4Q 2017

Bank+Insurance Hybrid Capital

With CRÉDIT AGRICOLE CORPORATE & INVESTMENT BANK

Spanish rise to the challenge

AT1 comes of age with BBVA landmark, as compatriots debut and reach new heights

RT1
ASR takes it mainstream

Belfius
Leading Belgian SNP

QBE
Engendering a buzz

Bank+Insurance HybridCapital

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Goldilocks and the no bears

Just how tight can the market get?

Following some nasty surprises in 2016, markets were at the start of the year nervous about political and geopolitical events bringing an end to the rally in credit markets by causing collateral economic damage. But as 2017 has developed, potential crises have either been averted or proved to be less harmful than expected.

Most recently, Spain's banks showed that even a relatively unanticipated development such as the tensions around Catalan independence could be overridden. Even the sum of all fears, nuclear tensions in the Korean peninsula, today leave markets unruffled — indeed, the Vix "fear index" is at historic lows.

Have mainstream markets taken leave of their senses?

Underlying the rally in credit and other markets is what economists have increasingly been perceiving as a Goldilocks scenario, with growth more assured than had been considered likely at the start of the year, and central banks showing greater patience and largesse than had been guaranteed, against a backdrop of a benign inflationary outlook.

The subordinated debt markets have not only benefited from this optimistic scenario; they have contributed to it, by enabling the new regulatory framework aimed at creating a safer system to come into being. Witness, for example, the expansion of the senior non-preferred asset class this year beyond France into Spain and Belgium. And the anticipated growth of the asset class in countries such as the Netherlands and Italy equally promises gains on both sides.

It is therefore no surprise that — despite some brief wobbles — the strength of demand has enabled new tights to be set across currencies and asset classes, most notably Nordea setting a coupon low of 3.5% on a EUR750m AT1 benchmark.

So while prices may oblige one to ask whether this is irrational exuberance, it's hard to find a reason to act otherwise.

Neil Day,
Managing Editor
Bank+Insurance Hybrid Capital

Bank+Insurance Hybrid Capital

Published by Newtype Media

Neil Day
Managing Editor
+44 20 7625 2175
nday@bihcapital.com

Tom Revell
Reporter
+44 20 3269 2058
trevell@bihcapital.com

In association with

CRÉDIT AGRICOLE CORPORATE & INVESTMENT BANK

Cécile Bidet
MD, Global Head of DCM Solutions & Advisory
cecile.bidet@ca-cib.com
+44 20 7214 5466

Vincent Hoarau
MD, Head of FIG Syndicate
vincent.hoarau@ca-cib.com
+44 20 7214 6162

Christian Haller
MD, Head of DCM Financial Institutions
christian.haller@ca-cib.com
+49 69 78901680

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bihcapital.com

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Fulfilment & distribution
Celeritas Solutions

Newtype Media
184 Acton Lane
Park Royal
London NW10 7NH
United Kingdom
+44 20 7625 2175

Market news

AT1 comes of age with BBVA while Nordea sets record

The Additional Tier 1 market came of age on 8 November as BBVA launched a new $1bn issue, the proceeds of which could go towards the first refinancing of an AT1 benchmark, while Nordea set a coupon low later in the month to demonstrate the market's strengths.

Banco Bilbao Vizcaya Argentaria (BBVA) had sold the first Basel III/CRD IV perpetual non-call five instrument back in April 2013 and at that time paid a coupon of 9% to sell its $1.5bn deal. Following its latest AT1 the bank noted that the coupon, at 6.125%, is the lowest on any such instrument from a southern European issuer for the perpetual non-call 10 structure.

According to BBVA, the $1bn (EUR863m) Ba2 rated deal is the first AT1 in SEC-registered format from a Spanish issuer, enabling it to reach a wider investor base — the US took more than 65% of the deal. Having announced the transaction the day before launch, the issuer held investor calls with some 40 accounts involved.

"Positive market conditions and investor appetite have helped BBVA to get an excellent reception for its sixth issue of CoCos," it said. "The objective of this issue was to give the bank greater flexibility to refinance previous issues and in this way, optimize its financing costs."

Pricing came in from initial price thoughts of the 6.5% area and guidance of the 6.375% area set after $4bn of orders had been placed, with demand ultimately totalling $7bn from over 300 accounts.

"The motivation for this return is very interesting as it is a first step towards the potential refinancing of outstanding AT1 callable issues," said Vincent Hoarau, head of FIG syndicate at Crédit Agricole CIB. "Market participants expect the BBVA 9% notes to be called on an economic basis and the all-in cost conditions currently offered by the US dollar market on 10 years are exceptionally good."

BBVA's deal came on the back of strong momentum in AT1 asset class over the previous month, and a day after BNP Paribas had showed the market to be in great shape with a $750m deal, also a perpetual non-call 10, priced at 5.125% following IPTs of 5.625%.

But an uncommon bout of weakness ensued in mid-November, with recent AT1 and Tier 2 supply marked wider amid some volatility.

"The market softness crystallised in a correction of valuations judged too rich by too many investors," said a banker. "The number of new issues picked up post blackouts, with issuers getting more nervous, willing to anticipate the January rush and capture extremely appealing coupons.

"On the other side, investors are protecting 2017 spread performance and subsequently demonstrating a greater sensitivity to pricing. As a result, the average level of oversubscription in primary decreased."

However, the weakness was short-lived, and on 21 November Nordea took the AT1 market to even greater heights with a EUR750m perpetual non-call March 2025 deal that set a new coupon low of 3.5% for an AT1 benchmark.

"I guess no-one would have seen that coming following the wobble across higher beta markets last week," said one syndicate banker, "yet a strong signal that we haven't seen a change in trend and that the wobble of last week was a function of profit-taking and 'oversupply' in part of the market."

The Swedish bank had gone out with initial price thoughts of 4%-4.25% before setting guidance at 3.625%-3.7%, and priced its investment grade (BBB/BBB) deal at 3.5% on the back of over EUR5bn of demand from close to 400 accounts.

"Issuing this AT1 capital instrument in euros at the lowest coupon ever shows investors' confidence in Nordea's financial strength and low-risk profile," said Ola Littorin, head of long term funding at Nordea.

The deal also enjoyed such success in spite of the market facing a renewed weight of supply, with seven FIG deals hitting the market that day. The positive tone continued into the end of November, with the primary market still offering a "constructive playground" for issuers despite the year-end looming, according to CACIB's Hoarau.

"More and more people are joining those cautioning about 'excesses' in equities and corporate bonds, including potential adverse implications for the global economy," he said. "But, overall, technical support remain strong on the back of QE and excess cash.

"Supply is limited as most of the prefunding related exercises have taken place. The structural negative net supply supports firm spreads in secondary, where high beta instrument continue to drift tighter and support spread compression." ●

UOB achieves tight, diversifies bid in $650m AT1

United Overseas Bank (UOB) sold its latest AT1 transaction outside its domestic currency on 11 October, a US$650m perpetual non-call six transaction that achieved the tightest ever re-offer spread for such an instrument, while offering the issuer the opportunity to diversify its investor base.

The Singaporean bank had not tapped the US dollar market with a Tier 1 issue since 2005 and its only two AT1s outstanding are denominated in Singapore dollars.

A key reason for the US dollar issue was UOB's focus on investor diversification. The strategy paid off as UOB placed 66% of the paper with asset managers, versus 16% to private banks — which have been particularly prominent in UOB's Singapore dollar issuance, while insurance companies and pension funds took 14%, and banks 4%. Asia was allocated 72% of the Reg S issue, Europe 26%, and offshore US 2%.

The strategy behind the deal also took into account feedback gleaned from investors in multiple investor meetings in recent years.

"UOB's latest Tier 1 offering in the international US dollar market is significant as it reinforces our commitment to engaging investors from various markets and jurisdictions," said Chin Chin Koh, head of central treasury unit, UOB. "We chose to enter the market now taking into account the demand and preference from European and Asian investors for international subordinated debt from high quality issuers. The four-times subscription level reflects investors' confidence in UOB's strong balance sheet and sound business fundamentals.

"We decided on the PerpNC6 structure as it is in line with our strategic objective of staggering UOB's bond maturity profile," she added. "It also provides a more attractive yield to investors via a longer call-date instrument."

'Investors seized the opportunity to diversify'

The Baa1/BBB (Moody's and Fitch) rated US$650m (SGD885m, EUR553m) perpetual non-call five issue was priced at 3.875%, following initial price guidance of the 4.15% area, giving UOB (Aa1/AA-/AA-) the lowest coupon of any US dollar AT1 this year.

The re-offer spread of 179.4bp over mid-swaps is the tightest ever on a dollar AT1, although a DBS perpetual non-call five AT1 priced in August 2016 achieved a lower, 3.6% coupon.

Vincent Hoarau, head of FIG syndicate at Crédit Agricole CIB, said the issuer's approach paid off.

"UOB managed to achieve the tightest re-offer spread for a Basel III-compliant AT1 in US dollars at the same time as expanding its funding franchise, as investors seized the opportunity to diversify their portfolios and gain exposure to a rare Singapore hybrid capital instrument," he said.

"The choice of tenor seems to have been decisive, too, with the unusual perpetual non-call six maturity structure avoiding clashing with the crowded 2022 spot."

UOB aims to have a regular presence in the international markets in order to make investors' interest in the credit worth their while.

The proceeds of the AT1 are earmarked for refinancing. UOB has a SGD850m Singapore dollar AT1 callable next July. ●

Crédit Mutuel Arkéa beats expectations in Tier 2

Crédit Mutuel Arkéa took advantage of exceptional market conditions for Tier 2 debt to sell a EUR500m 12 year non-call seven issue on 18 October that attracted more investors to the credit than ever before, while being priced with the French issuer's spreads at record lows.

"Looking at the market conditions, mid-October was a pretty excellent period, given the global tightening in spreads we had experienced during the last few months," said Stéphane Cadieu, head of capital markets at Crédit Mutuel Arkéa, "and our spreads were at their lowest ever levels.

"We could have waited until the beginning of next year," he added, "but given that there were a number of factors beyond our control which could happen before year-end, and that we will have further needs in the coming quarters, it was a good opportunity for us to move ahead — the sooner, the better."

The Tier 2 issue was meanwhile launched to meet three internal targets.

"Firstly, compliance with our expected MREL requirement," said Cadieu. "Secondly, we need to issue capital to back the group's expected growth, especially in our insurance activities.

"And we wanted on the same time to optimise and reduce the group's dependence on the Danish compromise, due to the size of our insurance business."

The EUR500m no-grow deal hit the market on the morning of 18 October with initial price thoughts of the mid-swaps plus 165bp area, before guidance was revised to the 150bp area on the back of more than EUR2.25bn of demand. The new issue was ultimately priced at 145bp over mid-swaps and the final order book reached EUR4.2bn.

"We can even say that it went better than our expectations," said Cadieu. "And we had more than 250 different investors, which is a record for us in terms of participation in any of our deals."

The re-offer spread of 145bp over mid-swaps compares with 250bp on a 12 year bullet Tier 2 the issuer sold in February, noted Vincent Hoarau, head of FIG syndicate at Crédit Agricole CIB, a joint bookrunner on the trade. He put the new issue premium at zero versus the 12 year bullet and a 10 year bullet issued in May 2018.

"It was an amazing deal in red hot market," said Hoarau. "The pricing and distribution are a great result for the issuer and the choice of the callable structure was decisive in the level of granularity and number of accounts involved."

> 'Our spreads were at their lowest ever levels'

The deal is Crédit Mutuel Arkéa's first callable Tier 2 and, according to Cadieu, the main reason for the choice of maturity structure was to manage the scheduling of its debt, following the 10 and 12 year bullets. He added that a 12 non-call seven structure was chosen over a 10 non-call five because of the limited premium required for the curve extension.

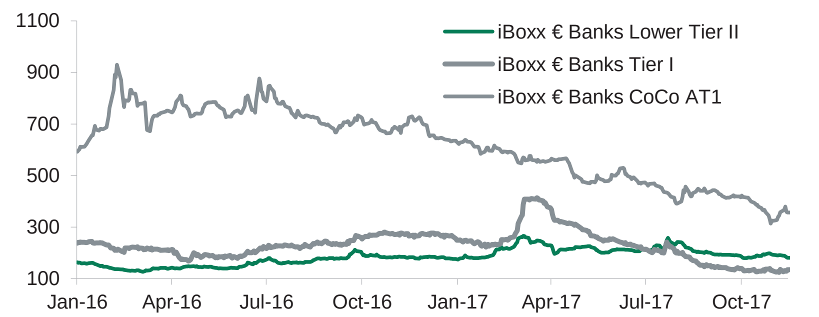
Crédit Mutuel Arkéa successfully achieved intra-day execution without a deal-specific roadshow beforehand, but Cadieu noted that the issuer has increased its ongoing investor relations activities.

"For the last couple of the years, we have performed extensive marketing," he said. "We have met a lot of investors and this has helped improve the brand recognition of Crédit Mutuel Arkéa.

"The fact that we came to the subordinated market four times in a row in the past 18 months — including a senior non-preferred in June — was also a positive point for Crédit Mutuel Arkéa and investors, who now see us coming to the market more frequently."

The deal performed very well in the secondary market, in line with the global tightening in the subordinated space. ●

Secondary bank subordinated indices



Source: Markit, Crédit Agricole CIB

Crédit Logement offers rare Tier 2 on back of LM

Crédit Logement sold its first CRD IV-compliant subordinated instrument on 21 November as part of a liability management exercise in which it tendered for old Tier 1 and Tier 2 securities, and attracted some EUR1.6bn of orders to the new, rare EUR500m 12 year non-call seven Tier 2.

In its first subordinated appearance since 2011, the French financial institution — which is the leading specialist guarantor of residential housing loans — on 13 November announced that it would conduct a cash tender comprising an any and all offer for a EUR800m fixed to floating rate perpetual Tier 1 note issued in 2006 now paying three month Euribor plus 115bp, and a EUR500m 5.454% 10 year bullet Tier 2 maturing in 2021 whose repurchase amount would be determined by the issuer. In conjunction with this, and after a two-day roadshow, Crédit Logement would then offer a new fixed rate resettable Tier 2 issue in euros.

The improvement of the issuer's debt maturity profile and the reduction of the total cost of its hybrid debt were cited as rationales for the exercise, and Eric Veyrent, CFO and deputy CEO of Crédit Logement noted that the capital treatment of the outstanding Tier 2 issue is amortising with it only having three years left to maturity, while the Tier 1, having enjoyed grandfathering, is becoming Tier 2.

"Bear in mind that the Tier 2 was quite expensive given that it was issued at a high interest rate in 2011," he added. "The maturity of the new Tier 2 will not only be longer, but the cost will be lower."

While the Tier 1 tender offered investors the opportunity to exit their positions at 91.5% — a 2% premium to the cash price at which the bond had been trading in the secondary market — Crédit Logement could with that part of the tender achieve a positive P&L impact — something that it was keen to do given that the high coupon Tier 2 was being tendered for at 118.642%, incorporating a cash price premium of around 1%.

"So we wanted to have a balance between the purchase of the Tier 1 and the Tier 2," said Veyrent, "and, with the results we achieved, we ended up with a capital loss of something between EUR1m and EUR2m, which was well within our expectations."

According to conditional results, Crédit Logement achieved a 44% hit rate on the Tier 2 and 59% on the Tier 1, for a EUR695.75m nominal total.

"Overall it was an excellent transaction," said Bernard du Boislouveau, FI DCM at joint bookrunner Crédit Agricole CIB, "and something that was very balanced between the objectives of the issuer and the opportunity for investors."

The lower participation in the Tier 2 tender was attributed to many bonds being tightly held by insurance companies and other asset managers.

Véronique Diet Offner in liability management, DCM solutions, CACIB, said the positive response was helped by the availability of priority allocations in the new Tier 2 issue for investors participating in the tender.

"It's one of the first times we have seen so many investors asking for them, which was very encouraging for the overall transaction," she said. "Having the roadshow during the offer period was really beneficial to the dynamic on the tender offer, too."

The new EUR500m 12 non-call seven transaction, rated A1/A (Moody's/DBRS) was launched with initial price thoughts of the 105bp over mid-swaps area before guidance was set at the 95bp area, and it was ultimately priced at 90bp over mid-swaps on the back of some EUR1.6bn of demand.

"Investors were very receptive to the new issue," said Veyrent. "We might have been able to go below the 90bp level we achieved, but we don't want to be too aggressive — we prefer the deal to do well in the aftermarket."

The 90bp spread compared with secondary levels of the mid-70s and high 80s over for BNP Paribas and BPCE 2027 non-call 2022s, respectively, according to Vincent Hoarau, head of FIG syndicate at CACIB.

"Thanks to the constructive response of the former holders, we managed to print the new 2029 non-call 2024 just a few basis points over the outstanding debt of French majors despite the longer call date," he said. "On a curve adjusted basis, Crédit Logement priced its new Tier 2 inside peers and the bonds performed very well in the secondary market."

The size was set at EUR500m — less than the amount repurchased — to correspond with Crédit Logement's Pillar 2 needs, he noted, which were set at 2% of outstanding guarantees by ACPR at the beginning of the year.

The issuer is set to remain a rare name, having no plans to issue any further subordinated issues for at least a couple of years, according to Veyrent at Crédit Logement. ●

Illustration: Crédit Logement offices, Paris; Copyright: Alain Escudier

RT1 passes major insurance test in ASR EUR300m hit

ASR Nederland sold the first Restricted Tier 1 (RT1) instrument in a major currency on 12 October, a EUR300m perpetual non-call 10 transaction that attracted over EUR2.6bn of orders and achieved pricing that market participants said positioned the insurance instrument favourably versus bank AT1.

The first ever RT1 was a NOK1bn deal for Gjensidige Forsikring in August 2016 and the only other supply has been in Danish kroner and Swedish kronor from RSA Insurance Group, in March. Being in euros, ASR's landmark was therefore seen as an important test for the new Solvency II instrument.

The perpetual non-call 10 deal — rated BB by S&P — attracted over EUR2.6bn of orders from 110 investors, allowing for pricing with a 4.625% coupon, following initial price thoughts (IPTs) of the 5% area and revised guidance of 4.625%-4.75%.

Chris Figee, ASR CFO *(pictured)*, deemed the deal a great success and said

the 4.625% coupon reflected investors' strong confidence in the company.

"ASR has demonstrated today its commitment and proactive approach to responsible long term oriented financial management through an innovative and market leading transaction," he said. "We are proud to have issued the first euro-denominated insurance RT1, which further underpins ASR's strength and position in the capital markets."

A key pricing reference was bank AT1, in particular a 4.75% perpetual non-call 2027 instrument of ABN Amro, rated Ba1/BB+ (Moody's/Fitch), issued on 27 September. Vincent Hoarau, head of FIG syndicate at Crédit Agricole CIB, said ASR's IPTs had been aggressive – given the one notch lower rating and sub-benchmark size — but that the pricing flat to inside ABN Amro and nine-times oversubscription made for an "exceptional result".

Michael Benyaya, capital solutions, DCM at Crédit Agricole CIB, said investors viewed ASR as an ideal name to open the RT1 sector in euros, given its positive credit story, and that the deal's success had been reinforced by a thorough roadshow explaining the merits of the instrument.

"One of the key focus points was the comparison with bank AT1, because the instrument looks very similar to bank AT1 in its overall structure," he said. "But the result shows that investors took comfort from the specificities of the insurance Solvency II framework which make

RT1 FAQ

What is the rationale for issuing RT1?

Michael Benyaya, CACIB: In the banking space, the rationale for issuing AT1 is pretty obvious given the role and position of the combined buffers requirements in the regulatory capital structure as well as potential ratings benefits, e.g. S&P RAC.

In the insurance regulation, there is no such strong incentive to issue an RT1 and we need to consider the financial flexibility of the issuer to find a rationale for RT1 issuance. Optically, Tier 2 capacity looks large based on the 50% SCR limit. I believe issuers will probably rather manage the Tier 2 bucket on the 35% limit to retain room for DTAs or potentially ancillary own funds. On that basis, at some point the Tier 2 capacity will simply not be large enough to host the refinancing of grandfathered Tier 1 and issuers will need to turn to RT1. Issuers will aim to retain a certain balance between RT1 and Tier 2 and will carefully manage the Tier 2 capacity to be able to issue Tier 2 in case of need.

Finally, the rating driver is pretty weak for now because an RT1 does not bring any additional equity credit compared to a Tier 2 in the S&P insurance capital model.

So far national champions have been absent from the RT1 market — why is that?

Benyaya: The RT1 market has indeed opened with smaller insurance companies. It contrasts with what we saw in 2013 and thereafter in the bank AT1 market, where large banks were present from the outset. In the insurance sector, there is no urgent need to issue this instrument. Insurers are overall well capitalized and they have been able to refinance debt maturities with Tier 2 until now. Longer term, as I said previously, the tiering limits will start to bite and national champions will certainly be active in the RT1 market at some point.

What is the current status of discussions in terms of structuring features?

Benyaya: The discussion is still live and there are a few questions outstanding. EIOPA has recently launched a consultation on Solvency II own funds, including RT1. The consultation discusses various structuring items, but I would like to focus here on the principal loss absorption mechanism (PLAM).

It is well known that the Solvency II PLAM does not cure the trigger breach in the vast majority of cases because it is set by reference to total capital. This will not change, and we need now to focus on the structuring of the PLAM, the partial write-down in particular, to make it comprehensible to investors.

So far we have only seen the equity conversion format in the RT1s issued by the UK and Dutch issuers. This format is certainly very robust from a regulatory standpoint, but some listed companies are not ready to issue this format as there may be a need for specific authorizations to be passed at the shareholders' assembly. For the unlisted and mutual insurers, the full and permanent the instrument slightly more investor-friendly in two main ways."

The first is in respect of coupon cancellation, according to Benyaya, there being a regulatory waiver whereby the coupon can still be paid even if a solvency trigger has been breached if the regulator agrees.

"The second one, which is equally important, is in terms of loss absorption mechanism," he added. "There is a grace period of three months, so if the SCR ratio is between 75% and 100% the insurance company has three months to cure the breach, and during that time there is no loss absorption while the insurance company has the capacity to implement various measures to restore the capital position. ASR's investor presentation was well drafted on that point because they had a specific slide on the various measures — around 15 — that they could take to very quickly improve the capital position.

"This sort of communication was well received and also well understood by investors."

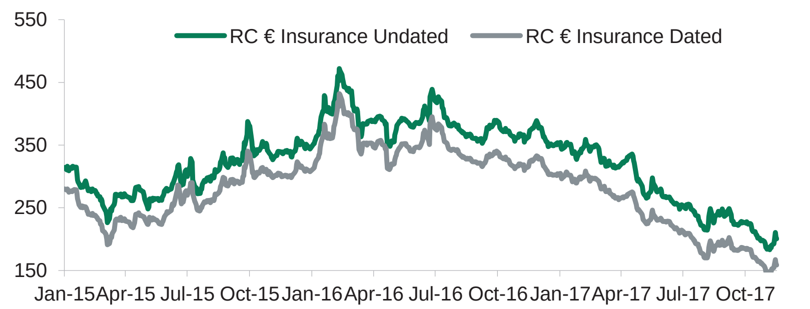
Among the reasons for launching the RT1, ASR cited the financing of its acquisition of Generali's Dutch operations.

"With this transaction we have successfully added a new instrument to our capital management toolbox," said ASR's Figee. "We maintain ample headroom in all capital tiers and our financial flexibility remains very strong."

While market participants are not getting carried away with the opening of the RT1 sector in a major currency, ASR's issue is seen as improving supply prospects.

"We will see more RT1 going forward as issuers will of course look at refinancing existing debt and also potentially taking advantage of the good market conditions for these kinds of instruments," said Benyaya. "And the success of ASR will probably unlock such supply given that investors are apparently very keen in investing in the new product." ●

Secondary insurance subordinated index



Source: Markit, Crédit Agricole CIB

PLAM is also a credible alternative and seems regulatory-proof.

The partial principal write-down is still in development. EIOPA has proposed a linear write-down mechanism whereby the instrument should be written down fully at least at the point at which SCR coverage falls to 75% or the MCR is breached. In practice, and If implemented, this mechanism probably means that investors will face high losses even before the 75% threshold is reached if we assume that the write-down percentage increases linearly between 100% and 75% SCR coverage.

The write-up mechanism is not addressed in the EIOPA consultation. The UK PRA does not allow the write-up and some other regulators seems to share this view. But nothing is really set in stone as I have not seen public statements from continental European regulators on the write-up.

What are the key points for investors?

Benyaya: Beyond the profitability and the credit fundamentals of the issuer, the solvency position will be a key focal point. The resilience of the solvency margin will be important and this could be partly assessed with the sensitivities. In addition, investors will contemplate the management actions that could be implemented when the margin gets closer to the trigger or during the three month period when the SCR is below 100% but above 75%.

The concept of resolution in the insurance space should not be ignored and investors could question its meaning and potential consequences for debtholders. EIOPA has only called for a minimum harmonization of European resolution schemes and I believe that bail-in will remain largely absent from resolution frameworks. It's true that the insurance resolution framework in the Netherlands will include bail-in, but in France it is not part of the framework that should be finalized soon.

What is the outlook for the insurance DCM primary market in 2018, and particularly RT1?

Benyaya: In 2017 volumes have been fairly low for European issuers and this was largely expected by market participants, including us, I believe. As we speak, we have not identified a strong factor that could result in a surge in volumes next year. Buoyant M&A activity could trigger some additional needs, but large cross-border deals are off the table when we listen to the top management of national champions. They seem to be focusing on bolt-on acquisitions that could be largely financed with internal resources and excess capital.

2018 volumes could still be higher than 2017 because a number of large issuers have been absent from the market this year and will certainly be active next year. In terms of currencies, issuers' appetite for US dollars will continue to be driven by the arbitrage (or lack thereof) afforded by this currency. In terms of RT1, issuers will not necessarily wait for the full clarity on EIOPA final standards and 2018 could definitely see some large insurers taking the RT1 plunge. ●

Pru $750m revives fixed-for-life, Vivat follows in Reg S

Prudential revived the fixed-for-life format for insurers on 17 October with a $750m perpetual non-call 5.25 Tier 2 issue that attracted over $2.5bn of demand, with strong Asian take-up despite the coupon coming inside the 5% threshold.

The transaction was the first in the format in the financial institutions space for some 12 months. The segment had underperformed in the interim, but Prudential's reopener came on the back of some recent performance of outstanding issues and amid low supply of alternative high beta products from high quality names, according to André Bonnal, insurance sponsor on the FIG syndicate desk at joint bookrunner Crédit Agricole CIB.

"Unsolicited feedback out of Asia suggested last week that anything with a 5 handle would attract demand in a week that is expected to be quieter than what we have seen so far post-summer break," he said. "The relatively limited supply in primary and the general squeeze across the capital structure continues to deliver a strong market backdrop for issuers looking for valuable opportunities and pre-funding solutions."

The books were opened for Asian orders with initial price thoughts (IPTs) of the 5.25% area for the A3/A-/BBB rated deal, and guidance was then set at 5% plus or minus 0.125%, will price in range, on the back of "consistent and solid" demand from Asian accounts, led by life insurance companies and asset managers, as they sought to rebalance portfolios away from local investments and take advantage of the strength of the Reg S dollar market.

The deal was ultimately priced with a coupon of 4.875%, with over $2.5bn of orders holding at that level.

Syndicate bankers at the leads noted that the deal succeeded despite Asian private bank demand being erratic, with the institutional bid meanwhile encouraging.

The deal refinances a $1bn 6.50% perpetual the issuer in September announced it plans to redeem in December.

"The product fits very well with ALM constraints, enhances cost of capital, and more importantly enables the issuer to relock in an attractive fixed rate for a very long time," said Bonnal.

Prudential was not the only issuer to take advantage of the buoyant Reg S dollar market — Dutch insurer Vivat also hit the market, with a $575m perpetual non-call five fixed resettable Tier 2 deal.

> 'The issuer achieved impressive pricing leverage'

The subordinated issue is Vivat's first since it was acquired by insurance conglomerate Anbang from the Dutch government in 2015. A banker at one of the leads noted that since then the insurer has been stabilised and reorganised, while the proceeds of the new transaction are being used to optimise the financing structure, including the repayment of subordinated financing provided by Anbang.

Following a week-long roadshow taking in Hong Kong, Singapore, the UK, Switzerland and its home Dutch market, books were opened on 9 November at the Asian open with IPTs of the mid to high 6% on the back of constructive market conditions and positive feedback from investors, according to the lead banker. Guidance was then set at the 6.5% area on the back of a $1.5bn book, and an hour later pricing was fixed at 6.25% with final orders totalling $1.6bn, pre-reconciliation, and 90 accounts participating.

"The issuer achieved impressive pricing leverage," said Bonnal at CACIB. "Clearly investors in the book were comfortable with the credit and the issuer's story, and were not on the price-sensitive side." ●

Bidet joins CACIB as global DCM solutions and advisory head

Cécile Bidet has joined Crédit Agricole CIB from Société Générale in the newly-created position of global head of Debt Capital Markets solutions and advisory.

Most recently at SG, Bidet led a cross-product team advising banks on regulatory, rating, capital and asset matters. She defined this strategy in 2014 following the expansion of her responsibilities beyond bank rating advisory activities that she launched upon joining SG in 2007. Her 20 years of experience in capital markets and financial institutions began at Moody's, where she was responsible for a portfolio of Western and Eastern European banks.

Based in London, Bidet reports to Sébastien Domanico, global head of Debt Capital Markets at CACIB. ●

QBE gender equality $400m AT1 a social capital first

QBE issued the first capital instrument from a financial institution to take the form of a social bond on 9 November, a US$400m Additional Tier 1 gender equality bond that attracted some US$9.5bn of orders.

The new issue is only the second gender equality bond from a financial institution, the first having been a National Australia Bank A$500m five year senior deal in March. QBE meanwhile sold the first green bond from an insurance company in April, a US$300m long five year senior deal.

"As part of that transaction we received feedback from investors that the supply of social bonds was not meeting their demand," said Paul Byrne, group treasurer, QBE. "At that point we had the spark of an idea to see if we could marry together the promotion of gender equality and also meeting investor demands for more social bonds."

With input from second party opinion provider Sustainalytics, the Australian insurer put together a gender equality framework whereby the use of proceeds are earmarked for investment in the bonds of issuers who are signatories to UN Women's Empowerment Principles and recognised by Equileap as one of the top 200 companies in gender equality.

According to Byrne, QBE then decided to attach its new gender equality bond framework to its impending AT1 transaction rather than a future, more traditional senior issue "given the importance of the message we were seeking to highlight".

After a roadshow taking in over 80 accounts, bookrunners Crédit Agricole CIB, HSBC and Morgan Stanley went out with initial price thoughts of the 5.75% area — based on feedback from accounts — for the Baa3/BBB- Reg S perpetual non-call 7.5 deal with a US$400m (A$522m) no-grow size. They set the level at 5.25% on the back of US$6.25bn of demand, before orders peaked at US$9.5bn — making the deal some 24 times covered — and with over 350 accounts involved.

"Much as I would like to think that this reflects the job I did on the road and the demand for our credit combined with the market's search for yield," said Byrne, "it cannot only be these factors, as they would normally get us to 8-12 times covered — the balance, I believe, is the market showing its resounding support for gender equality."

André Bonnal, insurance sponsor on Crédit Agricole CIB's FIG syndicate desk, noted that allocations were "an interesting challenge".

"The deal performed very well in the secondary market," he added. "Investors are eager to put their piles of cash to work in high quality names offering spread pick-up with high beta instruments, while the scarcity element surrounding the US$400m no-grow trade combined with the social impact certainly played a key role in the level of oversubscription of the trade."

See features section for more from QBE's Byrne.

League tables

Bookrunners all European FI hybrids (euros and US dollars) 01/01/2017 to 06/11/2017

	Managing bank or group	No of issues	Total EUR m	Share (%)
1	Barclays	23	9,068	13.7
2	HSBC	31	8,502	12.9
3	BNP Paribas	26	4,725	7.2
4	Credit Suisse	20	4,196	6.4
5	Citi	30	3,959	6.0
6	JP Morgan	28	3,728	5.6
7	Goldman Sachs	21	3,242	4.9
8	BofA Merrill Lynch	20	3,156	4.8
9	UBS	22	2,734	4.1
10	Morgan Stanley	21	2,713	4.1
11	Crédit Agricole CIB	15	1,964	3.0
12	Deutsche Bank	13	1,877	2.8
13	Société Générale CIB	14	1,834	2.8
14	Santander	9	1,095	1.7
15	UniCredit	7	1,017	1.5
	Total	139	66,093	

Source: Dealogic, Thomson Reuters, Crédit Agricole CIB

Bookrunners all financials (euros) 01/01/2017 to 06/11/2017

	Managing bank or group	No of issues	Total EUR m	Share (%)
1	Deutsche Bank	62	12,897	7.6
2	UBS	40	11,757	6.9
3	BNP Paribas	53	11,725	6.9
4	Crédit Agricole CIB	42	11,133	6.5
5	HSBC	50	10,925	6.4
6	Goldman Sachs	42	10,818	6.3
7	Barclays	48	10,163	6.0
8	Morgan Stanley	33	8,372	4.9
9	Société Générale CIB	35	6,973	4.1
10	JP Morgan	44	5,386	3.2
11	UniCredit	38	5,336	3.1
12	Citi	35	5,215	3.1
13	Natixis	20	4,819	2.8
14	Credit Suisse	25	4,495	2.6
15	RBS	15	3,748	2.2
	Total	291	170,655	

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

SMFG green TLAC euro first for Japan Guidelines

Sumitomo Mitsui Financial Group became the first Japanese issuer to sell a green bond in accordance with Ministry of the Environment guidelines on 4 October, and SMFG officials said the move highlights a growing focus on the asset class in Japan, while being a green TLAC/MREL euro first.

The EUR500m (¥66bn) seven year fixed rate senior deal is the first green bond in euros that is either TLAC or MREL-eligible, with the Japanese G-SIB having come with its TLAC-eligible deal before any Eurozone issuer has done the equivalent in senior non-preferred or HoldCo format for its TLAC and/or MREL requirements.

SMFG's deal follows a $500m green bond for subsidiary Sumitomo Mitsui Banking Corporation (SMBC) in October 2015, which was the first green bond from a Japanese private financial institution.

According to Atsushi Ouchiyama, senior vice president, Shoma Aosaki, assistant vice president, debt strategy and issuance group, corporate treasury department, and Ryoko Okaya, senior vice president, CSR department, at SMFG, there were three main reasons for the issuer's debut green bond, the first being that the group aligns its key ESG themes — Environment and Social, with the latter encompassing "Next Generation" and "Community" — with the UN Sustainable Development Goals (SDGs).

"We believe that contributing to the achievement of the SDGs and the Paris Agreement target is one of the missions of SMFG," said Okaya. "Simultaneously, the issuance of a green bond will bring more attention to the role of financial institutions, especially compliance with Goal 13 of the SDGs: Take urgent action to combat climate change and its impacts.

> 'SMFG has a strong track record in environment-related project finance'
> – *Okaya*

"Secondly, SMFG has a strong track record in environment-related project finance. We would like to keep leading and broadening the global renewable energy finance market and to further promote environmental-related business through various businesses. Finally, SMFG sees a strong focus from our stakeholders as well as the market on sustainability, and we hope that by continuing to issue green bonds we can deepen our dialogue with investors on this topic."

Green bond issuance has the added benefit of broadening and diversifying SMFG's investor base, noted Ouchiyama. The choice of euros as currency of issuance brings further such advantages, he added, also highlighting that green bond issuance in euros has been far larger compared with issuance in US dollars.

The green bond is the first to have been issued under guidelines issued by the Japanese Ministry of the Environment in March.

"SMFG's green bond framework follows the Green Bond Guidelines 2017 established by the Ministry of the Environment, Japan and we are proud to be the first issuer to structure a green bond framework in accordance with the Green Bond Guidelines 2017," said Aosaki.

"Our green bond strategy has not changed since we issued the first green bond by SMBC in 2015," he added. "However, looking at the recent active measure by the government, we feel that the green bond initiative is attracting growing attention in Japan."

Like SMBC's green bond, SMFG's also follows the Green Bond Principles and is otherwise similar, although Aosaki noted that while SMBC appointed KPMG for an attestation letter provider for its green bond, SMFG appointed Sustainalytics as second party opinion (SPO) provider.

According to the Sustainalytics SPO, the proceeds of the new green bond will be used to finance and refinance expenditures related to renewable energy, energy efficiency, green buildings, clean transportation, and pollution prevention and control. SMBC will allocate lending to eligible green projects.

The issuer met 31 investors in nine European locations during its roadshow in the week ahead of launch to prepare the way for its debut and deepen its communication with European investors.

"There were some key issues investors focused on during the roadshow," said Ouchiyama. "The first topic was our ESG strategy and framework and Ms Okaya from the CSR department joined the roadshow to explain our SMFG ESG strategy and we received a lot of question regarding the details of SMFG's environmental business. The second topic was the detail of the green bond framework, especially project categories for Eligible Green Projects and Reporting — allocation reporting, impact reporting.

'We would like to come back to this market once a year' – *Ouchiyama*

"It was interesting that investors' focus varied in each region," he added.

A seven year maturity and fixed rate format was chosen on the back of investor feedback, and on 4 October bookrunners Bank of America Merrill Lynch (also green structuring agent), Crédit Agricole CIB and SMBC Nikko went out with initial price thoughts of 55bp-60bp over mid-swaps for the EUR500m no-grow deal. They were able to move to guidance of the 45bp area with books above EUR1.4bn, and then set the spread at 41bp over on the back of more than EUR1.6bn of demand.

According to Vincent Hoarau, head of FIG syndicate at Crédit Agricole CIB, the new issue premium was zero to 1bp, based on fair value of around 40bp over mid-swaps derived

'The green bond initiative is attracting growing attention in Japan' – *Aosaki*

from SMFG's curve and its peers.

"Thanks to the constructive and stable market condition, we could price the green bond around fair value," said Ouchiyama. "SMFG is the most active euro issuer out of Japan and we have already created a credit curve from five to years. We believe discussion regarding fair value for this transaction was straightforward.

"The level of demand was in line with our expectations given the positive feedback from roadshow," he added. "We are very satisfied that we were able to deliver the first ever TLAC/MREL-eligible green bond in the euro market."

Hoarau at CACIB said that the movement from IPTs to final pricing and new issue premium compared favourably to other FIG deals in the market around the same time.

"Even if it is difficult to quantify, the green element added some benefit in terms of pricing," he said. "For example, we would have had more limited price tension had it not been green."

Around 60% of the new issue was allocated to green investors and the distribution included more than 20 investors who were participating in an SMFG offering for the first time.

"Investor distribution was in line with expectations and we are satisfied with the distribution," said Ouchiyama. "We allocated 90% toward European investors and rest to Asian investors.

"Compared to last year, we feel fewer and fewer investors in Europe face constraints towards Japanese assets," he added.

And having led the way among Japanese banks in the green bond market, the group hopes to build its presence therein.

"Through the project, we realised that there is strong investor interest in and demand for our green bond, so we feel there is more opportunity to issue green bonds in the euro market," said Ouchiyama.

"We would like to come back to this market once a year as a more sophisticated green bond issuer." ●

Size no obstacle as 'fun' Jyske euro AT1 first sells out

Jyske Bank issued its first euro Additional Tier 1 (AT1) on 14 September, a EUR150m (DKK1.12bn) perpetual non-call 10 issue that attracted EUR775m of orders and was priced with the lowest coupon for a euro AT1 from the Nordic region, with its sub-benchmark size no hindrance, according to the issuer.

The Danish bank had previously issued AT1 only in Nordic markets, selling DKK500m and SEK1.25bn (DKK974m, EUR131m) issues, both perpetual non-call 5s, in 2016. In March, it sold a Eu300m 12 year non-call seven Tier 2 issue.

Merete Poller Novak, head of debt investor relations and capital markets funding at Jyske, said that following these trades, the bank had a need for duration. Whereas the preference in the Swedish krona market is for trades with a five year call date, the euro market has better depth at the longer end, she said, although even in euros such issuance is relatively rare.

"The beauty of doing a euro trade from our perspective is the diversification provided," she added, "as it should appeal to a broader variety of investors than a Danish krone or Swedish krona trade, and further underpin our capital market access for the long run — while also giving those that already know us and have lines in place the chance to buy Jyske in a product with a bit more 'fun factor.'"

The mandate for a euro sub-benchmark perpetual non-call 10 AT1 was announced on 13 September, and the deal launched at 9:30 CET the following day with initial price thoughts of the 5.125% area. The book closed at over EUR800m and the deal was ultimately priced at 4.75%.

The coupon is the lowest for a euro-denominated AT1 from the Nordic region, and the same coupon as a perpetual non-call 12 AT1 for HSBC in June 2017. Novak added that there was no "small size discrimination" in terms of the price Jyske was able to achieve.

The final order book stood at EUR775m, including 130 investors.

The EUR150m transaction fills Jyske Bank's current Pillar 1 and Pillar 2 AT1 allowance, and Novak said further euro-denominated capital transactions should not be expected from Jyske in the short to medium term.

Jyske went on to issue, on 23 November, what could well be its last senior unsecured benchmark, a EUR500m five year FRN. The deal came after the Danish FSA in October clarified its implementation of MREL, with senior debt issued before 1 January 2018 grandfathered as MREL-eligible until the end of 2021. Jyske now expects to begin replacing its old senior unsecured bonds with MREL-compliant senior non-preferred (SNP), most likely during the second half of next year.

"During 2019-2021 we expect to issue one euro benchmark SNP bond a year until all our MREL requirements have been fulfilled with SNP," said Novak, with Jyske's needs estimated at EUR2bn-EUR2.5bn. ●

Groupama and Axiom launch new legacy sub fund

Groupama Asset Management has partnered with Axiom Alternative Investments to launch a new fund investing in legacy bonds issued by major European financial institutions with a maturity date around 2021.

The new fund, Groupama Axiom Legacy 21, aims to allow investors to capitalise on investment opportunities presented by the transition from Basel II to Basel III, citing legacy debt as one of the few credit segments that still offers attractive yields relative to the level of risk.

To ensure the diversification of this risk, the fund's management strategy will rely on a wide range of credit and derivative instruments, exploiting various performance drivers by investing in discounted bonds, long calls, fixed-to-fixed, and securities issued by institutions with improving credit quality.

Groupama Asset Management has delegated management of the new fund to Axiom Alternative Investments, the independent asset management firm based in London and Paris.

"The universe of legacy securities is vast, but it is often neglected by investors because of the diversity of the instruments and the perceived difficulty in assessing their lifetime as regulatory capital," said David Benamou, chief investment officer of Axiom Alternative Investments. "However, given our extensive knowledge of subordinated financial debt, we strongly believe that this new fund will provide an unprecedented opportunity with a very attractive risk-yield combination for investors." ●

QBE
Engendering a social buzz

QBE put gender equality centre stage when it sold the first capital instrument from a financial institution to be in social bond format on 9 November, and the Australian insurer's US$400m perpetual non-call 7.5 deal resonated with a mass audience. Here, QBE group treasurer Paul Byrne discusses the inspiration for the landmark and its execution.

For a time on Thursday, the 9th of November 2017, gender equality was the talk of the bond market.

That was the day we launched the world's first Gender Equality Additional Tier 1 (AT1) bond transaction as we set out to raise US$400m of this deeply subordinated form of capital.

Now, banks and insurers issue AT1 on a regular or semi-regular basis; the uniqueness of this transaction was that we elected to make it a social bond — a gender equality bond, to be specific. This was a world first: a capital instrument issued as a social bond, a gender equality bond.

The background to the creation of this bond goes back a number of months. At QBE gender equality is something we take very seriously, having signed up to the United Nations Environment Programme Finance Initiative (UNEP FI) Principles for Sustainable Insurance (PSI) and more recently the UN Women's Empowerment Principles. We are embedding diversity and inclusion within our corporate DNA and committing ourselves to targets for women in leadership roles.

Earlier this year, in April, we became the first insurance company to issue a Green Bond and as part of that transaction we received feedback from investors that the supply of social bonds was not meeting their demand.

Paul Byrne, QBE

At that point we had the spark of an idea to see if we could marry together the promotion of gender equality and also meeting investor demands for more social bonds.

At that time we committed ourselves to developing a Gender Equality Bond Framework, which we did over the course of the southern hemisphere fall and winter. To achieve this we worked very closely with Sustainalytics to develop the Framework (ultimately Sustainalytics became our Second Party Opinion provider for the transaction). We both wanted the framework to comply with the Social Bond Principles (SBP), one of the key criteria within those principles relating to "use of proceeds", essentially how we planned to invest the cash that we would raise. To define this, we needed to establish an appropriate set of eligibility criteria.

Clearly our eligibility criteria needed to ensure that the funds raised were used to further promote best practices in relation to gender equality. As such we decided to use two eligibility criteria to define our universe of investable assets. The criteria we chose were:

- An issuer must be a signatory to the United Nations 7 Women's Empowerment Principles. We sought and received the permission of the UN to use their Principles in our Framework; and,
- An issuer must be included in the Equileap Gender Equality Report top 200 Companies for 2017. Equileap is a Dutch-based not for profit organi-


Observance of International Women's Day 2017 at UN HQ, New York, under the theme 'Women in the Changing World of Work: Planet 50-50 by 2030'. *UN Photo/Rick Bajornas*

sation that is committed to promoting gender equality and annually undertakes a ranking process to identify and publish the top 200 companies that are the most progressive from a gender equality perspective. Similar to the UN, Equileap were happy to allow us to use their report as it furthers awareness of their gender equality objectives.

The investible universe of assets now defined, we again worked with Sustainalytics on ensuring that the SBP were met and to procure the extremely important Second Party Opinion. It's worth mentioning that we have also retained Sustainalytics to provide ongoing annual external assurance in relation to our compliance with the Framework.

Raising AT1, and an eyebrow or two

Now came the difficult decision, would we attach our newly developed Gender Equality Bond Framework to a deeply subordinated capital instrument, or wait and attach it to a more traditional senior issuance at some point in the future? Given the importance of the message we were seeking to highlight, we took the decision to attach it to our impending AT1 transaction.

As most of you will be aware, credit analysts and debt investors tend to be a cautious group at the best of times, so announcing an AT1 transaction that was also the world's first capital social bond was always going to raise an eyebrow or two.

So on the Sunday before launch I embarked on a three day deal-specific roadshow, starting in Singapore on the Monday, moving to Hong Kong on the Tuesday, catching the red-eye to London for the Wednesday morning, and then US east coast calls after the close of the London day.

In total I met with or spoke to north of 100 analysts and portfolio managers over the three days, and to say that the feedback was resoundingly positive would be an understatement. People immediately got the message and commended us for what we were trying to achieve, and in many cases this also resonated with their own internal corporate principles and in some cases ESG mandates.

That said, the proof of the pudding is always in the eating, and immediately post the conclusion of our US east coast calls and prior to the Hong Kong market opening on the Thursday morning we announced a US$400m Gender Equality Bond Framework AT1 transaction.

To say the support we got from our investor base was fantastic would be a disservice to our investors; their support for the transaction was overwhelming. Within the 12 hour window of the bookbuild we received orders in excess of US$9.5bn for the US$400m (no-grow) transaction — our book was covered a staggering 24 times. Much as I would like to think that this reflects the job I did on the road and the demand for our credit combined with the market's search for yield, it cannot only be these factors, as they would normally get us to 8-12 times covered — the balance, I believe, is the market showing its resounding support for gender equality.

For a time on Thursday, 9th of November 2017, gender equality was the talk of the bond market, and I am proud to say I was a small part of that conversation.

To the extent that anybody would like to understand more about establishing such a framework, please do not hesitate — we are happy to share our learnings and experience. ●

Volksbank Wien debuts central role with Tier 2

Volksbank Wien was able to upsize its first capital markets transaction from EUR300m to EUR400m, as its 10NC5 Tier 2 deal attracted over EUR850m of demand, demonstrating investors' enthusiasm for the credit. Here, Michael Santer, head of treasury and private banking at Volksbank Wien, explains the background to the debut and the issuer's strategy.

This is Volksbank Wien's first issue of any kind in the capital markets in its own name. Could you explain the background to the debut?

Volksbank Wien is not only a retail bank in the eastern part of Austria, but is also the central organisation for the Association of Volksbanks in Austria. Previously this role was played by ÖVAG (Österreichische Volksbank AG), but it was split in 2015 — parts of it are now Immigon, the wind-down company, and the continuing parts of the central organisation were merged with Volksbank Wien.

Volksbank Wien actually inherited the covered bonds of ÖVAG — which are hence now in the name of Volksbank Wien — but otherwise it is the first time for Volksbank Wien to go under its own name into the capital markets.

What is the rationale for this Tier 2?

We had two main reasons. One is that we are going to deconsolidate the cooperative holding companies we have as owners, and are therefore going to lose some Tier 2, so we want to replace that with this transaction. And additionally we

Michael Santer, Volksbank Wien

are preparing for future MREL requirements. We do not have a final target figure, but we nevertheless decided to build up already now the cushion in Tier 2 in preparation for fulfilling MREL requirements in the future.

When did you start preparing this project?

It was actually in the second quarter of this year. We took the decision to go to the market with a Tier 2 transaction and then we discussed the idea with a number of investment banks to get a better understanding of how they would suggest tapping the market with an inaugural transaction, as Volksbank Wien had not been in the market. And so in July we picked the joint lead managers and started with the preparations during summer time.

Then there was the challenge of finding the right week for the roadshow and the execution. As you know, you have to consider many obstacles, so to speak — like central bank announcements, elections, bank holidays — so there is quite a lot to consider before you find the right spot. As we have seen from the successful outcome, I think we picked the right window.

How did the roadshow go?

We started the week before launch in Vienna on the Thursday, and then had two teams over Europe Monday to Tuesday, the CEO in Paris and in London, and the CFO in Frankfurt, Munich and Zurich.

If you come with a new name that is not a benchmark issuer and from a balance sheet perspective also on the smaller side, you are of course curious to see how much interest there is, and we had very busy meetings over these two-and-a-half days and were well received. So

Photo: Volksbank Wien/ Robert Polster

we already had the feeling during the roadshow that there is quite an interest for our name, which also then of course was reflected in the order book during execution.

Why did you choose the 10NC5 structure?

Coming out with an inaugural transaction, you don't want to do anything fancy — you just stick to what is plain vanilla and most liked in the market. So the decision was pretty much between a 10NC5 or a 12NC7. The feedback from investors was in favour of the 10NC5 in this interest rate environment.

I understand you were able to upsize the deal from EUR300m to EUR400m.

Absolutely. We always said it will be sub-benchmark, so below EUR500m, and we told investors that if the pricing is reasonable we would go up to EUR400m, so with the market conditions and the interest we encountered we were able to print EUR400m, which was the maximum interest we had on our side. So yes, we fulfilled our target.

How did the pricing compare with your expectations?

When we started discussing pricing, we already had in mind a level below 300bp, and this was also in the IPTs we were showed, the 280bp area. The book then built very impressively and we had more than Eu1bn during the process, and even when we revised the spread guidance lower not much of the interest vanished. For an inaugural transaction for a name of our size, and even picking a potentially not so easy Tier 2 for the first trade, this is a very good result and we are very happy with it.

Hypo Vorarlberg was also recently well received with a green sub-benchmark senior trade, and it seems Austrians are doing well in general.

You will also have seen the covered bond of Raiffeisenlandesbank Niederösterreich-Wien, which was the first Austrian transaction with a negative spread, so I think Austrian names are currently well perceived in the market.

We all know that there is a hunt for yield, and if there are interesting transactions out there you also have the response from the investor side.

How was the distribution?

We are particularly happy with the granularity of the order book, that there was such a huge demand from so many different investors who have looked into our name and into our story, and we were able to convince them that Volksbank Wien is an interesting name for the future. We had more than 150 different investors involved, a big share coming from the UK, with 35%, but we were also very satisfied with the German, Swiss and Austrian participation, and of course France, with 12%.

Do you have any further needs that might see you coming back to the market with further capital/subordinated trades?

Not in the short term. In Austria we are still waiting for the legislation for non-preferred senior. If the legislation is put in place and we have a final target for the MREL requirements, we will then of course consider our options there. ●

Mulhacén; *Photo: Manel/Flickr*

Spanish rise to the challenge

From the Banco Popular crisis to a Catalan declaration of independence, Spanish banks have had to navigate a tough few months. But not only have they survived, they have thrived, achieving pricing records while launching debuts and inaugurating new senior non-preferred legislation. *Neil Day* reports.

Just a month after Banco Popular sub debt had been wiped out, CaixaBank on 5 July reopened the sector with a EUR1bn Tier 2 trade and the next day Bankia sold its inaugural Additional Tier 1 issue, a EUR750m deal that achieved record pricing on the back of as much as EUR3.5bn of demand.

The new issues were launched into a market where spreads on Spanish capital instruments and sub debt in general had ultimately proven resilient in the face of the effective write-down of Banco Popular AT1 and Tier 2 on 7 June after the institution was deemed to be failing or likely to fail by European financial authorities.

Fernando Cuesta, head of long term funding and treasury at Bankia, said it was good to see the receptiveness of the market to its debut, which — at 6% — had the lowest ever coupon for a Spanish AT1 at the time of issuance.

"The market is in a different mood to the first quarter of 2016 when there was all the noise that resulted in historic wides for everyone," he said. "Right now, the market is much more prepared and able to differentiate something idiosyncratic, while if they like a credit, they are able to buy.

"And considering that losses in both AT1 and Tier 2 seem to be similar in case of failure, a lot of investors started to see more value in AT1 and maybe less in Tier 2, and we probably benefited from that," he added. "This movement was already reflected in secondaries and investors wanted the opportunity to take positions in size in primary, and they got that with our transaction."

Bankia had been working towards its first AT1 since early 2016, but, alongside the usual preparations, was held up by a technical issue relating to the conversion price floor under the instrument's equity conversion loss absorption mechanism. Bankia resolved this by performing a 4:1 reverse share split and reduction in the nominal value of ordinary shares, but this had to be approved at the bank's general shareholder meeting, which took place on 24 March this year.

By the time this measure was effective, Bankia's interest in BMN had emerged and the bank decided to wait until the terms were formalised before launching the AT1, given the impact the absorption of Bankia's smaller peer via merger would have on key metrics such as CET1 ratio and MDA. The bank had nevertheless been lining up its documentation, putting it in a position to issue as soon as this final issue had been resolved, which happened on 27 June.

"That was released a week and a half before we priced the transaction," said Cuesta, "and we considered that there was still time to execute the transaction before we entered into blackout. And then we were pretty quick, to be honest."

Bankia held a two-team, two-day roadshow on 4 and 5 July, then on 6 July opened books for a EUR750m no-grow perpetual non-call five AT1 with initial talk of the 6.5% area. Cuesta said this level reflected feedback from investors, who had put in some EUR1.7bn of indications of interest — suggesting demand could prove to be of a similar magnitude to that Bankia experienced on a EUR500m 10 year non-call five Tier 2 on 13 May that was almost 10 times oversubscribed.

"In reality, demand grew to close to EUR3.5bn by around 10.30 UK time," he said. "As we were already four to five times oversubscribed but could not increase the size, we decided to move in terms of price guidance.

"We felt that anything below 6% would not be reasonable, but that — considering the feedback from investors and the amount of demand — 6%-6.125% was something the book could live with, and in fact it was the case. Some investors left the book after the movement, as is usually the case, and then the final book size was EUR2.5bn, and that was what we had to allocate for the EUR750m at the 6% level."

Vincent Hoarau, head of FIG syndicate at Crédit Agricole CIB, said the initial talk was in line with his expectations, given that a EUR1bn 6.75% perpetual non-call seven debut CaixaBank AT1 launched on 1 June was trading at a yield-to-call of 5.85% and i-spread of 530bp, implying fair value of 5.5% for a CaixaBank non-call five.

"So the pricing of Bankia at 6% implied only 50bp for the credit spread differential and new issue premium combined," he added, noting that Bankia was trading 40bp wide of CaixaBank in Tier 2 and 60bp inside Sabadell. "Size matters in these markets and the cap at EUR750m certainly delivered traction.

"Judging by the execution and momentum during bookbuilding, Popular doesn't appear to have slowed them down or forced them to pay a higher premium."

Another banker said Bankia's pricing was very competitive bearing in mind that Sabadell AT1 had underperformed in the wake of Popular's collapse – although Sabadell's EUR750m 6.5% perpetual non-call five AT1 debut, launched on 5 May, recovered from the high 6s when Bankia hit the market to trade in the low 6s going into the end of July.

Cuesta meanwhile noted that Bankia's successful execution was achieved in spite of unhelpful underlying markets.

"It probably looks easy from the outside," he said, "but actually during bookbuilding we had this underwhelming French OAT auction and then there were the ECB governing council minutes, so it was one of these days in which the world was changing its view on interest rates and QE, which particularly affected the medium to long term deals and made pricing a fixed rate transaction challenging.

"In that sense, having a book of approaching EUR4bn probably helped when some investors reduced orders, and the result was pretty encouraging for us. We had more than 125 investors in the final EUR2.5bn book."

The UK and Ireland were allocated 53%, France 19%, Nordics 7%, Switzerland 6%, southern Europe excluding Spain 6%, the Benelux 6%, Germany 2%, and others 1%. Cuesta noted that the UK component of the early EUR3.5bn book was higher, but fell when pricing was tightened, with France and other areas increasing their share. Asset managers were allocated 70%, hedge funds 21%, private banks 7%, and insurance companies 2%.

The transaction has a 5.125% CET1 trigger. It is rated B+ by S&P.

> 'Popular doesn't appear to have slowed them down'

Bankia's debut filled roughly half its 1.5% AT1 bucket, of around EUR1.4bn, with the bank potentially returning with a further benchmark in 2018 or 2019 to fill the remainder, according to Cuesta. Its 2% Tier 2 bucket had been filled ahead of the BMN merger, but it now has 0.15% requirement, which he said is more likely to be met with a private placement.

CaixaBank reopens Spain in style

Bankia's strong result was in line with that achieved a day earlier by CaixaBank when it issued a EUR1bn 2.75% 11 year non-call six Tier 2 flat to its secondaries in the first Spanish sub debt issue since Popular's resolution.

Following initial price thoughts of the 260bp over mid-swaps area, guidance was set at the mid-swaps plus 240bp area (plus or minus 5bp), before the deal was re-offered at 235bp over — 100bp inside where CaixaBank had priced a 10 non-call five Tier 2 in February. That was quoted at around 225bp over when the new issue was launched, implying a new issue premium of zero or close to zero, assuming around 10bp for the curve extension from February 2022 to July 2023.

The tight pricing was achieved on the back of around EUR2.4bn of demand good at the re-offer level, comprising some 220 accounts, with little price sensitivity in the order book, according to Hoarau at CACIB, which was a bookrunner on the deal.

"CaixaBank's result shows further evidence of very strong technical support and market conditions driven by the level of liquidity rather than fundamentals," he said. "The imbalance in supply and demand and redemption dynamic is intact and remains in the issuer's favour."

"The name is meanwhile clearly very well established," he added, "and the pick-up it offered versus peers Santander and BBVA was clearly appreciated."

Hoarau noted that the issuer's regular presence had done it no harm in terms of pricing, and the Spanish bank highlighted that the new issue made it the largest European issuer of institutional regulatory capital debt in the euro market in 2017, with EUR5.5bn of issuance, at the same time that it was able to achieve its maturity and cost targets.

"The cost of the new issue is down 1% in terms of spread against mid-swaps compared to CaixaBank's issue in February, which was of a shorter term, demonstrating the market credibility established by the CaixaBank brand and its acknowledged performance over the year," the bank said.

The deal had tightened to around 220bp over going into the end of July, without having at any point traded wide of re-offer, which Hoarau said vindicated the pricing and sizing, and demonstrated the quality of placement. The outperformance was more pronounced post-summer, with the recent Tier 2 trading in the context of 190bp despite the negative noise surrounding the Catalonia situation in October *(see below for more)*.

BBVA then on 30 August attracted some EUR5bn of demand from over 300 accounts when it issued the first senior non-preferred benchmark under Spain's new legislation.

Banco Santander — facing the most significant needs in Spain for such an instrument — had at the start of the year preempted the legislative move by creating a contractual forerunner and debuting this with a EUR1.5bn five year deal on 26 January. However, its compatriots waited for legislation to be in place, and a law of 23 June brought the new asset class into being.

BBVA's EUR1.5bn five year transaction was priced at 70bp over mid-swaps following initial price thoughts of the 85bp area, with the leads putting the ultimate pricing at flat to through fair value.

BBVA deemed the outcome a success, noting that the spread was the lowest achieved by any senior non-preferred benchmark at the time of pricing.

Independent of independence

While the Popular crisis may have receded, a new one was brewing, with the Catalan government having in June called for an independence referendum in October.

Through September political tensions mounted, with the referendum deemed illegal by the Spanish constitutional court on 7 September, ballot boxes seized by the police on 15 September, and Catalan government ministries entered by police searching for evidence on 20 September, sparking an increase in protests — and counter-protest.

But despite an initial negative reaction to the developments — perhaps after being lulled into a false sense of security by key "populist" electoral defeats in the first half of the year — market participants soon learned to live with the renewed political agitation, allowing Spanish issuers to tap the market.

Santander, for example, on 26 September sold a EUR1bn perpetual non-call six AT1 at 5.25% — the lowest ever coupon for a Spanish AT1. By way of comparison, In April it had sold a perpetual non-call five at 6.75%.

According to joint bookrunner Santander, "the issuer seized the opportunity" against a constructive market backdrop and following a particularly busy week in the primary market. The deal attracted some EUR2bn of demand at the book's peak and over EUR1.7bn at re-offer, with more than 180 accounts participating, "reflecting a high degree of interest from investors in adding risk to their portfolios".

The pricing of 5.25% followed initial price thoughts of low to mid-5%, and compared with fair value of the 5% area cited by the leads.

'The market became more sanguine about it'

Spanish credits were not immune from developments, particularly in early October when an ambiguous independence statement was made and clarity then sought by the Spanish government, with the regional parliament ultimately declaring independence. Names such as CaixaBank saw their AT1 fall as much as a point on 4 October, for example, with "cracks in sentiment" cited.

By the beginning of November, Spanish AT1 was back at new highs, alongside the rest of the market. CaixaBank 6.75% AT1s had fallen from a high of 110 at the end of July to as low as 105.5, but recovered to trade higher, at 111, while non-Catalan credits experienced a more muted move in both directions, BBVA 6.75% AT1, for example, fell from 107 to 105 — in line with a wider summer sell-off in the asset class — then rallied back higher to 108.5.

"Obviously there was some weakness and some volatility around the Catalan referendum," said the credit trader, "but I guess at each point the market became more sanguine about it, and by the time they actually declared their independence, the market just continued to rally and we were already above the levels that we'd seen previously anyway."

Indeed BBVA was on 8 November able to attract $7bn of demand to a $1bn perpetual non-call 10 AT1 and price it at the lowest ever coupon, 6.125%, for such an issue from southern Europe. *(See news section for further details.)*

And Banco de Sabadell two days later raised EUR400m of Additional Tier 1 capital via a 6.125% perpetual non-call five deal in a club-style private placement, akin to what fellow peripherals Popular and UniCredit had done previously. Following a EUR750m 6.5% perpetual non-call five AT1 debut in May, the new transaction fully filled the bank's AT1 bucket.

The financial institutions closest to Catalan developments have meanwhile taken measures to insulate themselves from the crisis, with CaixaBank and Sabadell, for example, moving to relocate their legal headquarters outside the region in early October.

At the time of going to press, the situation remained fluid and tense, with ejected leaders of the Catalan government facing charges for rebellion after an independence declaration by the region's parliament.

Around the time a declaration of independence was emerging, Moody's both noted the relocations and said that potential disruptions associated with independence would likely have a relatively limited effect. But it warned of an escalation of the crisis.

"More broadly, there is a risk that Catalan independence could engender political turmoil in other parts of Spain, or indeed elsewhere in the European Union given recent political trends," it said. "For now, we believe this risk is very small.

"Should this assessment change, however, it could have negative credit implications for a much broader range of issuers." ●

Belfius leads Belgian senior non-preferred

Belfius Bank inaugurated Belgian senior non-preferred debt with a EUR750m five year deal on 5 September that attracted EUR2.3bn of demand from 150 investors. Ellen Van Steen, head of long term funding at Belfius, discusses the successful execution and how the new instrument fits into the bank's strategy.

The Belgian law was finalised on 31 July, while a EU framework is taking shape. Had you been waiting long to come with a senior non-preferred trade, with other issuers in Belgium and elsewhere having already met MREL/TLAC needs with senior non-preferred or HoldCo trades?

Belfius was very pleased with the Belgian initiative enabling the issuance of non-preferred senior instruments. We were waiting for this law for a few months. Although Belfius's MREL needs are manageable and hence we were under no pressure to speed up the process, we are happy to now be able to start to build up our MREL buffer and to benefit from the good current market conditions, in line with issuers from other jurisdictions or HoldCo issuers. Belfius is the first Belgian issuer launching this new format.

Is the Belgian legislation in line with your expectations and wishes? How does it compare with, for example, the French law?

The new law (Art 389/1) modifies the hierarchy of claims in case of resolution. This allows for the introduction of


Ellen Van Steen, Belfius

a new category of debt instruments, to be built up within the senior unsecured class. Non-preferred senior notes are unconditional, senior and unsecured obligations and will rank pari passu amongst themselves and senior to subordinated notes, but junior to senior preferred notes and any claims benefiting from legal or statutory preferences. The Belgian law is comparable to the French and Spanish laws.

We are of the opinion that it is positive that legislative actions are undertaken in Europe in order to have a similar non-preferred senior format available for issuers from different jurisdictions, which is easier for investors and creates a level playing field for banks across Europe.

You came to market relatively soon after the Belgian law came into force and after the summer holiday period. What dictated the choice of timing? Was there an advantage in coming to market quickly/first?

The Belgian law on non-preferred senior instruments was enacted on 31 July. After the release of the excellent Belfius first half year 2017 results at the end of August and reacting to a constructive market tone, we were convinced this was a good time to issue our inaugural benchmark, which was confirmed by the success of the transaction.

You did not do any deal roadshow ahead of the transaction. Why? Are you satisfied with the execution strategy you used?

Belfius has a very active communications strategy, with the organisation of regular investor meetings throughout the year. Belfius published its H1 2017 results on 31 August, followed by a global investor call presented by Johan Vankelecom,

CFO of Belfius. On top of this investor presentation, we also made a specific non-preferred senior presentation available to the investors, detailing the Belgian law, the characteristics of the instrument, and Belfius's MREL strategy. The one-and-a-half day execution allowed the investors sufficient time to analyse this new Belgian format. The outcome and distribution demonstrate that Belfius's constant marketing efforts and investor meetings have a positive impact. Regular contact for a credit update is certainly as efficient as a deal roadshow, and it gives flexibility on time to market.

What are the relevant pricing references for this new instrument? How did the ultimate spread compare with these and your expectations?

Both the French non-preferred senior transactions and the HoldCo issues of our Benelux peers are good pricing references for the Belgian non-preferred senior instruments, by taking into account the relative value between issuers as well as the spread to Tier 2 and preferred instruments. This approach is clearly followed by the market. We are of the opinion that our inaugural non-preferred senior transaction is a well balanced deal completely in line with our expectations on pricing and size.

How satisfied are you with the demand? How does the composition of the order book compare with that of other instruments, such as senior preferred and Tier 2?

Our inaugural non-preferred senior benchmark was highly successful. The bookbuilding was fast and fluent, demonstrating the interest of the investors in Belfius. Around 150 good quality accounts subscribed to the transaction, resulting in a well diversified and granular final book of EUR2.3bn. The order book has a balanced geographical distribution and, regarding the investor type breakdown, asset managers were the most active.

On the back of a three times oversubscribed order book, we were able to price a EUR750m deal at a re-offer spread of mid-swaps plus 62bp.

What are your MREL needs projected to be?

It is expected that a formal MREL level will be given to Belfius by the Single Resolution Board in 2017. At this stage, no formal MREL target has been communicated to Belfius.

Belfius estimates the current MREL level at around 24.2% (including senior unsecured instruments). The MREL needs for Belfius are manageable. We will build up our MREL buffer with emphasis on the new layer of non-preferred senior notes in the upcoming years.

Belfius plans one to two non-preferred senior benchmarks a year, in combination with private placements.

How will senior non-preferred fit into your funding strategy going forward? Will it replace other instruments as you build up your MREL requirements?

The future MREL needs are incorporated into the general funding plan of the bank. The new non-preferred senior instruments will partially replace other funding instruments coming to maturity. A part of the redemptions of the preferred senior instruments will be replaced by non-preferred senior. However it is the intention of Belfius to continue to be present in the market in the coming years for the issuance of private placements in preferred senior format. ●

CACIB syndicate survey

Investors primed for SNP

How are investors positioned and what are they looking for? Such issues were central to an inaugural survey by Crédit Agricole CIB syndicate conducted in the wake of unprecedented action to tackle failing banks and ahead of key central bank decisions. It found an increasingly discerning buyside ready to absorb supply, but lacking direction. *Neil Day* reports.

A Crédit Agricole CIB survey conducted from 2-21 August found senior non-preferred to be the instrument most cited by investors as the type of bank credit risk they intended to increase by year-end, with little evidence of any negative impact from pre-summer bank resolutions, but conflicting expectations around spreads.

Fifty-two investors participated in the survey conducted by Crédit Agricole CIB FIG syndicate, with almost a third having more than EUR10bn of assets under management dedicated to investments in financial institutions *(see below for more on survey participants)*.

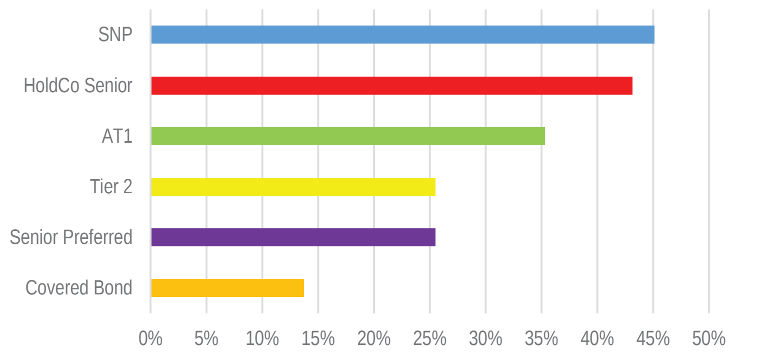
Asked which type of bank credit risk they intended to increase overall by year-end, 45% of investors chose senior non-preferred (SNP) — just ahead of forerunner HoldCo senior, on 43%.

This was despite almost half (49%) of those surveyed considering senior non-preferred to be expensive versus senior preferred notes, with just 19% believing prevailing levels to be correct. According to 38% of respondents, senior non-preferred should rather be called "Tier 3" and be priced closer to Tier 2.

Some 14% expected spreads on outstanding senior non-preferred to underperform on the back of primary market supply in existing and new jurisdictions — with Spain and Belgium entering the market in the autumn on the back of recently-established legislation. However, one investor noted that valuations should tighten as issuers' layers of senior non-preferred (and any further subordinated buffer) grow.

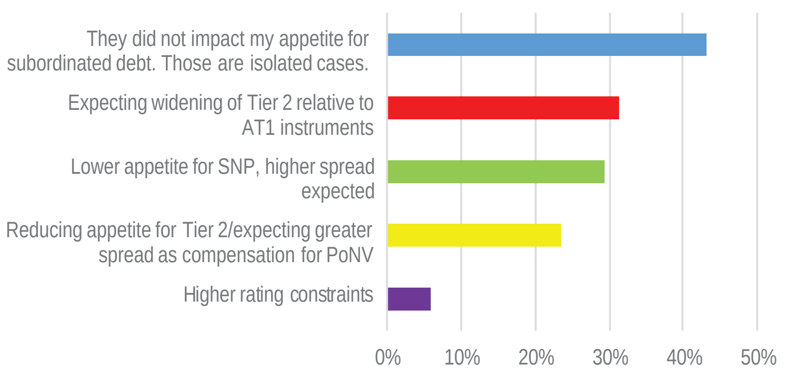
"Investor sentiment expressed through the survey is very promising for the European expansion of the SNP segment," said Vincent Hoarau, head of FIG syndicate at Crédit Agricole CIB. "The survey confirms investors have cash to put to work at current

Considering the end of the year 2017, which type of bank credit risk do you intend to increase overall? (multiple answers possible)



Source: Crédit Agricole CIB

How has your investment behaviour been influenced by the recent bank resolutions/failures in Spain and Italy? (multiple answers possible)



Source: Crédit Agricole CIB

valuations given the limited amount of attractive alternatives away from the FIG world."

A widespread risk-on attitude was reflected by 35% of respondents intending to add Additional Tier 1 (AT1), the third-most preferred option. A significant minority, 22%, would nonetheless either not add bank credit risk (16%) or reduce it (6%).

The survey was conducted in August, in the wake of the resolution of Spain's Banco Popular and the winding up of Italy's Banca Popolare di Vicenza and Veneto Banca in June. A muted market reaction and successful new Spanish bank capital issues suggested investors were sanguine in the face of the tests of Europe's post-crisis regulatory regime, and the survey confirmed this.

Asked how the pre-summer developments had influenced their investment behaviour, 43% of respondents saw the events as isolated cases, with their appetite for subordinated debt unaffected. Only 6% said that they had resulted in higher rating constraints.

However, the price issuers have to pay for Tier 2 relative to other instruments could rise, with 57% of those surveyed citing reduced appetite for Tier 2 and/or expecting higher spreads — notably versus AT1 — to compensate for revised PoNV considerations after Popular Tier 2 was wiped out alongside its AT1.

"Appetite not affected," said one investor. "Been mainly involved in national champions.

"We are getting lots of questions from clients, however, as to why we would not own AT1 over T2."

QE: a risk in tapering, or underpinning tight levels?

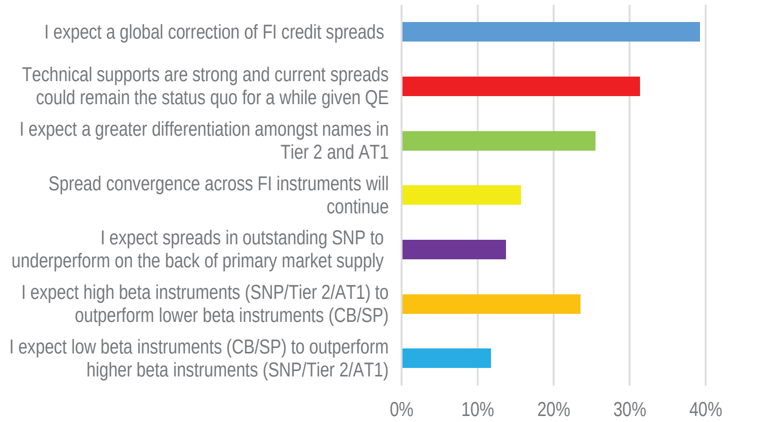
Compared with the enthusiasm for increasing holdings of senior non-preferred, HoldCo senior and AT1, only 25% of respondents intended to raise exposure to Tier 2 this year.

Pre-summer events also had a spillover effect on the senior non-preferred sector, with 29% of respondents expressing lower appetite for the instrument and/or requiring greater compensation in light of the Spanish and Italian experiences.

Just 25% of respondents also intended to increase senior preferred exposure, and only 14%, covered bonds.

Comparing the two asset classes, 45% of investors believed senior preferred to be too expensive versus covered bonds, while 43% considered them correctly valued. To 15%, whether issuers are national champions or second tier names remains important, with a couple of investors rather investing in the senior non-preferred of national champions.

Which of the following statements seems the most appropriate to describe the potential evolution of credit spreads in FIs by the end of 2017? (multiple answers possible)



Source: Crédit Agricole CIB

Lower enthusiasm among some investors and for some bank instruments may be explained by concerns over a possible global correction in financial institutions credit spreads: 39% of those surveyed expected such a scenario. Responses also corresponded with the intended weighting in favour of subordinated bank debt: 24% expected high beta instruments to outperform low beta, and only 11% vice versa.

However, there was no clear consensus on the outlook, with 31% agreeing technical supports to be strong and that prevailing spreads could remain the status quo for a while because of QE.

"Short term it seems the market is long and we could have a correction," said one respondent, who nonetheless echoed the mixed outlook by adding the caveat: "Spreads could return to tightening after that."

Perhaps unsurprisingly, a variety of outwardly discordant opinions on spreads co-existed: 16% of those surveyed expected convergence across bank instruments to continue, while 25% expected greater differentiation amongst names in AT1 and Tier 2.

The number one cloud hanging over the market was ECB tapering, according to investors' responses when asked what is the number one risk factor into year-end 2017. However, geopolitics was widely cited as being at the forefront of respondents' minds, with a combustible combination of Trump, North Korea and China among risks cited, alongside more typical EU concerns, such as Italian elections.

"The survey suggests that a (healthy) correction is due," said CACIB's Hoarau, "while technical and fundamentals are strong enough to continue supporting rich valuations until taper tantrums gain momentum."

Forget jurisdiction — it's all about the name

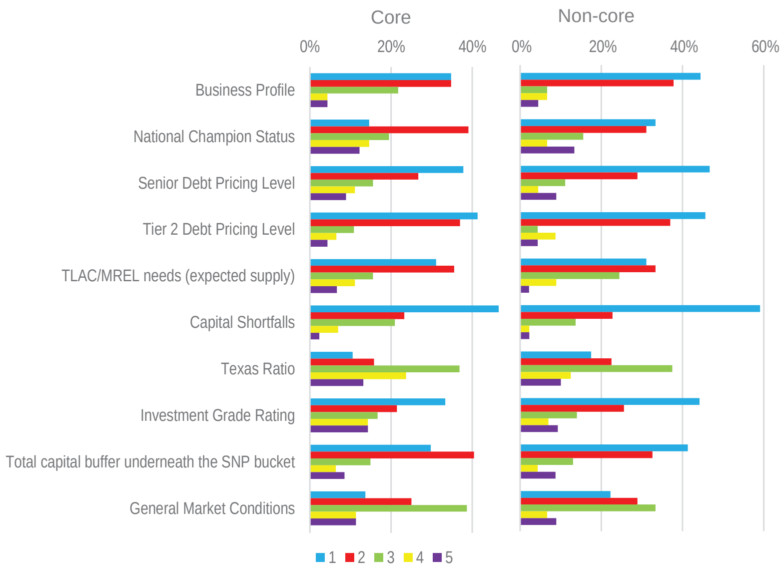
When asked in more detail about the relative importance to SNP pricing of various metrics, respondents were given the chance to provide different answers for core and non-core European jurisdictions. However, investors' answers suggested that there is little divergence between their approaches across markets — the top metrics across both core and non-core were any capital shortfalls, senior and Tier 2 pricing levels, and business profile.

"People are focusing on the issuer's profile and name-specific metrics," said Hoarau, "not jurisdiction. A year ago, investing in Italian banks may have been a no-go for some investors regardless of size, for example, but now it's all about the whether they like the credit or not, and that's very good news.

"Investors are pricing fixed income instruments based on the risk specific to a name, but they should not ignore broader drivers."

Investors' views on senior non-preferred pricing would go on to be tested by banks from Spain and Belgium after the two countries followed France in establishing a legal framework for the instrument. The survey clearly suggested that the pricing approach of choice was to apply a percentage of the distance between the issuer's outstanding senior preferred and Tier 2, with 57% of respondents deeming this most sensible. And in line with the above findings on the diminishing importance of different jurisdictions, just 10% selected an option of playing relative value versus French and contractual Spanish SNP levels.

Rank each metric in terms of importance from 1 (very important) to 5 (least important) in the pricing paradigm for SNP



Source: Crédit Agricole CIB

The survey further asked investors what the percentage distance between senior preferred and Tier 2 should be for senior non-preferred in Spain, Belgium and also Italy. Again, there was little divergence between jurisdictions: the average percentage distance for Belgium was around 45%, and for Spain and Italy 50%. For Spanish non-investment grade, diverse responses nevertheless centred around 60%, while for Italian non-investment grade over half of respondents believe the percentage should be more than 60%.

Investors were also asked what basis point premium senior non-preferred should offer versus senior preferred for the different classes of issuer. This generally came out at 20bp-50bp for Belgium, 30bp-70bp for IG Spain, and 40bp-80bp for IG Italy. There was little consensus on sub-investment grade Spain and Italy, with premiums of anything from 30bp to over 150bp selected.

Considering the emergence of the SNP legal framework for the following countries, what is the premium expected between Senior Preferred (SP) and SNP in bp and/or the % of the distance between Senior Preferred and Tier 2? Results show percentage of respondents who selected each range.

SP/SNP premium in bp	20	30	40	50	60	70	80	90	100	125	150	>150
Belgium	25%	8%	21%	38%	0%	4%	0%	4%	0%	0%	0%	0%
Italy (IG)	0%	13%	13%	8%	17%	25%	13%	0%	13%	0%	0%	0%
Italy (Non IG)	0%	5%	9%	5%	5%	9%	9%	9%	14%	0%	9%	27%
Spain (IG)	4%	21%	13%	17%	25%	13%	4%	0%	4%	0%	0%	0%
Spain (Non IG)	0%	5%	5%	10%	10%	14%	10%	10%	10%	5%	14%	10%

% of SP-Tier 2 distance	30%	40%	50%	60%	>60%
Belgium	32%	14%	39%	11%	4%
Italy (IG)	11%	14%	50%	14%	11%
Italy (Non IG)	0%	7%	22%	15%	56%
Spain (IG)	11%	19%	52%	11%	7%
Spain (Non IG)	0%	12%	24%	32%	32%

Source: Crédit Agricole CIB

Survey participants: open and flexible

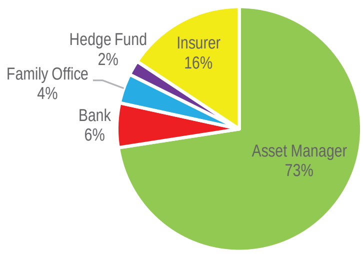
Of the 52 accounts participating, 73% of respondents were asset managers, 16% insurance companies, 6% banks investing on their own behalf, 4% family offices, and 2% hedge funds. The survey took in a cross-section of European accounts as well as a significant minority (18%) of investors further afield.

Sixteen of the accounts surveyed (33%) have more than EUR10bn of asset under management (AUM) dedicated to investments in financial institutions, four (8%) have EUR5bn-EUR10bn, 18 (37%) EUR1bn-EUR5bn, and 11 (22%) less than EUR1bn.

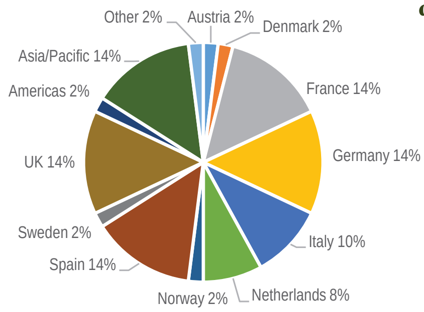
Senior preferred is the FIG asset class to which the most accounts are open to invest in, at 96% of those surveyed, followed by senior HoldCo (94%) and Tier 2 (92%), with 88% of respondents investing in the new senior non-preferred instruments. Two-thirds invest in AT1, while 71% take covered bonds and 33% asset-backed securities (ABS).

37% indicated their holdings of senior non-preferred to be more than EUR100m of the asset class, with 28% holding EUR50m-EUR99m and 28% EUR1m-EUR49m. Two said they do not hold any senior non-preferred paper, while another noted they have sold down most of their initial purchases and, for example, no longer hold any euro SNP.

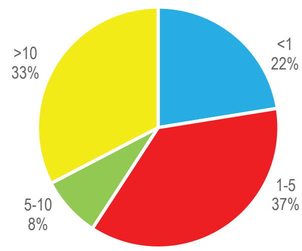
What type of investor are you?



What is your jurisdiction?



How much of your AUM in fixed income is dedicated to financial institutions (EUR bn)?



Source: Crédit Agricole CIB

FRNs, tenors and calls: options expand

The FRN format has taken hold in senior non-preferred, with 72% of respondents buying floating rate paper, but 28% do not. Among those that take FRNs, for 67% these constituted less than 15% of their senior non-preferred holdings, while for 15% it was around a quarter of their holdings, for 11% around half, and for 7% around three-quarters.

Private placements are a possibility for 31% of respondents, but not for the other 69%.

Five years is the preferred tenor for senior non-preferred, chosen by 58% of respondents, followed by seven years (37%), three years (23%), 10 years (15%), and shorter than three years (10%).

Issuance with a call one year before maturity has become an increasing feature of the senior HoldCo market and investors appear ready to accept the structure in senior non-preferred format: 87% of respondents said they would buy such callable SNP paper, and only 14% not. 46% of accounts view the fair value of such a call at around 10bp, with 24% opting for around 15bp and 8% for 5bp.

IG in focus, but ample rating and regional capacity

While 40% of respondents are restricted to investment grade-rated financial institutions securities, the same proportion face either no rating constraints or limits that kick in at a lower, sub-investment grade level — although several of these cited a bias towards IG-rated instruments. Two accounts are limited at crossover credits, while others said constraints vary across mandates or did not answer.

Investors face few geographic constraints on their financial institutions investments: some two-thirds did not cite any restrictions, with a further 10 accounts only restricted to OECD or developed market economies. While a handful cited a regional focus or restrictions for technical reasons such as indices, the only stand-out exclusion was Greece, with three investors still declaring it a no-go jurisdiction.

Green accommodated, but not yet prioritised

Despite having expanded into Tier 2, the burgeoning green bond market does not yet encompass senior non-preferred issuance — indeed regulatory questions over the potential for such instruments remain open. However, 82% of those surveyed would consider buying green SNP notes, even if only 58% said they invest in green bonds — a quarter do not consider the green feature of issuance to be relevant, although a few expect to grow their participation. Of those who do invest in green bonds, these typically constitute only less than 5% of their investments — and many declared themselves ignorant of the significance of such holdings. ●

For further information, please contact:

Vincent Hoarau
vincent.hoarau@ca-cib.com

Doncho Donchev
doncho.donchev@ca-cib.com

Christian Haller
christian.haller@ca-cib.com

Insurance
Big SFCR data

The first publication of Solvency & Financial Conditions Reports (SFCRs) across the insurance industry has provided a treasure trove of new information for the market to absorb. But has it enriched understanding of insurers' capital positions and quality? Michael Benyaya, DCM solutions, Crédit Agricole CIB looks at the content and impact of the reports, with reflections from Julien de Saussure, fund manager at Edmond de Rothschild Asset Management (France).

SFCR… another acronym in the financial institutions sector. This one was well anticipated in the insurance space, since the publication of the Solvency & Financial Conditions Reports (SFCRs) was a long-awaited event in the Solvency II timeline — the volume of information and details on the Solvency II balance sheet was expected to provide a fresh light on insurers' solvency.

And indeed, as the bulk of SCFRs were published from May onwards, there is now a full set data to be digested.

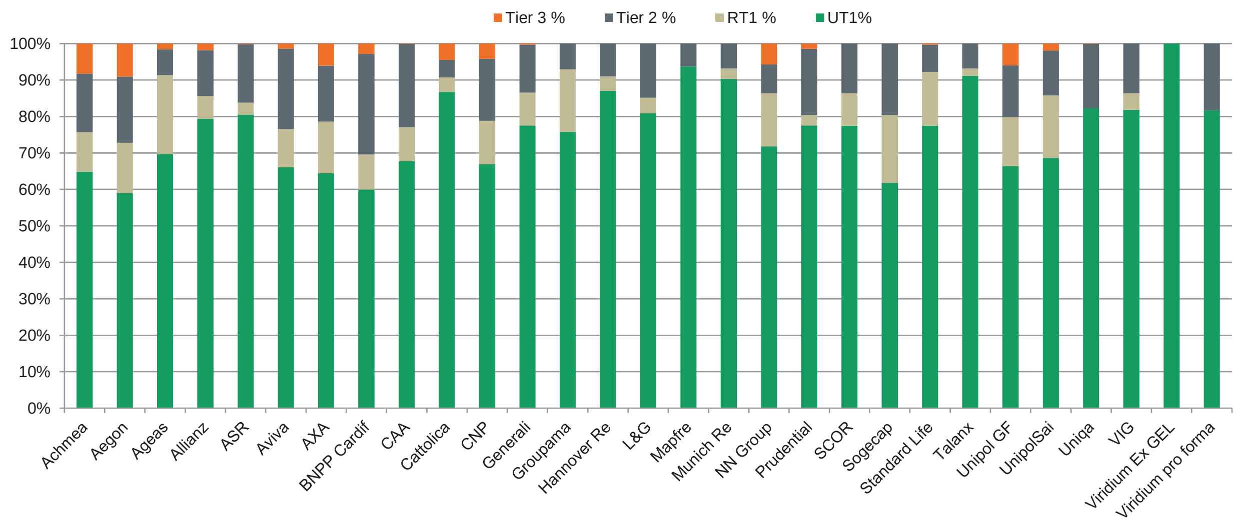
"After having required more and more information after the implementation of Solvency II, I realized that the workload to process all the information provided by the publication of SFCR was huge," comments de Saussure. "So I guess it is fair to say that the reports have been meeting expectations.

"Overall, the harmonization of datasets is very useful."

But so far the impact on the market and analysts' and investors' perception has been muted.

Still, there are some valuable findings

Solvency II Capital Structure Tiering (% of Total Own Funds)



Source: Companies' SFCRs, CACIB

on the capital positions of large insurance companies.

The insurance sector seems well capitalized

Across the large insurance companies, capital positions are comfortable, with no urgent need to raise additional capital. SFCR also provides a complete view on the capital tiering:

- Financial flexibility is supported by hybrid headroom across capital tiers. Medium term, Restricted Tier 1 could become an option as the Tier 2 bucket will run out of capacity.
- The Tier 3 bucket remains largely unused and generally includes only Deferred Tax Assets (DTAs), with the exception of CNP Assurances and Aviva, who have issued Tier 3 bonds. It is expected that the Tier 3 bucket will be managed with the aim of hosting potential DTAs rather than issuing Tier 3 bond instruments. Hence the supply of Tier 3 bond instruments is expected to remain limited.
- Ancillary own funds (AOF) have been viewed as a tool that could be used to design instruments to manage the volatility of the solvency ratio. For now, AOF seems to be used as part of internal financing arrangements as a few solo entities have AOF (e.g. Hannover Re (Ireland)) in their capital structure.

"We focus mainly on Group SFCR," says de Saussure, "unless we are aware of specific local solvency constraints.

"A key issue is financial flexibility," he adds. "i.e. the headroom to issue in ever tier versus leverage/coverage constraints and the impact on sustainable profitability."

All eyes on transitional measures

The solvency capital position is supported by the use of measures implemented via the Long Term Guarantee (LTG) Package, notably the Transitional Measure on Technical Provisions (TMTP), Matching Adjustment (MA), and Volatility Adjuster (VA). One should differentiate among them as VA and MA are permanent while TMTP will amortize over 16 years. Yet a few insurers benefit

> 'The harmonization of datasets is very useful'

massively from LTG and the Solvency II capital position can look really light when stripping out all LTG measures. For now, stakeholders (rating agencies, investors) seem relatively indifferent to this as the market impact has been relatively muted. Could this change? In terms of

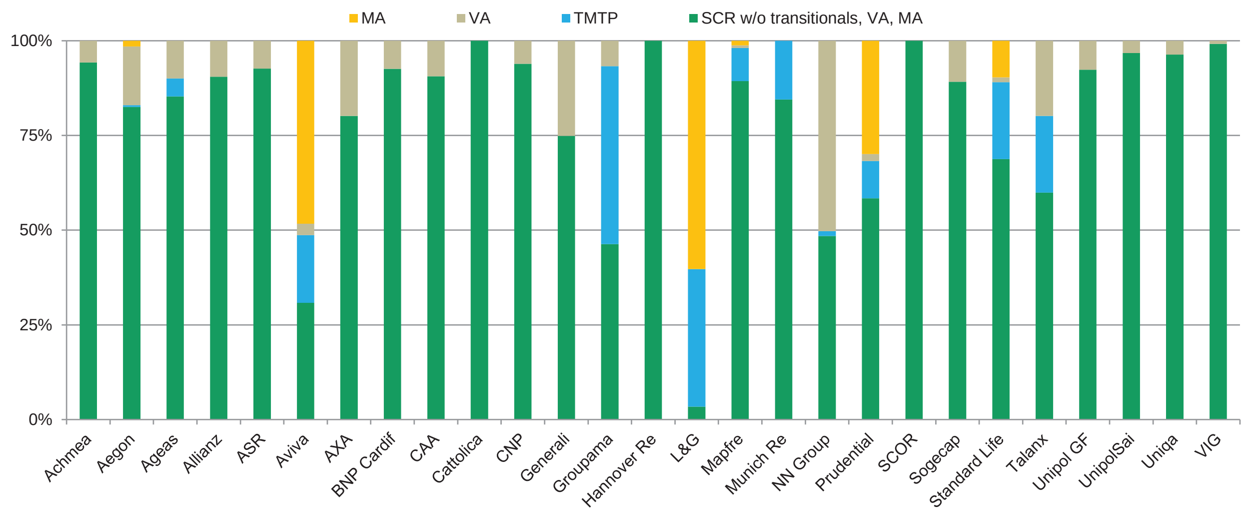
Julien de Saussure

reliance on TMTP, investors' perception could evolve as a function of the ability of insurance companies to adapt their business models.

"Both ratios — fully-loaded and transitional — must be taken into account," says de Saussure. "Transitional ratios are important for supervisory intervention and/or coupon risks — cynically speaking, the fact that some supervisors may be more lenient than others reduces credit event risk.

"But the fully-loaded ratios are probably a better estimate of the long term solvency of the issuer. So the credibility of the capital plans to increase the fully-loaded figures and compensate for the

Transitional Measures on Technical Provisions, Volatility and Matching Adjustment Benefit (% of Solvency II margin)



Source: Companies' SFCRs, CACIB

natural amortization of the transitional measures is key."

He adds that, with some elements of SCR still apparently having different meanings in different jurisdictions — such as the Loss Absorbing Capacity of Deferred Taxes (LAC DT) — any toughening of the rules must be taken into account, especially for weaker players.

Group MSCR: another potential trigger for subordinated debt?

SFCR sheds some light on the concept of Group Minimum SCR (Group MSCR). The Group MSCR is the simple sum of MCRs of the insurance or reinsurance undertakings, and it uses different tiering limits. Group MSCR was discussed by RSA in the context of its RT1 transaction because it could be the binding constraint in terms of coupon cancellation and loss absorption triggers (in contrast with what is generally expected, i.e. SCR is the focus). Some other insurers are in the same situation and the communication on the role of Group MSCR may need to become more specific going forward.

Grandfathering: what will be the regulatory treatment beyond 2026?

The grandfathering treatment of subordinated instruments issued before the implementation of Solvency II remains a key focal point for investors. In particular, investors continue to question the potential regulatory treatment after the end of the grandfathering period, i.e. could the bonds become fully eligible Tier 2? There has been no public statement from regulators so far and the quality of disclosures is uneven.

"We look at grandfathering arrangements and the impact they can have on extension risk for the asset class," says de Saussure.

More supervisory scrutiny ahead?

SFCR provides some qualitative information on the assumptions behind the standard formula for companies using internal models, but obviously a pro forma Solvency II ratio under the standard formula is not disclosed. In some other areas, notably the diversification and the loss absorbing benefits of deferred taxes, the differences are difficult to explain for external stakeholders. One may argue that internal models have just been reviewed and approved by supervisors and hence any new review will not happen in the short term. But, medium term — also looking at the banking experience — the harmonization of assumptions could become a supervisory target.

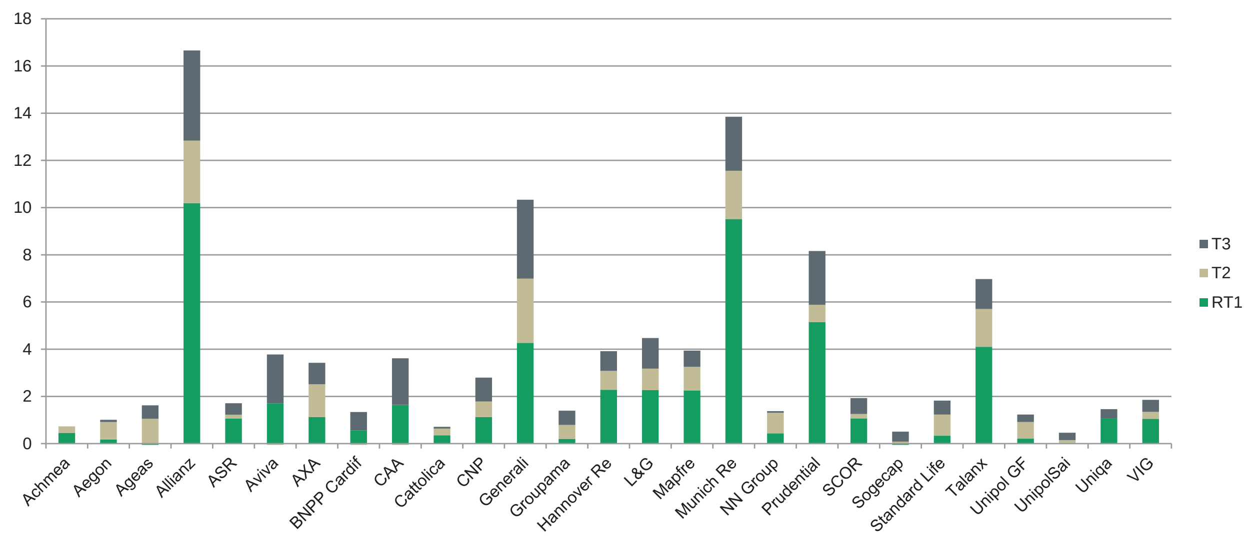
> 'Grandfathering treatment remains a key focal point'

Michael Benyaya

"More harmonization in the stress tests for SCR would be appreciated," suggests de Saussure. "Elements relating to ORSA (Own Risk & Solvency Assessment) would be interesting: are modeling of lapse ratios in a rising rate environment homogenous from one issuer to another? The IRRBB (Interest Rate Risk in the Banking Book) stress test performed on banks has already shown an important sensitivity to behavioral models.

"And clarity on the intervention ladder (as presented by ASR during their RT1 roadshow) would be interesting." ●

Financial Flexibility – Hybrid Headroom



Source: Companies' SFCRs, CACIB

Regulatory updates

EU

EU accelerates work on new debt to deal with losses and confirms transition period for IFRS 9: On 26 October, the European Union made progress on two workstreams:

- Creditor Hierarchy legislation: the main points agreed were on the (i) creation of the new class of subordinated debt which would be eligible to meet TLAC standard for global banks and (ii) effective date for entry into national legal systems by 1 January 2019.
    - Grandfathering provisions to allow existing national systems and already-issued debt still to be valid where they fulfil the conditions (e.g. grandfathering of German senior subordinated debt and French senior non-preferred, among others).
- IFRS 9 Impairment transition to be over five years, i.e. from 1 January 2018 to 1 January 2022. Whether it is on a static or dynamic approach that this will ultimately be adopted is as of now still not clear.

ECON

ECON endorses proposal on ranking unsecured debt instruments in insolvency hierarchy: On 10 October, the European Parliament Committee on Economic & Monetary Affairs (ECON) voted in favour of a proposed Directive amending the Bank Recovery & Resolution Directive (BRRD) as regards to the ranking of unsecured debt instruments in the insolvency hierarchy.

- MEPs supported the Commission proposal to create a new category of "non-preferred" senior class of debt instruments.
    - In order to ensure that "non-preferred" senior debt is in line with the TLAC standard, the debt instrument cannot be a derivative nor can it have any derivative component (decision on what constitutes derivative and structured note liabilities excluded or included in MREL to be developed by EBA within six months following the entry into force of the Directive).
    - The proposal will likely allow the issuance of "non-preferred" senior debt with a maturity below one year and greater than seven days but such debt will not count towards TLAC and MREL ratios.
    - The documentation of "non-preferred" senior debt will explicitly mention the lower ranking in liquidation in order to highlight the higher risk of loss to all investors.
- The compromise may foresee leaving it to member states to define whether corporate deposits should have a higher or pari passu ranking with "non-preferred" senior debt.
- A "grandfathering regime" for the "non-preferred" senior debt issued pursuant to national "non-preferred" debt laws is adopted prior to the entry into force of the Directive (includes the possibility of German banks treating retroactively subordinated senior debt as "non-preferred" senior debt).
- MEPs have agreed to fast-track this proposal ahead of other parts of the banking package in order to allow banks to start building up the necessary buffers as soon as possible.

ECON hearing. Photo: EP; Copyright EU

EUROPEAN COMMISSION

European Commission calls for the completion of all parts of the Banking Union by 2018: On 11 October, the European Commission published a communication on completing the Banking Union, which sets out a possible path for agreeing all the outstanding elements of the Banking Union based on existing commitments from the Council.

The key features of the Communication are:

- Quick agreement on the Banking Package released in November 2016.
- Progress on the European Deposit Insurance Scheme.
- A fiscal backstop to the Banking Union.
- Reducing non-performing loans.
- Possible measures for Sovereign Bond-Backed Securities.
- Continuing to ensure high quality supervision.

ECB

ECB consults on addendum to NPL guidance for banks: On 4 October, the European Central Bank launched a consultation on a draft addendum to the ECB guidance on non-performing loans (NPLs). The addendum reinforces and supplements the guidance that was published on 20 March 2017 by specifying quantitative supervisory expectations concerning the minimum levels of prudential provisions expected for NPLs:

- The prudential provisioning expectations will apply to all exposures that are newly-classified as non-performing as of 1 January 2018.
- While the guidance is non-binding, banks are expected to explain any deviation from the guidance to supervisors. Based on the banks' explanations, the ECB will assess the need for additional supervisory measures (reflected in the SREP process, potentially higher capital requirements).
- The ECB defines the prudential provisioning backstop to cover the NPLs as the sum of:
  1. Accounting provisions.
  2. Expected loss shortfalls for the respective exposures (for IRB banks).
  3. CET1 deductions from own funds under the bank's own initiative.
- Banks should report on the prudential provisioning backstop outlined in the addendum at least annually.
- The ECB defines NPLs' vintage as the amount of days (converted into years) from when an exposure was classified as non-performing to the relevant reporting or reference date.
- Banks are expected to provide full coverage (100%) for the secured portion of new NPLs after seven years of vintage at the latest and for the unsecured portion after two years of vintage.
- Loans classified as NPLs and cured before 1 January 2018 and that are reclassified to non-performing status after 1 January 2018 should be treated as new NPLs with vintage count starting as zero.
- The consultation runs until 8 December 2017.

ESAs

ESAs highlight main risks for the EU financial system: On 21 September, the Joint Committee of the European Supervisory Authorities (ESAs, i.e. EBA, EIOPA and ESMA) published its Autumn 2017 Report on risks and vulnerabilities in the European Union's financial system:

- The report highlights the risks to the stability of the European financial sector in an uncertain political and economic environment, not least in light of the UK's withdrawal from the EU. It also highlights persistent valuation risk with an uncertain outlook for yields, and argues that financial institutions continue to face profitability challenges in spite of recent improvements.
- Rapid developments in the area of FinTech are raising new opportunities, but also challenges for financial institutions and final users.
- The report also presents regulatory and supervisory initiatives to monitor and mitigate the risks identified.

EBA

EBA publishes final guidance on supervision of significant branches: On 1 November, the European Banking Authority (EBA) published its final guidelines on the supervision of significant branches.

The final guidelines provide a framework for the identification of "significant-plus" branches through a common assessment carried out by home and host competent authorities of the branches' relevance to the institution or the financial stability in the host member state.

- These final guidelines do not interfere with the tasks and responsibilities conferred on the consolidating supervisor and the home and host competent authorities by the Capital Requirements Directive (CRD) and BRRD, and merely aim to establish a framework for effective and efficient cooperation within colleges of supervisors when exercising those tasks and discharging those responsibilities

EBA recommends proportionate approach in coverage entities of banking group recovery plans: On 1 November, EBA published its final recommendation addressed to both competent authorities and institutions, aimed at defining common criteria to identify entities that need to be covered in a group recovery plans, as well as the extent of such coverage.

- For recovering planning purposes, entities should, therefore, be categorised as:
  i. Relevant for the group
  ii. Relevant for the economy or financial system of a relevant member state or;
  iii. Not relevant for neither of the two
- While the recommendation does not interfere with the tasks and responsibilities of the home and host competent authorities under CRD and BRRD, it is designed to limit requests for individual plans, based on an inadequate coverage of an entity in the group recovery plans.

EBA launches consultations to strengthen the Pillar 2 framework: On 31 October, EBA launched a public consultation in order to review three guidelines for better enhancing institutions' risk management and supervisory convergence in the Supervisory Review & Examination Process (SREP). The deadline for the submission of comments is 31 January 2018. The guideline revisions focus on:

- Common procedures and methodology for SREP.
- Management of interest rate risk arising from non-trading activities — Interest Rate Risk in the Banking Book (IRRBB).
- Guidelines on institutions' stress testing.

EBA announces the final timeline for the 2018 EU-wide stress test: EBA agreed in its meeting of 24-25 October on the final timeline for the

ECB: stress test shows interest rate risk 'well managed'

The European Central Bank on 9 October conducted an Update Call presided by Korbinian Ibel, director, microprudential regulation, presenting the outcome of the ECB Stress Test 2017 relating to a Sensitivity Analysis of Interest Rate Risk in the Banking Book (IRRBB). Summarised findings published by the ECB cover Net Interest Income (NII) and Economic Value of Equity (EVE) sensitivity across major currencies for 111 banks under its supervision.

The stress test was conducted on the basis of 2016YE Profit and Loss and consolidated Balance Sheet accounts. Six different interest rate shock scenarios were applied to these parameters and the outcome was determined for each participating bank in terms of NII and EVE impact:

- The "end-2016" curve -> 'Low-rates-for-long'.
- The two regulatory shocks -> parallel up/parallel down shocks (+/-200bp vs "end-2016" curve).
- Two additional shocks calibrated as per the 2016 BCBS methodology.
    - o Steepener -> lower short term rates/higher long term rates
    - o Flattener -> a shock similar to the 2008 post-Lehman episode, e.g. inverted curve
- An "end-2010" shock-> the interest rate environment before the acute phase of the euro area crisis

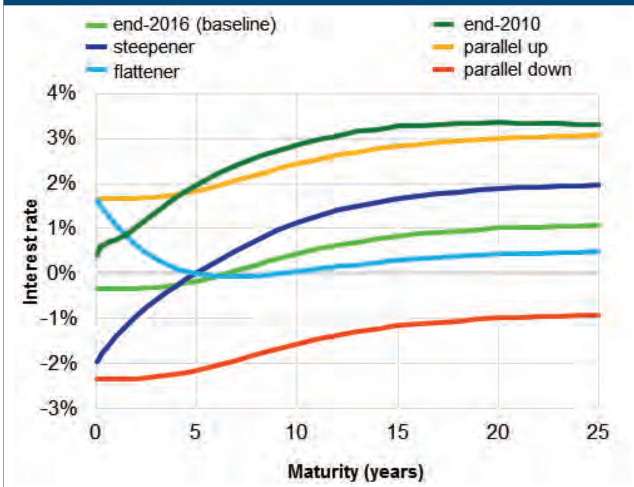
The ECB-employed methodology according to which NII was generated with the 2016 year-end assets and liabilities under the six different scenarios and compared to 2016 NII. The coverage horizon is for the three subsequent years on NII (2017-2019). Depending on the interest rate shock, (i) behavioural and contractual modelling of assets and liabilities over the horizon period and (ii) derivative positions were taken into account.

In terms of EVE sensitivity, the ECB estimated the Fair Value of Assets and Liabilities as per the 2016YE Balance Sheet for each bank and then compared this Fair Value to the Balance Sheet. The results for the involved 111 banks are then presented in terms of CET1 ratio impact (increase/decrease in EVE assumed to equal increase/decrease in the CET1 numerator). No compensating impact emanating from e.g. a higher CET1 numerator due to higher NII under certain interest shock scenarios and therefore higher retained Earnings is taken into account (and vice versa).

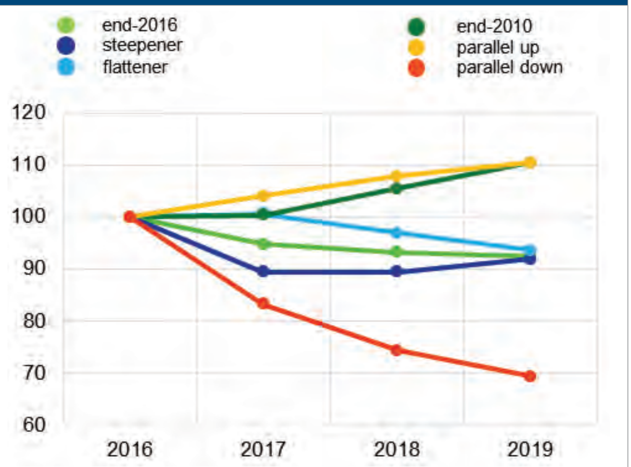
Critical considerations

The ECB considered three parameters critically in its interpretation of results: *(cont.)*

EUR Yield curves post interest rate shocks
(x-axis: maturity in years; y-axis: Interest rate in %)



Average projected NII 2017-2019 by interest rate shocks
(index 2016=100)



Note: Figures based on NII projections aggregated across all major currencies for 111 banks.

2018 EU-wide stress test. The exercise is expected to commence at the beginning of 2018, with the results being published by 2 November 2018. More specifically, the following schedule was agreed:

- Launch of the exercise in January.
- First submission of results to EBA in early June.
- Second submission to EBA in mid-July.
- Final submission to EBA in late October.
- Publication of results by 2 November 2018.

EBA provides Q&A on whether systemic risk buffers can be additive: On 13 October, EBA replied to a question posted by the the Danish Ministry of Industry, Business & Financial Affairs

Question: According to Article 134 CRD, can two systemic risk buffers (SRBs) be additive, e.g. in situations where a home country already has a SRB in place and wants to reciprocate a SRB from another member state?

1. **Timeliness and accuracy of data delivery by banks** — informs the ECB in terms of systems and operational risk management by banks -> important consideration in the SREP process in terms of governance assessment for individual banks.
2. Extent and scope of behavioural versus contractual **modelling by banks** of assets (primarily loan prepayments) and liabilities (primarily (non-maturing) deposits as the main funding source of SSM banks).
3. **The reliance on derivatives** (extent and quality of derivatives management) for the management of interest rate risks.

Consequences for participating banks

1. Qualitative information (timeliness and accuracy of data delivery) and NII sensitivity will be used as inputs into the P2R setting and the SREP process.

2. The level of future P2 Guidance will be adjusted up or down, compared to P2G set for 2017 based on the following three metrics:

a. EVE sensitivity excluding parallel up and down IR shocks (already covered in SREP as part of the IRRBB review).

b. Exposure to customer behaviour risk (modelling risk);

c. FV fluctuation risks of banking book IR derivatives,

3. JSTs are expected to adjust P2G up/down within a 50bps range (-25bp to 25bps), depending on the classification of a bank within the ECB risk scoring system from 1 (least risky) to 4 (most risky).

4. The two critical factors contributing to banks being assigned a Score of 3 or 4 include reliance on (i) customer behaviour modelling risk and (ii) FV of IR derivatives fluctuation risk.

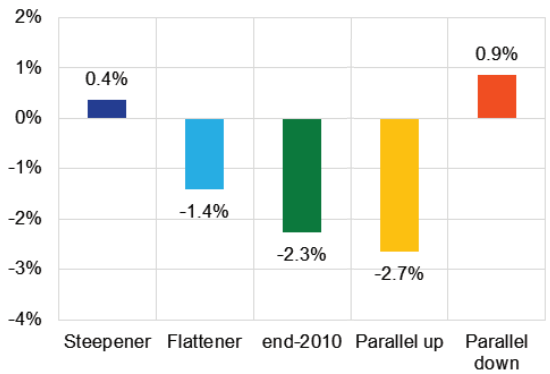
The ECB's overall assessment

- Results show that — on average — banks are equipped to cope with changes in the interest rate environment.
- Higher interest rates would lead to an increase in Net Interest Income for most banks even though Economic Value of Equity would decrease on average.
- Banks heavily rely on models of customer behaviour which were calibrated in a declining interest rate environment and as such they might bear high model risk.
- Banks use derivatives for hedging but also for "positioning".
- Results are being used by Joint Supervisory Teams in the SREP, amongst other factors to adjust the level of P2 Guidance and enrich P2R and qualitative measures.

Next Steps

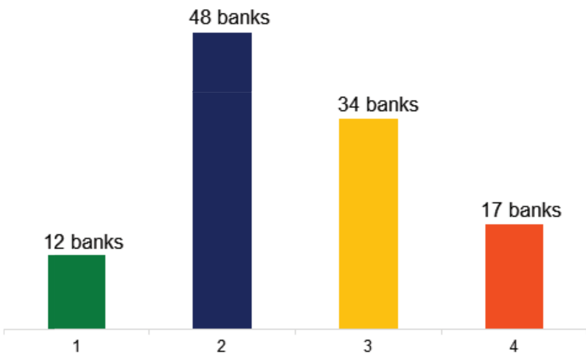
The EBC said supervisors will follow up on the results (NB: in the coming months) focusing on a) Modelling of depositor behaviour; b) Use of interest rate derivatives; c) Consistency of IRRBB positions and practices with risk appetite/governance frameworks.

Average change in EVE by interest rate shocks
(change in EVE as a % of CET1)



Note: Figures related to aggregate position across all major currencies for the full sample of 111 banks. Average weighted by CET1 capital. In end-2016 (baseline) there is no EVE change. Figures refer to EVE projections including/excluding commercial margins depending on banks' IRRBB measurement.

Anchoring scores informing P2G adjustments
(x-axis: bank score)



Note: Figures based on NII projections aggregated across all major currencies for 111 banks.

Answer: The SRB is an exposure-based measure, as Article 133 CRD refers solely to exposures. Articles 133(3) and 133(8) CRD refer to "exposures", without indicating the type of risk giving rise to such exposures. Moreover, the SRB is not envisaged by the legislator to be applied beyond the geographical scope set out in Article 133(8) CRD IV.

- According to Article 134(1) CRD, other member states may recognise the SRB rate set in accordance with Article 133 CRD and may apply that buffer rate to domestically-authorised institutions for the exposures located in the member state that sets that buffer rate.
- However, since an SRB rate is based only on exposures and not on risks, if a reciprocating member state has already activated an SRB covering the same exposures subject to reciprocation, the two SRB rates cannot be cumulated. Instead they can be combined non-cumulatively. In other words, the higher-of rule applies:

Photo: EBA

  - o If the SRB rate applied by the reciprocating member state on the exposures subject to reciprocation is higher than the SRB rate to be reciprocated, the reciprocation is unnecessary.
  - o If instead the SRB rate on the exposures subject to reciprocation is lower than the SRB rate to be reciprocated, then the reciprocating member state may decide to recognise this higher rate on the exposures subject to reciprocation.

EBA updates the list of public sector entities (PSEs) that may be treated as regional governments, local authorities or central governments for the calculation of capital requirements: On 18 October, the EBA updated the list of PSEs that are treated as regional governments, local authorities or central governments under the standardised approach (SA) due to their reduced risk level. As a result, exposures to PSEs included in the list will qualify for the same risk weight as their respective regional government, local authority or central government.

EBA consults on reporting for resolution plans: On 11 October, EBA launched a consultation to amend the Implementing Technical Standards (ITS) on the information that institutions must provide to resolution authorities for the purpose of drawing up and implementing resolution plans.

- This review aims to update the framework taking into account the latest experience available in the areas of resolution planning and supervisory reporting.
- The new framework is expected to be operational in 2019 when resolution authorities will collect information as of 31 December 2018.
- The consultation runs until 11 December 2017.

EBA updated Risk Dashboard shows slight improvement in EU banks' capital level but NPLs still affect their profitability: On 5 October, EBA published a periodical update of its Risk Dashboard summarising the main risks and vulnerabilities in the EU banking sector through a set of Risk Indicators in Q2 2017:

- In the second quarter of 2017, the CET1 ratio reached a new peak since Q4 2014, increasing from 14.1% in Q1 2017 to 14.3% in Q2 2017, with all EU countries experiencing an average ratio above 10%. However, this outcome was driven by a reduction of the denominator (RWA optimisation), with banks decreasing their risk exposure amounts (by EUR195bn), particularly for credit risk, also in connection with the liquidation or restructuring of some exposures.
- The quality of banks' loans portfolios continued to improve, although the slow progress and wider dispersion among countries remained a concern. The non-performing loans ratio confirmed its downward trend of previous quarters, decreasing by 30bp to 4.5% (Q2 2017) and reaching its lowest level since Q4 2014.

EBA issues Opinion on the design of a new prudential framework for investment firms: On 29 September, EBA published its Opinion on the design and calibration of a new prudential framework for investment firms, which is specifically tailored to the needs of investment firms' different business models and inherent risks. The Opinion includes a series of recommendations aiming to develop a single and harmonised set of requirements that are reasonably simple, proportionate and relevant to the nature of investment firms authorised to provide MiFID services and activities:

- EBA has developed this Opinion in response to the European Commission's call for advice of 13 June 2016 on the design of a new prudential framework for those MiFID investment firms for which the current prudential regime of the CRD and Capital Requirements Regulation (CRR) is not appropriate.
- Key recommendations include the creation of a consolidated single rulebook for MIFID investment firms, and the calculation of capital requirements according to a risk approach.
- Further recommendations are made as to liquidity requirements, consolidated supervision, reporting requirements, remuneration and governance, and the suitability of the proposed regime for commodity derivatives investment firms.

EBA and US Agencies conclude Framework Cooperation Arrangement on Bank Resolution: On 29 September, EBA signed a Framework Cooperation Arrangement (FCA) with several US financial regulatory agencies. The FCA lays out the basis for subsequent cooperation arrangements on bank crisis management and resolution between any of the EU Supervisory or Resolution Authorities and any of the participating US Agencies. This FCA has the objective of promoting resolution planning and cooperation for cross-border institutions.

EBA publishes guidance to further harmonise EU banks' internal governance: On 26 September, EBA published its revised Guidelines on Internal Governance. These Guidelines aim to further harmonise institutions' internal governance arrangements, processes and mechanisms across the EU, in line with the new requirements in this area introduced in CRD IV and also taking into account the proportionality principle.

EBA publishes its 12th report of the CRD IV/Basel III monitoring exercise on the European banking system: On 12 September, EBA published its 12th report on aggregate data for EU banks' capital, leverage and liquidity ratios under the full implementation of the CRD IV/Basel III framework. Based on 2016 year-end data, the following observations were made by the EBA:

- An improved capital position of the European banks, with the total average CET1 increasing by 0.6% to 13.4% since June 2016.
- The average Liquidity Coverage Ratio (LCR) stood at 139.5%, compared with 133.7% six months ago, while 99.2% of sample banks showed a LCR above the fully implemented minimum requirement (100%) commencing from January 2018.
- The average NSFR ratio was 112%, with an overall shortfall in stable funding of EUR116.1bn.

EBA publishes final technical standards on MREL reporting by resolution authorities: On 5 September, EBA published its final draft ITS specifying templates and procedures resolution authorities should follow when informing EBA of the minimum requirement for own funds and eligible liabilities (MREL). These standards will enable EBA to monitor the consistency of MREL implementation across the EU.

- The final draft ITS set out uniform formats, templates and definitions for resolution authorities to use when reporting the overall amount of MREL required from an institution, as well as each of the components of the MREL decision as laid down in the regulatory technical standards (RTS) on MREL.
- The ITS also provide for simplified reporting for certain categories of institutions for which liquidation, rather than resolution, will be the preferred strategy. In those cases, the MREL will only be made of a loss absorption amount.
- Reporting by institutions to resolution or competent authorities is outside of the scope of this reporting framework

EBA answers question on O-SII capital buffer under Article 131(8) of Directive 2013/36/EU: On 1 September, EBA confirmed that where an Other Systematically Important Institution (O-SII) in a member state is a member of an O-SII group with no EU parent institution, but with an EU parent financial holding company in another member state instead, Article 131(8) of Directive 2013/36/EU cannot be applied to it.

- Article 131(8) extract:

  Without prejudice to Article 133 and paragraph 5 of this Article, where an O-SII is a subsidiary of either a G-SII or an O-SII that is an EU parent institution and subject to an O-SII buffer on a consolidated basis, the buffer that applies at individual or sub-consolidated level for the O-SII shall not exceed the higher of:

  (a) 1% of the total risk exposure amount calculated in accordance with Article 92(3) of Regulation (EU) No 575/2013; and

  (b) the G-SII or O-SII buffer rate applicable to the group at consolidated level.

EBA updates data used for the identification of global systemically important institutions (G-SIIs): On 11 August, EBA published 12 indicators and underlying data from the 35 largest institutions in the EU, whose leverage ratio exposure measure exceeds EUR200bn:

- The EBA ITS and Guidelines on disclosure of G-SIIs define uniform requirements for disclosing the values used during the identification and scoring process of G-SIIs, in line with the internationally agreed standards developed by FSB and the BCBS.
- In 2015, the number of banks with a leverage ratio exposure measure exceeding EUR200bn was 36 and three banks have changed in the sample.

EBA publishes report on EU banks' funding plans: On 31 July, EBA published a report on EU banks' (155 banks) funding plans over three years to 2019:

- The report shows that, on average, total assets are projected to grow by 3.9% between 2016 and 2019. The main drivers for asset growth are loans to households and to non-financial corporates. Further analysis suggests that high NPL levels combined with more thinly capitalised banks could be a drag on new lending unless addressed.
- Client deposits remain the main component in EU banks' funding mix, with a share of more than 50%. Banks forecast an expansion of deposits, which will require careful monitoring, at both an individual and system level.


BIS. Photo: Wladyslaw Sojka/Wikimedia Commons

- EBA reports that planned issuances of debt securities in 2017 are below the average of actual 2015/2016 volumes. However, for 2018 and 2019, funding plans indicate increasing gross issuance volumes again, in some cases even exceeding the historical average.
- One of the explanations provided by EBA might be that banks plan the issuance of required volumes of instruments eligible for the minimum requirement for own funds and eligible liabilities (MREL) mainly in 2018 and 2019, as their pricing is currently higher than pricing for other funding instruments. Banks probably also anticipate that by 2018 and 2019 there will be certainty around detailed MREL requirements, including the levels required, the date for compliance and eligibility criteria. However, an assumed increase in issuance volumes in 2018 and 2019, following their decline in the preceding year, might pose a challenge for banks in terms of their ability to place them successfully on the markets according to the EBA.

BIS

BIS publishes final guidelines on identification of step-in risk issued by the Basel Committee: On 25 October, the Bank for International Settlements (BIS) released Guidelines on identification and management of Step-in Risk. Step-in Risk refers to the risk that stems from potential financial distress in shadow banking entities spilling over to banks. The guidelines built upon two public consultations, in December 2015 and March 2017.

- Banks define the scope of entities to be evaluated for potential step-in risk, based on the relationship of these entities with the bank.
- Banks identify entities that are immaterial or subject to collective rebuttals and exclude them from the initial set of entities to be evaluated.
- Banks assess all remaining entities against the step-in risk indicators provided in the guidelines, including potential mitigants.
- For entities where Step-in Risk is identified, banks estimate the potential impact on liquidity and capital positions and determine the appropriate internal risk management action.
- Banks report their self-assessment of Step-In Risk to their supervisor.
- After reviewing the bank's self-assessment analysis, where necessary supported by an analysis of the bank's policies and procedures, the supervisor should decide whether there is a need for an additional supervisory response. To that extent, the guidelines do not prescribe any automatic Pillar 1 liquidity or capital charge, but rather rely on the application of existing prudential measures available to mitigate significant step-in risk.

BASEL COMMITTEE

BCBS comments on the Implementation of net stable funding ratio and treatment of derivative liabilities: On 6 October, the Basel Committee on Banking Supervision (BCBS) discussed the net stable funding ratio (NSFR) standard and agreed to allow national discretion for the NSFR's treatment of derivative liabilities. This should facilitate the implementation of the NSFR, which is expected to begin on 1 January 2018. The NSFR assigns a 20% "required stable funding" factor to derivative liabilities. The Committee has agreed that, at national discretion, jurisdictions may lower the value of this factor, with a floor of 5%.

BCBS updates FAQs on Basel III definition of capital: On 19 September, the Basel Committee published an updated set of frequently asked questions (FAQs) on the Basel III definition of capital:

- The FAQs provide guidance on the definition of capital and the loss absorbency of capital at the point of non-viability, and update the FAQs published in July, October and December 2011.
- The FAQs are intended to promote consistent global implementation of Basel III by providing technical elaboration of the rules text and interpretative guidance.
- No significant changes versus previous FAQs to be noted.

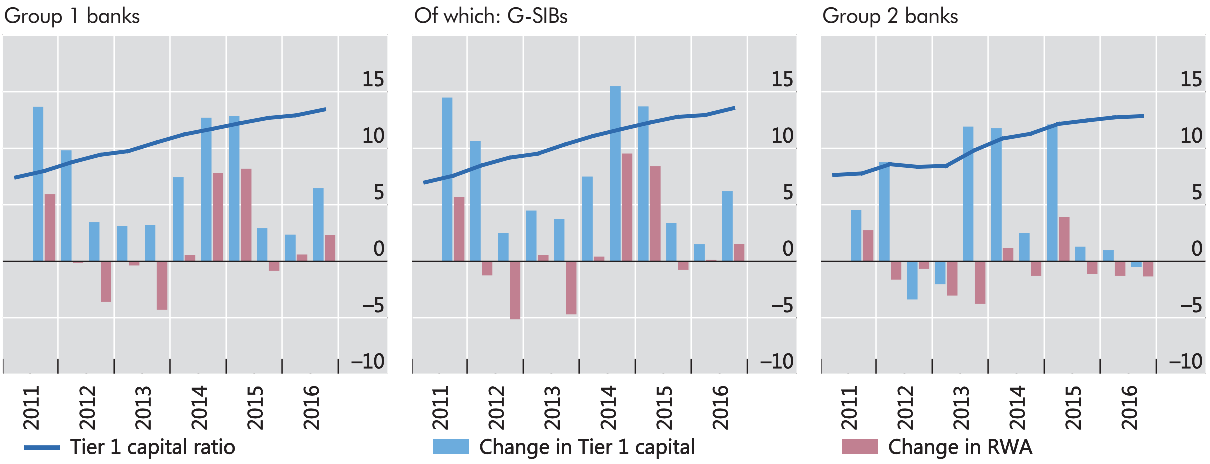
BCBS publishes results of its latest Basel III monitoring exercise: On 12 September, the Basel Committee communicated the results of its 12th Basel III monitoring exercise based on data as of 31 December 2016. The data sample is

200 banks of which 105 are large international banks (which include all 30 G-SIBs and have Tier 1 capital of more than EUR3bn). This is referred as "Group 1", and the rest of the banks are in Group 2.

- The report shows the main drivers of the fully-phased in Basel III Tier 1 ratio, whether driven by changes in Tier 1 or RWA (see graph below). For Group 1, the main driver was Tier 1 capital, which was increased by 2.3%, while RWA and finally the Tier 1 ratio increased by 0.5% and 6.5%, respectively. On the other hand, Group 2's Tier 1 ratio increase of 0.1% was mainly a result of a 1.3% decrease in RWA.
- Additionally, based on the report, no bank demonstrates a capital shortfall based on Pillar 1 (8%) requirement.
- The Committee also provided information regarding the total loss-absorbing capacity for G-SIBs, with 25 out of 26 banks participating in the exercise. Based on the 2019 minimum requirements, five banks have a shortfall of up to 2.1% (EUR19.7bn) of RWA, while applying the 2022 minimum requirements the number of banks showing a TLAC shortfall increases to 12 with 4.5% (EUR116.4bn) of RWA. These shortfalls are considered relatively lower compared to the previous report with end-June 2016 data, amounting to 7.2% (EUR131.4bn) and 9.9% (EUR318.2bn) based on 2019 and 2022 minimum requirements, respectively.

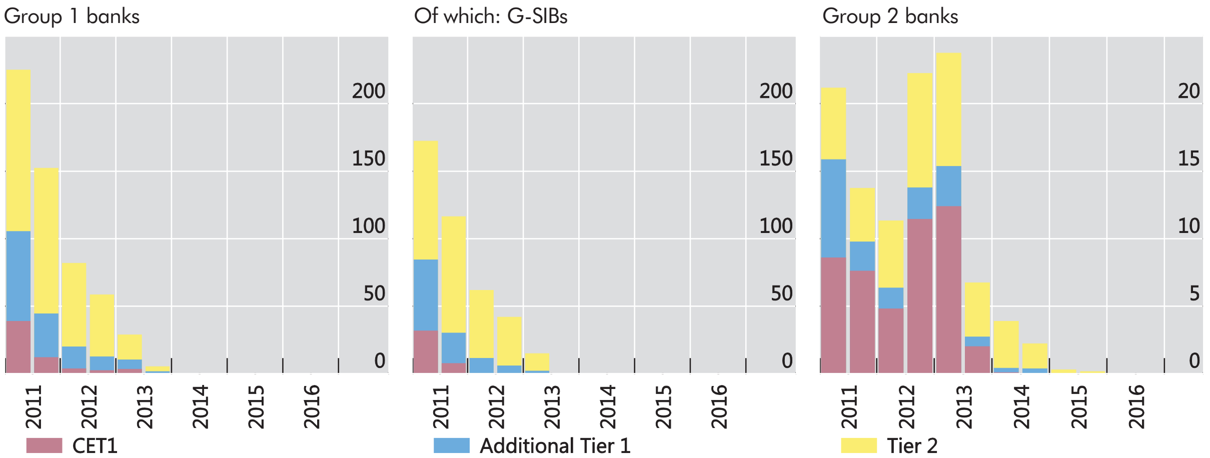
Cécile Bidet
Michael Benyaya
Doncho Donchev
DCM Solutions
Crédit Agricole CIB
Capital.Structuring@ca-cib.com

Fully phased-in Basel III Tier 1 capital ratios and changes in RWA and Tier 1 capital (percent)



Note: Consistent sample of banks

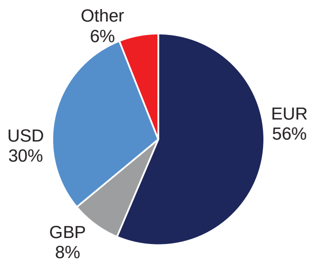
Estimated capital shortfalls at the minimum level



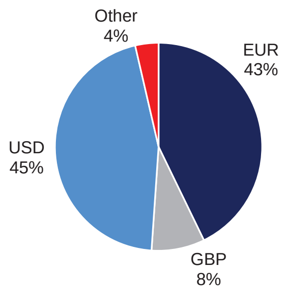
Note: Fully phased-in Basel III, sample and exchange rates as at the reporting dates. The height of each bar shows the aggregated capital shortfall considering requirements for each tier (ie CET1, Tier 1 and total) of capital. Source: Basel Committee on Banking Supervision

Currencies, structures and distribution

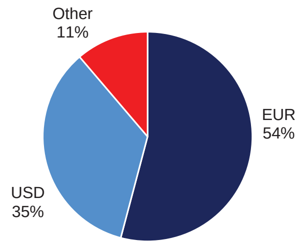
Bank hybrid issuance by currency
(2017 ytd)



Insurance issuance by currency
(2017 ytd)

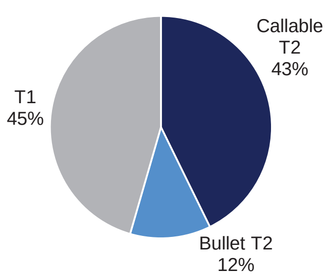


SNP issuance by currency
(2017 ytd)

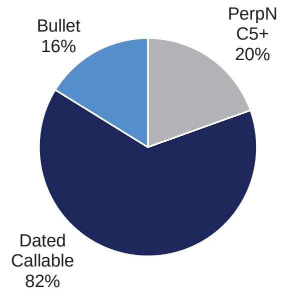


Source: Crédit Agricole CIB

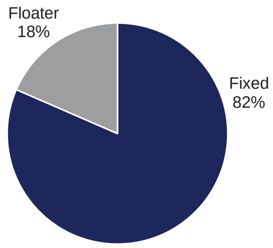
Bank issuance by instrument/structure
(2017 ytd)



Insurance issuance by instrument/structure
(2017 ytd)

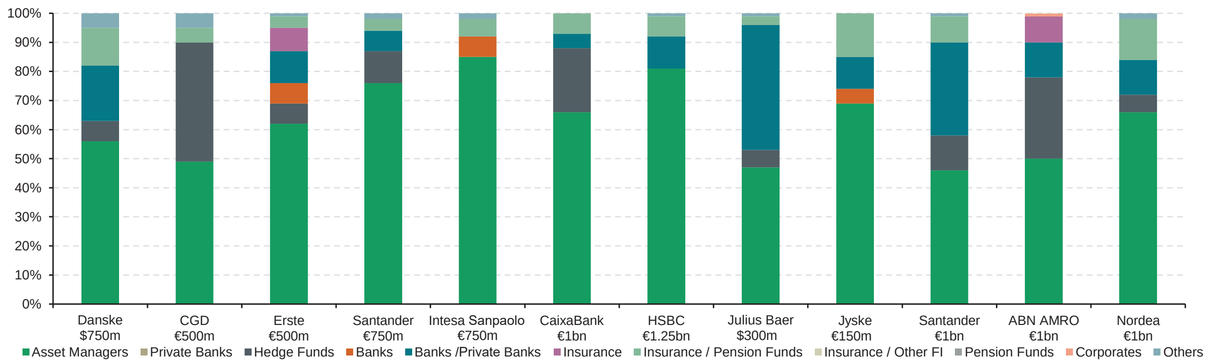


SNP issuance by coupon
(2017 ytd)

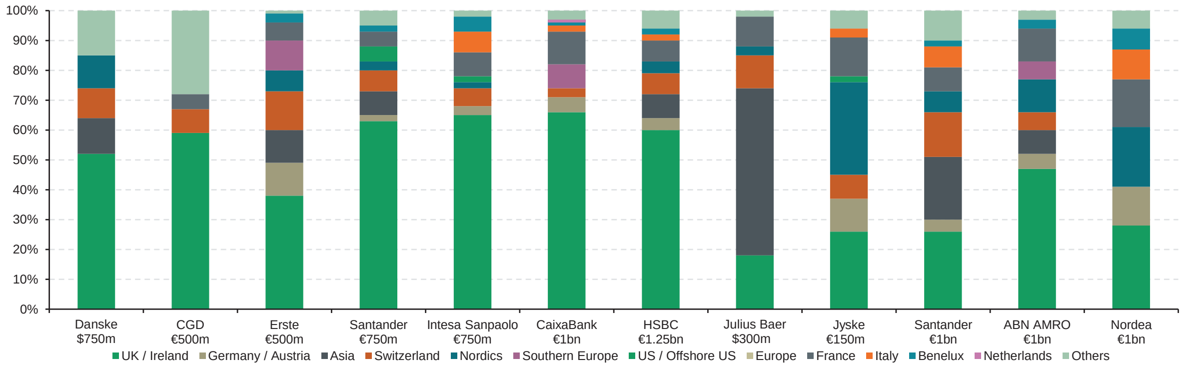


Source: Crédit Agricole CIB

AT1 distribution by investor type



AT1 distribution by geography



Source: Crédit Agricole CIB

AT1 monitoring

AT1 performance monitoring (as at 28/11/17)

Launch	Issuer	Issue ratings	Currency	Amount (m)	Coupon	Maturity date	First call date	Principal loss absorption	Trigger	Price	I-Spread	Yield to call	Yield to maturity	Reset spread
21-Nov-17	CREAL	-/-/BB-e	USD	230	9.125%	Perpetual	29-Nov-22	-	-	103.24	618	8.32	9.16	703
21-Nov-17	NDASS	-/-/BBBe	EUR	750	3.500%	Perpetual	12-Mar-25	TWD	5.125%	100.59	289	3.41	4.37	300
21-Nov-17	CHIYBK	-/-/-	USD	250	5.250%	Perpetual	29-Nov-22	-	-	98.37	349	5.63	5.70	315
10-Nov-17	SABSM	-/-/-	EUR	400	6.125%	Perpetual	23-Nov-22	EC	5.125%	101.46	569	5.78	7.39	605
07-Nov-17	STI	Baa3/BB+/BB	USD	500	5.125%	Perpetual	15-Dec-27	-	-	99.80	281	5.15	5.26	279
07-Nov-17	BNP	Ba1/BBB-/BBB-	USD	750	5.125%	Perpetual	15-Nov-27	TWD	5.125%	100.48	273	5.06	5.27	284
26-Oct-17	DFS	Ba3e/BB-/BB-	USD	570	5.500%	Perpetual	30-Oct-27	-	-	105.70	244	4.77	5.28	308
25-Oct-17	SCHW	Baa2/BBB/BB+	USD	500	5.000%	Perpetual	01-Dec-27	-	-	102.54	234	4.68	4.94	258
20-Oct-17	JZCITY	-/-/-	USD	1,496	5.500%	Perpetual	27-Oct-22	EC	5.125%	98.68	360	5.81	5.92	349
19-Oct-17	CHINAM	-/BB-/-	USD	1,000	4.400%	Perpetual	25-Oct-22	EC	5.125%	100.02	222	4.39	4.82	244
13-Oct-17	JPM	Baa3/-/BBB-	USD	1,258	4.625%	Perpetual	01-Nov-22	-	-	99.50	261	4.74	5.04	258
11-Oct-17	UOBSP	Baa1/-/BBB	USD	650	3.875%	Perpetual	19-Oct-23	PWD	-	99.79	174	3.91	4.24	179
10-Oct-17	CBZHZH	-/-/-	USD	1,191	5.500%	Perpetual	18-Oct-22	EC	5.125%	100.07	328	5.48	5.89	357
04-Oct-17	BNS	Baa3/BBB-/-	USD	1,250	4.650%	Perpetual	12-Oct-22	EC	-	99.94	254	4.66	5.08	265
28-Sep-17	INVPLN	Ba2/-/-	GBP	250	6.750%	Perpetual	05-Dec-24	PWD	7.000%	102.95	503	6.23	6.97	575
27-Sep-17	ABNANV	Ba1u/-/BB+	EUR	1,000	4.750%	Perpetual	22-Sep-27	TWD	5.125%	104.95	337	4.13	5.11	390
26-Sep-17	SANTAN	Ba1/-/BB	EUR	1,000	5.250%	Perpetual	29-Sep-23	EC	5.125%	105.24	397	4.23	6.14	500
22-Sep-17	NIBCAP	-/BB-/-	EUR	200	6.000%	Perpetual	15-Oct-24	TWD	5.125%	103.67	496	5.35	6.74	556
13-Sep-17	POSABK	Ba3/-/-	USD	7,250	4.500%	Perpetual	27-Sep-22	EC	5.125%	98.48	268	4.86	5.06	263
14-Sep-17	JYBC	-/BB+/-	EUR	150	4.750%	Perpetual	21-Sep-27	TWD	7.000%	102.53	367	4.43	5.29	396
12-Sep-17	WSTP	Baa2/BB+/BBB	USD	1,250	5.000%	Perpetual	21-Sep-27	EC	5.125%	100.00	267	5.00	5.24	289
05-Sep-17	BAERVX	Baa3/-/-	USD	300	4.750%	Perpetual	12-Sep-24	PWD	7.000%	102.63	209	4.30	5.06	284
08-Aug-17	WSTP	Baa1/BBB/A+	AUD	350	4.334%	16-Aug-29	16-Aug-24	EC	-	100.86	183	4.18	4.42	183
03-Aug-17	BACR	Ba2/B+/BB+	GBP	1,250	5.875%	Perpetual	15-Sep-24	EC	7.000%	100.66	456	5.76	6.28	491
26-Jul-17	PROMBK	-/-/-	USD	500	8.750%	Perpetual	01-Feb-23	PWD	5.125%	80.12	1,236	14.25	11.56	681
06-Jul-17	BKIASM	B2u/B+/-	EUR	750	6.000%	Perpetual	18-Jul-22	EC	5.125%	104.24	489	4.97	7.00	582
29-Jun-17	BANORT	Ba2/BB/-	USD	350	6.875%	Perpetual	06-Jul-22	PWD	5.125%	105.80	336	5.44	7.07	504
29-Jun-17	BANORT	Ba2/BB/-	USD	550	7.625%	Perpetual	06-Jan-28	PWD	5.125%	110.25	396	6.25	7.13	535
28-Jun-17	RBIAV	Ba3u/BB/-	EUR	650	6.125%	Perpetual	15-Dec-22	TWD	5.125%	108.31	410	4.27	6.81	595
27-Jun-17	HSBC	Baa3/-/BBB	EUR	1,250	4.750%	Perpetual	04-Jul-29	EC	7.000%	106.51	310	4.04	4.97	384
20-Jun-17	SRBANK	-/-/-	NOK	150	3.990%	Perpetual	29-Jun-22	TWD	5.125%	99.51	-	4.12	4.02	-
01-Jun-17	CABKSM	B1u/BB-/-	EUR	1,000	6.750%	Perpetual	13-Jun-24	EC	5.125%	109.94	463	4.96	7.22	650
01-Jun-17	HSBC	Baa3/-/BBB	SGD	1,000	4.700%	Perpetual	08-Jun-22	EC	7.000%	103.05	215	3.95	5.05	287
25-May-17	NANYAN	Ba2/-/-	USD	1,200	5.000%	Perpetual	02-Jun-22	PWD	-	100.25	283	4.94	5.59	321
23-May-17	BARKAB	-/-/-	USD	400	7.875%	Perpetual	31-May-22	-	-	91.62	814	10.25	9.11	601
22-Mar-17	ZHESHG	-/-/-	USD	2,175	5.450%	Perpetual	29-Mar-22	EC	5.125%	101.48	289	5.05	5.78	352
18-May-17	ONESAV	-/-/-	GBP	60	9.125%	Perpetual	25-May-22	EC	7.000%	110.56	-	-	-	836
16-May-17	BBVASM	Ba2/-/BB	EUR	500	5.875%	Perpetual	24-May-22	EC	5.125%	107.96	384	3.93	6.71	368
15-May-17	HSBC	Baa3/-/BBB	USD	3,000	6.000%	Perpetual	22-May-27	EC	7.000%	105.25	298	5.29	5.88	368
15-May-17	UCGIM	B1u/-/B+	EUR	1,250	6.625%	Perpetual	03-Jun-23	TWD	5.125%	109.36	445	4.68	7.12	368
11-May-17	BNKEA	Ba2/BB/-	USD	500	5.625%	Perpetual	18-May-22	PWD	-	103.20	271	4.82	5.92	368
09-May-17	ISPIM	Ba3/BB-/B+	EUR	750	6.250%	Perpetual	16-May-24	TWD	5.125%	108.74	431	4.67	6.70	586
08-May-17	WOORIB	(P)Ba3/BB+/-	USD	500	5.250%	Perpetual	16-May-22	PWD	-	101.42	279	4.89	5.55	335
05-May-17	SABSM	B2/-/-	EUR	750	6.500%	Perpetual	18-May-22	EC	5.125%	103.69	553	5.56	7.60	641
27-Apr-17	STI	Baa3/BB+/BB	USD	750	5.050%	Perpetual	15-Jun-22	-	-	101.63	254	4.65	5.44	310
26-Apr-17	CRBKMO	Caa2u/-/B-	USD	700	8.875%	Perpetual	10-Nov-22	PWD	5.125%	90.25	952	11.49	10.43	694
18-Apr-17	SANTAN	Ba1/-/BB	EUR	750	6.750%	Perpetual	25-Apr-22	EC	5.125%	113.38	337	3.46	7.28	680
05-Apr-17	ERSTBK	Ba2u/BBB-/-	EUR	500	6.500%	Perpetual	15-Apr-24	TWD	5.125%	116.84	316	3.52	6.52	620
30-Mar-17	SANUK	Ba2/B+/BB+	GBP	500	6.750%	Perpetual	24-Jun-24	PWD	7.000%	109.10	392	5.11	6.62	579

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

Source: Crédit Agricole CIB

Bank Tier 2, insurance hybrids

Latest Tier 2 performance monitoring (as at 28/11/17)

Launch	Issuer	Issue ratings	Currency	Amount (m)	Coupon	Maturity date	First call date	I-Spread	Yield to call	Yield to maturity	Reset spread
28-Nov-17	DB	Ba2e/-/BBBe	USD	1,000	4.875%	01-Dec-32	01-Dec-27	249	4.83	4.95	255
21-Nov-17	CITADE	-/-/-	EUR	20	5.500%	24-Nov-27	-	475	-	5.58	-
13-Nov-17	CRLOG	A1e/-/-	EUR	500	1.350%	28-Nov-29	28-Nov-24	77	1.24	1.81	90
21-Nov-17	SHCMBK	Baa1e/-/BBB+e	USD	250	3.750%	29-Nov-27	29-Nov-22	166	3.79	4.00	171
16-Nov-17	SBRYBK	-/-/-	GBP	175	6.000%	23-Nov-27	23-Nov-22	418	5.31	5.98	525
16-Nov-17	ISLBAN	-/BBB-/-	SEK	750	1.368%	23-Nov-27	23-Nov-22	-	1.41	1.39	-
15-Nov-17	BACR	Baa3/-/A-e	SGD	200	3.750%	23-May-30	23-May-25	158	3.68	3.96	159
09-Nov-17	CHINAM	Baa2e/-/-	USD	400	3.750%	22-Nov-27	22-Nov-22	170	3.83	4.04	175
08-Nov-17	BYLAN	Baa2/-/BBB-	EUR	5	2.200%	15-Nov-27	-	134	-	2.16	-
07-Nov-17	BFCM	A3/BBB/A	EUR	500	1.625%	15-Nov-27	-	86	-	1.68	-
07-Nov-17	SHBASS	A3/A-/AA-	SEK	1,300	1.410%	15-Nov-27	15-Nov-22	104	1.39	2.11	105
07-Nov-17	SHBASS	A3/A-/AA-	SEK	1,700	0.443%	15-Nov-27	15-Nov-22	-	0.46	0.44	-
02-Nov-17	FCFIN	B2 /*+/-/B+e	USD	150	7.250%	09-Nov-27	09-Nov-22	514	7.27	7.43	518
10-Oct-17	BYLAN	Baa2/-/BBB-	EUR	65	1.850%	15-Nov-27	-	109	-	1.91	-
23-Oct-17	IKB	-/-/-	EUR	50	4.000%	25-Oct-27	-	322	-	4.04	-
25-Sep-17	MEDBAN	-/-/-	EUR	20	5.000%	13-Oct-27	13-Oct-22	433	4.53	4.74	-
25-Sep-17	MEDBAN	-/-/-	GBP	20	5.000%	13-Oct-27	27-Oct-22	347	4.65	4.75	-
18-Oct-17	CMARK	-/BBB/-	EUR	500	1.875%	25-Oct-29	25-Oct-24	123	1.70	2.28	145
17-Oct-17	SYDBDC	Baa2/-/-	EUR	75	1.519%	02-Nov-29	02-Nov-24	-	1.57	1.55	-
16-Oct-17	WUWGR	-/BBB/-	EUR	58	4.125%	27-Oct-27	-	305	-	3.86	-
11-Oct-17	BCOLO	Ba3/-/BB+	USD	750	4.875%	18-Oct-27	18-Oct-22	276	4.89	5.15	293
11-Oct-17	NWIDE	Baa1/BBB/A-	USD	1,250	4.125%	18-Oct-32	18-Oct-27	175	4.07	4.22	185
10-Oct-17	BYLAN	Baa2/-/BBB-	EUR	65	1.850%	15-Nov-27	-	-	-	-	-
02-Oct-17	IFIM	-/-/BB	EUR	400	4.500%	17-Oct-27	17-Oct-22	396	4.16	4.82	425
09-Oct-17	SPNODC	-/-/-	SEK	600	1.978%	18-Oct-27	18-Oct-22	-	2.27	2.08	-
28-Sep-17	VOWIBA	Baa3/-/-	EUR	400	2.750%	06-Oct-27	06-Oct-22	252	2.71	3.29	255
28-Sep-17	BPOPAA	-/-/BB	EUR	100	5.625%	06-Oct-27	06-Oct-22	563	5.83	6.25	537
25-Sep-17	CBAAU	Baa1/BBB/-	EUR	1,000	1.936%	03-Oct-29	03-Oct-24	130	1.76	2.33	537
19-Sep-17	INTNED	Baa2/BBB/A	EUR	1,000	1.625%	26-Sep-29	26-Sep-24	104	1.49	2.10	125
14-Sep-17	BAMIIM	B2/-/-	EUR	500	4.375%	21-Sep-27	21-Sep-22	372	3.91	4.67	418
14-Sep-17	BNSELL	-/-/-	EUR	100	5.500%	22-Sep-27	22-Sep-22	399	4.18	5.30	531
13-Sep-17	SHNHAN	Baa1/BBB+/BBB+	USD	350	3.750%	20-Sep-27	-	136	-	3.68	-
12-Sep-17	BKIR	Ba1/BB/-	USD	500	4.125%	19-Sep-27	19-Sep-22	185	3.97	4.46	250
12-Sep-17	BKIR	Ba1/BB/-	GBP	300	3.125%	19-Sep-27	19-Sep-22	218	3.33	3.76	270
12-Sep-17	QDBANK	-/-/-	USD	1,203	5.500%	Perpetual	19-Sep-22	334	5.53	6.05	376

Insurance performance monitoring (as at 28/11/17)

Launch	Issuer	Issue ratings	Currency	Amount (m)	Coupon	Maturity date	First call date	I-Spread	Yield to call	Yield to maturity	Reset spread
28-Nov-17	TALANX	-/BBB/-	EUR	750	2.250%	05-Dec-47	05-Dec-27	147	2.30	3.86	-
22-Nov-17	BNP	-/BBB/-	EUR	750	1.000%	29-Nov-24	-	64	-	1.12	-
14-Nov-17	MFCCN	-/A-/BBB+	SGD	500	3.000%	21-Nov-29	21-Nov-24	102	3.08	3.32	83
09-Nov-17	VIVATN	-/-/BB	USD	575	6.250%	Perpetual	16-Nov-22	416	6.29	6.61	417
07-Nov-17	STBNO	-/BBB-/-	SEK	1,000	1.368%	21-Nov-47	21-Nov-22	-	1.35	1.96	300
25-Oct-17	HUKLFI	Baa3/-/BBB-	USD	500	4.475%	09-Nov-47	09-Nov-22	268	4.81	5.04	247
17-Oct-17	PACLIF	A3/A/A-	USD	750	4.300%	24-Oct-67	24-Oct-47	176	4.30	4.45	280
16-Oct-17	PRUFIN	A3/A-/BBB+	USD	750	4.875%	Perpetual	20-Jan-23	275	4.86	4.90	-
17-Oct-17	AFL	Baa1/BBB/BBB	JPY	60,000	2.108%	23-Oct-47	23-Oct-27	176	2.03	2.73	205
11-Oct-17	SLLN	Baa1/BBB+/-	USD	750	4.250%	30-Jun-48	30-Jun-28	200	4.36	4.96	292
21-Sep-17	NWMLIC	Aa2/AA-/AA	USD	1,200	3.850%	30-Sep-47	30-Mar-47	143	3.97	3.97	-
12-Sep-17	NIPLIF	A3/A-/-	USD	800	4.000%	19-Sep-47	19-Sep-27	183	4.16	3.96	288
07-Sep-17	SUMILF	A3/-/A-	USD	1,340	4.000%	14-Sep-77	14-Sep-27	193	4.25	5.04	299
20-Jul-17	SAVMAS	-/BBB/-	USD	57	6.500%	01-Aug-47	25-Jan-47	341	5.95	5.96	-
20-Jul-17	CHILOV	-/A- /*-/-	USD	250	3.350%	27-Jul-27	27-Jul-22	124	3.36	4.16	253
17-Jul-17	KYOBOL	A3/-/A-	USD	500	3.950%	24-Jul-47	24-Jul-22	135	3.47	4.42	209
29-Jun-17	PHNXLN	-/-/BBB	USD	500	5.375%	06-Jul-27	-	237	-	4.69	-
02-Jun-17	FWDGRP	-/-/-	USD	750	0.000%	Perpetual	15-Jun-22	444	6.55	7.24	759
03-May-17	TIAAGL	Aa3/AA-/AA	USD	2,000	4.270%	15-May-47	15-Nov-46	153	4.08	4.08	-
27-Apr-17	VIGAV	-/-/-	EUR	250	3.500%	11-May-27	-	202	-	2.78	-
12-Apr-17	PANLIZ	Baa3/BBB/-	USD	500	4.500%	21-Apr-77	21-Apr-22	181	3.92	4.97	268

Source: Crédit Agricole CIB

SNP, HoldCo issuance

Latest SNP performance monitoring (as at 28/11/17)

Launch	Issuer	Issue ratings	Currency	Amount (m)	Coupon	Maturity date	I-Spread	Yield to maturity
16-Nov-17	BNP	Baa1/A-/A+e	EUR	1,000	1.500%	23-May-28	50	1.38
09-Nov-17	BNP	Baa1/A-/A+	USD	1,500	3.500%	16-Nov-27	122	3.56
08-Nov-17	SOCGEN	Baa3/BBB+/A	EUR	750	1.375%	13-Jan-28	55	1.39
08-Nov-17	SOCGEN	Baa3/BBB+/A	EUR	750	0.500%	13-Jan-23	32	0.56
19-Oct-17	CCBGBB	Baa3/BBB/-	EUR	500	1.000%	26-Oct-24	56	1.03
16-Oct-17	BPCEGP	Baa3/BBB+/A	USD	1,250	3.500%	23-Oct-27	131	3.64
04-Oct-17	FRLBP	-/BBB/-	EUR	500	1.000%	16-Oct-24	45	0.92
27-Sep-17	ACAFP	Baa2/BBB+/A+	USD	1,500	3.250%	04-Oct-24	109	3.31
05-Sep-17	CCBGBB	Baa3/BBB/-	EUR	750	0.750%	12-Sep-22	38	0.57
31-Aug-17	CABKSM	Ba2/BBB-/BBB	EUR	1,250	1.125%	12-Jan-23	87	1.11
30-Aug-17	BBVASM	Baa3/BBB/A-	EUR	1,500	0.750%	11-Sep-22	47	0.67
11-Jul-17	SANTAN	Baa1/BBB+/A-	AUD	300	4.800%	19-Jul-27	181	4.33
11-Jul-17	SANTAN	Baa1/BBB+/A-	AUD	300	3.350%	19-Jan-23	-	3.29
11-Jul-17	SANTAN	Baa1/BBB+/A-	AUD	200	4.000%	19-Jan-23	149	3.66
11-Jul-17	SANTAN	Baa1/BBB+/A-	AUD	300	3.350%	19-Jan-23	-	3.29
11-Jul-17	SANTAN	Baa1/BBB+/A-	AUD	200	4.000%	19-Jan-23	149	3.66
11-Jul-17	SANTAN	Baa1/BBB+/A-	AUD	300	4.800%	19-Jul-27	181	4.33
29-Jun-17	ACAFP	Baa2/BBB+/A+	CHF	100	0.625%	12-Jul-24	45	0.46
28-Jun-17	ACAFP	Baa2/BBB+/A+	AUD	500	4.400%	06-Jul-27	167	4.19
23-Jun-17	SANTAN	Baa1/BBB+/A-	CHF	130	1.125%	20-Jul-27	67	0.92
20-Jun-17	BNP	Baa1/A-/A+	EUR	750	1.000%	27-Jun-24	33	0.76
02-Jun-17	ACAFP	Baa2/BBB+/A+	JPY	61,800	0.839%	09-Jun-27	53	0.79
02-Jun-17	ACAFP	Baa2/BBB+/A+	JPY	63,400	0.443%	09-Jun-22	25	0.36
31-May-17	BNP	Baa1/A-/A+	EUR	750	0.421%	07-Jun-24	-	-
24-May-17	NYKRE	-/BBB+/A	EUR	300	0.241%	02-Jun-22	-	-
23-May-17	CMARK	-/BBB+/-	EUR	500	1.250%	31-May-24	53	0.95
12-May-17	SOCGEN	Baa3/BBB+/A	EUR	1,000	0.471%	22-May-24	-	-
10-May-17	BNP	Baa1/A-/A+	EUR	1,250	1.500%	17-Nov-25	38	0.99
01-Mar-17	ACAFP	Baa2/BBB+/A+	CHF	175	0.450%	14-Mar-22	41	0.14

HoldCo performance monitoring (as at 28/11/17)

Launch	Issuer	Issue ratings	Currency	Amount (m)	Coupon	Maturity date	First call date	I-Spread	Yield to call	Yield to maturity	Reset spread
28-Nov-17	INTNED	Baa1/A-/A+	EUR	1,000	1.375%	11-Jan-28	-	52	1.37	1.37	-
27-Oct-17	SANUK	Baa1/BBB/A	USD	1,000	3.823%	03-Nov-28	03-Nov-27	144	3.76	3.79	-
04-Oct-17	SUMIBK	A1/A-/-	EUR	500	0.934%	11-Oct-24	-	42	-	0.88	75
05-Sep-17	LLOYDS	A3/BBB+/A+	EUR	750	1.500%	12-Sep-27	-	64	-	1.44	-
10-Jul-17	CS	Baa2/BBB+/A-	EUR	1,500	1.250%	17-Jul-25	17-Jul-24	62	1.05	1.18	-
14-Jun-17	LLOYDS	A3/BBB+/A+	EUR	1,000	0.450%	21-Jun-24	-	-	-	0.11	-
06-Jun-17	SUMIBK	A1/A-/-	EUR	750	0.120%	14-Jun-22	-	-	-	-	-
06-Jun-17	SUMIBK	A1/A-/-	EUR	500	1.413%	14-Jun-27	-	45	-	-	-
11-May-17	SANUK	Baa1/BBB/A	EUR	500	0.451%	18-May-23	18-May-22	-	0.07	-	-
21-Mar-17	INTNED	Baa1/A-/A+	USD	1,000	2.483%	29-Mar-22	-	-	-	-	-
16-Mar-17	UBS	Baa1u/A-/A+	USD	2,000	4.253%	23-Mar-28	23-Mar-27	122	3.53	3.59	-
16-Mar-17	UBS	Baa1u/A-/A+	USD	2,000	3.491%	23-May-23	23-May-22	87	2.97	3.06	-
16-Mar-17	UBS	Baa1u/A-/A+	USD	1,000	2.682%	23-May-23	23-May-22	-	2.32	-	106
13-Mar-17	UBS	Baa1u/A-/A+	EUR	1,750	0.371%	20-Sep-22	20-Sep-21	-	-0.01	-	155
06-Mar-17	HSBC	A2/A/AA-	USD	2,500	3.262%	13-Mar-23	13-Mar-22	72	2.82	2.92	-
06-Mar-17	HSBC	A2/A/AA-	USD	2,500	4.041%	13-Mar-28	13-Mar-27	118	3.48	3.54	-
03-Mar-17	GS	A3/BBB+/A	EUR	2,000	0.300%	09-Sep-22	09-Sep-21	-	0.09	-	204
01-Mar-17	INTNED	Baa1/A-/A+	EUR	1,500	0.750%	09-Mar-22	-	24	-	0.36	-
01-Mar-17	RBS	Baa3/BBB-/BBB+	EUR	1,500	2.000%	08-Mar-23	08-Mar-22	67	0.78	1.14	-
22-Feb-17	KBCBB	Baa1/BBB+/A	EUR	1,250	0.750%	01-Mar-22	-	28	-	0.39	-
17-Jan-17	WFC	A2/A/A+	USD	1,250	2.475%	24-Jan-23	24-Jan-22	-	2.16	-	-
17-Jan-17	WFC	A2/A/A+	USD	3,750	3.069%	24-Jan-23	24-Jan-22	68	2.77	2.83	-
17-Jan-17	MS	A3/BBB+/A	USD	3,000	2.543%	20-Jan-22	20-Jan-21	-	2.16	-	-
17-Jan-17	MS	A3/BBB+/A	USD	2,250	4.375%	22-Jan-47	-	140	-	3.94	-
17-Jan-17	MS	A3/BBB+/A	USD	3,000	3.625%	20-Jan-27	-	104	-	3.34	199
17-Jan-17	BAC	Baa1 /*+/A-/A	USD	750	2.523%	20-Jan-23	20-Jan-22	-	-	-	158

Source: Crédit Agricole CIB

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