BANK+INSURANCE HYBRID CAPITAL
1Q 2018
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Bank+Insurance Hybrid Capital

With CRÉDIT AGRICOLE CORPORATE & INVESTMENT BANK

SCOR FIRES US$ STAR1NG GUN

Biggest RT1 yet gives nascent insurance instrument momentum

Italy
SNP helps recovery

Markets
Hope, but less fantasy

Regulation
MREL, NPEs and more

we offer you

our world of solutions

APRIL 2018	UBI BANCA SPA	EUR 500,000,000	1.75% Senior Non Preferred Notes Due 2023	Sole Bookrunner
MARCH 2018	CRÉDIT AGRICOLE S.A.	EUR 1,000,000,000	1.375% Senior Non Preferred Due 2025	Sole Bookrunner
JANUARY 2018	CRÉDIT AGRICOLE ASSURANCES S.A.	EUR 1,000,000,000	2.625% Subordinated Debt 30NC10 Due 2048	Sole Structuring Advisor & Sole Bookrunner
JANUARY 2018	CRÉDIT AGRICOLE S.A.	USD 1,250,000,000	4.000% 15NC10 Tier 2 Due 2033	Sole Bookrunner
DECEMBER 2017	UNICREDIT SPA	EUR 1,000,000,000	5.375% AT1 Perpetual NC7.5	Joint Bookrunner
NOVEMBER 2017	CRÉDIT LOGEMENT	TENDER OFFER	EUR 800m Perpetual AT1 EUR 500m 5.454% 2021 T2	Joint Dealer Manager
OCTOBER 2017	CRÉDIT MUTUEL ARKÉA	EUR 500,000,000	1.875% Tier 2 Subordinated Notes Due 2029NC2024	Global Coordinator & Joint Bookrunner
SEPTEMBER 2017	BELFIUS BANQUE SA	EUR 750,000,000	0.750% Non Preferred Senior Notes Due 2022	Joint Bookrunner
SEPTEMBER 2017	VOLKSBANK WIEN AG	EUR 400,000,000	2.750% 10NC5 Tier 2 Notes Due 2027	Joint Bookrunner
JULY 2017	CAIXABANK SA	EUR 1,000,000,000	2.750% Subordinated Tier 2 Due 2028	Joint Bookrunner
MARCH 2017	BANKINTER SA	EUR 500,000,000	2.500% Subordinated Tier 2 Due 2027	Joint Bookrunner
MARCH 2017	UBI BANCA SPA	EUR 500,000,000	4.450% Subordinated Tier 2 Capital Due 2027	Joint Bookrunner

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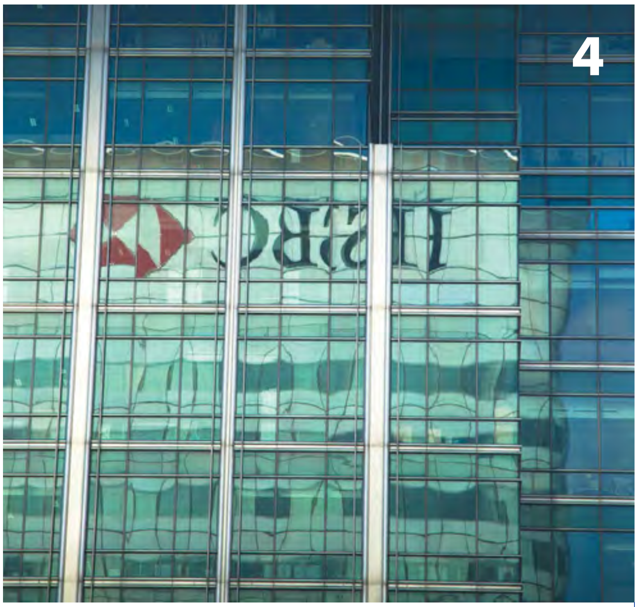

Bank+Insurance
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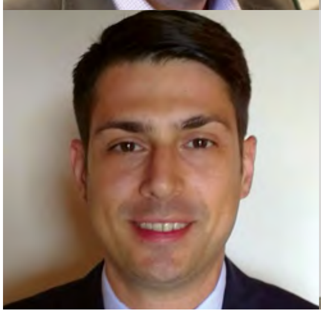


The writing's on the wall

Coming into 2018 the extraordinary liquidity conditions of QE were driving the market for the n^{th} year in succession. Three months on, things are very different.

While the market may not have fully turned from being an issuer's to an investor's, no longer are issuers able to have their cake and eat it. Witness top names paying 50bp of new issue premium for capital trades.

Yet in spite of all the volatility and widening thus far, funding levels remain at historically cheap levels that issuers know cannot last — which explains why they have been willing to pay up and hit the market in a willy-nilly manner. Gone are the days when pride might prevent issuers from tapping a window if they weren't able to get a one-up on their peers in terms of pricing. It's now a question of get size first and ask questions later.

The pressure such behaviour has put on spreads has meant investors are able to extract greater concessions from issuers in the form of higher new issue premiums. And their demands are backed up by a willingness to give an outright "no" to new issues — the frenzied buying resulting from a fear or missing out is a thing of the past.

Backing up this new buyside attitude are genuine concerns about uncertainty and volatility. Uncertainty caused not so much by geopolitical fears as by fundamentals, which are finally trumping liquidity as the key driver of the market's direction. Of course, the improved economic outlook and its impact on central bank policies is playing into tapering expectations and hence liquidity conditions in Europe, but it is as much its impact on a potential acceleration in US interest rate rises that has been a catalyst for this year's inflection point.

Fortunately, after moving a couple of legs wider, the market may now be on a stabler footing. But until there is clarity on a new equilibrium, investors will remain more diligent and defensive, demonstrating a greater resistance to price, size and duration in the primary market.

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Market news

Hope, but less fantasy after March inflection point

New issue premiums rose sharply and oversubscription levels shrank as the credit markets hit an inflection point in mid-March, but as oversupply and volatility eased into April, bright spots in AT1 held out the promise of a more constructive primary market — albeit with the QE-inspired buying frenzy consigned to history.

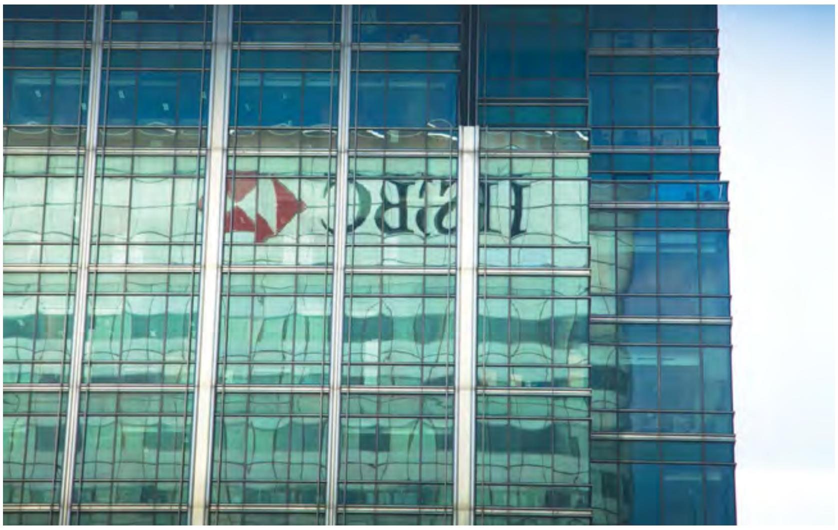
Credit markets had already turned softer in February, alongside equity market weakness and volatility that was in turn prompted by stronger employment and inflation figures in the US, raising fears of quicker than expected interest rate rises in the US and a potential accelerated end to unconventional monetary policies in Europe.

The renewed bout of difficulties in mid-March were then caused by endogenous factors, namely oversupply and its impact on pricing: an aggregate EUR28bn of FIG supply hit the market across the capital structure in the first two weeks of March, as issuers sought to issue before conditions deteriorated further.

"Everyone recognises that what we have been enjoying for the best part of a decade is over now," said Vincent Hoarau, head of FIG syndicate at Crédit Agricole CIB. "The headlines have not necessarily changed dramatically, but the perception of their impact on the capital market spread complex is evolving because performance is very disappointing across the board.

"US politics and growing concern over a trade war, an acceleration of interest rate rise, TLTRO refinancing, Italy, Brexit, forthcoming MREL numbers… There are so many uncertainties which have been ignored because fundamentals are excellent, but the buying frenzy has now left the room."

Meanwhile, even after the widening in February, valuations continued to be viewed as rich, with absolute levels still being attractive for issuers on a historic basis and tight relative to other asset classes.



"Generally speaking, the current market conditions are more favourable to issuers than to investors," said Stéphane Herndl, senior credit analyst, research department, La Banque Postale Asset Management (LBPAM). "In this context, the low new issuance premiums do not compensate for the higher embedded extension risk of the latest AT1 vintage — the latest AT1 have been printed with very low back-ends of less than 400bp if not 300bp for core European banks. Finally, the pick-up offered by recent deals does not compensate for the longer distance to call."

"Since October 2017, the AT1 asset class has outperformed the high yield corporate asset class," added Guillaume Fradin, senior portfolio manager, fixed income and credit, LBPAM. "The yield differential between the two has narrowed, making the investment in AT1s less compelling versus Euro high yield instruments."

The result was that the "keep calm and carry on" camp capitulated in March on the back of the oversupply and secondary market underperformance, according to Hoarau.

"New issue concessions increased significantly in March, with issuers exacerbating the situation by rushing to market pre-Easter in weak markets, and we saw lower oversubscription levels in primary," he said.

Hefty NIP for HSBC $4bn

In the AT1 market, the new conditions were exemplified by a US dollar issue for HSBC on 19 March. The UK-headquartered bank had said the previous month that it would itself be issuing up to $7bn of AT1 this year and its March issue took out more than half of this.

It went out with a two-tranche deal, rated Baa3/BBB, comprising perpetual non-call five and perpetual non-call 10 tranches with initial price thoughts (IPTs) of the 6.375% area and 6.625% area, respectively. The issuer ultimately took $4bn out of the market, sizing the non-call fives at $2.25bn and the non-call 10s at $1.75bn, but only achieved pricing in the middle of guidance set an eighth inside IPTs, at 6.25% and 6.5%, respectively.

"The issuer paid a hefty 50bp new issue premium to get the size," said a syndicate banker away from the leads. "You would have thought something like this would have been a slam-dunk for HSBC in dollars, but it looked like it was actually a relative struggle."

Although the signs that the market was being more sober were there from February onwards, only a week before HSBC's trade, conditions had been more accommodating, even if the bullish sentiment of the first weeks of the year had passed: on Monday, 12 March, Santander launched the first benchmark AT1 from a European issuer since 25 January — when Belfius had sold a EUR500m debut — and the Spanish national champion was able to attract some EUR5bn of demand to its EUR1.5bn deal.

After announcing a mandate on 1 March, it went out with a perpetual non-call seven AT1, rated Ba1, and following IPTs of the 5% area was able to achieve pricing of 4.75%. According to lead manager Santander, the coupon is the lowest ever on an AT1 for a southern European issuer. It was also 50bp inside the issuer's last AT1, a EUR1bn perpetual non-call six in September 2017 priced at 5.25%.

Compatriot CaixaBank followed with its own AT1 the next day, after having been monitoring the market for some time but decided to allow its larger peer to go first following its mandate announcement, according to a syndicate official at one of CaixaBank's leads.

CaxiaBank was able to attract almost EUR3.5bn of demand to its EUR1.25bn AT1, and tighten pricing from IPTs of the 5.5% area to 5.25%.

A syndicate banker said that, given how the market developed afterwards, it was a relief to have gotten the deal done.

"Literally the next day the proverbial hit the fan," he said. "Had we waited an extra day it would have been a bit of a nightmare."

A two week hiatus including the long Easter weekend followed HSBC's $4bn trade, before Société Générale on 4 April launched the next benchmark, a $1.25bn perpetual non-call 10 AT1. The French bank went out with IPTs of the 6.875% area before pricing the transaction, rated Ba2/BB+, at 6.75%, which a banker said was equivalent to a new issue premium of around 37.5bp.

Second tier cheer from Ibercaja

Ibercaja had meanwhile shown how smaller and juicier trades could avoid the worst of the pricing demands being placed on issuers, when it tapped the market with a debut, EUR350m perpetual non-call five AT1, rated B-/B, on 27 March. The issuer combined paying one of the highest coupons of any outstanding euro AT1, 7%, with paying a much lower new issue premium than larger and better-rated paper.

"Unlike many other previous AT1 issuers, Ibercaja managed to only pay a marginal 1/8 new issue concession, despite the market backdrop," said a syndicate banker at one of the leads. "Beside credit quality, the ability to leverage on limited size needs and a higher reset allowed the issuer to price their EUR350m deal on the back of a more than 2.7 times oversubscribed book and a coupon of 7%, from the low to mid-7% IPTs."

The Spaniard's success was to some extent mirrored by Deutsche Pfandbriefbank (pbb), when it two weeks later priced an inaugural AT1. The German bank priced its EUR300m perpetual non-call five, rated BB-, at 5.75% on 12 April on the back of some EUR900m of demand, following IPTs of the 6% area and guidance of the 5.875% area.

The success of such deals were deemed a good omen for Bawag Group, which on 12 April announced a roadshow for a EUR300m no-grow perpetual non-call seven inaugural AT1, with an expected rating of Ba1.

"Except for a few well-flagged core AT1 issuers, European G-SIBs have filled — or are close to having filled — their AT1 buckets," said Herndl at LBPAM. "Net supply will therefore be limited to new issuers, i.e. second tier banks. As evidenced by recent deals, current market conditions are favourable to issuers.

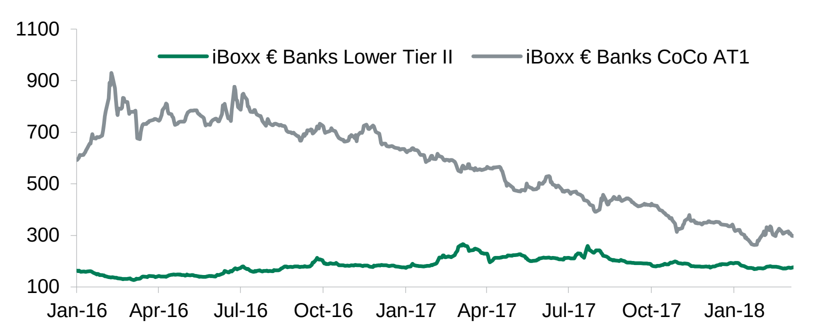
"This is supportive for smaller Spanish banks, for example, which would otherwise not have been able to tap the market and beef up their regulatory solvency. Conversely, the ability to issue AT1s for second Tier Italian banks remains more challenging in our view, given the SSM's pressure to reduce NPLs and lagging economic recovery compared to that of Spain."

Syndicate bankers are cautiously optimistic that wider conditions may also prove more constructive for bank capital issuance in general, particularly with black-out periods in April and a slowdown in supply helping stabilise the secondary market.

"But after a difficult month of March for investors, the level of diligence remains high and investors' involvement in primary is dependent upon the promise of secondary performance," according to CACIB's Hoarau. "Subsequently, new issue concessions remain at an elevated level and issuance windows short.

"The situation won't change until a new equilibrium and pricing paradigm is found. We also need more visibility on the rate direction and the modalities of tapering." ●

Secondary bank subordinated indices



Source: Markit, Crédit Agricole CIB

CaixaBank offers succour to Tier 2 after widening

The execution and performance of a EUR1bn 12 year non-call seven Tier 2 issue for CaixaBank on 10 April raised hopes that volatility and spread widening that had inflicted the market since mid-March could finally be coming to an end.

A wave of some EUR28bn of FIG issuance in the first two weeks of March prompted a deterioration in conditions from the middle of the month and although issuers were still able to take out size from the market, new issue premiums and absolute spreads rose, and secondary curves were hit in a vicious circle of weakening.

ING, for example, approached the market for Tier 2 on 15 March when the shift in the balance of power from issuers to investors was in full swing, and although it could raise $1.25bn of 10NC5 and EUR750m of 12NC7 debt, pricing was only tightened by 5bp from initial price thoughts despite elevated new issue premiums already being offered in a widening market.

"ING's Tier 2 repriced the Dutch subordinated curve by 10bp-15bp," said a syndicate banker away from the leads. "Price distortions between primary and secondary have increased, with primary driving secondary, and each new issue repricing the relevant secondary curve."

By the time CaixaBank approached the market almost four weeks later, spreads were more stable, albeit at wider levels, and the Spanish issuer was able to attract over EUR2.3bn of orders from more than 180 accounts to its EUR1bn Tier 2 trade, and tighten pricing from IPTs of the 180bp area to 168bp over mid-swaps.

"The market was in OK shape — neither particularly strong, nor particularly bad — yet they managed to have EUR2.1bn good at re-offer after tightening by 12bp and for a EUR1bn size," said André Bonnal on Crédit Agricole CIB's FIG syndicate desk.

"Scope for compression and performance strongly helped this trade and probably explain why it did not reprice the Tier 2 market — if you look at CaixaBank's own Tier 2s, they only moved 1bp-3bp on the day. And the deal even performed in the secondary market, trading at 161bp a couple of days after launch."

With many European banks heading into blackout periods until the beginning of May, the better tone is set to be supported.

"The market is much firmer than it was two weeks ago," said Bonnal. "Secondaries have widened to a lot more reasonable levels than they were before and market conditions are quite constructive — we know that volatility is here to stay and we always have Trump to add to that with a tweet, plus NIPs should remain elevated. I don't want to be too optimistic, but things look quite good versus where we were these past three to four weeks."

> 'People are not necessarily just banging in orders anymore'

DNB hits the top

The Tier 2 sector's peak was marked by the launch of a EUR600m 10NC5 Tier 2 issue for DNB that achieved the tightest spread of a euro Tier 2 issue since 2007 on 13 March, two days before ING hit the market's inflection point.

"I could brag about picking the perfect timing, but sometimes you are lucky, too," said Thor Tellefsen, head of long term funding at DNB.

"We thought it was an OK-ish day, we didn't think it was a 10 out of 10, but how often to you find 10 out of 10 days? So we decided to go, and then we ended up very nicely."

The record spread of 77bp over mid-swaps for the EUR600m (NOK5.75bn) 10NC5 Tier 2 followed initial price thoughts of the 90bp area and guidance of the 80bp area, with books totalling EUR1.3bn. However, according to Tellefsen, even at that point the market was already feeling somewhat softer.

"It was a slightly different experience than what we have typically seen in previous capital transactions," he said, "and a lot of other issuers out at that time told us likewise. For example, we announced at around 9 o'clock and two hours later we sent out a book update of EUR800m, so rather a slow start from a DNB perspective — people are not necessarily just banging in orders anymore; they are sitting and considering a bit more.

"But ultimately the book grew further and reached EUR1.3bn with more than 100 investors."

DNB's issue was caught up in the subsequent widening, but by mid-April it was trading back inside re-offer.

The Norwegian bank's deal took the spread record from a Svenska Handelsbanken EUR750m 10NC5 Tier 2 that had on 23 February been priced at 80bp over. ●

AIB, UBI set peripheral HoldCo, SNP benchmarks

Ireland's AIB and Italy's UBI Banca took HoldCo and senior non-preferred debt further into sub-investment grade territory in March and April, with the Irish bank's deal setting an encouraging starting point by attracting over EUR2.25bn of demand and achieving impressive pricing — despite coming in difficult markets.

Having established a holding company in December, AIB Group plc, the Irish bank in mid-March announced a roadshow and mandate for a senior HoldCo transaction as its first step in building up MREL-eligible debt.

The lack of Irish or more generally sub-investment grade HoldCo or senior non-preferred debt outstanding posed a challenge for the market when it came to pricing, with the situation further complicated by neither AIB nor compatriot Bank of Ireland having useful OpCo or Tier 2 comparables in the secondary market — AIB's only senior OpCo paper is a March 2020.

A key potential comparable for the planned five year deal — rated Ba2/BB+/BBB- — was Spanish CaixaBank senior non-preferred debt, since it has one sub-investment grade rating among its Ba2/BBB-/BBB ratings, and a January 2023 issue was trading at around 77.5bp over. However, UK names were also cited as references, and the widest, Barclays HoldCo, was quoted at 91.5bp over, even if rated Baa2/BBB/A. The leads ultimately discussed fair value in the context of the low 100s.

On top of the lack of clarity over fair value, the market deteriorated further in between AIB announcing its mandate and launching its transaction, with new issue premiums having risen in the interim and secondary curves widened on the back of substantial senior non-preferred and HoldCo supply coming cheap to the curve from the likes of BNP Paribas, Santander UK, and BPCE with a dual-trancher.

However, after going out on 22 March with initial price thoughts of 130bp-135bp over mid-swaps for the EUR500m no-grow five year deal — a level deemed conservative by syndicate bankers away from the leads — AIB's leads priced the transaction 20bp tighter, at 115bp over, on the back of more than EUR2.25bn of orders.

"Looking at the IPTs and where they landed, it suggests the range of investor views on pricing must have been quite wide," said André Bonnal on Crédit Agricole CIB's FIG syndicate desk. "The starting point was generous versus the Caixabank senior non-preferred, but it makes perfect sense because of the sub-investment grade on two of the ratings of the AIB bonds that will prevent investors from buying it for a lot of their funds."

"The AIB deal now provides a new and clear reference point for second tier peripheral bank senior non-preferred debt," he added.

UBI encouraged by demand

Italy's UBI Banca set another peripheral reference two weeks later, issuing a EUR500m five year senior non-preferred debut rated BBB-/BBB (low) by Fitch and DBRS but Ba3/BB+ by Moody's and S&P.

The Italian bank also had to contend with challenging market conditions and elevated new issue premiums for its inaugural senior non-preferred transaction, as demonstrated by Santander UK the week before paying a new issue premium of some 25bp or more for a 6NC5 FRN euro HoldCo issue.

The only outstanding Italian senior non-preferred, a January 2023 issue from national champion UniCredit rated Ba2/BBB-/BBB, was seen at 83bp over mid-swaps, while AIB's HoldCo was at 105bp over.

UBI's leads went out with initial price thoughts of the mid-swaps plus 145bp area for the five year deal citing a benchmark size. After around two hours the books were above EUR750m and another couple of hours later, with books above EUR1bn, the spread was set at 140bp over mid-swaps. Two hours later the deal was launched with a EUR500m size and books at around EUR1bn.

"It was a very positive result to see the book over EUR1bn in this market and with this instrument's split rating," says Erasmi. "It was an important test and we have been happy to see that there is broad demand from investors even despite the split rating."

Vincent Hoarau, head of FIG syndicate at Crédit Agricole CIB, put the subordination premium versus senior preferred at 35bp-40bp — not far off what UniCredit achieved in more benign market conditions with its market opener in January — while the deal came well inside a level of around 300bp for UBI's most comparable Tier 2 debt.

"A transaction size of only EUR500m at this level is a very good deal for investors, while 150bp inside the Tier 2 curve is a strong achievement for the issuer," says Hoarau. "UBI Banca achieved a very competitive credit spread differential versus investment grade-rated peers." ●

See Italy feature for more on UBI Banca

AXA goes XL with Tier 2, SCOR raises RT1 bar

AXA launched the equal-largest European insurance subordinated debt transaction on 21 March, a EUR2bn 3.25% 31 non-call 11 Reg S deal that attracted over EUR4bn of demand, as it kicked off financing for its acquisition of XL Group.

AXA announced the acquisition of XL on 5 March for $15.3bn (EUR12.4bn), of which EUR3.5bn would be financed by EUR3.5bn of cash at hand, around EUR6bn from a planned US IPO and related transactions, and around EUR3bn via subordinated debt.

The latter part was begun on 21 March, when AXA approached the euro market with a Tier 2 trade. Following initial price thoughts of the 230bp over mid-swaps area, the pricing was ultimately fixed at 220bp over and the size at EUR2bn, with the book having totaled some EUR4.1bn.

"This highly successful transaction, in the midst of choppy markets is a testament to the strength of the AXA credit and XL Group acquisition rationale with the global investor base," said a banker at one of AXA's leads.

The transaction was indeed launched the week after market sentiment had softened on the back of factors including heavy supply. AXA also had to contend with a widening of its secondaries triggered by the announcement of the XL acquisition and its ratings being placed on negative review or outlook by the rating agencies.

AXA and its leads reacted to this confluence of events by going out with a new issue premium that syndicate bankers put at around 40bp. While this was deemed unprecedented for an issuer of AXA's stature, it was also seen as understandable.

"It seemed crystal clear to everyone that the euro deal was going to be a big one," said one syndicate banker. "AXA is one of those issuers that usually does not pay much in terms of new issue premium, but they had to play the game here given market conditions, elevated NIPs and the M&A feature of this bond. They had to pay up, at least at the start, to make sure they could have the size they wanted, which they eventually did while paying a NIP in line with other subordinated trade in the market

"They were able to get books were above EUR4bn, which is massive in the context of the market environment at the time. In the end it was a really smart and efficient way to get two-thirds of the planned sub debt financing done via this deal."

> 'We will see more supply than usual'

The UK was allocated 45%, France 23%, Germany and Austria 11%, Nordics 7%, Italy 5%, Benelux 4%, Switzerland 3%, and others 2%. Asset managers took 70%, insurance companies and pension funds 20%, central banks and sovereign wealth funds 6%, hedge funds 3%, and others 1%.

SCOR RT1 achieves slim premium

SCOR launched the largest Restricted Tier 1 issue yet and the first RT1 in US dollars on 6 March, a $625m (EUR507m) perpetual non-call 11 transaction that attracted $3.75bn of orders and was priced at a only a modest premium to insurance Tier 2.

The resinsurer intends later this year to call two hybrids that are treated as Tier 1 under Solvency 2, and issued its first RT1 to refinance these.

Its instrument differed from the only euro RT1 yet, ASR's EUR300m deal in October, in having a temporary write-down structure.

See special RT1 feature for more on SCOR's structural features.

According to André Bonnal, insurance sponsor on the FIG syndicate desk at joint bookrunner Crédit Agricole CIB, price discovery was far from straightforward given the lack of RT1s outstanding.

ASR's RT1 was trading as close as 85bp over its Tier 2 in euros, but he noted that the ability of SCOR to offer a coupon of 5%-plus in US dollars, and thereby target Asian accounts, meant that pricing could diverge from ASR's 4.625% euro precedent. Investors looked in US dollars to Australian QBE's perpetual non-call 2025 AT1 and Swiss Re's perpetual non-call 2022 as references.

After initial price thoughts of the 5.75% area for a $625m no-grow transaction, guidance could be revised to 5.375%-5.5% on the back of $2.75bn of demand, and after orders topped $3.75bn pre-reconciliation, the final price was set at 5.25%, with some $2.8bn good at this level.

"A 31NC11 for SCOR would probably have been priced in the context of the high 4s, so you are talking about very little extra, 37.5bp-50bp, for the differential between Tier 2 and RT1, which is amazing," said Bonnal.

"It is also notable for being the first big RT1 from a French issuer but also from a big reinsurer."

Bertrand Bougon, head of ratings and capital, and Gabriel Hauvette, capital management manager, at SCOR said they were highly satisfied by the outcome.

"We issued at a rate of 5.25% in US dollars, with a final book that more than four times covered our needs," they said. "And we swapped the debt for the next 11 years at a rate of 2.95%, i.e. a spread in euros of 170bp, the tightest among European bank and insurance Tier 1 issuances.

"The strong demand from investors was supported by the A- rating by S&P, since this is the only Tier 1 issuance in that rating range. Overall, we are very grateful to our investors for their support and trust."

RT1, M&A to rise with Phoenix

With first euro and now dollar benchmarks having been launched in the past two quarters, the RT1 market has gained momentum, and further supply is expected soon.


André Bonnal, CACIB

Phoenix Group on 13 April announced an RT1 mandate with a roadshow taking in Asia and Europe beginning on 16 April, ahead of a planned benchmark issue comprising a perpetual non-call 10 in dollars and/or a perpetual non-call 10 or 12 year, with a write-down structure. The notes are expected to be rated BBB- by Fitch.

The UK group's RT1 is being planned following the £2.93bn acquisition of Standard Life Assurance announced on 23 February. Phoenix said it expects to fund £950m of the cash consideration of £1.971bn via a rights issue, and the balance from up to £1.5bn of underwritten debt facilities and up to £250m of own cash resources.

According to CACIB's Bonnal, Phoenix's plan brings together and highlights two interlinked themes he expects to play out in the insurance sector.

"One is the RT1 market, which we know is a hot topic and is going to be at the forefront of insurance issuance," he said. "We have had Aegon say that they are looking at the RT1 market and we know that other issuers are looking at the instrument to refinance old legacy Tier 1 bonds.

"And the other angle is M&A-related deals — we have seen AXA, but also Phoenix now. So we will see more supply than usual on the insurance side, on the back of this M&A activity, and some of that supply is probably going to come in RT1 format." ●

League tables

Bookrunners all European FI hybrids (euros and US dollars)
01/01/2018 to 31/03/2018

	Managing bank or group	No of issues	Total EUR m	Share (%)
1	HSBC	5	4,045	15.90
2	UBS	7	2,701	10.61
3	Crédit Agricole CIB	5	2,386	9.38
4	BNP Paribas	8	2,381	9.36
5	Société Générale CIB	5	1,603	6.30
6	Barclays	8	1,441	5.66
7	Lloyds	2	999	3.93
8	Citi	6	987	3.80
9	BofA Merrill Lynch	4	876	3.44
10	Deutsche Bank	6	840	3.30
11	JP Morgan	5	813	3.20
12	Goldman Sachs	4	731	2.87
13	Credit Suisse	3	707	2.78
14	Santander	2	688	2.70
15	Natixis	3	579	2.28
	Total	49	25,851	

Source: Dealogic, Thomson Reuters, Crédit Agricole CIB

Bookrunners all financials (euros)
01/01/2018 to 31/03/2018

	Managing bank or group	No of issues	Total EUR m	Share (%)
1	BNP Paribas	25	6,385	9.2
2	Deutsche Bank	21	6,340	9.1
3	Société Générale CIB	16	5,700	8.2
4	UBS	15	5,428	7.8
5	Natixis	7	4,592	6.6
6	Crédit Agricole CIB	7	3,710	5.3
7	HSBC	19	2,916	4.2
8	Barclays	13	2,673	3.9
9	Lloyds	4	2,487	3.6
10	NatWest	9	2,418	3.5
11	Morgan Stanley	12	2,248	3.2
12	BofA Merrill Lynch	11	2,228	3.2
13	Goldman Sachs	11	2,084	3.0
14	JP Morgan	13	2,013	2.9
15	Santander	7	1,908	2.7
	Total	95	69,400	

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

Zurich $500m 30NC10 return outperforms

Zurich Insurance attracted some $2.75bn of orders to a $500m Reg S 30 year non-call 10 Tier 2 issue on 19 April, allowing it to price its first subordinated debt issue since 2016 at a new issue premium at the lower end of recent supply.

The Swiss insurer last issued subordinated debt in July 2016, a $1bn perpetual non-call five fixed-for-life transaction.

According to André Bonnal on the FIG syndicate desk at joint bookrunner Crédit Agricole CIB, the issuer's status meant that it could approach the market swiftly for its new issue.

"It's a fairly rare issuer, but it's very well known and has a quite extensive investor base both in Asia and Europe," he said. "So given its scarcity value and the fact that it doesn't need much in terms of introduction, we were confident in going out for intra-day execution, announcing at the Asian open.

"And given that investors are quite well versed with the credit, it was then going to be a question of pricing more than anything else."

An outstanding 2046 non-call 2026 Zurich issue was trading at an i-spread of 192bp over, according to Bonnal, with a relatively flat two extra years of curve in dollars implying fair value of around i+205bp. With the 10 year dollar mid-swap rate at 2.87%, this was equivalent to a yield of 4.92%.

Recent subordinated debt issues in the dollar market had, in line with the wider credit markets, been offering elevated new issue premiums, with Bonnal noting that a dollar Reg S 10 year non-call five Tier 2 from ING Bank, for example, had paid 40bp or more over fair value.

"So we knew that we would need to give at least a little bit more premium at the outset and to start around the mid-5s," he added, "especially considering we were doing a drive-by."

The leads therefore went out with initial price thoughts of the 5.5% area for June 2048 non-call June 2028 Zurich Insurance Company Ltd deal, issued via Demeter Investments BV.

They moved to guidance of 5.125%-5.25% with demand above $2.5bn, before fixing the pricing at 5.125% and the size at $500m (EUR404m, CHF484m) on the back of some $2.75bn of orders.

"The issuer was focused on price rather than size and we were able to get to the 5.125% level," said Bonnal,

'It clearly enjoyed a very strong reception'

"which is ultimately a NIP of just 15bp-20bp, which is at the tighter end of what we have seen lately.

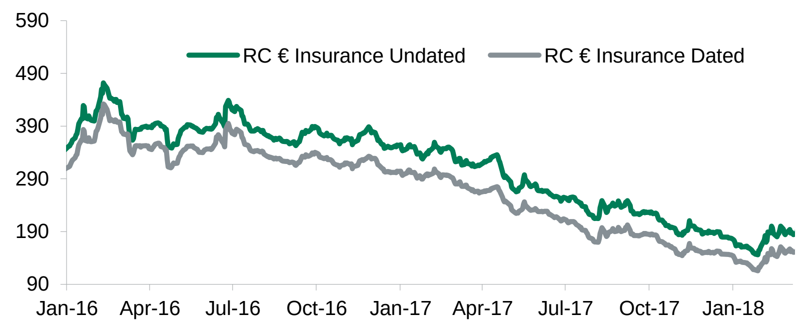
"It clearly enjoyed a very strong reception from accounts," he added, "and very few decided to scale down or drop their orders on the back of the yield tightening.

"At the end of the day we had a five times oversubscribed book and a very well placed deal."

Bonnal noted that the deal performed well, closing on the day of launch at 100.375 on the bid side, while other sub debt launched contemporaneously underperformed.

The UK and Ireland took 44% of the deal, Asia-Pacific 14%, Switzerland 11%, Nordics 8%, Germany and Austria 7%, France 5%, southern Europe 4%, the Middle East and North Africa 4%, and others 3%. Asset managers were allocated 60%, insurance companies 13%, banks and pension funds 12%, official institutions 7%, hedge funds 5%, and others 3%. ●

Secondary insurance subordinated index



Source: Markit, Crédit Agricole CIB

Regulatory updates

MREL

SRB 2017 MREL Policy

The Single Resolution Board (SRB) released the 2017 MREL policy on 20 December, moving from informative targets to bank-specific binding consolidated MREL targets under Single or Multiple point-of-entry (SPE or MPE) approach for the majority of banks under its remit.

- A major change in the 2017 policy from that of 2016 is tailoring the targets with bank-specific adjustments to the recapitalisation amount (RCA), including the possibility of using different basis for RWAs from that of the most recently reported balance sheet figures
- Timeline: Bank-specific transition periods with a maximum horizon of four years with interim targets for transition periods exceeding two years
- The SRB addresses in its policy the specificities of banks with a MPE strategy with a need for MREL for each relevant resolution group
- Calibration: cf. diagram opposite
- For the 2017 MREL Policy, the leverage ratio remains excluded from the MREL formula. The SRB reiterates that an MREL of at least 8% of total liabilities and own funds would generally be calculated for major banking groups with the Banking Union
- In terms of eligible liabilities: cf. diagram opposite
- Liabilities held by retail investors are eligible and subject to bail-in in line with their ranking in the applicable creditor hierarchy (potential misselling is a topic outside the scope of BRRD)

EU Council Presidency publishes compromise texts regarding the banking reform package

The EU Council Presidency published compromise texts on the legislative proposals forming the banking reform package on 15 March.

- **New MREL formula and MREL subordination cap:** cf. diagram opposite
- **Grandfathering of issuances through SPEs:**
  - AT1/T2 instruments not issued directly by an institution shall qualify until 31 December 2021
- **Grandfathering of MREL instruments:**
  - Direct-issued AT1/T2 Instruments: Instruments issued prior to the date of entry force of CRR2 may qualify at the latest until six years after the date of entry into force
  - Senior Non-Preferred and Senior Preferred: Until maturity
- **Resolution authorities (e.g. SRB) will be able to require institutions to modify the maturity profile of eligible instruments**
- **Maximum Distributable Amount related to MREL (M-MDA)**

Europa Building, seat of the EU Council

  - The resolution authority (e.g. SRB) shall have the power to prohibit an entity from distributing more than the Maximum Distributable Amount
  - MDA restrictions not automatic in case of MREL beach (resolution authority takes into account elements (reason/magnitude of breach, refinancing inability, etc) before imposing restrictions)
- **Leverage Ratio Requirement:**
  - Minimum requirement: 3%
  - G-SII: A G-SII shall maintain a leverage ratio buffer requirement equal to 50% of the G-SII buffer

Compliance Timeline (non-G-SIBs): 1 January 2024

Danish FSA publishes final resolution plans and MREL for systemically important banks

The Danish FSA published the final resolution plans and MREL for Danske Bank, Jyske Bank and Sydbank on 26 March, with the resolution plans for Nykredit and DLR Kredit being finalised after 1 July 1

- **MREL requirement:** The overall MREL for Systemically Important Financial Institutions (SIFIs) will be set to twice the solvency requirement plus twice the combined capital buffer requirement
- **Requirement floor:** Total requirements will always constitute at least 8% of total liabilities and own funds
- **Mortgage Credit Institutions:** Instead of MREL, a debt buffer requirement of 2% of their unweighted loans will be applied

  Mortgage Credit Institutions will not be included in the consolidation when determining the MREL for the groups, but only intra-group exposures between a mortgage credit institution subsidiary and its banking parent

- **Implementation:** SIFIs must fulfil their MREL from 1 July 2019.

	SRB MREL Policy	EU Council Compromise	Swedish MREL Policy	Danish MREL Policy
MREL Policy	**LAA + RA + MCC** **LAA:** P1 + P2R + CBR **RA:** P1 + P2R **MCC:** CBR – 125bps *RA: Possible adjustments on CBR for MCC, RWA and P2R*	**LAA + RA + MCC** **LAA:** P1 + P2R + CBR **RA:** P1 + P2R **MCC:** CBR – CCyB *MCC can be adjusted upwards or downwards*	**LAA + RA** **LAA:** P1 + P2 firm-specific **RA:** P1 + P2 firm-specific + P2 (Swed. Exposures) + P2 (Norwegian exposures)	**2x(P1+P2) + 2xCBR** MREL requirement for SIFIs *Mortgage Credit Institutions.: 2% buffer req. of their unweighted loans (specific Danish requirement)*
Subordination Requirement	***G-SIBs*** • *13.5% RWAs + Buffers* ***O-SIBs*** • *12% RWAs + Buffers* ***Other*** • *Case by case*	***Non Systemic Banks:*** • *Max 8%*TLOF or 2xP1 + P2R + CBR* ***G-SIBs and banks (B/S > €75bn):*** • *Min: TLAC excl. 3.5% waiver* • *Cap: max: 8%*TLOF or 2 x P1 + P2R + CBR, up to 2 X P1 + 2 x P2R + CBR in case of significant impediments*	MREL should be fully met with liabilities subordinated to operating liabilities (incl. pref. senior) (applicable to four major banks) **Liabilities proportion**: Banks should have MREL liabilities that are at least equivalent to the recapitalisation amount	***SIFI:*** MREL should be fully met with liabilities subordinated to operating liabilities (incl. pref. senior) *Req. floor: Total requirements will always constitute at least 8% of TLOF*
Focus on Eligible Liabilities	• Non-covered non-preferred deposits will be excluded if they can be withdrawn within one year horizon	• Str. Notes with g'teed capital can be included • 3rd country Gov. Law – must demonstrate validity/ enforceability of bail-in	**RA requirement**: must be met with SNP only	Mortgage Credit Institutions will not be included in the consolidation when determining the MREL for the groups, but only intra-group exposures
	Liabilities governed by law of country outside EU (incl. UK post-Brexit) may not be eligible (unless clear validity and enforceability of bail-in)	Liabilities governed by law of country outside EU (incl. UK post-Brexit) may not be eligible (unless clear validity and enforceability of bail-in)	Liabilities governed by law of country outside EU (incl. UK post-Brexit) may not be eligible (unless clear validity and enforceability of bail-in)	Liabilities governed by law of country outside EU (incl. UK post-Brexit) may not be eligible (unless clear validity and enforceability of bail-in)
	USD securities issued under Section 3(a)(2) through guarantees provided by a US branch are not be MREL eligible	USD securities issued under Section 3(a)(2) through guarantees provided by a US branch are not be MREL eligible	USD securities issued under Section 3(a)(2) through guarantees provided by a US branch are not be MREL eligible	USD securities issued under Section 3(a)(2) through guarantees provided by a US branch are not be MREL eligible
Timeline for Compliance	In general, 4yrs transition and then case-by-case basis	1 Jan. 2024 (non G-SIBs)	1 Jan. 2022	1 Jan. 2022

Source: Crédit Agricole CIB

Basel III/CRR monitoring

Basel Committee publishes Basel III monitoring exercise

The Basel Committee on 6 March published the report of its latest Basel III monitoring exercise, based on data as of 30 June 2017. The results show (Group 1 banks: Tier 1 capital of more than EUR3bn and internationally active; Group 2 banks: all other banks):

- Compared to December 2016, the fully-phased CET1 ratio increased from 12.3% to 12.5% for Group 1 banks, and from 13.4% to 14.7% for Group 2 Banks. For G-SIBs, the CET1 ratio increased by 0.1% to 12.4% in June 2017
- The fully phased-in Leverage ratio was on average 5.8% for Group 1 banks, 5.6% for Group 2 banks, and 5.7% for G-SIBs
- The LCR increased by 2.6% to 134% while NSFR increased from 115.8% to 116.9% for Group 1 banks. Group 2 banks show an LCR increase from 159.3% to 174.9%, while NSFR increased from 114.1% to 117.6%
- Total Loss-Absorbing Capacity Requirements for G-SIBs
  - Applying the 2019 minimum requirements, four of the 25 G-SIBs have a TLAC shortfall of up to 3.8% of RWA (EUR29.9bn) compared to 2.1% of RWA (EUR19.7bn) in December 2016
  - Applying the 2022 minimum requirements, 10 of the 25 G-SIBs have a shortfall of 5.9% (EUR109.0bn) compared to 4.5% of RWA (EUR116.4bn) in December 2016
  - The small increase in TLAC shortfalls is partly driven by a slight increase in RWAs combined with decreased issuance of TLAC-eligible instruments

EBA publishes the CRD IV-CRR/Basel III monitoring exercise report on the European banking system

The EBA published its 13th monitoring exercise report on the European banking system based on data as of 30 June 2017. Overall, the report shows a continuous improvement of European banks' capital positions. More specifically:

- Assuming full implementation of CRDIV/CRR, the CET1 ratio increased to 13.8% from 13.4% as of December 2016
- The Leverage Ratio remained stable at 5% in June 2017 compared to December 2016
- The Liquidity Coverage ratio (LCR) was on average 143.1% at end of June 2017 (139.5% as of December 2016) while the average Net Stable Funding Ratio (NSFR) stood at 112.3% (112.0% as of December 2016)

SNP

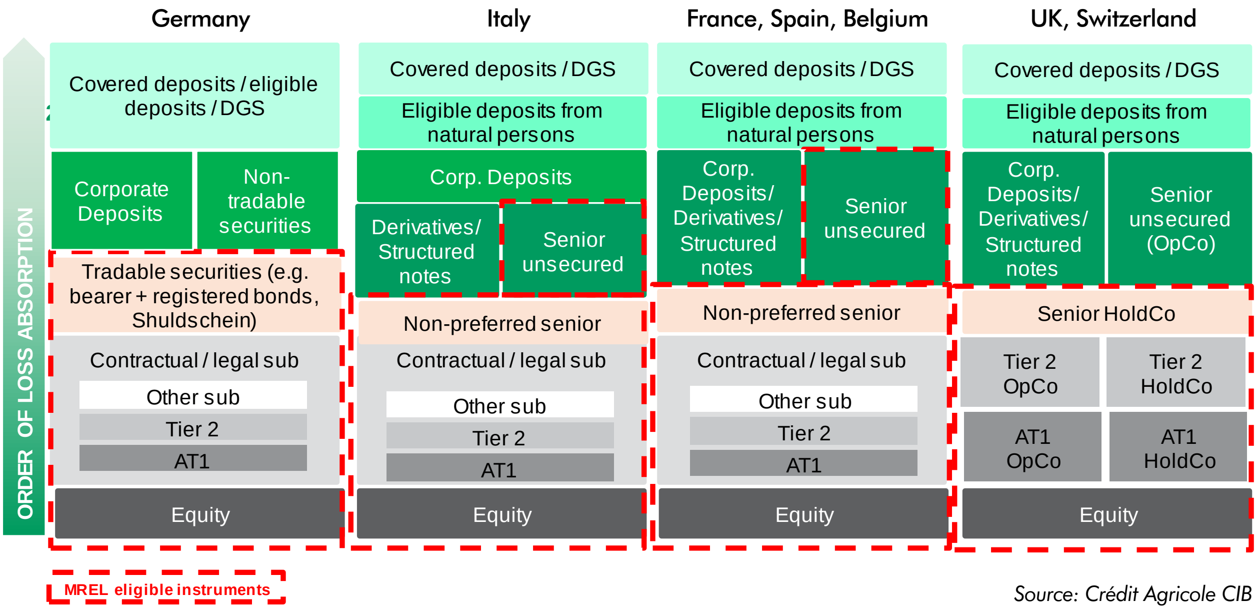
Directive on creditor hierarchy, published in Official Journal, entered into force on 28 December 2017

On 7 December 2017, the EU Council and Parliament adopted the Bank Creditor Hierarchy Directive amending Directive 2014/59/EU of 15 May 2014 (BRRD)

The Bank Creditor Hierarchy Directive introduces Senior Non-Preferred Debt instruments as a new asset class ranking between traditional bank senior debt and subordinated Tier 2 debt, with the purpose of enabling banks to meet the subordination requirements emanating from the application of TLAC and MREL regulations.

As this is a Directive, it must first be adopted into national law before banks in respective jurisdictions can proceed to issue Senior Non-Preferred debt on a statutory basis. The deadline set by the European Union for adoption in national law by Member States is the earlier of one year after the date of adoption of the Bank Creditor Hierarchy Directive or 1 January 2019.

In effect, it is expected that all Member States will have national laws allowing for the issuance of Senior Non-Preferred Debt by the end of 2018 at the latest.



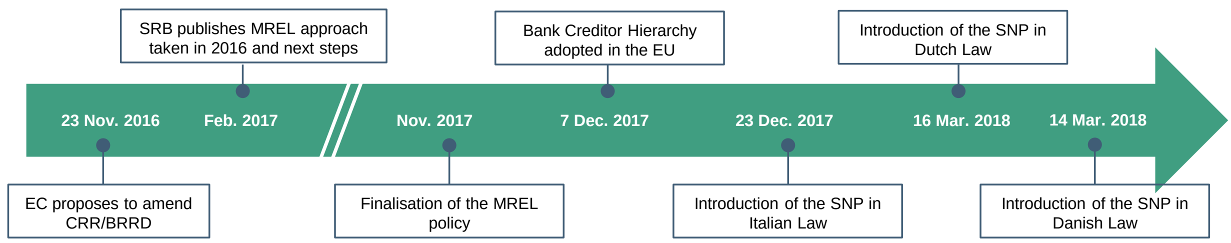
Source: Crédit Agricole CIB

Introduction of Senior Non-Preferred

Italy introduces SNP law (23 December 2017): A new category of Senior Non-Preferred debt (strumenti di debito chirografario di secondo livello) was introduced on 23 December 2017 via the 2018 Italian Budget Law, ranking below ordinary claims (crediti chirografari) and above subordinated claims.

Dutch SNP law (16 March): The Dutch Ministry of Finance submitted to the House of Representatives a legislative proposal that introduces the senior non-preferred layer into Dutch law. The proposal still needs to be approved and then submitted to the Senate for final approval.

Danish SNP law (14 March): A legislative proposal currently being processed will introduce a new debt layer, the so-called senior non-preferred debt. Senior preferred liabilities issued before 1 January 2018 that fulfil all other MREL criteria, with the exception of the requirement for subordination, can be included until 1 January 2022. The law is expected to be passed in Q2 2018, with effect from 1 July 2018.



Source: Crédit Agricole CIB

NPEs

THREE COMPREHENSIVE DOCUMENTS PUBLISHED BY THREE EU REGULATORY BODIES

European Commission publishes measures to address the risks related to non-performing loans

- The European Commission on 14 March published a package of measures includes a prudential backstop that will be captured, via amendments to the CRR, in banks' Pillar 1 requirements.
- Calendar Provisioning: Banks will have to compare the provisions made with minimum coverage levels for NPLs, with any amounts below the applicable minimum level being deducted from banks' own funds.
- The minimum coverage levels apply to newly-originated loans after 14 March 2018 that become NPEs.
- Additionally, the Commission proposes an accelerated out-of-court enforcement of loans secured by collateral, without going to court, while providing a technical blueprint on how to set up Asset Management Companies (AMCs) in order to deal with NPLs transferred from banks.

European Commission publishes measures to address the risks related to non-performing loans

- The European Central Bank addendum, published on 15 March, also introduces calendar provisioning for the stock of performing assets turning into non-performing exposures (NPEs), with a cut-off date of 1 April 2018.
- Unlike the ECB proposal, the addendum is not unquestionable minimum standard for banks, but serves as the basis for the supervisory dialogue with ECB-supervised banks.
- Banks will be subject to a Comply-or-Explain process in the event that their provisioning levels are below the supervisory expectations, and any provisioning shortfalls may be factored in as increased Pillar 2R.

EBA launches consultation on how to manage NPEs

On 8 March, the EBA launched a Consultation Paper for credit institutions on how to effectively manage non- performing exposures and forborne exposures (FBEs). The actions suggested by the EBA can be categorised into:

- Supervisory Guidance: Rules set for NPE management that credit institutions should follow in order to facilitate the effective management of the stock and flow of NPEs
- Enhancement of disclosure requirements: Enhanced disclosure requirements on NPEs and asset quality will have to be implemented to all banks
- Improving the efficiency of secondary markets: In December 2014, EBA published an NPL transaction template as a way of facilitating the screening and transaction phase of NPL transactions

The EBA comments that setting a NPE strategy and operational framework may not be necessary for banks with low levels of NPEs. A threshold of 5% gross NPL ratio has been set to indicate whether credit institutions should establish a NPE strategy.

Calendar Provisioning per NPE type: ECB more stringent than EC

After x number of years	1	2	3	4	5	6	7	8
ECB addendum								
Secured Loans	x	x	40%	55%	70%	85%	100%	
Unsecured Loans	x	100%						
EC proposal								
Secured Loans	5%	10%	17.50%	27.50%	40%	55%	75%	100%
Unsecured Loans	35%	100%						

Source: ECB, European Commission

Other developments

Swedish FSA proposes to change method for the application of the risk weight floor for Swedish mortgages

The Swedish FSA (Finansinspektionen, FI) currently applies the risk weight floor for Swedish mortgages through Pillar 2, but due to structural changes in the Swedish banking market, on 28 March published proposals to replace it with a requirement within the framework of Article 458 of CRR (Pillar 1 requirements). The FI expects that the change in market structure caused by the move of Nordea's parent company from Sweden to Finland will result in different participants in the Swedish mortgage market facing different capital requirements for Swedish mortgage exposures.

The credit institutions subject to this measure are those with permission to use the IRB approach, while branches of foreign credit institutions that are exposed to Swedish mortgages and use the IRB approach for these exposures may also be affected.



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European Commission publishes HLEG sustainable finance final report

The High-Level Expert Group on Sustainable Finance (HLEG) of the European Commission released its final report on sustainable finance on 31 January, setting strategic recommendations for a financial system that supports sustainable investments.

One of the key recommendations is to develop and implement official European sustainability standards and labels for green bonds:

- As a first step the EU is thinking of introducing an official EU Green Bond Standard (EU GBS). As a second step, the report discloses that the EU should consider an EU Green Bond label to help the market develop fully and maximise its capacity to finance green projects and activities and to contribute to wider sustainability objectives

In its report, the HLEG defines an EU Green Bond as any type of listed bond instrument meeting the following requirements:

- The proceeds will be exclusively used to finance or refinance in part or in full new and/or existing eligible green projects, in line with the future EU Sustainability Taxonomy; and,
- The issuance documentation of the bond shall confirm the intended alignment of the EU Green Bond with the EU Green Bond Standard; and,
- The alignment of the bond with the EU Green Bond Standard has been verified by an independent and accredited external reviewer.

Finally, the HLEG is still working on the possible introduction of a "green supporting factor" for banks. The HLEG has debated the merits of lowering capital requirements for lending to the green sector to make it more financially attractive to lenders and borrowers, while it considers that the key conditions for a green supporting factor to be effective are the following:

- A well-identified "green", and potentially also "brown", asset class is needed to which differential capital requirements could be applied.
- Evidence of significantly lower risk at the micro-level should also be present.
- According to the HLEG, prudent banks would hold capital in line with their economic risk. To avoid any "green bubble" and undercapitalisation coming from market distortions, the HLEG says there should be a cap on lower capital requirements on green assets and that cap could evolve overtime.
- Mortgages, which are generally low-risk assets, already have a low capital weight, leading to potentially high degrees of leverage. This will have to be actively monitored and managed.
- There might be a valid risk differential between green and other (brown) assets that is not currently reflected in the capital framework. One tool for establishing green/ brown risk differentials is forward- looking scenario analysis, as advocated by the Task Force on Climate-related Financial Disclosures (TCFD)

O-SIB and SRB Buffers

The proposal on CRD V published on 15 March by the EU Council Presidency indicates that competent authorities can impose an O-SIB buffer of up to 3% (previously 2%) and a Systemic Risk (SRB) buffer up to 5% (previously 3%), while both buffers can be additive up to 5%.

SCOR FIRES US$ START1NG GUN

SCOR opened the US dollar market for Restricted Tier 1 (RT1) on 6 March, with a $625m perpetual non-call 11 transaction that attracted $3.75bn of orders. *Bertrand Bougon*, head of ratings and capital, and *Gabriel Hauvette*, capital management manager at the French reinsurance company discuss the rationale for the landmark deal, its structure and reception.

Could you explain the rationale for this transaction?

Our objective was to refinance our two hybrid debt instruments callable in June and November 2018, which we intend to redeem for a total amount of EUR463m, subject to regulatory approval. The size of the new debt, approximately EUR500m, was set according to this need.

Given that the debt instruments to be refinanced are classified as Tier 1 under Solvency 2, our structural goal was to maintain the same high level of quality of capital by replacing eligible Tier 1 own-funds with Tier 1 capital.

This was the first RT1 with a temporary write-down structure outside the Nordics. Why didn't you choose the equity conversion structure, as ASR did?

We prefer to speak about write-down with discretionary and conditional reinstatement (write-up) rather than temporary write-down. Though it sounds less appealing to investors, it is a more accurate description of the actual clause.

The reasons for choosing this structure were threefold. Firstly, we assessed that the relative benefit for investors of an equity conversion vs. a write-down structure with a reinstatement provision was only marginal. Secondly, some banks prefer an equity conversion structure when issuing in a foreign currency to reach liability and hedge accounting treatment for the instrument under IFRS. In our case, we could achieve the liability accounting treatment with another provision that works only for insurers under Solvency 2. And lastly, it avoided issuing a dilutive instrument ahead of renewing authorizations for capital raising at our next Annual General Meeting, thus maintaining maximum financial flexibility.

Since the market was receptive to a structure with a write-down, we launched the issuance after the publication of our full year results.

The write-up mechanism includes a potential automatic disapplication in case the regulator no longer allows it. Were investors satisfied with the mechanism?

Investors are aware that solvency rules do not provide detailed principles with regards to write-ups and are therefore subject to regulatory uncertainty. They understood that it was important for us to maintain the Tier 1 classification in the event that the write-up is no longer allowed and would lead to regulatory disqualification of the instrument. Managing this uncertainty with a disapplication of the provision is more beneficial and less risky for them compared to triggering an early redemption call. The strong interest in the structure leads us to believe the investors were indeed satisfied.

This is your first US dollar transaction. Why did you choose to opt for the currency for your inaugural RT1?

The market was there! We are satisfied with this choice and the issuance was a success. We should also note that pricing was more advantageous once swapped into euros compared to a straight issue in euros.

You have included an innovative feature that allows you to classify the instrument as debt under IFRS. Could you explain how it works and why you chose that option?

Considering the attractiveness of the US dollar Reg-S market and our funding needs in euros, it was essential for SCOR to reach an efficient hedge accounting for the cross-currency swap in IFRS. To that end, we needed the instrument to be accounted as a liability under IFRS. Without going too far into the details, the challenge


SCOR

Gabriel Hauvette and Bertrand Bougon, SCOR

was to reach both liability accounting treatment in IFRS and Solvency 2 Tier 1 own-funds credit as the standards provide conflicting requirements. A perpetual instrument with no obligation of payment should be accounted as equity.

To meet both requirements, we proposed a mandatory replacement provision upon a capital disqualification event that triggers a cash payment obligation. This meets IFRS liability accounting criteria and, under Solvency 2, a replacement is not considered as a redemption. The other structure that meets both requirements is an equity conversion, but this was not the preferred option.

Why did you choose the perpetual non-call 11 structure? Because of rate increase expectations?

The explanation is simple. We have debt callable every year from 2025 to 2028. Therefore, a first call date in 2029, i.e. after 11 years, perfectly matched our maturity schedule without adding a major refinancing cliff.

Did this transaction require you to do some additional work versus your existing disclosure?

No additional disclosure was required given that all the necessary information was already public in the *document de référence*.

How did you decide on the timing of this transaction?

We had to issue before June, as one of the debt instruments being refinanced is callable that month. In addition, we wanted to issue as early as possible due to the favorable market conditions. The perfect date was just after the disclosure of our 2017 annual results and *document de référence*!

How did you determine the locations for your roadshow? Were you happy with the exercise?

As Reg-S US dollars was the preferred market for the new issue, it was easy to identify Asia and London as the two main regions for the roadshow. We were positively surprised by the discussions with the investors, who were all quite knowledgeable about the Solvency 2 regulation. We had to explain why insurance RT1 is less risky for investors than bank AT1, and support from our structuring advisors was key given their expertise on the subject.

How satisfied are you with the demand and the coupon achieved?

Highly satisfied! We issued at a rate of 5.25% in US dollars, with a final book that more than four times covered our needs. And we swapped the debt for the next 11 years at a rate of 2.95%, i.e. a spread in euros of 170bp, the tightest among European bank and insurance Tier 1 issuances. The strong demand from investors was supported by the A- rating by S&P, since this is the only Tier 1 issuance in that rating range. Overall, we are very grateful to our investors for their support and trust. ●

Issuer: SCOR SE
Issue rating: A- (S&P)
Description: Perpetual fixed rate resettable Restricted Tier 1 notes
Issue size: $625m
Maturity: Perpetual non-call 11
Call date: 13 March 2029
Coupon: 5.250%
Issue/re-offer price: 100.00%
Bookrunners: Barclays, BNP Paribas, Citi, Crédit Agricole CIB, Deutsche Bank, Natixis

Distribution:
UK and Ireland 36%, Switzerland 15%, Asia 12%, Benelux 8%, France 7%, Germany and Austria 6%, Nordics 5%, others 11%
Asset managers 66%, insurance companies 8%, banks and private banks 20%, others 6%

Key structural features:
Principal write down loss absorption mechanism upon:
(i) breach of 75% SCR
(ii) breach of 100% MCR
(iii) breach of 100% SCR for 3 months

Partial write-down possible in case (iii)

Write-up mechanism possible (discretionary and subject to several conditions and provided that such provision would not cause the occurrence of a Capital Disqualification Event)

Fully discretionary interest payments and mandatorily cancellable upon:
- breach of MCR/SCR
- in case of insufficient Distributable Items
- if the Issuer is unable to meet its liabilities as they fall due, or
- if required by the regulator

Investor viewpoint: RT1 a welcome pick-up

Julien de Saussure, fund manager at Edmond de Rothschild Asset Management (France), explains the key metrics by which he judges new Restricted Tier 1 issuance, and the pros and cons of the instrument versus bank Additional Tier 1.

How do you approach the relative valuation of insurance RT1? What are the relevant comparables? Banks' AT1, insurance subordinated debt?

The relative valuation of RT1s is based on four pillars for us:

- Relative value between all outstanding RT1s, including a comparison of legal terms and conditions
- Relative value of the capital stack of an issuer, vs. its senior, T2 and other RT1 outstanding
- Relative value vs. other hybrid instruments, e.g. AT1 or corporate hybrids
- Finally, relative value vs. equity and equity dividend yield.

As far as the comparison with AT1 is concerned:

- Though coupon suspension must always be discretionary for both RT1s and AT1s, the exact attachment point of coupon suspension for European AT1s is assumed to be way higher than for RT1s given the CBR/MDA dynamics. Funnily, non-European AT1s can still include capital stoppers, which are not allowed for RT1s. But apart from that, we feel that a mandatory coupon suspension is more remote for a RT1 than for an AT1.
- On the flipside, we agree that we feel more comfortable forecasting the CET1 level of a bank than the SCR level of an issuer. So in terms of loss-absorption mechanisms, we feel the distance to trigger for European issuers should be higher in the long run given that the volatility of the ratio could come from the numerator as well as the denominator. To balance this, the 5.125% or 7% trigger on AT1s is probably beyond PONV, while it is still very unclear how a supervisor would assess an insurance company with a SCR level below 100%. And potentially, it could be considered viable. A negative for RT1s, however, is that curing a SCR breach with the current loss-absorption mechanism is quite limited, given that a conversion or write-down would likely not increase the SCR level, but would only increase the quality of the capital stack.


Julien de Saussure

So we tend to find RT1s a better credit structure than AT1. But given where insurance Tier 2s are trading (also considering the mandatory coupon for bank T2s), the spread difference between RT1 and insurance T2 vs. AT1 and bank T2 gives a feeling that the junior subordination premium is more attractive on the banking side.

Would you see any fundamental difference between the equity conversion and the principal write-down loss absorption mechanisms?

At this stage of the credit cycle, where the loss-absorption mechanism is deemed to be deeply out of the money, we assign a limited valuation difference between the two mechanisms.

We have a modest preference for the equity conversion feature as we deem it to be more straightforward and easier to understand. The exact sequence of write-downs and write-ups is less palatable as some implementation details will only be tested when the mechanism is actually triggered. We have adapted our mandates so as to avoid being forced-sellers in case of equity conversion, even though our primary mandate is to invest in bonds.

What are the key credit parameters and metrics that you look at in your RT1 investment process?

As the introduction of Solvency 2 is still recent, we try not to rely purely on SCR.

So I guess the basic metrics are solvency levels, financial leverage and interest coverage, and we look at their recent history to sanity-check the sensitivity levels generally provided by companies in their SFCR reports.

The quality of the capital stack (unrestricted Tier 1 as a percentage of SCR, grandfathering vs. fully-compliant structure) and the resulting issuance headroom is also an important aspect to look at. Then, understanding the sustainability of the business models, cashflow generation and profitability is at least as important as purely static metrics.

Finally, a qualitative assessment of the governance of the issuer, its track record and its commitment to its stated financial guidelines is paramount to wrap-up the analysis

What are the key elements that you expect issuers to communicate in the context of an RT1 transaction?

On top of the parameters mentioned above, a clear ladder of intervention to prevent a SCR breach (e.g. what ASR provided during its inaugural RT1 roadshow) is interesting, even though reinsurance retrocession and other capital relief mechanisms are difficult to dynamically model.

How do you view RT1 and more generally insurance subordinated debt supply dynamics?

We like the product as a source of additional spread for a given issuer.

We feel it is still limited to (i) big issuers willing to show their financial strength or (ii) specific situations where the absence of T1 is jeopardizing the financial flexibility of an issuer.

We continue to believe that the vast majority of the insurance subordinated debt supply is going to come with a T2 format, given how well established this structure is, in different currencies and with different investor base.

The spreads of some recent transactions (ASR, SCOR) could lure issuers to the segment on an opportunistic basis.

A swing factor is the refinancing of grandfathered T1 instruments. As a credit investor, if the choice is between legacy T1 not being called and limited supply or sticking to the market practice to call at first call date and more supply, I would definitely support the latter scenario. ●

Rationale for issuing RT1

Michael Benyaya, DCM solutions, Crédit Agricole CIB, highlights key factors for insurers considering whether RT1 issuance is appropriate, as well as rating agency approaches to the instrument and differences to bank Additional Tier 1.

In the banking space, the rationale for issuing Additional Tier 1 (AT1) is well known given the role and position of the combined buffer requirements in the regulatory capital structure, as well as potential ratings benefits, such as with regards to S&P RAC. In insurance regulation, there is no similarly strong incentive to issue a RT1 instrument, and one needs to take a broader look at the capital structure to find a rationale. Among the key considerations for the issuance of RT1 are:

- **Managing the tiering limits:** In the Solvency 2 capital structure, RT1 is eligible up to 20% of total Tier 1 capital, whereas Tier 2 is limited to 35% or 50% of the SCR depending on the presence of DTAs (which are eligible up to 15% of the SCR). The Tier 2 instrument is seen as the most efficient for raising capital quickly. Hence keeping meaningful Tier 2 headroom is critical from a capital management perspective. Maintaining financial flexibility is equally important for other stakeholders, e.g. rating agencies and investors. In addition, some insurance companies may not be able to refinance all their existing subordinated debt (Tier 2 and grandfathered Tier 1) with Tier 2 only. For the sake of keeping a balanced capital structure, RT1 will be needed to refinance grandfathered T1 instruments.

- **Recovery plans:** Recovery plans are usually built on risk reduction management actions and hence a reduction of SCR (which means in turn lower Tier 2 and Tier 3 capacity) and the use of RT1 would reduce the risk of a haircut because of the lower size of the Tier 2/Tier 3 buckets post-recovery.

- **Increasing the quality of capital:** For some insurers who rely heavily on transitional measures, VA, MA or show a strong variation in reconciliation reserves, RT1 could be used to increase the perceived quality of capital. However, it is expected that this rationale will not be as strong as the above points.

- Rating agencies will not be a major driver due to the lack of benefit in terms of equity content, notably with S&P.

Rating agencies' notching practices and equity credit

S&P: The standard notching is two notches below the rating of Tier 2 instruments. However, SCOR's RT1 has been rated only one notch below the Tier 2. According to S&P, the lower notching is warranted by the level and the resilience of the Solvency 2 margin. For now, there is no specific methodology for rating insurance RT1 and the minimum distance to trigger required to achieve such lower notching has not been formalized. At some point S&P may publish a dedicated methodology, as it did for banks AT1. In terms of equity credit, the RT1 qualifies in the intermediate equity content bucket (full inclusion of nominal up to 25% of S&P total adjusted capital), and hence does not bring any additional benefit compared to a 30NC10 Tier 2.

Moody's: Moody's has developed a dedicated approach to rating such insurance contingent capital securities. Moody's assesses the probability of the write-down trigger being breached using a model that uses the insurance fi-

Issuer	Issue Date	Coupon	First Call Date	Currency	Amount m	Conversion/Write-Down
Gjensidige Forsk	9/8/2016	3m Nibor+360	9/8/2021	NOK	1,000	Temporary principal write-down
RSA	3/27/2017	3m STIB+525	3/27/2022	SEK	250	Full permanent share conversion
RSA	3/27/2017	3m CIBO+485	3/27/2022	DKK	650	Full permanent share conversion
ASR	10/19/2017	4.63%	10/19/2027	EUR	300	Full permanent share conversion
DIRECT LINE	12/7/2017	4.75%	12/7/2027	GBP	350	Full permanent share conversion
SCOR	3/13/2018	5.25%	3/13/2029	USD	625	Temporary principal write-down
IF P&C	3/15/2018	3M STIB+275	3/22/2023	SEK	1,000	Temporary principal write-down

Source: Crédit Agricole CIB

nancial strength rating and the expected solvency ratio as key parameters. The rating output may then be adjusted based on a qualitative assessment. For example, Moody's rating of SCOR's RT1 is Baa1, i.e. two notches below the rating of a Tier 2 instrument. The Basket credit granted an RT1 is not discussed in Moody's criteria. It could be either Basket C or Basket D depending on how the Moody's criteria table is analyzed. At some point Moody's may communicate specifically on the Basket credit.

Fitch: The notching guidelines are based on a recovery assumption and an assessment of the non-performance risk. For example, the RT1s issued by RSA are rated four notches below its issuer default rating, comprising two notches for a "poor" baseline recovery assumption and two notches for "moderate" non-performance risk. Given that they are non-cumulative perpetual instruments with no step-ups on call dates, the notes are treated as 100% equity both in Fitch's Prism Factor-Based Model and in its financial debt leverage calculation. However, they are treated as 100% debt in our its total financing and commitments (TFC) ratio, in common with any other debt instrument.

Comparison with banks' AT1

Insurance RT1 features are broadly comparable with banks' AT1. The key differences are the following:

- In terms of coupon payment, there are no MDA restrictions.

- In terms of loss absorption, there is no point of non-viability loss absorption in the insurance space. In addition, there is a three month grace period to cure a breach when the margin is between 75% and 100% of the SCR. However, there is currently no full certainty on the minimum write-down amount that will be required (the linear write-down formula proposed by EIOPA has not been formally implemented in the regulation yet). Likewise, there is no formula for the discretionary write-up. This was no real cause for concern for investors as the trigger point is generally assessed as extremely remote. ●

Capital Tier	Restricted Tier 1 (Insurance)	Additional Tier 1 Capital (Bank)
Subordination	Deeply subordinated (junior to Tier 2, Tier 3 instruments)	Deeply subordinated (junior to Tier 2)
Maturity	Perpetual	Perpetual
First Call Date	Min. 5Y subject to supervisory approval (between 5-10Y, SCR must be exceeded by an "appropriate margin")	Min. 5Y subject to supervisory approval
Step-up	Not allowed	Not allowed
Principal Lock-In	Redemption subject to the approval of the regulator, suspension of redemption in the event there is non-compliance with the SCR, subject to application of a regulatory waiver	Subject to regulatory approval; if the conditions for reducing own funds are met (replacement, or exceeding capital requirement)
Mandatory Coupon Deferral	Yes – upon (1) breach of the SCR (subject to regulatory waiver) or (2) deficiency of Distributable Items	Yes – upon (1) imposition of an MDA or (2) deficiency of Distributable Items
Optional Coupon Deferral	Yes – at the issuer's discretion	Yes – at the issuer's discretion
Arrears	Non-cumulative	Non-cumulative
ACSM	Optional only, and subject to regulatory waiver	Not allowed
Dividend Pusher/Stopper	Not allowed	Not allowed
Principal Loss Absorption	Principal write-down (permanent or temporary) or equity conversion. Trigger event (at least one of the following conditions): i. SCR margin < 75%; ii. Non compliance with the MCR margin iii. Non-compliance with the Solvency Capital Requirement (3M grace period)	Principal write-down (permanent or temporary) or equity conversion. Min. trigger event: 5.125% CET1 + Statutory PONV loss absorption
Write Up Mechanism	Allowed if compliance with the SCR provided that: i. it is not activated by reference to own-fund items issued or increased in order to restore compliance with the SCR, and ii. it occurs on the basis of profits which contribute to distributable items made subsequent to the restoration of compliance with the SCR	Positive Consolidated Net Income, up to the Maximum Write up Amount and subject to the MDA and on a pro rata basis with other AT1
Early Redemption	Regulatory/Tax/Rating Agency/Accounting calls not allowed before Y5, unless accompanied by a replacement capital clause	Regulatory/Tax calls allowed before Y5
Substitution and Variation	Allowed	Allowed

Source: Crédit Agricole CIB


Milan Cathedral; *Photo: Daniel Case/Wikimedia Commons*

Italy
SNP buttresses banks' restoration of ratios

Italian banks have begun taking advantage of senior non-preferred (SNP) debt to help meet rating and regulatory targets as they continue their post-crisis recovery. Wider credit market volatility rather than an inconclusive domestic election has made issuance challenging, but successful deals augur well for an anticipated pipeline of varied supply. *Neil Day* reports.

If one thing was known for sure before the Italian general election on 4 March, it was that uncertainty would remain after the event. Just how the old wisdom of "buy the rumour, sell the news" would apply to Italy's poll was therefore an open question.

Ultimately the results did hold some — potentially unhelpful — surprises, but the market took the outcome in its stride.

"We knew that there wouldn't be a winner — the electoral law was built precisely to prevent anybody winning," says one market participant. "What was surprising was the polarisation of the outcome — the large success of the two extreme groupings, the Lega and the Five Star Movement, and the losses of the centre parties.

"But what surprised me most — and not only me — was the reaction of the market. We were expecting this hung parliament situation to penalise Italian assets, but this was not the case; the government bonds performed quite well."

Post-election, BTP yields were lower than at any time this year.

But while the Italian election may not have proven disruptive to Italian levels, the travails of the wider credit markets have taken their toll on supply prospects.

Most publicly, Banca Carige on 27 March said that it would not follow up a Tier 2 roadshow with a deal. The bank had on 16 March announced a European roadshow starting on 19 March for a euro-denominated 10NC5 Reg S Tier 2 issue, with an expected rating of CCC from Fitch.

"The Board of Directors has acknowledged that the market conditions for a subordinated debt issuance on the expected key issuance terms are not yet in place," said the bank.

However, market participants say that Banca Carige's fate was not entwined with the wider Italian banking sector's prospects.

"I wouldn't take Banca Carige as a proxy of the Italian market," says one. "It's a small bank with a difficult story, and so honestly I was not surprised that they had to postpone that transaction.

"The overall credit market conditions have been quite challenging and the appetite for risk has definitely fallen in the past weeks, and if you combine that with the weakness of the Banca Carige rating, the peculiarity of the Italian situation after the election, and the general weakness of credit markets and equity markets, the outcome was not surprising at all."

The first Italian issuer to test the market after the onset of this bout of volatility was UBI Banca, which on 5 April launched its first senior non-preferred (SNP) issue and only the second such instrument out of Italy.

The Italian government had on 23 December implemented the updated EU-wide bank creditor hierarchy in its 2018 budget law, introducing the new debt category of senior non-preferred (strumenti di debito chirografario di secondo livello) ranking below ordinary claims (crediti chirografari) and above subordinated claims.

National champion UniCredit then on 11 January successfully inaugurated the Italian SNP market with a EUR1.5bn five year deal, attracting some EUR4.5bn of demand from more than 250 accounts to the debut.

The deal took advantage of a positive market tone in the first couple of weeks of the year and improving sentiment towards the UniCredit name. This had been evident a month earlier when on 13 December the Italian issuer had rounded off the first year of a strategic plan with a EUR1bn perpetual non-call June 2025 Additional Tier 1.

"The positive market backdrop and recognition of the ongoing progress of the strategic plan 'Transform 2019' has led to a significant repositioning of UniCredit credit profile among the European financial institutions, and the placement of this bond represents a further tangible achievement," said UniCredit upon making its SNP bow.

Funds were allocated 67%, banks 18%, and insurance companies and pension funds 8%. The UK and Ireland took 22%, France 20%, Italy 15%, and Germany and Austria 10%.

The transaction — rated Baa3/BBB-/BBB by Moody's, S&P and Fitch — was priced at 70bp over mid-swaps, in from initial price thoughts of the high 80s and subsequent guidance of the 75bp area.

"Helped by the investment grade ratings, UniCredit managed to achieve very attractive pricing," says Maurizio Gozzi, managing director, DCM, at Crédit Agricole CIB (CACIB), "and the deal performed well post-launch, so their approach was vindicated."

UBI debuts in senior non-preferred

UBI Banca took the plunge with its debut senior non-preferred issue on 5 April, having spotted a window of stability amid the changeable markets.

"We had been monitoring the market for some time," says Giorgio Erasmi, head of funding at UBI Banca. "The situation had been volatile and weakening, but we saw a day with positive equity markets that could be used.

"We have in our plan different issues across the year and were keen, if possible, to launch this inaugural deal ahead of our blackout period later in the month. It is still not a very easy market, but we are happy with our success."

UBI's leads went out with initial price thoughts of the mid-swaps plus 145bp area for the five year deal citing a benchmark size. After around two hours the books were above EUR750m and another couple of hours later, with books above EUR1bn, the spread was set at 140bp over mid-swaps. Two hours later the deal was launched with a EUR500m size and

Vincent Hoarau, CACIB

books at around EUR1bn.

Vincent Hoarau, head of FIG syndicate at Crédit Agricole CIB, highlights the level achieved by UBI versus senior preferred levels, putting the subordination premium paid at 35bp-40bp – not far off what UniCredit achieved in more benign market conditions. The 140bp re-offer spread also compares with a Tier 2 level of around 300bp for UBI 10 year non-call fives callable in September 2022 — meaning the bank achieved a much larger saving versus Tier 2 than its bigger compatriot, whose comparable Tier 2 was trading at around 185bp.

'It is still not a very easy market'

"A transaction size of only EUR500m at this level is a very good deal for investors, while 150bp inside the Tier 2 curve is a strong achievement for the issuer," says Hoarau. "UBI Banca achieved a very competitive credit spread differential versus investment grade-rated peers."

Italian investors took 50% of the issue, France 21%, Germany and Austria 10%, the UK 7%, Spain 7%, Switzerland 4%, and others 1%. Fund managers and private banks were allocated 62%, banks 26%, and insurance companies and pension funds 12%. Some 130 accounts participated.

Although rated investment grade by Fitch and DBRS, at BBB- and BBB (low), UBI Banca's SNP paper is rated sub-investment grade by Moody's and S&P, at Ba3 and BB+.

"It was a very positive result to see the book over EUR1bn in this market and with this instrument's split rating," says Erasmi. "It was an important test and we have been happy to see that there is broad demand from investors even despite the split rating."

Retail rating drivers

While the new class of Italian debt has been introduced in line with EU MREL requirements — and TLAC requirements, for the only Italian G-SIB, UniCredit — UBI Banca's initial issuance was ratings-led, according to Erasmi.

"At the moment, this new instrument is going to be used in the liability structure to give support to the rating of senior preferred, according to the rating agencies' criteria," he says.

Moody's, for example, had previously flagged the evolution of senior debt as a potential drag on the issuer's rating.

"UBI Banca's senior debt rating could be downgraded if a reduction in the volume of senior debt outstanding is not offset by new issuance of senior and/or subordinated debt so that current loss-given failure (LFG) is preserved for these securities," it said in a 2017 rating update.

Leading to a potential contraction of senior debt among Italian banks is the redemption of bonds that were in the past sold to retail, a practice that has been curtailed due to the now bail-in-able nature of senior debt being deemed inappropriate for such investors. This led Moody's to take rating actions on certain Italian banks last year *(see Moody's Q&A for more)*.

"Moody's LGF methodology is penalising the Italian banks that are not rolling the senior unsecured bonds that are maturing," says Gozzi at CACIB. "Thanks to the TLTROs, they don't need the liquidity, and because they need to improve profitability, banks are tending to roll these maturing senior retail bonds into asset management products to catch the upfront fees instead of an interest margin that is not so rewarding in the current interest rate environment.

"So on the one hand they are improving their profitability, but on the other they are receiving pressure from Moody's methodology."

Filippo Alloatti, senior credit analyst at Hermes Investment Management, says that Moody's LGF methodology is problematic for most of the second tier banks, deprived of a sizeable senior buffer.

"Yet with UniCredit the rating agency took a forward-looking approach in terms of future issuance," he adds, "and the Baa3 rating for its senior non-preferred made it eligible for investment grade indices.

"Banks such as UBI (whose SNP rating by S&P is BB+), Mediobanca and Banco BPM, BPER or even Monte will be watching such developments closely."

Some EUR5bn of UBI Banca senior retail bonds fall due across 2018.

"There are important maturities of retail bonds, and, given the bail-in rules, in our industrial plan we will rely more on the institutional side for bonds," says Erasmi. "Given the volume of the expiring retail bonds, we will issue on the institutional side both covered bonds and senior preferred and, for smaller amounts, senior non-preferred.

"Issuing the senior non-preferred builds up the support for a buffer under Moody's LGF methodology that enables us to maintain two notches of support above our BCA [ba2] for the rating of our senior preferred [Baa2], even after the significant maturities on the retail side."

A menu of instruments

Despite UniCredit having moved quickly to open the Italian senior non-preferred market, expectations regarding supply of the new instrument are balanced.

"After the inaugural transaction from UniCredit in January, Italian banks are ready to jump on the senior non-preferred bandwagon," says Alloatti at Hermes. "Yet in terms of supply — with Intesa having shown little interest for tapping the SNP market this year and UniCredit recently hinting of not being into a rush to complete the issuance of remaining EUR5bn and potentially be absent from the SNP market for the rest of the year — the supply should be limited.

Giorgio Erasmi, UBI Banca

"Sure, if we look at the UniCredit SNP the premium over the preferred senior of less than 30bp at issuance make the instrument a lot more compelling than the classical Tier 2. Yet existing Italian preferred senior, as junior-ranking to the whole deposit stock, will most likely qualify for MREL eligibility."

At UBI Banca, Erasmi says the final size of its senior non-preferred issuance will be analysed once the bank has more details about its MREL requirement.

'Banks are ready to jump on the SNP bandwagon'

"But having started early and with no rush, I would imagine having not only the one senior non-preferred issue this year, but more, even if in a very opportunistic way," he adds, "so a part of this buffer in our view could be in the future built through senior non-preferred."

UBI plans to achieve a core equity tier 1 ratio of 13.5% in 2020, up from 11.4% today, with its total capital ratio set to rise from 14% to around 17%.

"At the moment, there are no public MREL numbers — we understand the requirement could be in an area of roughly 22%, 23% for banks like UBI Banca," says Erasmi. "That implies that maybe 5% or 6% of the MREL requirement could be fulfilled in part with senior non-preferred."

Domestically systemically important banks (D-SIBs) Intesa Sanpaolo, Banco BPM and Monte dei Paschi di Siena will meanwhile have to factor in other capital requirements.

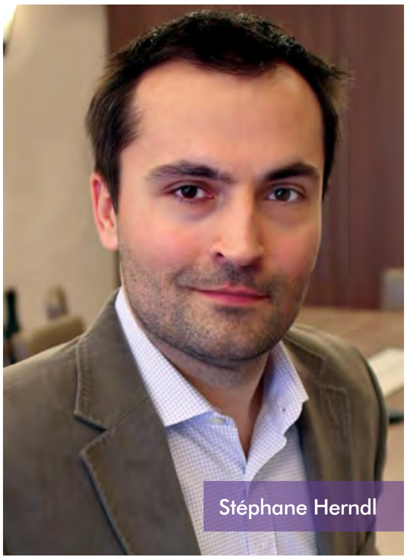
"Senior non-preferred is MREL-eligible and can be very helpful in matching subordination requirements within MREL," says CACIB's Gozzi, "but for the time being the regulator is still not sending out the requirements. The D-SIBs should receive it sooner rather than later, while for the others it could be a year-end exercise or even next year.

"So the instrument that may turn out to be more prevalent in the short term will perhaps remain senior preferred, i.e. the old senior unsecured format, which banks may find the cheapest way to retain the buffer required by Moody's."

He further notes the importance of more than EU200bn of TLTRO repayments in determining supply dynamics — even if much of this will not need to be refinanced.

"This will be starting in mid-2019, but the bulk of TLTRO redemptions in Italy — and across Europe —is in June 2020. However, because the monies are only included in the NSFR ratio until a year before maturity, we could see banks beginning to prefund this from next year to avoid a cliff effect — although not yet this year.

"The main instruments for replacing the TLTRO money will probably be covered bonds, the cheapest in the market, but why not senior preferred?" ●



LA BANQUE POSTALE ASSET MANAGEMENT

Investor viewpoint: A two-speed banking system despite the macro recovery

Italy still faces economic and political challenges, but has achieved indisputable improvements, write La Banque Postale Asset Management's *Stéphane Déo*, strategist, and *Stéphane Herndl*, senior credit analyst, research department. But although constructive on the Italian banking sector, they note that second tier banks remain under considerable strain.

What an improvement for the Italian economy since the Depression, when investors were speculating on a forthcoming IMF intervention! But the real question now is: what proportion of that improvement is purely cyclical, hence prone to deteriorate again during rainy days, and what is structural, hence resilient to a downturn.

The main worry is obviously the mammoth stock of public debt, 132.0% of GDP. As far as the deficit is concerned, there's been indeed some structural improvement, albeit hardly impressive: according to OECD estimates, the cyclically-adjusted deficit dipped from 3.3% in 2008 to 1.0% last year. This has been enough though to curb the debt-to-GDP ratio, albeit at a pedestrian pace.

So the question now is: how stable is the situation?

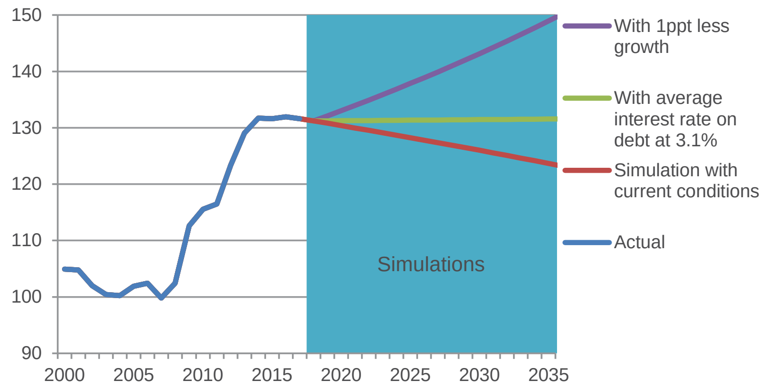
Most commentators fear a rise in yields which would impact the level of debt service. This sounds logical, but we find that, with the current deficit and growth, Italy can stabilize its debt-to-GDP ratio with interest rates at 3.1%, while at the time of writing the 10 year yield is at 1.8%. Note also that the duration of Italian debt has been extended. With debt-to-GDP at 132%, a 1 percentage point (ppt) increase in yields should in theory add 1.32% to debt service. But in the real world, because only a small part of the debt is rolled each year, the impact would be very slow to feed through: the debt service increases by a mere 0.08% after one year, by 0.21% after two years and only 0.35% after three.

The real issue, our model shows, is growth. Italy needs a nominal growth rate of 1.6% to make its public finances sustainable and stabilize its debt-to-GDP ratio, while the OECD's estimate for 2017 is 1.9%. A drop in the growth rate by 1ppt would send debt-to-GDP zooming up again.

In short, public finances have improved to a point where Italy is to a large extent immune to yield moves, but definitely not to an economic downturn.

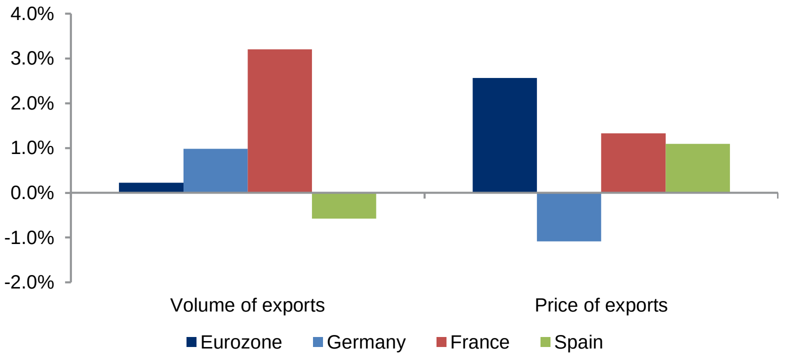
While internal imbalances, a.k.a. the public deficit, is the focus of much commentary, external balances have improved markedly, with the current account posi-

Italian debt-to-GDP ratio: actual and simulations



Source: OECD, LBPAM

Difference in growth between Italy and the Eurozone



Source: FMI, LBPAM

tion moving from a 3.5% deficit in 2011 to almost a 3% surplus lately. This is key, as it means that Italy is repaying its external debt and does not depend on external investors. It's a source of stability unseen for decades in Italy. What happened? Italy's trade balance moved likewise and explains the bulk of the improvement: from a 2% deficit in 2010 to a steady 3% surplus over the past year. While there's much debate about Italy's competitiveness and supposedly high unit labor costs, it's interesting to note that, since 2016, Italian export volumes have slightly outpaced those of the Eurozone by 0.2%, meanwhile the price of their exports has grown 2.6% faster over the period. This means that Italy gained market shares while increasing selling prices. That pattern is counterintuitive; it's a sure sign that Italy has moved upmarket.

In conclusion, Italy is plagued with a number of well-known issues: low productivity growth, high unemployment rate, large and inefficient public sector, etc. However, there have been some indisputable structural improvements both in terms of internal and external imbalances.

Finally, politics adds a layer of uncertainty. The saying goes that Italian politics is entertaining but irrelevant. This time is different. We are hopeful that the German-French couple will prompt needed European reforms. However, the result of the Italian elections — with an anti-European vote possibly resulting in a Eurosceptic government — will subdue any idea of risk-sharing (consider, for example, a common European deposit guarantee, key to completing the Banking Union). This points to a binary outcome: a progressive Italian government could pave the way for more European integration and probably a further decline in risk premiums, especially sovereign spreads; while a more "anti-establishment" (for lack of better word) government could lead to a more unpleasant outcome, with markets starting to worry that the lack of a safety net for Italy during the next recession could prove very damaging. Italian politics count!

NPL tipping point

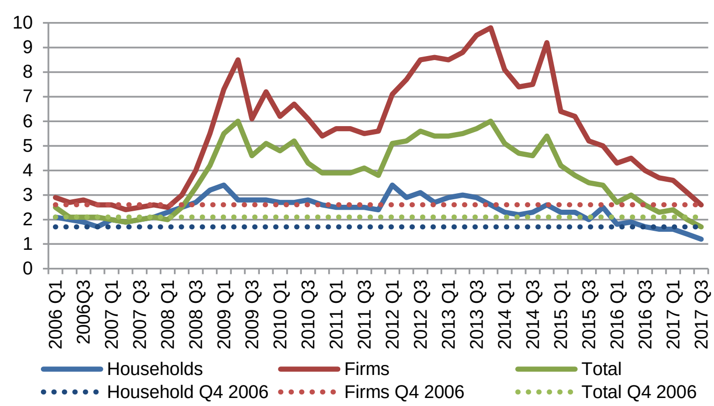
Against this backdrop, we are constructive regarding the credit standing of large Italian banks. Our view is supported by the more constructive domestic macroeconomic environment, the more robust SME and corporate sector, and the reduction of systemic risk in the banking system.

It is noteworthy that the flow of new NPLs in Italy has now reached its pre-crisis level, as recent data from the Bank of Italy highlights. This trend suggests that following a prolonged period of considerable economic stress, the Italian banking sector has now reached a tipping point. This is consistent with the aforementioned trade data hinting at the fact Italy has moved upmarket. At the micro level, it could be related to the fact that the less efficient Italian SMEs have disappeared, in a Darwinian process where only the most profitable companies survived.

At still more than EUR260bn gross at end-2017, the stock of non-performing exposures undoubtedly remains a drag for the Italian banking system and for the broader economy, as it requires higher provisioning and hampers banks' profitability and, ultimately, their solvency. The issue of NPLs is, however, most acute for second tier banks, whilst, in our view, large Italian banking groups appear to have put it behind them. This is because the large domestic banks could more readily absorb the impact of marking down troubled exposures — to the considerably lower level at which distressed loans are currently sold in Italy — owing to their more diverse, higher profitability and their superior access to equity capital markets. The measures put forth by the Italian government to shore up troubled banks have also helped stabilize the sector and we now assess that the systemic risk linked to the Italian banking sector has materially receded.

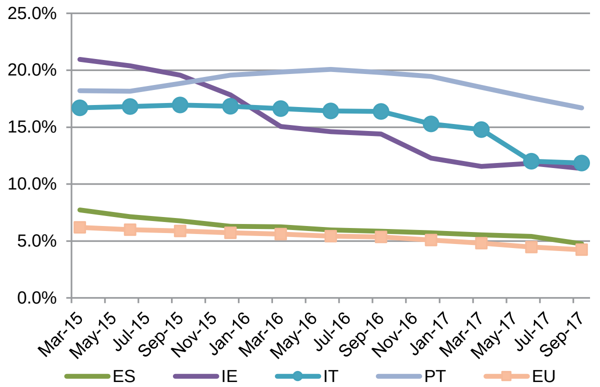
By contrast, second tier Italian banks show weaker profitability and average levels of provisioning. This stress is compounded by the more limited leeway for the Italian government to provide support to its banking system under the EU

New NPL formation rate (quarterly, annualised)

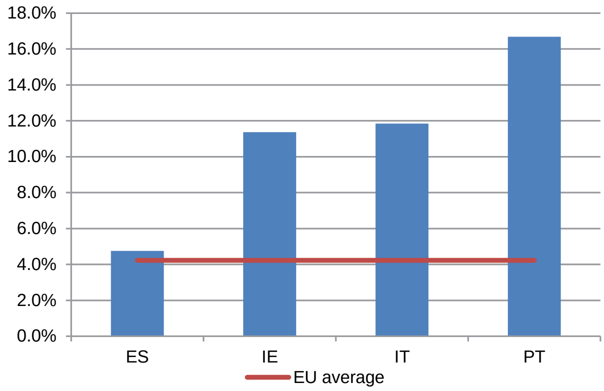


Source: Bank of Italy, LBPAM

Evolution of the ratio of non-performing loans and advances (NPL ratio)



Ratio of non-performing loans and advances (NPL ratio), at end-September 2017



Source: EBA risk dashboard, LBPAM

State Aid framework last updated in 2014 and stretched public finances, which prevent the Italian government from providing broad support comparable to what Spain or Ireland did with SAREB and NAMA, respectively. More recently, the European Single Supervisory Mechanism (SSM) has also added pressure on the Italian banking sector, as it is keen to see banks boost their coverage of troubled exposures to render the European banking system more resilient to future financial crises.

Taken together, these factors explain why second tier Italian banks remain under considerable strain which will offset the benefit of the improving domestic macro environment. It may also press them into consolidation, which we would see as a positive credit development for the sector. ●

Moody's: Italians respond to pressures

The NPL clean-up underway in Italy is positive, but nuanced and differs across the banking industry, according to Moody's *Alain Laurin*, associate managing director, and *Edoardo Calandro*, senior analyst. Here, they outline how this could affect the banks' ratings, as well as the impact of the redemption of retail bonds and corporate depositor preference.

What is the best way for Italian banks to tackle NPLs, and a realistic timeline?

Alain Laurin: This is, needless to say, very topical — and Italy is not the only country in Europe having to do a clean-up. The European Banking Authority recently reported that in eight European countries NPLs constitute 10% or more of loan portfolios, which gives a sense of the scale of the problem. The EU and the ECB consider this issue to be of systemic importance. They believe there is a need to tackle it and, as Danièle Nouy put it, the work has to be done now — now, because the region's economy is doing fine. There are variations in growth, of course, but certainly everybody wants to get the job done before the next real downturn. So there is some sense of urgency, all the more so since the role of intermediation played by banks is to a certain extent impeded by the high level of NPLs.

And of course it is critical in Italy, given the size of the Italian banking system and the size and importance of the Italian economy in Europe. There are therefore many different streams of measures being taken by the official sector to push this forward, and at the same time banks are very eager to do the job. The economy is better, so it is easier for banks to take action, and by the same token it is easier for the supervisory authority — the ECB — to put pressure on Italian banks to reduce their NPLs.

The ECB has clearly conveyed to banks that are under its supervision the message that they should reduce their NPL ratios, and we note that large Italian banks target below 10% NPL in the foreseeable future, if not yet achieved. Of course, it might be a challenge in different ways for different banks, but we believe that for many banks it will be done and can be done in one, two, or three years, depending on the case.However, this is not the only step — the first step is to go below 10%, and maybe later on the ECB will continue putting pressure on the banks to do more. We don't know exactly when, but that is certainly the game-plan: after all, 10% is still about twice the average for the EU!

An important factor is the impact of IFRS9. The introduction of IFRS9 has propelled many Italian banks to accelerate the clean-up. This is because the mechanics of IFRS9 and the prudential framework prevailing here in Europe make it possible for banks to increase the level of provisions within the so-called stage three bucket — the worst category of loans — with very limited impact on Common Equity Tier 1 capital ratios, because there is a phase-in of five years. This provides an attractive context for banks in Italy to further write down their bad loans. Actually, we were not expecting great additional provisions in stage three buckets; we were expecting more provisions under stage two, which has been less the case. There are two different sides to the coin here: one would be to say, previously under IAS39, the bad loans were not sufficiently provisioned;

the other would be to say under IFRS9 there is more flexibility to set aside provisions against NPLs and to increase their coverage — and that is exactly what Italian banks did, and we consider that positively.

Edoardo, perhaps you could elaborate on the different banks' distance to 10%.

Edoardo Calandro: We see Italian banks going at different speeds, because the Italian banking system is made up of many banks. We have on one side of the spectrum banks such as UniCredit, which already started with a big clean-up more than a year ago, and it is continuing to dispose of problem loans, and we expect them to have a ratio below 8% by 2019. Or Intesa Sanpaolo, which took advantage of the adoption of IFRS9 and is accelerating its reduction of problem loans, and the bank expects to go below the threshold in a few quarters.

I also need to note that there are some smaller banks like Credem that always had a very prudent risk approach — it has a problem ratio of around 5%, similar to throughout the crisis.

So on the one side we have these banks that have always been below 10% or they are quickly getting there through disposals.

On the other side, we have banks that are still taking longer and have less aggressive plans. The first names that come to mind are MPS, which has its own story but still suffers from a large portfolio of problem loans, or Banco BPM, which also suffers from legacy issues, mostly coming from the former Banco Popolare.

So, different speeds, different starting points, and certainly different pressures and paths in the coming quarters.

By how much do Italian banks need to clean up their portfolio to have investment grade BCA ratings?

Calandro: We don't have specific targets or thresholds for NPLs that banks need to meet in order to get investment grade BCAs. We have of course an holistic approach to assessing asset risk, and the level of problem loans is one of those factors. It is one of the first factors that we mention, but also important to us are the level of capital, the level of profitability — and of course the funding and liquidity. In order to have a cleaner bank, the bank also needs to have sufficient capital and a good stream of earnings — the three things really come together for us.Having said that, I should also note that Italy is a country with a sovereign rating of Baa2, on negative outlook, which indicates a difficult operating environment in which a baa3 BCA is certainly challenging to attain. Amongst the larger names, we already have at that level Intesa Sanpaolo. It has not yet reduced its stock of problem loans below 10%, but it is on its way there — especially because of IFRS9 considerations, as alluded to earlier — while it is also a bank that has a good level of capital compared to the rest of the system, and a good stream of earnings — the bank has basically been profitable for its entire existence since being born out of Intesa and Sanpaolo in 2007. We also have Credem at Baa3 because of its exceptional problem loan ratio level — or rather, exceptional by Italian standards, even if it's an average level for Europe. And just recently we assigned first time ratings to Mediobanca, including a BCA of baa3. That is because, thanks to its diversified nature and a different business model to most other banks, it has structurally a lower level of problem loans than a commercial bank suffering from legacy issues with SMEs, for example.


Edoardo Calandro, Moody's

Finally, there is UniCredit at Ba1 — below investment grade, but we have a positive outlook on the ratings, indicating that the measures to clean up the balance sheet, to restore profitability and to improve capital are going in a direction that will improve the credit profile.

But, again, there is not a perfect correlation between the stock of NPLs and the BCAs; it is more seen in the context of capitalisation, earnings stability and earnings generation, and of course funding and liquidity considerations.

Which measure to clean up balance sheets will be the more effective: EC Pillar 1 or SSM Pillar 2?

Laurin: I don't want to be too provocative, but I would dare say that neither of them is very effective, for very simple reasons.

The first one is that the so-called EC Pillar 1 is a regulation by nature, and for this regulation to be effective it has to be enacted, and it is still a work in progress, so we are going to have to wait until the EU agrees on a framework. Even if we assume they agree and they put this piece of legislation into the CRR2, the scope of the current EC legislation is about new loans only, which means it doesn't touch the outstanding stock of NPLs. In this respect, this EC legislation makes no difference at all.

Does it mean it is useless? Certainly not. It will be useful for the treatment of NPLs in the future; it will work as a backstop measure if the accounting framework doesn't do the trick, and that will possibly be an effective tool to avoid the accumulation of NPLs in the future.

Let's now move to SSM's Pillar 2 tool. Pillar 2 under the recently-published guidance of the ECB is certainly more effective in the sense that the scope is different. The scope of loans targeted by the ECB is new NPLs, meaning an NPL coming from the outstanding good, performing portfolio, when it turns sour. So these new ECB guidelines would apply to such NPLs — but with a catch, which is that it will only be applied in three years. The minimum provisioning requirement for these new NPLs (secured by collateral) is set at 40%, and will increase over time until full completion of the provisioning, i.e. in seven years. We now expect the ECB to publicly express its view as to how the NPL stock will be addressed.

But if we are now referring to the Pillar

2 measures that the ECB can deploy every day, certainly, that instrument is effective, because the ECB can say at any time: "The provisioning may be insufficient, I do not dispute the accounting behind that, but to be prudent I will impose a capital add-on." And that's the trick: the ECB has many instruments at its disposal to force banks to take action, and to do the clean-up.

In this respect Pillar 2 is a very powerful instrument — again with the caveat that it is case-by-case, which means the ECB cannot tell every bank to do certain things in the same way, because it would be akin to imposing regulation. That is why when the ECB first published its addendum many people complained, saying: "No you cannot do that. You are trying to impose a Pillar 1 measure on us." And the ECB had to take a step back and clarify the point, explaining that the so called addendum is a Pillar 2 measure. But although the addendum as a Pillar 1 instrument was rebuffed, what was not rebuffed at all is the ability of the ECB to impose certain things. That is why some banks who were claiming, "we won't do this, we won't do that", have sometimes changed their mind. I suspect they changed their mind for a reason, that reason being pressure from the supervisor.

How do you estimate the adequate level of capital required against NPLs?

Laurin: To be precise, capital is not supposed to directly cover NPLs; it is supposed to cover unexpected losses. The expected losses, i.e. the losses in the portfolio, are to be addressed by means of specific provisions under IFRS9. If there is a gap — if the supervisor believes the provisioning is not sufficient — the supervisor will impose a deduction from capital. At Moody's, we may express some doubt as to whether or not the bank is adequately provisioned against these NPLs.

That being said, if we do consider the broader picture — that there might be variations around the amount of losses in the NPL portfolio — banks should account for this risk. This is why the NPL portfolio not only requires provisions against identified losses but also capital

Alain Laurin, Moody's

to account for the unexpected losses that may arise. This issue, which is addressed in the EU regulatory framework, is currently being pursued by the so-called EBA guidelines, which are not yet finalized.

UniCredit recently said the cost in capital of these measures for it is estimated to be 90bp of CET1, which is a big number. This leads me to the conclusion there are certainly variations between banks in the manner in which they construct or conceived their internal models, and that is certainly the objective of the ECB review project (TRIM), to fix that problem. You can expect the ECB to impose more capital on banks through modelling changes, without waiting for Basel IV.

How will retail senior reimbursement impact LGF and your ratings?

Calandro: To clarify: we are talking about those actual retail bonds that in the past pure retail clients underwrote in branches, which were perceived by clients as savings products rather than investment products — so we exclude everything that goes into the private banking portfolio, or for affluent or more sophisticated clients.

As these instruments mature and are recycled into deposits, or are put into wealth management products, we see that as neutral for the BCA and the assessment of the funding profile of the bank. That is because we always considered them a stable source of funding, so we never had specific concerns about the rollover. Now, they are not rolling over, but they will remain with the bank as deposits that we believe are sticky, or they are being directed by the bank mainly into wealth management products, which is actually positive for banks because it increases commissions and increases profitability — which, as I said earlier, is another point of concern for us. So in terms of the standalone assessment, it is broadly neutral.

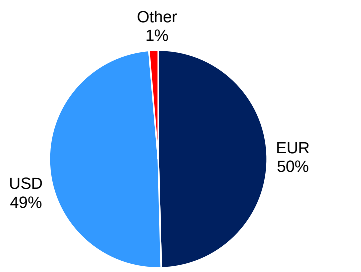
Nevertheless, regarding the impact on ratings, as assessed under our loss given failure analysis, this is negative, because these bonds are supposed to be bail-in-able, but as they mature they are recycled into more senior retail deposits, hence the volume of bail-in-able debt falls, reducing protection for senior bondholders in a resolution scenario, and reducing protection for wholesale depositors, too. As a matter of fact, in 2017 we had a few downgrades for this specific reason, because, especially for smaller institutions that were not tapping the wholesale market, the only stock of bail-in-able debt was these retail bonds that were quickly decreasing, and that had a negative impact on Italian banks' ratings. And we still have several negative outlooks on Italian banks' ratings also for this specific reason.

What is the impact on your Italian bank ratings of the upcoming corporate deposit preference?

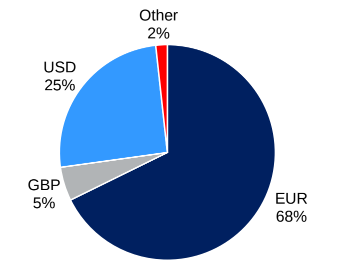
Calandro: We have already incorporated it into our ratings. There was a clear framework in place a couple of years ago, agreed by Parliament in December 2015, and we knew that the cut-off date would be January 2019. So between these dates we took two large rating actions on Italian banks, to already embed the corporate deposit preference in the ratings: we upgraded 16 deposit ratings by one notch and two by two notches, and we downgraded five senior unsecured ratings by one notch. With the introduction of the preference, in a resolution scenario the senior unsecured will no longer benefit from sharing the losses with junior deposits, hence the five downgrades. But in the same resolution scenario, symmetrically the junior depositors or corporate depositors benefit from a clear protection provided by senior debt, hence the upgrades. ●

Currencies, structures and distribution

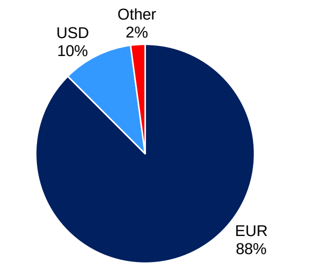
Bank hybrid issuance by currency
(2018 ytd)



Insurance issuance by currency
(2018 ytd)

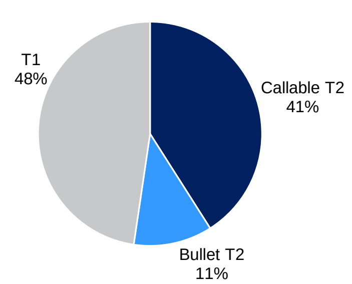


SNP issuance by currency
(2018 ytd)

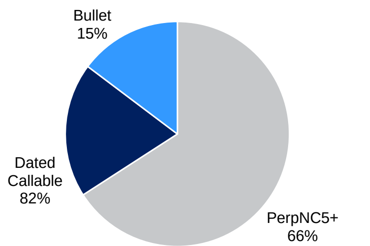


Source: Crédit Agricole CIB

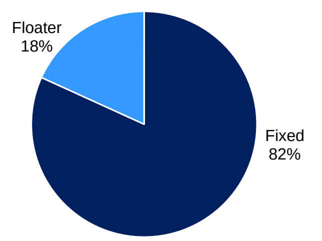
Bank issuance by instrument/structure
(2018 ytd)



Insurance issuance by instrument/structure
(2018 ytd)

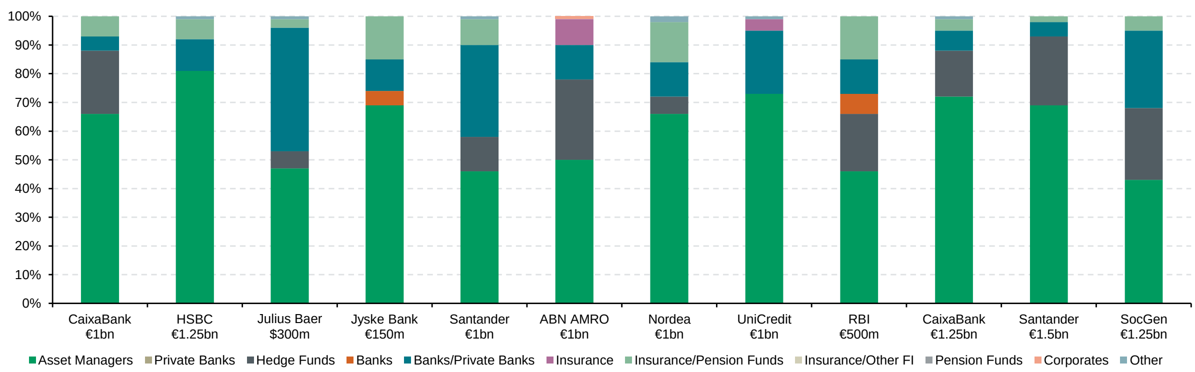


SNP issuance by coupon
(2018 ytd)

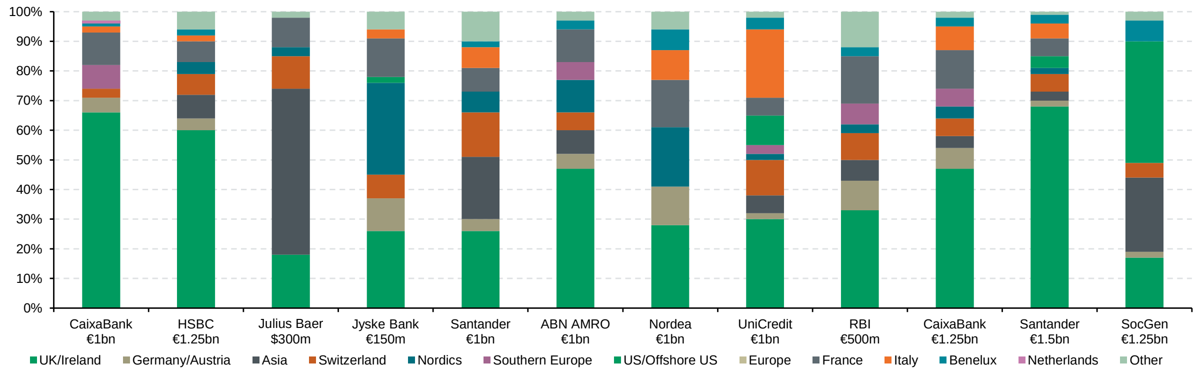


Source: Crédit Agricole CIB

AT1 distribution by investor type



AT1 distribution by geography



Source: Crédit Agricole CIB

AT1 monitoring

AT1 performance monitoring (as at 12/4/18)														
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
04-Apr-18	SOCGEN	Ba2/BB+/-	USD	1,250	6.750%	Perpetual	06-Apr-28	TWD	5.125%	100.45	386	6.69	6.72	393
27-Mar-18	CAZAR	-/B-/Be	EUR	350	7.000%	Perpetual	06-Apr-23	TWD	5.125%	101.14	637	6.73	7.91	681
19-Mar-18	HSBC	Baa3/-/BBB	USD	1,800	6.500%	Perpetual	23-Mar-28	EC	7.000%	102.80	329	6.12	6.28	361
19-Mar-18	HSBC	Baa3/-/BBB	USD	2,350	6.250%	Perpetual	23-Mar-23	EC	7.000%	102.71	285	5.61	6.11	345
13-Mar-18	CABKSM	B1/BB/-	EUR	1,250	5.250%	Perpetual	23-Mar-26	EC	5.125%	100.13	449	5.23	5.83	450
12-Mar-18	ITAU	B2/-/B	USD	750	6.500%	Perpetual	19-Mar-23	PWD	5.125%	100.38	364	6.41	6.63	386
12-Mar-18	SANTAN	Ba1/-/-	EUR	1,500	4.750%	Perpetual	19-Mar-25	EC	5.125%	100.75	400	4.62	5.39	491
27-Feb-18	HBAN	Baa3/BB/BB	USD	500	5.700%	Perpetual	15-Apr-23	-	-	100.29	287	5.63	5.64	288
12-Feb-18	ALBRK	-/-/-	USD	205	10.000%	Perpetual	20-Feb-23	-	-	100.41	712	9.88	10.10	733
25-Jan-18	CCBGBB	Ba2/BB/-	EUR	500	3.625%	Perpetual	16-Apr-25	TWD	5.125%	93.43	411	4.74	4.59	294
24-Jan-18	UBS	-/BB/BBB-	USD	2,000	5.000%	Perpetual	31-Jan-23	PWD	7.000%	93.63	380	6.59	5.54	243
25-Jan-18	ALFARU	B2/-/B	USD	500	6.950%	Perpetual	30-Apr-23	PWD	5.125%	96.05	515	7.91	7.55	457
17-Jan-18	RBIAV	Ba3/-/-	EUR	500	4.500%	Perpetual	15-Jun-25	TWD	5.125%	93.25	501	5.66	5.57	388
13-Dec-17	UCGIM	-/-/B+	EUR	1,000	5.375%	Perpetual	03-Jun-25	TWD	5.125%	100.25	468	5.33	6.15	493
01-Dec-17	SHAWLN	-/-/-	GBP	125	7.875%	Perpetual	08-Dec-22	PWD	7.000%	97.52	716	8.53	8.40	675
30-Nov-17	BANVOR	-/CCC/-	USD	300	8.250%	Perpetual	07-Dec-22	PWD	5.125%	102.00	496	7.72	8.58	611
27-Nov-17	ETFC	Ba3 *+/BB/-	USD	300	5.300%	Perpetual	15-Mar-23	-	-	97.49	312	5.89	5.96	316
21-Nov-17	CREAL	-/B+/BB-	USD	230	9.125%	Perpetual	29-Nov-22	-	-	103.00	556	8.33	9.36	703
21-Nov-17	NDASS	-/BBB/BBB	EUR	750	3.500%	Perpetual	12-Mar-25	TWD	5.125%	98.00	321	3.83	4.40	300
21-Nov-17	CHIYBK	-/-/-	USD	250	5.250%	Perpetual	29-Nov-22	-	-	96.96	325	6.01	5.99	315
10-Nov-17	SABSM	-/B+/-	EUR	400	6.125%	Perpetual	23-Nov-22	EC	5.125%	105.25	454	4.85	6.91	605
07-Nov-17	STI	Baa3/BB+/BB	USD	500	5.125%	Perpetual	15-Dec-27	-	-	95.85	286	5.69	5.62	279
07-Nov-17	BNP	Ba1/BBB-/BBB-	USD	750	5.125%	Perpetual	15-Nov-27	TWD	5.125%	92.25	338	6.21	5.88	284
26-Oct-17	DFS	Ba3/BB-/BB-	USD	570	5.500%	Perpetual	30-Oct-27	-	-	98.13	293	5.76	5.82	308
25-Oct-17	SCHW	Baa2/BBB/BB+	USD	500	5.000%	Perpetual	01-Dec-27	-	-	97.45	251	5.34	5.34	258
20-Oct-17	JZCITY	-/-/-	USD	1,496	5.500%	Perpetual	27-Oct-22	EC	5.125%	96.69	357	6.35	6.33	349
19-Oct-17	CHINAM	-/BB-/-	USD	1,000	4.400%	Perpetual	25-Oct-22	EC	5.125%	96.13	260	5.38	5.28	244
13-Oct-17	JPM	Baa3/-/BBB-	USD	1,258	4.625%	Perpetual	01-Nov-22	-	-	94.35	330	6.07	5.53	258
11-Oct-17	UOBSP	Baa1/-/BBB	USD	650	3.875%	Perpetual	19-Oct-23	PWD	-	95.13	212	4.89	4.65	179
10-Oct-17	CBZHZH	-/-/-	USD	1,191	5.500%	Perpetual	18-Oct-22	EC	5.125%	97.27	342	6.20	6.36	357
04-Oct-17	BNS	Baa3/BBB-/-	USD	1,250	4.650%	Perpetual	12-Oct-22	EC	-	95.39	307	5.83	5.53	265
28-Sep-17	INVPLN	Ba2/-/-	GBP	250	6.750%	Perpetual	05-Dec-24	PWD	7.000%	104.09	455	6.00	6.81	575
27-Sep-17	ABNANV	-/-/BB+	EUR	1,000	4.750%	Perpetual	22-Sep-27	TWD	5.125%	103.88	336	4.25	5.05	390
26-Sep-17	SANTAN	Ba1/-/BB	EUR	1,000	5.250%	Perpetual	29-Sep-23	EC	5.125%	106.77	344	3.87	5.86	500
22-Sep-17	NIBCAP	-/BB-/-	EUR	200	6.000%	Perpetual	15-Oct-24	TWD	5.125%	102.63	495	5.51	6.64	556
21-Sep-17	POSABK	Ba3/-/-	USD	7,250	4.500%	Perpetual	27-Sep-22	EC	5.125%	95.84	279	5.57	5.48	263
14-Sep-17	JYBC	-/BB+/-	EUR	150	4.750%	Perpetual	21-Sep-27	TWD	7.000%	100.50	380	4.69	5.24	396
12-Sep-17	WSTP	Baa2/BB+/BBB	USD	1,250	5.000%	Perpetual	21-Sep-27	EC	5.125%	92.68	320	6.03	5.77	289
05-Sep-17	BAERVX	Baa3/-/-	USD	300	4.750%	Perpetual	12-Sep-24	PPWD	7.000%	94.39	303	5.81	5.67	284
08-Aug-17	WSTP	Baa1/BBB/A+	AUD	350	4.334%	16-Aug-29	16-Aug-24	EC	-	99.38	174	4.44	4.68	183
03-Aug-17	BACR	Ba2 *-/B+/BB+	GBP	1,250	5.875%	Perpetual	15-Sep-24	EC	7.000%	100.13	441	5.85	6.24	491
26-Jul-17	PROMBK	-/-/-	USD	500	8.750%	Perpetual	01-Feb-23	PWD	5.125%	-	-	-	-	681
06-Jul-17	BKIASM	-/BB-/-	EUR	750	6.000%	Perpetual	18-Jul-22	EC	5.125%	105.50	432	4.57	6.72	582
29-Jun-17	BANORT	Ba2/BB/-	USD	350	6.875%	Perpetual	06-Jul-22	PWD	5.125%	102.50	345	6.20	7.44	504
29-Jun-17	BANORT	Ba2/BB/-	USD	550	7.625%	Perpetual	06-Jan-28	PWD	5.125%	106.70	386	6.68	7.41	535
28-Jun-17	RBIAV	-/BB/-	EUR	650	6.125%	Perpetual	15-Dec-22	TWD	5.125%	106.50	425	4.56	6.76	595
27-Jun-17	HSBC	Baa3/-/BBB	EUR	1,250	4.750%	Perpetual	04-Jul-29	EC	7.000%	104.38	321	4.25	4.92	384
20-Jun-17	SRBANK	-/-/-	NOK	150	4.350%	Perpetual	29-Jun-22	TWD	5.125%	100.29	-	4.26	4.32	-
01-Jun-17	CABKSM	B1/BB/-	EUR	1,000	6.750%	Perpetual	13-Jun-24	EC	5.125%	113.75	368	4.20	6.76	650

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 12/4/18)

Launch	Issuer	Issue ratings	Currency	Amount (m)	Coupon	Maturity date	First call date	I-Spread	Yield to call	Yield to maturity	Reset spread
10-Apr-18	CABKSM	Ba2/BBB-/BBB-	EUR	1,000	2.250%	17-Apr-30	17-Apr-25	164	2.27	2.73	168
04-Apr-18	DBSSP	A3 *+/-/A+	EUR	600	1.500%	11-Apr-28	11-Apr-23	106	1.42	2.05	120
22-Mar-18	GS	-/BBB-/-	JPY	15,000	0.880%	27-Mar-28	-	82	-	1.07	-
23-Mar-18	LUSOIB	-/-/-	USD	93	5.375%	28-Dec-27	28-Jun-23	273	5.50	5.76	-
05-Mar-18	VKBNIE	-/-/-	EUR	12	3.230%	15-Mar-28	-	138	-	2.32	-
19-Mar-18	SHNHAN	Baa1/BBB+/-	USD	400	4.500%	26-Mar-28	-	178	-	4.61	-
15-Mar-18	INTNED	Baa2/BBB/A	EUR	750	2.000%	22-Mar-30	22-Mar-25	114	1.76	2.27	135
15-Mar-18	INTNED	Baa2/BBB/A	USD	1,250	4.700%	22-Mar-28	22-Mar-23	158	4.35	4.55	194
13-Mar-18	DNBNO	-/A-/-	EUR	600	1.125%	20-Mar-28	20-Mar-23	83	1.18	1.73	77
12-Mar-18	STANLN	Baa1/BBB-/A-	USD	500	4.866%	15-Mar-33	15-Mar-28	196	4.79	4.83	197
06-Mar-18	CIT	Ba2/BB/BB	USD	400	6.125%	09-Mar-28	-	266	-	5.49	-
08-Mar-18	CCBGBB	Baa3/-/-	EUR	200	1.625%	15-Mar-28	15-Mar-23	131	1.66	1.61	123
05-Mar-18	DNBNO	-/A-/-	SEK	700	0.621%	13-Mar-28	13-Mar-23	-	0.79	0.74	-
05-Mar-18	DNBNO	-/A-/-	SEK	300	1.610%	13-Mar-28	13-Mar-23	114	1.59	1.75	106
05-Mar-18	DNBNO	-/A-/-	NOK	900	2.110%	13-Mar-28	13-Mar-23	-	1.74	1.98	-
28-Feb-18	LLOYDS	Baa1/BBB-/A-	EUR	750	1.750%	07-Sep-28	07-Sep-23	136	1.78	2.28	130
23-Feb-18	SHBASS	A3/A-/AA-	EUR	750	1.250%	02-Mar-28	02-Mar-23	85	1.20	1.75	80
22-Feb-18	BNP	Baa2/BBB+/A	USD	1,250	4.375%	01-Mar-33	01-Mar-28	171	4.55	4.54	148
20-Feb-18	AKBNK	B2/-/BB	USD	400	6.797%	27-Apr-28	27-Apr-23	434	7.11	7.04	403
20-Feb-18	LANSBK	-/BBB+/-	SEK	400	1.750%	01-Mar-28	01-Mar-23	125	1.69	1.72	-
20-Feb-18	LANSBK	-/BBB+/-	SEK	700	0.735%	01-Mar-28	01-Mar-23	-	0.89	0.86	-
19-Feb-18	SOCGEN	Baa3/BBB/A-	EUR	1,000	1.375%	23-Feb-28	23-Feb-23	110	1.44	1.89	90
09-Feb-18	BYLAN	-/-/-	EUR	5	3.180%	16-Feb-38	16-Feb-28	182	3.27	3.23	-
08-Feb-18	BYLAN	Baa2/-/BBB-	EUR	25	2.730%	14-Feb-31	-	160	-	2.75	-
01-Feb-18	SANTAN	Baa2/BBB/BBB+	EUR	1,250	2.125%	08-Feb-28	-	129	-	2.22	-
22-Jan-18	IKB	-/-/-	EUR	300	4.000%	31-Jan-28	31-Jan-23	355	3.88	4.46	362
17-Jan-18	WSTP	Baa1/BBB/A+	AUD	185	5.000%	24-Jan-48	-	184	-	4.96	-
11-Jan-18	BBVASM	-/BB+/BBB-	USD	1,000	5.125%	18-Jan-33	18-Jan-28	277	5.60	5.62	265
11-Jan-18	MONTE	Caa2/-/CCC+	EUR	750	5.375%	18-Jan-28	18-Jan-23	554	5.86	6.16	501
24-Jan-18	UNIFIN	-/B/B+	USD	250	8.875%	Perpetual	29-Jan-25	647	9.26	8.89	631
04-Jan-18	EUROB	-/-/-	EUR	950	6.410%	17-Jan-28	17-Jan-23	700	9.08	7.92	-
04-Jan-18	LLOYDS	Baa1/BBB-/A-	USD	1,500	4.344%	09-Jan-48	-	192	-	4.80	-
03-Jan-18	ACAFP	Baa2/BBB/A	USD	1,250	4.000%	10-Jan-33	10-Jan-28	173	4.56	4.59	164
03-Jan-18	CBAAU	Baa1/BBB/A+	USD	1,250	4.316%	10-Jan-48	-	161	-	4.49	-
14-Dec-17	LUSOIB	-/-/-	USD	250	5.375%	28-Dec-27	28-Jun-23	279	5.56	5.79	323

Insurance performance monitoring (as at 12/4/18)

Launch	Issuer	Issue ratings	Currency	Amount (m)	Coupon	Maturity date	First call date	I-Spread	Yield to call	Yield to maturity	Reset spread
04-Apr-18	AEGON	Baa1/BBB/BBB-	USD	800	5.500%	11-Apr-48	11-Apr-28	266	5.49	5.92	354
22-Mar-18	AIZ	Baa3 *-/BB+/-	USD	400	7.000%	27-Mar-48	27-Mar-28	377	6.61	6.81	413.5
21-Mar-18	AXASA	A3/-/BBB	EUR	2,000	3.250%	28-May-49	28-May-29	199	3.02	3.97	320
21-Mar-18	STBNO	-/BBB-/-	SEK	900	2.500%	27-Mar-48	27-Mar-25	-	2.15	2.71	-
22-Feb-18	USIMIT	Ba1/-/BB	EUR	500	3.875%	01-Mar-28	-	305	-	3.99	-
25-Jan-18	FWDINS	Ba2/-/BB+	USD	200	5.500%	Perpetual	01-Feb-23	343	6.19	5.94	307.5
22-Jan-18	ACAFP	-/BBB-/-	EUR	1,000	2.625%	29-Jan-48	29-Jan-28	203	2.95	3.79	265
12-Jan-18	LAMON	-/BBB/-	USD	310	4.800%	18-Jan-48	18-Jan-28	303	5.86	6.01	323.5
14-Dec-17	LAMON	-/BBB/-	USD	400	4.800%	21-Dec-47	21-Dec-27	307	5.90	6.12	344
05-Dec-17	CASSIM	-/BB+/-	EUR	500	4.250%	14-Dec-47	14-Dec-27	285	3.76	4.88	445.5
01-Dec-17	DLGLN	-/BB/-	GBP	350	4.750%	Perpetual	07-Dec-27	332	4.85	4.83	339.4
28-Nov-17	TALANX	-/BBB/-	EUR	750	2.250%	05-Dec-47	05-Dec-27	-	2.62	3.54	325
22-Nov-17	BNP	-/BBB/-	EUR	750	1.000%	29-Nov-24	-	95	-	1.54	-
14-Nov-17	MFCCN	-/A-/BBB+	SGD	500	3.000%	21-Nov-29	21-Nov-24	115	3.45	3.58	83
09-Nov-17	VIVATN	-/-/BB	USD	575	6.250%	Perpetual	16-Nov-22	325	6.01	6.76	417
07-Nov-17	STBNO	-/BBB-/-	SEK	1,000	1.536%	21-Nov-47	21-Nov-22	-	1.68	2.24	300
02-Nov-17	HUKLFI	Baa3/-/BBB-	USD	500	4.475%	09-Nov-47	09-Nov-22	319	5.95	5.54	247
17-Oct-17	PACLIF	A3/A/A-	USD	750	4.300%	24-Oct-67	24-Oct-47	173	4.62	4.74	280
17-Oct-17	PRUFIN	A3/BBB+/BBB	USD	750	4.875%	Perpetual	20-Jan-23	233	6.01	5.11	-
17-Oct-17	AFL	Baa1/BBB/BBB	JPY	60,000	2.108%	23-Oct-47	23-Oct-27	154	1.78	2.52	205
11-Oct-17	SLLN	Baa1/BBB+ *-/-	USD	750	4.250%	30-Jun-48	30-Jun-28	175	4.59	5.19	292

Source: Crédit Agricole CIB

SNP, HoldCo issuance

Latest SNP performance monitoring (as at 12/4/18)

Launch	Issuer	Issue ratings	Currency	Amount (m)	Coupon	Maturity date	I-Spread	Yield to maturity
10-Apr-18	UBI	Ba3/BB+/BBB-	EUR	500	1.750%	12-Apr-23	139	1.76
12-Mar-18	BNP	Baa1e/A-/A+	EUR	500	1.000%	17-Apr-24	50	1.01
12-Mar-18	BPCEGP	Baa3/BBB+/A	EUR	750	1.375%	23-Mar-26	69	1.43
06-Mar-18	BPCEGP	Baa3/BBB+/A	EUR	750	0.171%	23-Mar-23	-	0.21
01-Mar-18	ACAFP	Baa2/BBB+/A+	EUR	1,000	1.375%	13-Mar-25	62	1.24
26-Feb-18	NWIDE	Baa1/BBB+/A	EUR	1,000	1.500%	08-Mar-26	79	1.53
22-Jan-18	ACAFP	Baa2/BBB+/A+	EUR	1,250	0.273%	06-Mar-23	-	0.23
22-Jan-18	BPCEGP	Baa3/BBB+/A	EUR	750	1.625%	31-Jan-28	73	1.66
16-Jan-18	BPCEGP	Baa3/BBB+/A	EUR	1,000	0.875%	31-Jan-24	54	1.02
16-Jan-18	BNP	Baa1/A-/A+	EUR	500	0.002%	19-Jan-23	-	0.19
09-Jan-18	SOCGEN	Baa3/BBB+/A	EUR	1,250	1.125%	23-Jan-25	69	1.29
09-Jan-18	DB	Baa2/BBB-/BBB+	GBP	300	1.750%	16-Dec-21	118	2.50
09-Jan-18	DB	Baa2/BBB-/BBB+	EUR	1,250	1.750%	17-Jan-28	133	2.26
04-Jan-18	DB	Baa2/BBB-/BBB+	EUR	1,250	0.375%	18-Jan-21	69	0.68
02-Jan-18	BNP	Baa1/A-/A+	EUR	1,250	1.125%	11-Jun-26	67	1.44
01-Dec-17	BNP	Baa1/A-/A+	USD	2,000	3.375%	09-Jan-25	106	3.85
16-Nov-17	SANTAN	Baa1/BBB+/A-	JPY	83,700	0.568%	11-Jan-23	38	0.47
09-Nov-17	BNP	Baa1/A-/A+	EUR	1,000	1.500%	23-May-28	67	1.63
08-Nov-17	BNP	Baa1/A-/A+	USD	1,500	3.500%	16-Nov-27	117	3.99
08-Nov-17	SOCGEN	Baa3/BBB+/A	EUR	750	1.375%	13-Jan-28	68	1.60
19-Oct-17	SOCGEN	Baa3/BBB+/A	EUR	750	0.500%	13-Jan-23	56	0.88
16-Oct-17	CCBGBB	Baa3/BBB/-	EUR	500	1.000%	26-Oct-24	70	1.27
04-Oct-17	BPCEGP	Baa3/BBB+/A	USD	1,250	3.500%	23-Oct-27	129	4.11
27-Sep-17	FRLBP	-/BBB/-	EUR	500	1.000%	16-Oct-24	71	1.28
05-Sep-17	ACAFP	Baa2/BBB+/A+	USD	1,500	3.250%	04-Oct-24	120	3.99
31-Aug-17	CCBGBB	Baa3/BBB/-	EUR	750	0.750%	12-Sep-22	47	0.74
30-Aug-17	CABKSM	Ba2/BBB-/BBB	EUR	1,250	1.125%	12-Jan-23	68	1.00
12-Jul-17	BBVASM	Baa3/BBB/A-	EUR	1,500	0.750%	11-Sep-22	42	0.70
11-Jul-17	SANTAN	Baa1/BBB+/A-	AUD	300	4.800%	19-Jul-27	167	4.53

HoldCo performance monitoring (as at 12/4/18)

Launch	Issuer	Issue ratings	Currency	Amount (m)	Coupon	Maturity date	First call date	I-Spread	Yield to call	Yield to maturity	Reset spread
22-Mar-18	AIB	Ba2/BB+/BBB-	EUR	500	1.500%	29-Mar-23	-	104	-	1.40	-
14-Mar-18	RBS	Baa3/BBB-/BBB+	GBP	800	2.875%	19-Sep-26	19-Sep-25	138	2.87	2.91	149
12-Mar-18	STANLN	A2/BBB+/A+	USD	1,250	3.885%	15-Mar-24	15-Mar-23	128	4.04	4.02	108
17-Jan-18	BACR	Baa2 *-/BBB/A	EUR	1,000	1.375%	24-Jan-26	24-Jan-25	113	1.73	1.80	78
08-Jan-18	BACR	Baa2 *-/BBB/A	GBP	1,250	3.250%	17-Jan-33	-	196	-	3.58	-
08-Jan-18	LLOYDS	A3/BBB+/A+	EUR	250	1.500%	12-Sep-27	-	83	-	1.72	-
08-Jan-18	LLOYDS	A3/BBB+/A+	EUR	1,250	0.625%	15-Jan-24	15-Jan-23	73	1.06	1.15	47
27-Oct-17	SANUK	Baa1/BBB/A	USD	1,000	3.823%	03-Nov-28	03-Nov-27	159	4.42	4.42	140
04-Oct-17	SUMIBK	A1/A-/-	EUR	500	0.934%	11-Oct-24	-	46	-	1.03	-
05-Sep-17	LLOYDS	A3/BBB+/A+	EUR	1,000	1.500%	12-Sep-27	-	77	-	1.66	-
10-Jul-17	CS	Baa2/BBB+/A-	EUR	1,500	1.250%	17-Jul-25	17-Jul-24	82	1.36	1.47	75
14-Jun-17	LLOYDS	A3/BBB+/A+	EUR	1,000	0.451%	21-Jun-24	-	-	-	0.42	-
06-Jun-17	SUMIBK	A1/A-/-	EUR	750	0.123%	14-Jun-22	-	-	-	-	-
06-Jun-17	SUMIBK	A1/A-/-	EUR	500	1.413%	14-Jun-27	-	54	-	-	-
11-May-17	SANUK	Baa1/BBB/A	EUR	500	0.452%	18-May-23	18-May-22	-	0.37	-	-
21-Mar-17	INTNED	Baa1/A-/A+	USD	1,000	3.452%	29-Mar-22	-	-	-	-	-
16-Mar-17	UBS	-/A-/A+	USD	2,000	4.253%	23-Mar-28	23-Mar-27	128	4.10	4.11	-
16-Mar-17	UBS	-/A-/A+	USD	2,000	3.491%	23-May-23	23-May-22	92	3.74	3.69	-
16-Mar-17	UBS	-/A-/A+	USD	1,000	3.140%	23-May-23	23-May-22	-	3.18	-	-
13-Mar-17	UBS	-/A-/A+	EUR	1,750	0.372%	20-Sep-22	20-Sep-21	-	0.08	-	-
06-Mar-17	HSBC	A2/A/AA-	USD	2,500	3.262%	13-Mar-23	13-Mar-22	82	3.57	3.63	106
06-Mar-17	HSBC	A2/A/AA-	USD	2,500	4.041%	13-Mar-28	13-Mar-27	124	4.06	4.09	155
03-Mar-17	GS	A3/BBB+/A	EUR	2,000	0.303%	09-Sep-22	09-Sep-21	-	0.24	-	-
01-Mar-17	INTNED	Baa1/A-/A+	EUR	1,500	0.750%	09-Mar-22	-	34	-	0.53	-
01-Mar-17	RBS	Baa3/BBB-/BBB+	EUR	1,500	2.000%	08-Mar-23	08-Mar-22	74	0.93	1.32	204
22-Feb-17	KBCBB	Baa1/BBB+/A	EUR	1,250	0.750%	01-Mar-22	-	38	-	0.56	-

Source: Crédit Agricole CIB

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