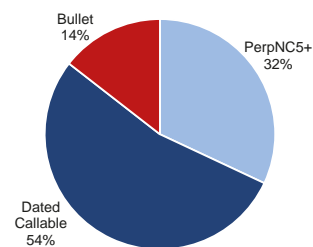


Source: Crédit Agricole CIB

Insurance hybrid issuance by currency (2016 ytd)

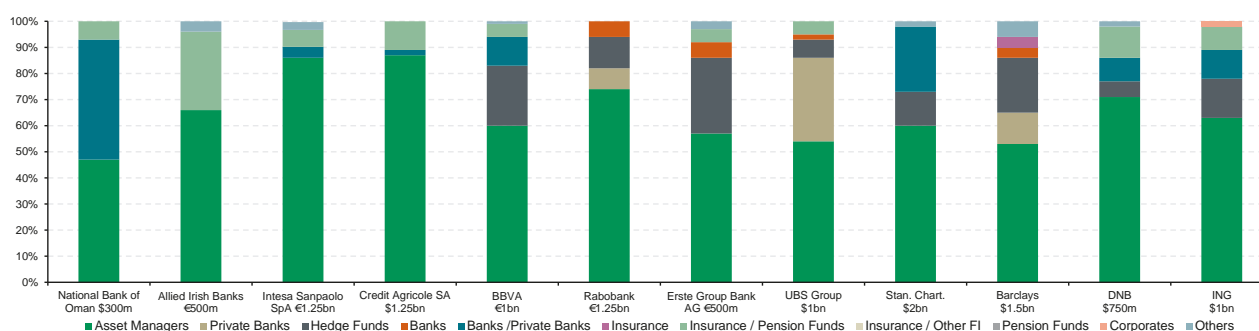


Insurance issuance by instrument/structure (2016 ytd)

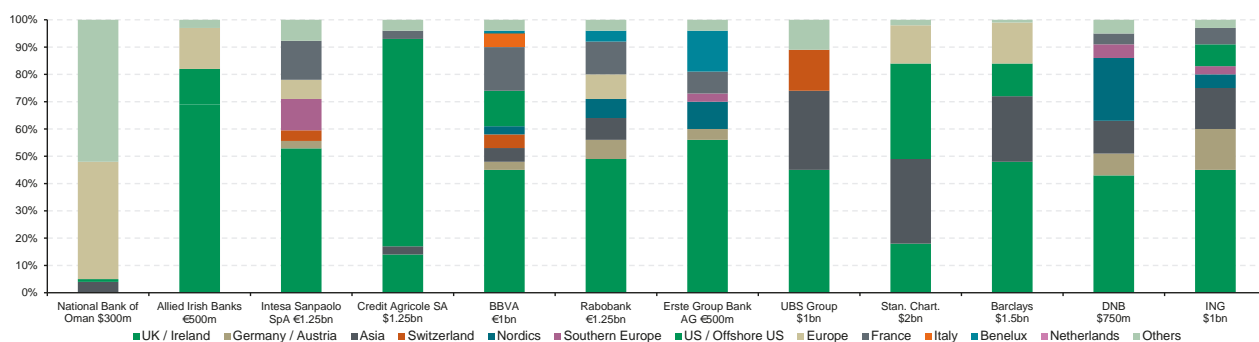


Source: Crédit Agricole CIB

AT1 distribution by investor type



AT1 distribution by geography



Source: Crédit Agricole CIB



# AT1 monitoring

AT1 performance monitoring (as at 18/11/16)

Launch	Issuer	Issue ratings	Currency	Amount (m)	Coupon	Maturity date	First call date	Principal loss absorption	Trigger	Price	I-Spread	Yield to call
25-May-16	ERSTBK	Ba3u/BB/-	EUR	500	8.875%	Perpetual	15-Oct-21	TWD	5.125%	104.38	781	7.78
28-Apr-16	BKTSM	Ba3/-/-	EUR	200	8.625%	Perpetual	10-May-21	CE	5.125%	107.65	673	6.63
19-Apr-16	RABOBK	Baa3/-/BBB-	EUR	1,250	6.625%	Perpetual	29-Jun-21	TWD	7%/5.125%	104.38	552	5.53
07-Apr-16	BBVASM	Ba2/-/BB	EUR	1,000	8.875%	Perpetual	14-Apr-21	CE	5.125%	102.36	842	8.23
12-Jan-16	ISPIM	Ba3/B+/BB-	EUR	1,250	7.000%	Perpetual	19-Jan-21	TWD	5.125%	92.17	948	9.31
26-Nov-15	AIB	B2u/-/B	EUR	500	7.375%	Perpetual	03-Dec-20	TWD	7.000%	92.75	979	9.58
22-Sep-15	HSBC	Baa3/-/BBB	EUR	1,000	6.000%	Perpetual	29-Sep-23	CE	7.000%	101.13	555	5.80
15-Sep-15	ABNANV	Ba1u/BB/BB+	EUR	1,000	5.750%	Perpetual	22-Sep-20	TWD	5.125%	99.42	600	5.92
11-Jun-15	BKIR	B1/B+/-	EUR	750	7.375%	Perpetual	18-Jun-20	TWD	5.125%	95.18	919	8.98
10-Jun-15	BNP	Ba1/BBB-/BBB-	EUR	750	6.125%	Perpetual	17-Jun-22	TWD	5.125%	102.58	547	5.58
27-Apr-15	IPMID	-/-/-	EUR	125	8.625%	Perpetual	01-Apr-21	CE	7.000%	87.11	1,255	12.61
19-Feb-15	NYKRE	-/BB+/BB+	EUR	500	6.250%	Perpetual	26-Oct-20	TWD	7.125%	103.00	545	5.39
13-Feb-15	UBS	-/BB+/BB+	EUR	1,000	5.750%	Perpetual	19-Feb-22	PWD	5.125%	102.50	504	5.19
11-Feb-15	DANBNK	Ba1u/BBB-/BB+	EUR	750	5.875%	Perpetual	06-Apr-22	TWD	7.000%	102.75	518	5.28
10-Feb-15	BBVASM	Ba2/-/BB	EUR	1,500	6.750%	Perpetual	18-Feb-20	CE	5.125%	89.68	1,102	10.55
05-Feb-15	POPSM	Caa1u/-/B-	EUR	750	8.250%	Perpetual	10-Apr-20	CE	7.000%	85.63	1,436	13.62
15-Jan-15	RABOBK	Baa3/-/BBB-	EUR	1,500	5.500%	Perpetual	29-Jun-20	TWD	7%/5.125%	98.50	607	5.97
03-Nov-16	VIRGMN	-/-/-	GBP	230	8.750%	Perpetual	10-Nov-21	CE	7.000%	99.79	782	8.80
04-Aug-15	BACR	Ba2/B+/BB+	GBP	1,000	7.875%	Perpetual	15-Sep-22	CE	7.000%	95.97	780	8.77
03-Jun-15	SANUK	Ba2/B+/BB+	GBP	750	7.375%	Perpetual	24-Jun-22	PWD	7.000%	98.43	675	7.72
16-Nov-16	INTNED	Ba1e/-/BBB-	USD	1,000	6.875%	Perpetual	16-Apr-22	CE	7.000%	99.23	527	7.05
11-Oct-16	DNBNO	-/BBB/-	USD	750	6.500%	Perpetual	26-Mar-22	TWD	5.125%	101.00	441	6.28
24-Aug-16	BACR	Ba2/B+/BB+	USD	1,500	7.875%	Perpetual	15-Mar-22	CE	7.000%	97.88	669	8.37
11-Aug-16	STANLN	Ba1/BB-/BB+	USD	2,000	7.500%	Perpetual	02-Apr-22	CE	7.000%	99.00	595	7.72
08-Aug-16	RBS	B1u/B/BB-	USD	2,650	8.625%	Perpetual	15-Aug-21	CE	7.000%	98.63	738	8.98
03-Aug-16	UBS	Ba1u/BB+/BB+	USD	1,100	7.125%	Perpetual	10-Aug-21	PWD	7.000%	101.24	499	6.80
07-Jun-16	ANZ	Baa1/BBB-/BBB	USD	1,000	6.750%	Perpetual	15-Jun-26	CE	5.125%	105.38	390	6.00
24-May-16	HSBC	Baa3/-/BBB	USD	2,000	6.875%	Perpetual	01-Jun-21	CE	5.125%	102.75	449	6.17
23-Mar-16	BNP	Ba1/BBB-/BBB-	USD	1,500	7.625%	Perpetual	30-Mar-21	TWD	5.125%	103.75	496	6.62
14-Mar-16	UBS	Ba1u/BB+/BB+	USD	1,500	6.875%	Perpetual	22-Mar-21	PWD	7.000%	98.63	546	7.24
12-Jan-16	ACAFF	Ba1u/BB+/BB+	USD	1,250	8.125%	Perpetual	23-Dec-25	TWD	7.000%	105.25	532	7.33
22-Sep-15	SOCGEN	Ba2/BB+/-	USD	1,250	8.000%	Perpetual	29-Sep-25	TWD	5.125%	98.38	620	8.26
10-Sep-15	ISPIM	Ba3/B+/BB-	USD	1,000	7.700%	Perpetual	17-Sep-25	PWD	5.125%	85.38	819	10.26
12-Aug-15	BNP	Ba1/BBB-/BBB-	USD	1,500	7.375%	Perpetual	19-Aug-25	TWD	5.125%	101.00	516	7.22
05-Aug-15	RBS	B1u/B/BB-	USD	2,000	7.500%	Perpetual	10-Aug-20	CE	7.000%	89.38	961	11.02
05-Aug-15	RBS	B1u/B/BB-	USD	1,150	8.000%	Perpetual	10-Aug-25	CE	7.000%	92.00	741	9.35
31-Jul-15	UBS	-/BB+/BB+	USD	1,575	6.875%	Perpetual	07-Aug-25	PWD	7.000%	97.63	506	7.24
09-Apr-15	INTNED	Ba1/BB/BBB-	USD	1,000	6.000%	Perpetual	16-Apr-20	CE	7.000%	95.25	610	7.61
09-Apr-15	INTNED	Ba1/BB/BBB-	USD	1,250	6.500%	Perpetual	16-Apr-25	CE	7.000%	94.75	531	7.35
26-Mar-15	STANLN	Ba1/BB-/BB+	USD	2,000	6.500%	Perpetual	02-Apr-20	CE	7.000%	91.00	819	9.70
23-Mar-15	HSBC	Baa3/-/BBB	USD	2,450	6.375%	Perpetual	30-Mar-25	CE	7.000%	98.00	466	6.69
19-Mar-15	DNBNO	Baa3u/BBB/-	USD	750	5.750%	Perpetual	26-Mar-20	TWD	5.125%	99.38	436	5.95
05-Mar-15	NDASS	Ba1u/BBB/BBB	USD	550	5.250%	Perpetual	13-Sep-21	TWD	8%/5.125%	95.24	461	6.42

Principal loss absorption: CE = conversion into equity; TWD = temporary write-down; PWD = permanent write-down

Source: Crédit Agricole CIB

# Latest bank Tier 2, insurance hybrids

Latest Tier 2 performance monitoring (as at 18/11/16)

Launch	Issuer	Issue ratings	Currency	Amount (m)	Coupon	Maturity date	First call date	I-Spread	Yield to call
16-Nov-16	HSBC	A2/BBB+/A+	USD	1,500	4.375%	23-Nov-26	-	223	-
25-Oct-16	BANCSC	-/-B+	EUR	100	9.000%	03-Nov-26	03-Nov-21	898	9.10
25-Oct-16	BFCM	A3/BBB/A	EUR	700	1.875%	04-Nov-26	-	167	-
24-Oct-16	SEB	Baa1/BBB+/A+	EUR	850	1.375%	31-Oct-28	31-Oct-23	144	1.78
19-Sep-16	LBBW	Baa2/-/BBB	EUR	500	2.875%	28-Sep-26	-	245	-
07-Sep-16	NWIDE	Baa1/BBB/A-	USD	1,250	4.000%	14-Sep-26	-	245	-
05-Sep-16	CCNORD	-/BBB/-	EUR	300	2.125%	12-Sep-26	-	205	-
31-Aug-16	NDASS	Baa1/A-/A+	EUR	1,000	1.000%	07-Sep-26	07-Sep-21	120	1.30
30-Aug-16	BNP	Baa2/BBB+/A	AUD	280	4.625%	09-Mar-27	-	199	-
16-Aug-16	SOCGEN	Baa3/BBB/A-	USD	1,000	4.250%	19-Aug-26	-	255	-
16-Aug-16	STANLN	A3/BBB-/A-	USD	1,250	4.300%	19-Feb-27	-	274	-
14-Jul-16	RABOBK	A3/BBB+/A	USD	1,500	3.750%	21-Jul-26	-	194	-
13-Jul-16	SOCGEN	Baa3/BBB/A-	AUD	325	5.000%	20-Jul-28	20-Jul-23	234	4.96
06-Jun-16	SOCGEN	Baa3/BBB/A-	USD	500	5.100%	27-Jun-36	-	278	-
31-May-16	FRLBP	-/BBB/-	EUR	500	3.000%	09-Jun-28	-	193	-
31-May-16	HSBC	A2/BBB+/A+	EUR	1,000	3.125%	07-Jun-28	-	-	-
26-May-16	UCGIM	Ba1/BB/BBB	EUR	750	4.375%	03-Jan-27	03-Jan-22	492	5.06
25-May-16	CMARK	-/BBB/-	EUR	500	3.250%	01-Jun-26	-	223	-
24-May-16	BNP	Baa2/BBB+/A	AUD	545	5.000%	31-May-28	31-May-23	209	4.70
12-May-16	DB	Ba2/BB+/BBB+/*-	EUR	750	4.500%	19-May-26	-	449	-
11-May-16	SOCGEN	Baa3/BBB/A-	SGD	425	4.300%	19-May-26	19-May-21	203	4.20
05-May-16	BNP	Baa2/BBB+/A	USD	1,250	4.375%	12-May-26	-	237	-
05-May-16	BACR	Baa3/BB+/A-	USD	2,050	5.200%	12-May-26	-	300	-
28-Apr-16	CCBGBB	-/BBB/-	EUR	500	3.125%	11-May-26	-	245	-
28-Apr-16	SABSM	B1/B+/-	EUR	500	5.625%	06-May-26	-	423	-
27-Apr-16	UBIIM	Ba3/BB/BBB-	EUR	750	4.250%	05-May-26	05-May-21	517	5.24
13-Apr-16	BPCEGP	Baa3/BBB/A-	EUR	750	2.875%	22-Apr-26	-	206	-
06-Apr-16	INTNED	Baa2/BBB/A	EUR	1,000	3.000%	11-Apr-28	11-Apr-23	203	2.31
29-Mar-16	BPCEGP	Baa3/BBB/A-	USD	750	4.875%	01-Apr-26	-	268	-
23-Mar-16	AXASA	A3/BBB+/BBB	EUR	1,500	3.375%	06-Jul-47	06-Jul-27	267	3.39
17-Mar-16	BFCM	A3/BBB/A	EUR	1,000	2.375%	24-Mar-26	-	172	-
17-Mar-16	LLOYDS	Baa2/BBB-/A-	USD	1,500	4.650%	24-Mar-26	-	258	-
16-Mar-16	ABNANV	Baa2/BBB-/A-	USD	300	5.600%	08-Apr-31	-	334	-
16-Mar-16	CMZB	Ba1/BBB-/BBB	EUR	1,000	4.000%	23-Mar-26	-	358	-
15-Mar-16	SANTAN	Baa2/BBB/BBB+	EUR	1,500	3.250%	04-Apr-26	-	278	-
04-Mar-16	BNP	Baa2/BBB+/A	EUR	750	2.875%	01-Oct-26	-	205	-

Insurance performance monitoring (as at 18/11/16)

Launch	Issuer	Issue ratings	Currency	Amount (m)	Coupon	Maturity date	First call date	New issue spread	I-Spread
16-Nov-16	PENSION INSURANCE	-/-/-	GBP	250	8.000%	23/11/2026	-	-	667.47
28-Oct-16	BEAZLEY RE DAC	-/-/BBB+	USD	250	5.875%	04/11/2026	-	-	359.69
12-Oct-16	CNP ASSURANCES	-/BBB+/-	EUR	1,000	1.875%	20/10/2022	-	-	164.58
20-Sep-16	CAA	-/BBB+/-	EUR	1,000	4.750%	27/09/2048	27/09/2028	435	413.35
15-Sep-16	ELM BV (SWISS LIFE)	-/BBB+/-	EUR	600	4.500%	Perpetual	19/05/2027	410	365.99
08-Sep-16	AXA SA	A3/BBB+/BBB	USD	850	4.500%	Perpetual	15/03/2022	-	264.13
05-Sep-16	PRUDENTIAL PLC	A3/A-/BBB+	USD	725	4.375%	Perpetual	20/10/2021	-	242.88
05-Sep-16	AVIVA PLC	Baa1/BBB/-	GBP	400	4.375%	12/09/2049	12/09/2029	-	375.67
30-Aug-16	ALLIANZ SE	A2/A+/Au	USD	1,500	3.875%	Perpetual	07/03/2022	-	217.90
13-Jul-16	DAI-ICHI LIFE INSURANCE	A3u/A-/A-	USD	2,500	4.000%	Perpetual	24/07/2026	-	256.30
13-Jul-16	CLOVERIE PLC ZURICH INS	-/A/A-u	USD	1,000	4.750%	Perpetual	20/01/2022	-	277.29
15-Jun-16	QBE INSURANCE GROUP	-/BBB-/BBB	USD	524	5.875%	17/06/2046	17/06/2026	-	373.51
31-May-16	PRUDENTIAL PLC	A3/A-/BBB+	USD	1,000	5.250%	Perpetual	20/07/2021	-	301.97
31-May-16	ASSICURAZIONI GENERALI	Baa3/-/BBB	EUR	850	5.000%	08/06/2048	08/06/2028	-	452.33
25-May-16	DEMETER (SWISS RE LTD)	-/BBB+/BBB	USD	800	5.625%	15/08/2052	15/08/2027	-	339.07
24-May-16	SCOR SE	-/A/A-	EUR	500	3.625%	27/05/2048	27/05/2028	290	262.15
18-May-16	QBE INSURANCE GROUP	-/BBB-/BBB	GBP	327	6.115%	24/05/2042	24/05/2022	500	416.32
17-May-16	DEMETER (ZURICH INS)	A2/A/-	EUR	750	3.500%	01/10/2046	01/10/2026	295	268.01
16-May-16	MANULIFE FINL CORP	-/A-/BBB+	SGD	500	3.850%	25/05/2026	25/05/2021	-	122.47
27-Apr-16	AVIVA PLC	Baa1/BBB/BBB+	CAD	450	4.500%	10/05/2021	-	-	229.70
23-Mar-16	AXA SA	A3/BBB+/BBB	EUR	1,500	3.375%	06/07/2047	06/07/2027	275	267.29

Source: Crédit Agricole CIB

# Latest HoldCo, Tier 2 CoCos

## Latest HoldCo performance monitoring (as at 18/11/16)

Launch	Issuer	Issue ratings	Currency	Amount (m)	Coupon	Maturity date	First call date	I-Spread	Yield to maturity
25-Oct-16	GOLDMAN SACHS GRP INC	A3/BBB+/A	USD	1,000	2.640%	28-Oct-27	28-Oct-26	-	-
24-Oct-16	MORGAN STANLEY	A3/BBB+/A	EUR	1,250	0.388%	27-Jan-22	27-Jan-21	-	-
24-Oct-16	MORGAN STANLEY	A3/BBB+/A	EUR	1,500	1.375%	27-Oct-26	-	112.57	1.78
20-Oct-16	GOLDMAN SACHS GRP INC	A3/BBB+/A	EUR	1,250	1.250%	01-May-25	01-May-24	111.34	1.62
17-Oct-16	JPMORGAN CHASE & CO	A3/A-/A+	USD	2,000	2.112%	24-Oct-23	24-Oct-22	-	-
11-Oct-16	KBC GROUP NV	Baa1/BBB+/A-	EUR	750	0.750%	18-Oct-23	-	67.26	1.01
15-Sep-16	HSBC HOLDINGS PLC	A1/A/-	JPY	64,400	1.207%	25-Sep-26	-	111.78	1.32
15-Sep-16	HSBC HOLDINGS PLC	A1/A/-	JPY	58,100	0.450%	24-Sep-21	-	50.93	0.58
15-Sep-16	HSBC HOLDINGS PLC	A1/A/-	JPY	59,300	0.842%	26-Sep-23	-	85.71	0.98
08-Sep-16	STANDARD CHARTERED PLC	A1/BBB+/A+	JPY	45,000	0.523%	15-Sep-21	-	64.28	0.72
01-Sep-16	SANTANDER UK GRP HLDGS	Baa1/BBB/A	EUR	1,000	1.125%	08-Sep-23	-	105.45	1.38
30-Aug-16	HSBC HOLDINGS PLC	A1/A/AA-	EUR	2,000	0.875%	06-Sep-24	-	86.39	1.30
24-Aug-16	UBS GROUP FUNDING	Baa2u/A-/A	EUR	1,250	1.250%	01-Sep-26	01-Jun-26	105.84	1.70
03-Aug-16	JPMORGAN CHASE & CO	A3/A-/A+	USD	2,500	2.295%	15-Aug-21	15-Aug-20	90.10	2.60
07-Jul-16	NYKREDIT REALKREDIT AS	-/BBB+/A	EUR	500	0.750%	14-Jul-21	-	67.15	0.76
06-Jun-16	NYKREDIT REALKREDIT AS	-/BBB+/A	EUR	500	0.875%	13-Jun-19	-	33.35	0.23
18-May-16	HSBC HOLDINGS PLC	A1/A/AA-	USD	2,500	2.950%	25-May-21	-	129.60	2.97
18-May-16	HSBC HOLDINGS PLC	A1/A/AA-	USD	2,500	3.900%	25-May-26	-	176.01	3.86
20-Apr-16	KBC GROUP NV	Baa1/BBB+/A-	EUR	750	1.000%	26-Apr-21	-	45.76	0.52
13-Apr-16	CRED SUIS GP FUN LTD	Baa3/BBB+/A-	USD	1,500	3.450%	16-Apr-21	-	167.60	3.34
05-Apr-16	MIZUHO FINANCIAL GRP	A1/A/-	USD	1,750	2.632%	12-Apr-21	-	113.02	2.79
05-Apr-16	MIZUHO FINANCIAL GRP	A1/A/-	USD	1,750	3.477%	12-Apr-26	-	130.26	3.40
29-Mar-16	UBS GROUP FUNDING	Baa2u/A-/A	USD	2,000	3.000%	15-Apr-21	-	119.19	2.85
16-Mar-16	BARCLAYS PLC	Baa3/BBB/A	EUR	1,500	1.875%	23-Mar-21	-	122.66	1.28
15-Mar-16	RBS GRP PLC	Ba1/BBB-/BBB+	EUR	1,500	2.500%	22-Mar-23	-	231.86	2.59
07-Mar-16	HSBC HOLDINGS PLC	A1/A/AA-	EUR	2,000	1.500%	15-Mar-22	-	72.21	0.88
07-Mar-16	HSBC HOLDINGS PLC	A1/A/AA-	EUR	1,250	2.500%	15-Mar-27	-	85.98	1.55
02-Mar-16	SUMITOMO MITSUI FIN GRP	A1/A/-	USD	1,750	2.934%	09-Mar-21	-	105.11	2.70
25-Feb-16	UBS GROUP FUNDING	Baa2u/A-/A	EUR	750	2.125%	04-Mar-24	-	95.43	1.33
23-Feb-16	MITSUBISHI UFJ FIN GRP	A1/A/A	USD	3,100	2.950%	01-Mar-21	-	99.14	2.64
05-Jan-16	BARCLAYS PLC	Baa3/BBB/A	USD	1,500	3.250%	12-Jan-21	-	165.03	3.27
05-Jan-16	SANTANDER UK GRP HLDGS	Baa1/BBB/A	USD	1,000	3.125%	08-Jan-21	-	148.06	3.11
07-Dec-15	CRED SUIS GP FUN LTD	Baa3/BBB+/A-	USD	2,000	3.125%	10-Dec-20	-	160.92	3.22
09-Nov-15	UBS GROUP FUNDING	Baa2u/A-/A	EUR	1,250	1.750%	16-Nov-22	-	79.19	1.02
13-Oct-15	SANTANDER UK GRP HLDGS	Baa1/BBB/A	USD	1,000	2.875%	16-Oct-20	-	149.82	3.09
21-Sep-15	UBS GROUP FUNDING	Baa2u/A-/A	USD	1,500	2.950%	24-Sep-20	-	115.97	2.74
08-Apr-15	CRED SUIS GP FUN LTD	Baa3/BBB+/A-	EUR	2,250	1.250%	14-Apr-22	-	126.08	1.43
09-Mar-15	BARCLAYS PLC	Baa3/BBB/A	USD	2,000	3.650%	16-Mar-25	-	215.72	4.19

## T2 CoCo performance monitoring (as at 18/11/16)

Launch	Issuer	Issue ratings	Currency	Amount (m)	Coupon	Maturity date	First call date	Principal loss absorption	Trigger	Price	I-Spread	Yield to call
08-Jun-15	ZKB	-/A/-	EUR	500	2.625%	15-Jun-27	15-Jun-22	PWD	5.000%	100.16	241	2.59
23-May-14	NYKRE	-/BBB/BBB	EUR	600	4.000%	03-Jun-36	03-Jun-21	PWD	7.000%	102.54	330	3.38
06-Feb-14	UBS	-/BBB+/BBB+	EUR	2,000	4.750%	12-Feb-26	12-Feb-21	PWD	5.000%	-	316	3.21
11-Sep-13	CS	-/BBB/BBB	EUR	1,250	5.750%	18-Sep-25	18-Sep-20	PWD	5.000%	-	345	3.45
22-Jan-16	RY	Baa1/A-/AA-	USD	1,500	4.650%	27-Jan-26	-	CE	5.000%	105.64	183	-
08-May-14	UBS	-/BBB+/BBB+	USD	2,500	5.125%	15-May-24	-	PWD	5.000%	101.85	279	-
12-Sep-13	ACAFF	-/BBB/BBB-	USD	1,000	8.125%	19-Sep-33	19-Sep-18	PWD	7.000%	106.75	300	4.23
01-Aug-13	CS	-/BBB/BBB	USD	2,500	6.500%	08-Aug-23	-	PWD	5.000%	107.34	328	-
15-May-13	UBS	-/BBB+/BBB+	USD	1,500	4.750%	22-May-23	22-May-18	PWD	5.000%	101.30	262	3.83
03-Apr-13	BACR	-/BB+/BBB-	USD	1,000	7.750%	10-Apr-23	10-Apr-18	PWD	7.000%	104.35	332	4.46
17-Jan-13	KBC	-/BBB/-	USD	1,000	8.000%	25-Jan-23	25-Jan-18	PWD	7.000%	105.05	246	3.56

Principal loss absorption: CE = conversion into equity; TWD = temporary write-down; PWD = permanent write-down

Source: Crédit Agricole CIB



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# building SUCCESS together

DECEMBER 2016

**CRÉDIT AGRICOLE S.A.**  
CRÉDIT AGRICOLE S.A.  
**EUR 1,500,000,000**  
1.875% Senior  
Non-Preferred  
Due 2026  
Sole Bookrunner

NOVEMBER 2016

**CAJA RURAL DE NAVARRA**  
CAJA RURAL DE NAVARRA  
**EUR 500,000,000**  
0.625% Sustainable  
Cédulas Hipotecarias  
Due 2023  
Joint Bookrunner

NOVEMBER 2016

**ING**  
ING DiBa  
**EUR 500,000,000**  
Mortgage Pfandbrief  
November 2026  
Joint Bookrunner

OCTOBER 2016

**iberCaja**  
IBERCAJA BANCO S.A.  
**EUR 500,000,000**  
0.250% Cédulas  
Hipotecarias Due 2023  
Joint Bookrunner

OCTOBER 2016

**BMO**  
BANK OF MONTREAL  
**EUR 1,750,000,000**  
0.100% Covered Bond  
Due 2023  
Joint Bookrunner

OCTOBER 2016

**CRÉDIT AGRICOLE CARIPARMA**  
CRÉDIT AGRICOLE CARIPARMA  
**EUR 750,000,000**  
0.250% OBG  
Due 2024  
**EUR 750,000,000**  
1.000% OBG  
Due 2031  
Joint Bookrunner

OCTOBER 2016

**Rabobank**  
COÖPERATIEVE RABOBANK U.A.  
**EUR 500,000,000**  
0.125% Senior Unsecured  
Green Bond  
Due 2021  
Joint Bookrunner

SEPTEMBER 2016

**Berlin Hyp**  
BERLIN HYP AG  
**EUR 500,000,000**  
Senior Unsecured  
Green Bond  
Due 2023  
Joint Bookrunner

AUGUST 2016

**UniCredit**  
UNICREDIT S.p.A.  
**EUR 1,000,000,000**  
0.375% OBG CPT  
Due 2026  
Joint Bookrunner

AUGUST 2016

**COMMERZBANK**  
COMMERZBANK AG  
**EUR 750,000,000**  
Mortgage Pfandbrief  
December 2026  
Joint Bookrunner

JULY 2016

**中國銀行**  
BANK OF CHINA  
BANK OF CHINA LTD, LUXEMBOURG  
BRANCH  
**USD 750,000,000**  
3mL+100bp Senior Notes Due 2019  
**USD 500,000,000**  
1.875% Senior Notes Due 2019  
**USD 1,000,000,000**  
2.250% Senior Notes Due 2021  
**EUR 500,000,000**  
0.750% Senior Notes Due 2021  
Green Bond  
Joint Global Coordinator

JUNE 2016

**Caisse Française de Financement Local**  
CAISSE FRANÇAISE DE  
FINANCEMENT LOCAL  
**EUR 1,000,000,000**  
0.375% Covered Bond  
Due 2025  
Joint Bookrunner