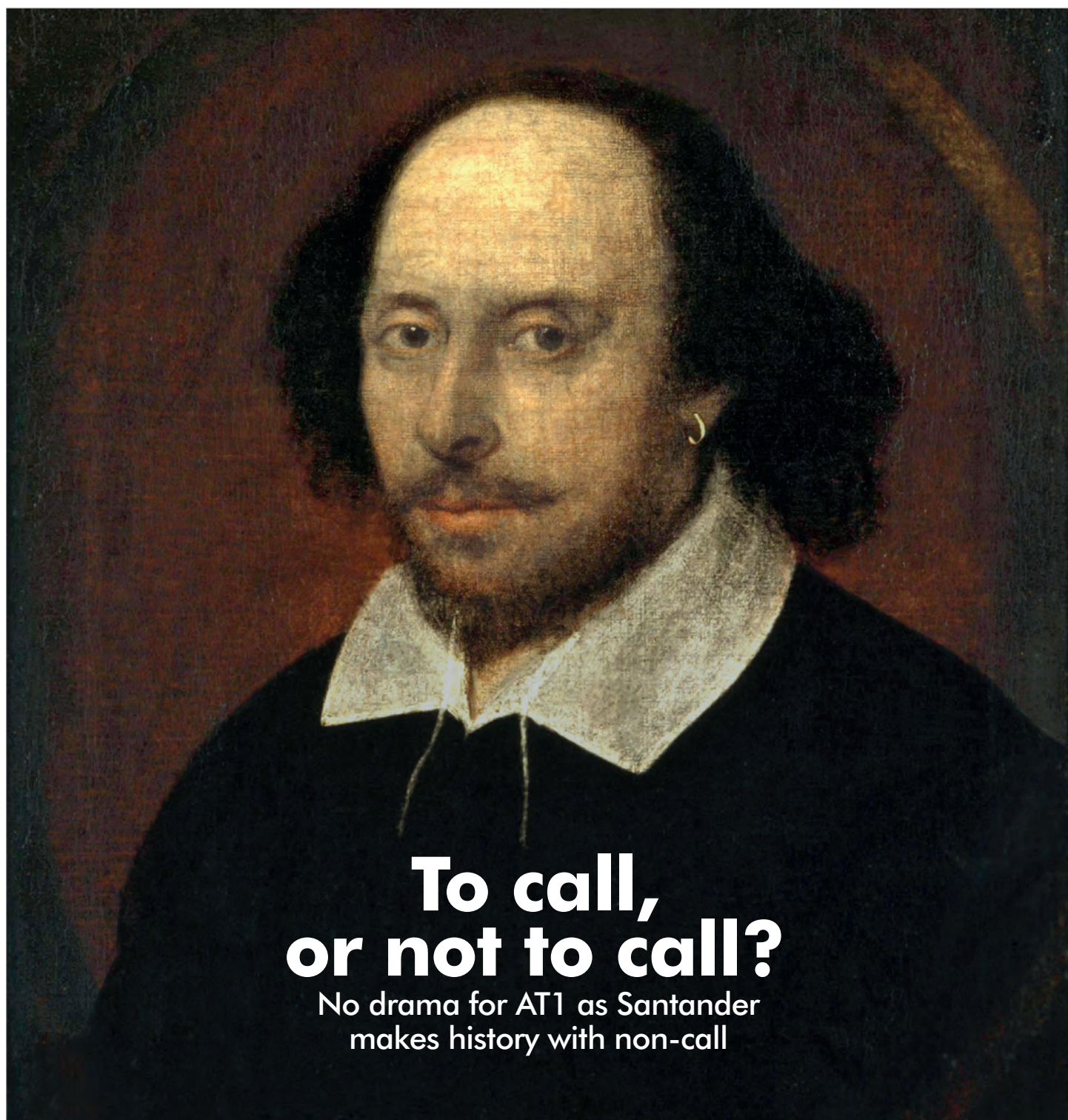


# Bank+Insurance HybridCapital

Q1 2019

With  **CRÉDIT AGRICOLE**  
CORPORATE & INVESTMENT BANK



## To call, or not to call?

No drama for AT1 as Santander  
makes history with non-call

**UniCredit**  
Global buy-in

**Crédit Agricole**  
Hitting the Q1 windows

**Insurers**  
Well adjusted?



# building success together

<p>FEBRUARY 2019</p> <p><b>ZURICH</b> ZURICH INSURANCE COMPANY</p> <p><b>EUR 500,000,000</b></p> <p>2.750% 30NC10 Subordinated Notes Due 2049</p> <p>Joint Bookrunner</p>	<p>JANUARY 2019</p> <p><b>Allianz</b> ALLIANZ SE</p> <p><b>EUR 750,000,000</b> 0.875% Senior Unsecured Notes Due 2026</p> <p><b>EUR 750,000,000</b> 1.500% Senior Unsecured Notes Due 2030</p> <p>Joint Bookrunner</p>	<p>OCTOBER 2018</p> <p><b>ZURICH</b> ZURICH INSURANCE COMPANY</p> <p><b>EUR 500,000,000</b></p> <p>1.500% Senior Unsecured Unsubordinated Due 2028</p> <p>Joint Bookrunner</p>
<p>SEPTEMBER 2018</p> <p><b>Groupama s.a.</b> GROUPAMA ASSURANCES MUTUELLES</p> <p><b>EUR 500,000,000</b></p> <p>3.375% Tier 2 Subordinated Notes Due 2028</p> <p>Joint Bookrunner</p>	<p>AUGUST 2018</p> <p><b>MAPFRE</b> MAPFRE S.A.</p> <p><b>EUR 500,000,000</b></p> <p>4.125% Subordinated Tier 2 Due 2048 (30NC10)</p> <p>Joint Bookrunner</p>	<p>APRIL 2018</p> <p><b>ZURICH</b> ZURICH INSURANCE COMPANY LTD</p> <p><b>USD 500,000,000</b></p> <p>5.125% 30NC10 Subordinated Notes Due 2048</p> <p>Joint Bookrunner</p>
<p>MARCH 2018</p> <p><b>SCOR</b> SCOR SE</p> <p><b>USD 625,000,000</b></p> <p>5.250% RT1 Perpetual NC11</p> <p>Joint Bookrunner</p>	<p>JANUARY 2018</p> <p><b>CRÉDIT AGRICOLE ASSURANCES</b> CRÉDIT AGRICOLE ASSURANCES SA</p> <p><b>EUR 1,000,000,000</b></p> <p>2.625% Subordinated Debt 30NC10 Due 2048</p> <p>Sole Structuring Advisor and Sole Bookrunner</p>	<p>OCTOBER 2017</p> <p><b>PRUDENTIAL</b> PRUDENTIAL PLC</p> <p><b>USD 750,000,000</b></p> <p>4.875% Tier 2 Fixed for Life Notes Perpetual NC5.25</p> <p>Joint Lead Manager</p>

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4

## MARKET NEWS

### 4 Turnaround sparks AT1 boom

- TD sets tight Canadian senior bail-in marker
- Coventry AT1 tender/new issue promises savings
- Green bond debut mitigates Danske premium
- Volksbank Wien in revived EUR220m AT1 debut
- Patient Aegon boosts RT1 with inaugural EUR500m
- Generali bullet starts insurance sub with a bang



16

## INTRODUCTION

### 3 The \$200bn question

Issuers ask themselves whether or not to call their AT1. Investors ask issuers about their call policy. But neither of these were the most important questions for the market going into 2019.



10

### 12 Headwinds limit capital build

EBA risk dashboard takeaways • Plus more from Crédit Agricole CIB's DCM Solutions team

## BBVA

### 16 Capital strategy rewarded

BBVA took advantage the Q1 market conditions to attract strong demand for AT1, Tier 2 and senior non-preferred at minimal new issue premiums. The Spanish bank's funding team shares its views on the latest market and regulatory developments.

20



## CRÉDIT AGRICOLE

### 20 Hitting the Q1 windows

After a defensive start to the year against an unfriendly backdrop, Crédit Agricole moved quickly to hit windows as they appeared when the market turned bullish. Olivier Bêlorgey, head of Crédit Agricole SA group funding and chief financial officer, Crédit Agricole CIB, and CACIB DCM and syndicate discuss the group's issuance.

## FINANCIAL LEVERAGE

### 25 Insurers: well adjusted?

#### AT1

### 26 To call, or not to call?

Santander made much-anticipated history with the first non-call of an AT1 in February. But the market's reaction suggests it may have been a case of much ado about nothing, even if some investors are reappraising pricing and call schedules. *Neil Day* reports.

26



32



## UNICREDIT

### 32 Progress earns global buy-in

Supported by the fruits of its Transform 2019 plan and pan-European message, UniCredit has recently underlined its broad market access in a series of TLAC-driven trades. Mirko Bianchi, co-chief financial officer, UniCredit, explains the group's strategy.

### 37 Hybrids data

### 41 Disclaimer



# The \$200bn question



## *To call, or not to call?*

That is the question faced by issuers with upcoming call dates, most pertinently when the “economics” of calling a bond do not make sense according to a straightforward like-for-like calculation. Then, the idiosyncrasies of issuers and their AT1s come into play, and the question becomes more complicated.

Hence the question asked of issuers by investors: what is your call policy? Unfortunately, unless the issuer adopts an “economic” stance in its most literal sense, with the fewest moving parts, there may be little she or he can tell you. Firstly, because there are too many variables, and secondly, because the regulator may not be happy with such answers.

The number of potential unknowns arising from this state of affairs meant that the arguably the most important consideration going into 2019 was not whether or not a particular security would be called, but: how would the market react?

That was the \$200bn question, considering the magnitude of Europe’s AT1 market.

When Santander in February made history by not calling an AT1 in February, there were the noises off that are only to be expected of such an event, particularly when the announcement was accompanied by a new issue and procedural clarifications.

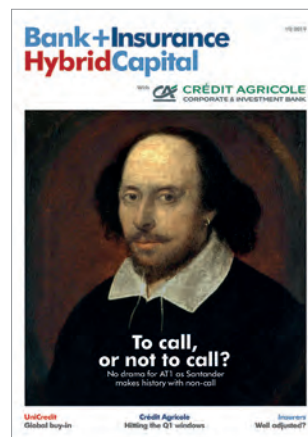
Meanwhile, the irresistible momentum in credit markets meant that any negative reaction to the news would likely be cushioned by investors’ hunger for yield. And the ongoing rally has depressed yields such that the likelihood of issuers finding it uneconomic from any perspective to exercise upcoming AT1 calls has fallen significantly.

But stripping away such distractions, the fallout from the first AT1 non-call can be said to tell a simple story: the market has matured, drawing on its experience, and is less likely to face the temperamental episodes of its past.

Indeed, if I can be forgiven for switching from one Shakespearian prince to another, the AT1 market is Hal no more.

*Neil Day,  
Managing Editor*

## Bank+Insurance HybridCapital



**Published by Newtype Media**

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

**In association with**



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

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

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

Visit us at  
**bihcapital.com**

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**Newtype Media**  
11 Hillsborough Court, Mortimer Crescent,  
London NW6 5NR, United Kingdom

# Market news

## Turnaround in outlook sparks AT1 boom

Market conditions proved exceptional through the end of the first quarter as credit markets retraced the widening they had suffered into the end of 2018, to provide ample opportunities for issuers to launch bank capital trades at pricing levels that would only have been dreamed of at the start of the year.

“Two weeks into the year, people realised that the physiognomy of the market was changing completely,” said Vincent Hoarau, head of FI syndicate at Crédit Agricole CIB. “The driver of this transformation was the turnaround in stance of central banks.

“In the year-end purge, everyone had been focused on the anticipated end of quantitative easing, but in January the Fed indicated it would pause rate hikes if necessary, while some very negative datapoints started coming out of Germany. This is when everyone started to reassess the situation and we quickly moved from ‘apocalypse now’ to ‘we can’t miss out.’”

After having prudently opened their 2019 funding programmes with defensive covered bond and senior preferred trades, banks dusted off senior non-preferred projects that had been put on the backburner while spreads were at painful levels, and increasingly took advantage of the buoyant market to launch Tier 2 and AT1 issues.

And when European AT1 issuance in dollars and euros eventually opened on 24 January, it was with a name that few market participants would have predicted in the darker days at the turn of the year: Banco Comercial Português (BCP).

After a one day roadshow, the peripheral issuer attracted EUR825m of demand to a perpetual non-call five transaction, rated Caa1/CCC+, allowing it to price a EUR400m deal at 9.25%, following initial price thoughts of the 9.5% area, and with a new issue premium of around 37.5bp.

UBS was a more typical standard-bearer when it launched a perpetual non-call



five dollar issue four days later, on 28 January. UBS's first AT1 in 144A/Reg S format, the deal proved a blow-out, attracting over \$10bn of orders, enabling the Swiss bank to tighten from IPTs of the 7.625% area and price the deal at 7%, representing a new issue premium of only around 12.5bp, and size it at \$2.5bn (CHF2.53bn) — the deal was the biggest AT1 in dollars or euros of the first quarter.

“After the success of the UBS transaction, everyone who was looking to come to the AT1 market made sure that they got ready to pull the trigger as soon as possible,” said Hoarau. “Bear in mind that at the end of January many issuers were moving into blackout periods, but in February and March most issuers who were supposed to tap the AT1 market this year did so, and we saw the busiest ever issuance of AT1.”

The first issuer to follow in dollars was Banco Santander, on 6 February, with a deal that ended up being wrapped up in discussions of its call policy (*see AT1 calls feature for full details*). Svenska Handelsbanken, ING and Crédit Agricole then boosted dollar supply with \$3bn of AT1 issuance between 14 and 20 February that attracted an aggregate \$16bn of orders. The Dutch bank's \$1.25bn 6.75% perpetual non-call five alone attracted some \$8bn of demand, while the Swede

could price its \$500m perpetual non-call five flat to through fair value.

US dollar issuers could beat funding costs in euros on an after-swap basis, but the euro market was proving just as fertile for financial institutions staying closer to home. The likes of KBC, Erste, UniCredit and BBVA all entered the AT1 market from 26 February to 19 March, only paying new issue premiums of up to 12.5bp and in some cases zero. UniCredit attracted some EUR4.5bn of demand to its EUR1bn 7.5% perpetual non-call five, while KBC set a coupon low for the year of 4.75% in its EUR500m perpetual non-call five.

A catalyst for issuers to hit the market was when reset spreads narrowed towards 400bp, according to Hoarau.

“When dealers began giving strong core issuers pricing indications with headline coupons of mid-4% in perp non-call five format, as a borrower, you get the feeling that, OK, the market is superb and I can’t miss out on such an opportunity,” he said. “The tone can turn around very quickly.”

The benign market conditions also allowed issuers who had postponed deals late last year to successfully revive and satisfy their ambitions. Among this cohort were Van Lanschot and Volksbank Wien, who both withdrew from the market in

October 2018 but could execute their modestly-sized AT1s in the improved conditions of late March and early April. The Dutch issuer priced a EUR100m perpetual non-call five with a coupon of 7.5% and the Austrian a EUR220m perpetual non-call five at 7.75%.

“These may be less liquid, less well established names,” said Hoarau, “but given the strength of the market backdrop, there is clearly demand for these yields from investors seeking performance and ready to face the mark to market risk.”

A debut AT1 for Italy's Banco BPM gave this bullishness perhaps its sternest test on 11 April, when it sold a EUR300m perpetual non-call five, with mixed results. The AT1 transaction — the first from a second tier Italian bank — was only modestly oversubscribed, demand dropping from over EUR600m to EUR375m during execution with pricing tightened from IPTs of the 8.875% area to 8.75%.

Indeed, the extent to which market and economic conditions have reverted towards those seen during the excesses of the QE era — with the 10 year Bund, for example, having moved back into negative territory — have prompted a renewed reappraisal of the outlook.

“The market is becoming increasingly fragile and the direction of the market over the rest of the year is increasingly uncertain,” said Hoarau.

On the one hand, he said, economic data could improve, pointing to a stabilisation of global growth, with rates edging higher and the bull market continuing. On the other, economic data could deteriorate further, with markets vulnerable

## TD sets tight Canadian senior bail-in marker

Toronto-Dominion Bank laid down a tight marker for Canadian banks in the first bail-in-able senior euro benchmark from the country on 16 April, pricing the EUR1.5bn five year deal well inside European senior non-preferred debt, with Bank of Nova Scotia quickly following.

Under their bail-in regime introduced last year, Canadian banks do not — unlike EU banks — have a senior preferred/senior non-preferred distinction (or comparable HoldCo/OpCo issuance) designating which debt is bail-in-able. Instead, all new senior unsecured debt issued since September is bail-in-able, while earlier issuance is not.

TD's leads went out with initial price thoughts of the mid-swaps plus 60bp area for the five year euro benchmark before setting guidance of the 40bp area and ultimately pricing a EUR1.5bn

(C\$2.26bn) issue at 38bp over on the back of some EUR4.5bn of orders.

The re-offer spread was around fair value based on legacy TD euro debt plus a subordination premium, or arguably inside fair value based on EU banks' SNP/HoldCo debt.

Cited as key to the tight spread was the rating of TD's debt: Aa3/A from Moody's and S&P.

Bank of Nova Scotia priced a EUR1bn five year trade at 43bp over the next day, following IPTs of the 60bp area and guidance of 45bp, on the back of orders approaching EUR2bn.

The 5bp pick-up over TD's issue was attributed to the lower rating of BNS's debt, A2/A-/AA- from Moody's, S&P and Fitch, although the differential was lower than that in US dollars, where such BNS debt trades 10bp-15bp wide of its peer. ●

to a repeat of the second half of 2018.

In the near term, several positives point to the market going higher still, suggested Hoarau: excess liquidity remaining intact; the risk of an escalation in US/China trade tensions falling; time being bought through a Halloween Brexit; central banks across the board, and particularly in China, responding to the economic slowdown.

“And most importantly, TLTRO III is looming,” he said, “namely another round of cheap funding, with the ECB pouring cash into the system. However,

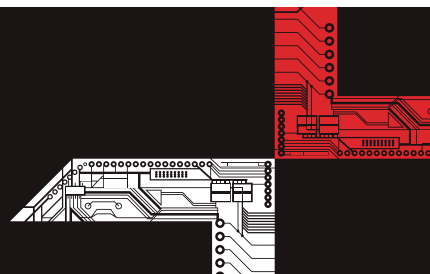
in the very short term fundamentals will be monitored — economic datapoints and corporate earnings — to gauge the market's potential.

“The buy-side globally will continue to be selective, but constructive, with a stronger bias towards quality and liquidity in continental Europe, where investors will continue to drive core IG sub debt,” added Hoarau. “Meanwhile, the support and the role played by UK buyers in primary will continue to be decisive and instrumental for anything higher beta, less liquid and with sub-investment grade ratings.” ●



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HE HAS THE COURAGE TO LOSE SIGHT OF THE SHORE

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## Coventry AT1 tender/new issue promises savings

Coventry Building Society offered a template to more economically manage upcoming calls of Additional Tier 1 last month when it launched a tender offer for an AT1 ahead of its first call and less than five years since its launch, in conjunction with a new AT1 issue.

Under CRR, issuers are prohibited from reducing AT1 or Tier 2 issues before their fifth anniversary except for in certain restricted circumstances — if the instruments face regulatory disqualification or unfavourable changes to their tax treatment; or, in exceptional circumstances, if they are exchanged for capital of the same or better quality. The latter possibility had previously only been tested in Tier 2, by Standard Chartered and Bawag last year.

However, Coventry Building Society gained approval from the UK's Prudential Regulation Authority (PRA) to on 25 March launch a tender offer for its only outstanding AT1, a £400m (EUR462m) 6.375% perpetual issue, ahead of its first call on 1 November and less than five years since its launch in June 2014. The tender was conditional upon the successful issuance of a new AT1, a £415m perpetual non-call 5.5, which was launched the following day and priced at 6.875%.

According to market participants, the PRA will have allowed the exercise by virtue of treating it as equivalent to an exchange.

The key advantage for issuers of following Coventry's example is likely to be reducing the cost of carry incurred by prefinancing upcoming calls ahead of time. This was highlighted by Gary Kirk, partner and portfolio manager at TwentyFour Asset Management, which held a significant holding of almost 60% of the outstanding AT1 and precommitted to taking at least 25% of the new issue. He noted that issuers, particularly less frequent ones, could face the quandary of deciding between refinancing early or waiting to closer to call dates and risk facing higher levels.

"We believe that the announcement by Coventry Building Society yesterday afternoon is a novel solution to this quandary," he said, "which we expect will be strongly



welcomed by many borrowers who would be looking at the potential refinancing of their AT1 capital and are considering the punitive costs of overlapping new securities with those being refinanced."

Coventry also said that the tender offer and new issue would provide liquidity to holders of the old AT1 bond, whose liquidity would be hit if the significant holding were to be removed.

The building Society attracted some £650m of orders to the new AT1 on 26 March, with priority to be given to investors tendering existing holdings in the

new AT1 being much more expensive, having a reset spread some 170bp higher.

Donchev nevertheless cited several motivations for the trade:

- Coventry Building Society wishing to protect its reputation for being very correct with bondholders.
- This in turn is motivated by further MREL needs and the concentrated GBP sterling investor base, which can under circumstances limit market access for a small issuer or elevate its costs of funding.
- It enables the execution of the new AT1 deal, with the need to effectively manage credit lines for this concentrated investor base. This could have been of particular relevance to the key investor.
- Brexit and issuance context: the issuer elected to go for relatively stable market conditions, which may not have been available thereafter, particularly in the event of a no-deal Brexit.

"The transaction is highly issuer-specific," he concluded, "yet it has important takeaways for smaller banks who may be facing AT1 and MREL funding requirements."

EU issuers will meanwhile face greater flexibility on similar issues under CRR2, noted Donchev, with the updated regulation introducing in Article 78 (4) (d) a provision allowing replacement of an existing instrument ahead of its fifth anniversary by a cheaper one. ●

**'It has important takeaways for smaller banks'**

tender. On 2 April Coventry announced that £385.1m of the outstanding issue was validly tendered and accepted for purchase, equivalent to a 96.275% hit rate.

Doncho Donchev, DCM solutions, Crédit Agricole CIB, said that in Coventry's case, the issuer will not have made any material savings on replacing AT1 early and avoiding the cost of carry — even if it achieved interest savings amount to an estimated £5.377m, incorporating a 102.25 tender offer price — once the costs of the new AT1 issuance and liability management exercise are taken into account. He furthermore noted that the issuer could have chosen to not call the outstanding AT1, with the



## Green bond debut mitigates Danske premium

An inaugural Danske Bank green bond on 12 March allowed it to mitigate concerns over its role in a money-laundering scandal, with the EUR500m no-grow five year non-preferred senior deal priced at a level well inside where a conventional bond from the Danish issuer would likely have come.

Danske announced plans for its debut on 5 March, when it published details of a group green bond framework, which allows for issuance across different formats and entities in different jurisdictions, and kicked off a roadshow the next day.

Its leads went out with IPTs of the mid-swaps plus 185bp area for Danske Bank A/S's EUR500m (DKK3.73bn) no-grow five year non-preferred senior issue, rated Baa2/BBB+/A. Orders topped EUR1.25bn within an hour and guidance was set at the 170bp area with books above EUR2bn in less than two hours. The pricing was ultimately set at 165p over mid-swaps and a lead syndicate banker said that this was flat to Danske's curve — "undoubtedly a tighter end-pricing than would have been achieved from a conventional non-preferred senior benchmark," he added.

This contrasted with a new issue premium of some 15bp paid by Danske on 22 February for a EUR1.25bn three year non-preferred senior issue re-offered at 155bp over mid-swaps, and although the size of the new green issue was more limited and market conditions had further improved, the green nature of the new issue was cited as a key factor in the issuer being able to limit its funding costs — a lead banker estimated the "greenium" was in the high single-digits. The green format was also seen as boosting the audience for the trade, with around 250 investors involved versus 160 in the preceding deal, and strong involvement from green/SRI funds, according to the lead banker.

"We are very pleased with the transaction," said Bent Callisen, head of group funding at Danske. "The number of accounts participating and the size of the order book underlines to us that investors generally and despite the Estonian case are comfortable with our core fran-



chise, as we have also seen in other recent transactions.

"The green element helped us achieve a broad distribution with more than 250 investors participating, and we see the spread as a very good outcome, yet also allowing for immediate performance in the secondary market."

Danske's spreads widened sharply last year as a result of its role in a money-laundering scandal, with the results of an investigation into its Estonian branch released in September 2018, and it continues to trade wide of its peers. Some

provided on our governance and control investments."

George Kalbin, director, FI syndicate at Crédit Agricole CIB, said Danske had adopted a prudent approach in first launching the three year non-preferred senior issue in February, having earlier raised \$3bn in a dual tranche non-preferred senior deal in January.

"They were thorough in their investor work and showed that they had market access in the US and with a defensive trade in euros," he said. "Their spreads rallied strongly on the back of that and they could then return with the green bond and erode the new issue concession completely.

"Investors may have had their questions on ESG aspects, but clearly the levels at which they are trading at right now are attractive," he added. "We are talking about a solid Nordic bank at a triple-digit spread, and hopefully the worst is behind them, so you do have an upside going forward."

Callisen said the success of the green bond also reflected Danske's sustainability strategy.

"Our ambition is to drive sustainable progress and positive impact in the societies we are part of as outlined in our Societal Impact Strategy 2025," he said. "Furthermore, we see demand by investors for this particular product and we see it as an opportunity to diversify our investor base, which hopefully will warrant the cost of establishing and maintaining the programme." ●

**'Our ambition is to drive sustainable progress'**

market participants had questioned how the events might influence interest in the green bond if ESG-oriented investors were concerned about governance issues at the bank.

"We have made substantial investments since 2014 to improve our set-up, capabilities and competencies for combating financial crime," said Callisen. "However, as financial crime continues to evolve, we will continue to invest substantial resources in combating financial crime.

"We do trade at elevated spreads due to the Estonia case, but we have seen in recent issuances that investors overall are comfortable with our core franchise and also appreciate the disclosure we have

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## Volksbank Wien in revived EUR220m AT1 debut

Volksbank Wien on 2 April successfully revived an inaugural AT1 transaction initially scheduled for October 2018, quickly executing a EUR220m perpetual non-call five transaction at 7.75%, a level seen as attractive by investors relative to benchmark AT1 from Austrian peers. Michael Santer, head of treasury and private banking at Volksbank Wien (pictured), spoke to *Bank+Insurance Hybrid Capital* about the improvement in fortunes.



**By way of background, how far you have advanced in the strategic re-orientation of the bank and what are your aspirations for the future?**

**Michael Santer, Volksbank Wien:** After taking over the role of the “central organisation” of the Association of Volksbanks in 2015, Volksbank Vienna and the other member banks of the Association agreed on a significant restructuring programme. Over the past couple of years, more than 60 individual banks were merged down to nine banks today. These nine banks are now serving 1.1 million customers in Austria, and 95% of our business is local business with retail and SME customers. With that, a lower cost base was achieved, and the Association made a net profit after taxes of EUR115m in 2018, compared to EUR61m in 2017. Further optimisation is going to be reached by centralising back-office functions. Our goal is to reach a cost-income ratio of 60% over the next three years.

**What is the strategic rationale for the inaugural CRR-compliant AT1 transaction, and your value proposition for AT1 investors?**

**Santer, Volksbank Wien:** As there was pretty much no AT1 outstanding, we took the opportunity to fill up our 1.5% RWA bucket with AT1 to optimise our capital structure.

Investors appreciate our solely Austrian retail and SME business, and that we have delivered what was promised two years ago when offering Tier 2. The merger programme was successfully finished mid-2018, revenues have been increased, and our NPL ratio is now well below 3%. Our continuous work on optimising the Association's structure and saving further costs shows our unabated willingness to become a modern cooperative banking group.

**You have succeeded in issuing both Tier 2 and AT1 while some other predominantly domestically-oriented banks within the Eurozone are struggling to approach investors. What are the main factors that you see behind your successful AT1 issue?**

**Santer, Volksbank Wien:** We did a lot of investor work behind the scenes after we had to experience tough market conditions in fall 2018. The outstanding Tier 2 issue and its good performance was of course helping with regards to name recognition and investor attention. However, we would agree with the view that the market for sub-benchmark transactions is extremely difficult. Many regular AT1 investors are not participating because of the illiquidity of such transactions, and not because of the credit or yield concerns. As an issuer, it takes some

time to understand that it is easier to sell EUR500m than EUR250m, and that positive feedback on the credit doesn't mean you'll find the investor in the orderbook.

**What is your main takeaway from the completion of the AT1 issuance?**

**Santer, Volksbank Wien:** That we had to postpone our deal last year was a wake-up call for us. We realised that it takes a lot of time to convince investors of your story and that you have to earn their trust. Senior management has to be fully engaged, and besides all the hard work, you have to pick the right time to tap the market.

**Following your successful debut of the Volksbank Wien name in the international debt capital markets in 2017 via an inaugural CRR-compliant Tier 2 transaction, you have in 2019 completed your inaugural covered bond and now the AT1 transaction. How does DCM funding fit in your overall ALM strategy and what are the next transactions that you will contemplate? What will be the main drivers for such transactions?**

**Santer, Volksbank Wien:** With our successful AT1 and Tier 2 transactions, we have increased our capital position according to our business plans. As mentioned, we used the opportunity to match the 1.5% RWA bucket.

The Association had a loan growth rate of 5.7% in 2018, therefore our very well received inaugural covered bond transaction is supporting our strong funding base. In the covered bond market we want to become a regular issuer and our cover pool has sufficient collateral to issue at least one benchmark transaction every year.

Further plans mainly depend on our MREL requirements, which have not yet been published by the SRB. A senior non-preferred transaction would be the logical next step, but we would not expect that to happen in the near future. ●



## Patient Aegon boosts RT1 with inaugural EUR500m

Aegon attracted some EUR2.5bn of orders to an inaugural Restricted Tier 1 on 28 March, adding welcome supply to the still-thin RT1 sector, after having postponed the debut in October in less receptive market conditions.

The Dutch insurer had originally announced plans to approach the market with its first RT1 issuance on 9 October, with a perpetual non-call 10.5 euro benchmark slated to follow investor meetings. However, it put its plans on hold the following week as market conditions deteriorated.

But with credit markets in buoyant shape towards the end of the first quarter, Aegon revived its mandate and approached the market anew on the morning of 28 March.

Initial price thoughts of the 6% area were set for the EUR500m no-grow perpetual non-call five instrument, rated Baa3/BBB-/BB+. Orders passed EUR1bn in around an hour and a half, and after three hours guidance was set at the 5.75% area, plus or minus 0.125%, will price in range, with books above EUR2bn. The new issue was ultimately priced at 5.625%, with a reset spread of 521bp, on the back of over EUR2.5bn of demand, pre-reconciliation.

"It was worth the wait," said André Bonnal, FI syndicate at Crédit Agricole CIB. "It felt like unfinished business as they did not come to the market at the end of 2018, but now they have successfully priced their debut, with the deal five times covered and performing well in the secondary market. It's a really good development for the RT1 market."

He noted that since being opened in October 2017 by ASR Nederland with its EUR300m trade, the euro RT1 sector has remained thin, seeing only one other liquid benchmark, in June 2018 when CNP Assurances sold the first EUR500m trade.

"Furthermore, those were printed when the market was very strong, so the RT1 market had never really performed," added Bonnal.

However, thanks to the first quarter rally, CNP Assurances' RT1 was trading back at par, while prevailing market levels allowed Aegon to go out with a 6% coupon as its starting point, he noted,



while Aegon also offered a higher reset spread than either ASR or CNP.

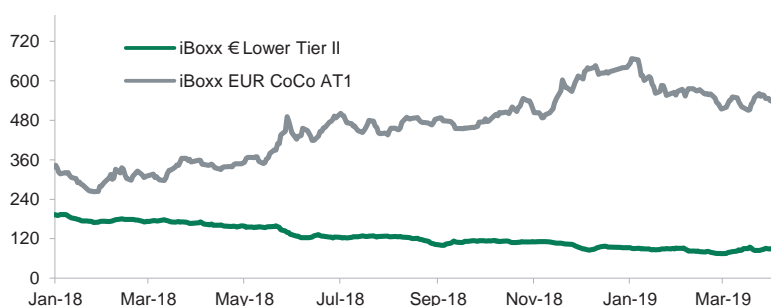
"It clearly offered good value in terms of reset spread and headline coupon," said Bonnal, "especially when we know that yields are dropping and the hunt for yield is going to continue. Plus it was investment grade-rated."

Aegon said it intends to use the pro-

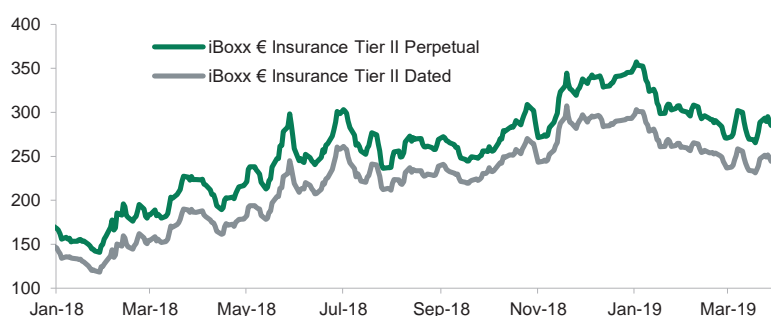
ceeds from the issuance for redemption of grandfathered RT1 securities.

"The successful inaugural issuance of these RT1 securities demonstrates our financial strength and creditworthiness," said Matt Rider, CFO of Aegon. "This transaction provides us with financial flexibility to call part of our outstanding grandfathered securities." ●

Secondary bank subordinated indices (bp)



Secondary insurance subordinated index (bp)



Source: Markit, Crédit Agricole CIB

## Generali bullet starts insurance sub with a bang

Generali started subordinated issuance from insurers with a bang in January when it attracted over EUR5bn of orders to a EUR500m 10 year bullet and achieved its lowest ever coupon on a sub trade, highlighting the attractive opportunities for issuers away from callable structures.

Ahead of the Italian's Tier 2 transaction, the only significant supply in the insurance space had been a EUR1.5bn senior deal for Allianz on 8 January, when the market was open for New Year business but conditions were relatively lacklustre.

Split into EUR750m seven and 11 year tranches, Allianz's nevertheless deal attracted more than EUR2.5bn of combined demand, allowing pricing on each tranche to be tightened 15bp from initial price thoughts of the mid-swaps plus 80bp area and 65bp area, respectively, to 50bp and 65bp, implying new issue premiums of 9bp and 15bp-plus.

As credit markets turned increasingly bullish through January on the back of dovish central bank noises, primary market conditions turned more attractive and the insurance sector proved ripe for new issuance.

"After having outperformed in 2017, the insurance sector was one of the worst performers in 2018, and we also had the general widening that occurred in to the end of the year," said André Bonnal, FI syndicate at Crédit Agricole CIB.

"However, it offered some quite interesting entry points for cash rich investors, and we then saw the sector really performing and spreads tightening substantially, similar to what happened in the banking sector."

Generali moved to take advantage of the receptive market by announcing the mandate for its EUR500m no-grow 10 year bullet Tier 2 issue on the morning of 21 January.

Following initial price thoughts of the 4.625% area, the leads after two hours set guidance at the 4.125% area, plus or minus 0.125%, with books above EUR5bn. They then moved inside this guidance on the back of over EUR4.25bn of demand



and over 400 orders at the tighter level to set pricing at 3.875% — which the leads said was inside fair value of 4%-4.1%.

"It was clearly a blow-out," he added. "I don't think you'll find many investors who dislike their capital generation, business model and capital metrics. The only concern may be that it is partly Italian risk, but at the same time that means you get really well compensated with a much higher spread than you would otherwise have for such a strong name."

**'It offered some quite interesting entry points'**

Generali group CFO Cristiano Borean said the deal was issued in line with the insurer's plan to reduce its financial debt over a three year period and lower interest expense, with the EUR500m issued to reimburse EUR750m, "with a significant reduction in the cost of debt", and the EUR250m difference financed from internal resources.

"The success of this transaction reflects our solid financial position and the trust investors have in our group's strategic plan announced in November 2018," he said.

"The 10 years bullet structure ensures the preservation of the Solvency 2 quality of capital and provides our credit inves-

tors an additional instrument through which take exposure to Assicurazioni Generali debt."

Bonnal said that as well as coming through fair value, the 10 year bullet Tier 2 was priced around 75bp inside where Generali would probably have priced a 30 non-call 10 instrument, noting that, not being rated by S&P, the Italian has greater flexibility to choose between the bullet and callable structures.

"Investors overall tend to prefer simpler, bullet structures over callable ones, especially those who are not so well versed in the insurance sector," he added, "and even if it only makes a difference at the margin, the prevailing pricing differential achieved showed that it is definitely worth considering."

The next insurance Tier 2 issuer into the market, CNP Assurances, followed Generali's example to similar effect.

The French insurer's leads went out with IPTs of the mid-swaps plus 250bp area for the EUR500m no-grow 10 year bullet on 25 January, before moving to guidance of the 225bp area and re-offering the paper at 215bp over on the back of some EUR3.3bn of demand from around 220 accounts. The pricing was deemed flat to fair value and, as for Generali, marked the lowest coupon achieved by the issuer on a Tier 2 deal, 2.75%.

According to Bonnal, the re-offer was also some 62.5bp inside where a 30NC10

would have been priced. He noted that CNP Assurances opted against a 30NC10 despite being rated by S&P, as the insurer is very well capitalised under the rating agency's metrics and highlighting just how attractive the bullet structure was at the time.

Subsequent issuers, however, returned to the more traditional callable structure.

Zurich Insurance, via Argentum Netherlands BV, issued its EUR500m no-grow deal on 11 February, going out with IPTs of the 240bp area before moving to guidance of the 225bp area, plus or minus 5bp, will price in range, on the back of books in excess of EUR1.85bn. The transaction was re-offered at 220bp over on the back of more than EUR1.9bn of demand good at that level.

Swiss Re then attracted EUR3.4bn of demand to a EUR750m 30NC10 on 14 March, allowing it to tighten pricing from IPTs of the 215bp area to guidance of 190bp-195bp, and ultimately a re-offer spread of 185bp. Both the Swiss trades were priced flat to fair value amid an ever-tightening market.

"They illustrate how indiscriminately



strong the primary market has become," said Bonnal. "Investors have paid scant attention to whether or not there was any premium in a trade because they need to put money to work. And once it is clear the books are multiple times oversubscribed, they know it is going to perform."

Two weeks later Swiss Re attracted even more demand for a \$1bn (EUR884m)

30NC10 Tier 2, pulling in over \$6bn of orders on 27 March and tightening pricing from initial talk of the 5.375% area to 5%, implying a new issue premium of flat to 12.5bp.

"It was their first issue in 144A/Reg S format for quite a while, so there was a big pool of US onshore investors they could tap into," said Bonnal.

Marsh & McLennan had been similarly successful crossing the Atlantic in the other direction on 27 March, when it generated over EUR10bn of demand for a debut EUR1.1bn dual-tranche euro senior OpCo trade. Pricing for the EUR550m 7.5 and 11 year tranches was tightened by 30bp during execution thanks to the level of demand, but Bonnal noted that this was still 40bp-50bp wide of where the issuer traded in dollars.

"The spread they were showing for a strong triple-B/single-A American P&C company really helped," he said, "particularly if you are a currency agnostic investor who is likely invested in Marsh dollar bonds and could get your hands on the same credit at a premium over the dollar curve." ●

## League tables

**Bookrunners all European FI hybrids (euros and US dollars)**  
Year-to-date mid-April 2019

	Managing bank or group	No of issues	Total EUR m	Share (%)
1	Crédit Agricole CIB	8	3,298	12.0
2	Barclays	9	3,180	11.5
3	UBS	8	2,981	10.8
4	BNP Paribas	11	2,506	9.1
5	HSBC	12	1,756	6.4
6	Goldman Sachs	10	1,330	4.8
7	Citi	10	1,198	4.4
8	Deutsche Bank	7	1,091	4.0
9	JP Morgan	8	1,015	3.7
10	Morgan Stanley	8	1,005	3.7
11	BofA Merrill Lynch	7	940	3.4
12	Santander CIB	5	810	2.9
13	Credit Suisse	5	769	2.8
14	UniCredit	5	725	2.6
15	ING	3	501	1.8
	<b>Total</b>	<b>48</b>	<b>27,552</b>	

Source: Dealogic, Bond Radar, Crédit Agricole CIB

**Bookrunners all investment grade financials (euros)**  
Year-to-date mid-April 2019

	Managing bank or group	No of issues	Total EUR m	Share (%)
1	Crédit Agricole CIB	45	10,869	7.6
2	Société Générale CIB	36	9,930	6.9
3	BNP Paribas	43	9,812	6.8
4	HSBC	46	8,116	5.6
5	Deutsche Bank	34	8,031	5.6
6	Natixis	38	7,091	4.9
7	UniCredit	52	6,796	4.7
8	Citi	26	6,229	4.3
9	LBBW	37	5,693	4.0
10	Barclays	34	5,368	3.7
11	JP Morgan	21	5,093	3.5
12	ING	30	4,760	3.3
13	Credit Suisse	25	4,504	3.1
14	UBS	25	4,029	2.8
15	Commerzbank	23	3,514	2.4
	<b>Total</b>	<b>183</b>	<b>143,979</b>	

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



# European banks

## Headwinds limit capital build in 2018, more to come

The European Banking Authority's Q4 2018 Risk Dashboard, published on 29 March, showed 2018 to have been a difficult year for capital generation for the European banking system as a whole, as evidenced by the decreasing CET1 ratio over the period, *write Crédit Agricole CIB's DCM solutions team.*

This is certainly the result of a combination of factors, including subdued profitability, various regulatory impacts, but also banks' dividend policies. The CET1 evolution has indeed to be assessed in light of the distance to minimum CET1 requirements, as some banks chose to prioritise dividend payments (or

even share buybacks) when the buffer to those requirements is consistent with the bank's target.

Here we focus on the regulatory headwinds.

We have analysed the full-year 2018 results of a sample of European G-SIBs to determine the key items that affected capital generation in 2018, as well as future impacts based on the following methodology:

- The change in CET1 ratio year-end 2017 vs. year-end 2018 in basis points is calculated before the first-time impact of IFRS9. Hence IFRS9 appears as a separate item in the table.

- Some banks report the capital movements on a quarterly basis only, which have been annualised for the purpose of this analysis. The "other" item in the table is also used as a balancing item when the sum of the reported capital impacts does not result in the year-end CET1 ratio.
- The future identified impacts are not always disclosed in the results presentations. The Q&A session was therefore used as a source to find some management guidelines.

Among the peer group, half of the banks have seen their capital ratios de-

CET1 Evolution of Selected Banks in 2018

	FY17	FY18	Change bp	Distance to CET1 requirement (bp)*	2018 development	Future headwinds (communicated)
Standard Chartered	13.6%	14.1%	+50	412	-10 IFRS9, +40 net income, -50 dividends, -0.4 FX, +113 RWA	Basel IV (5-10%)
HSBC	14.5%	14.0%	-50	261	+10 IFRS9, +30 result post div, -30 RWA, -20 share buyback, -20 FX, -20 other	Legal proceedings, regulatory matters, customer remediation
RBS	15.9%	16.2%	+30	468	+30 IFRS9, +130 results post div, -80 pensions, -50 DoJ,	-20 IFRS16, Mortgage floors, Basel 3
Barclays	13.3%	13.9%	+60	110	140 profit, -53bps dividends, -33bps redemption of cap instr, -9bps pension, +16 RWA, -71 L&C	-
Crédit Agricole Group	14.9%	15.0%	+10	490	-26 IFRS9, +97 result, -17 RWA, -25 OpRisk, -11 OCI, -13 DGS, +4 other	-7 IFRS16
Société Générale	11.4%	11.2%	-20	134	-14 IFRS9, +68 result post div, -54 RWA, -8 DGS, -12 other	-5 IFRS16, TRIM impact of (-30,-50)bps in 2019
BNP Paribas	11.8%	11.8%	0	300	-10 IFRS9, +50 result post div, -20 RWA, -10 OpRisk, -10 DGS	-10 IFRS16
BPCE	15.2%	15.8%	+60	434	+69 result post div, -26 RWAs, +34 shares issue, -12 other	-38 disposals & acquisitions, -7 IFRS 16, -5 TRIM
ING	14.7%	14.5%	-20	266	-20 IFRS9, +70 result post div, -20 RWA, -50 other	~-200bps Basel 3
Deutsche Bank	14.0%	13.6%	-40	154	-24 IFRS9, -27 result, +10 RWA	-20 bps IFRS16,
Santander	10.8%	11.0%	+20	158	-27 IFRS9, +66 result post div, -20 other	-20 IFRS16
UniCredit	13.6%	12.1%	-150	200	-91 IFRS9, +56 net result post div, -78 OCI, -53 RWA, +13 other	EBA guidelines, calendar provisioning, FRTB, Basel IV

\*CACIB estimate: The distance to CET1 requirement is based on a fully-loaded basis and including AT1 & T2 shortfalls; Source: Crédit Agricole CIB

creasing. However, the CET1 position also needs to be seen in light of the distance to minimum CET1 requirements. Key impacts include:

- UK banks have been notably impacted by litigations and pensions.
- French banks communicate on the contributions to the Deposits Guarantee Scheme, with an impact ranging from -8bp to -13 bp.
- Groupe Crédit Agricole and BNP Paribas have been negatively impacted by the change of approach to operational risk, which has been brought to the standard method level.
- RWA movements have impacted banks across the board, in particular a

sharp increase in market risk for a few banks (e.g. SG).

- UniCredit is particularly exposed to the Fair Value Through Other Comprehensive Income (OCI), which reflects the evolution of the BTP spread.

In the coming years, banks will continue to face significant regulatory and accounting headwinds.

- Accounting-wise, IFRS16 Leases is effective for annual reporting periods starting on 1 January 2019. Several banks have already communicated the impact, which will range from 5bp to 20 bp.
- The ECB TRIM (Targeted Review of

Internal Models) exercise will continue to produce its effects in 2019.

- EBA guidelines and calendar provisioning have been cited by UniCredit, in line with the bank's previous communication.
- Longer term, the finalisation of Basel III will affect the banks' capital positions to various degrees. A number of banks in the peer group have not communicated on the potential impact.

In light of the future headwinds identified above, capital generation in the banking sector is likely to remain a key theme for stakeholders. •

# Regulatory updates

## EU ambassadors endorse full RRM package

On 15 February, EU ambassadors approved an agreement reached between the Romanian presidency of the Council of the EU and the European Parliament on a set of revised rules aimed at reducing risks in the EU banking sector. The package includes two regulations and two directives, relating to:

- Bank capital requirements (amendments to regulation 575/2013 and directive 2013/36/EU)
- The recovery and resolution of banks in difficulty (amendments to directive 2014/59/EU and regulation 806/2014)

One of the major changes brought by the revised CRR (CRR2) is the introduction of a 3% leverage-based requirement (Article 92(d)), intended to be a backstop for risk-based requirements. Additionally, a leverage ratio buffer requirement is added on top of the 3% minimum requirement for G-SIBs only, equal to 50% of the corresponding G-SIB buffer requirement, while Pillar 2 requirement (P2R) and guidance (P2G) can also be used in order to top up the leverage-based requirements.

CRR2 also revised or introduced new

features for Additional Tier 1 (AT1) and Tier 2 instruments. More specifically, AT1 and Tier 2 instruments governed by non-EU law are required to include legal or contractual provisions ensuring the effectiveness and enforceability of bail-in measures, resulting in a requirement for the insertion of a Bail-In Recognition Condition (BIRC). Banks with non-EU subsidiaries also benefit as Point of Non-Viability (PoNV) and loss absorption will be allowed to be triggered by the third country authority while the CET1 loss absorption trigger can be based on the third country law or contractual provisions, although EBA may require dual trigger at the level of the third country subsidiary and at consolidated level for consolidated recognition. Finally, outstanding instruments not complying with the new requirements defined by CRR2 will be subject to a six year grandfathering period after CRR2 enters into force.

### RWA-based vs. Leverage requirement

<b>Pillar 2 guid.</b> (Art. 104(b) of CRD)	<b>Pillar 2 guid.</b> (Art. 104(b) of CRD)
<b>Combined buffer req.</b> (Art. 128(6) of CRD)	<b>Leverage ratio buffer</b> (Art. 92(1a) of CRR)
<b>Pillar 2 req.</b> (Art. 104(1)(a) of CRD)	<b>Pillar 2 req.</b> (Art. 104(1)(a) of CRD)
<b>Pillar 1</b> (Art. 92(1) (a) to (c) of CRR)	<b>Pillar 1</b> (Art. 92(1) (d) of CRR)
<b>RWA-based req.</b>	<b>Leverage-based req.</b>

Source: Crédit Agricole CIB

The Trilogue agreement brings many changes to the Bank Recovery & Resolution Directive (BRRD) initially adopted in Spring 2014. The revised BRRD (BRRD2), among other things, introduces subordination requirements, Maximum Distributable Amount (MDA) restrictions linked to MREL, and revisions to the features of Eligible Liabilities.

The MREL requirement will be based on the maximum of:

- $(LAA) + (RA) + (MCC)$ :  
 $(P1 + P2R + CBR) + (P1 + P2R) + (CBR - CCyB)$
- 2 x Leverage requirement (3%)  
(LAA: Loss Absorption Amount, RA: Recapitalisation Amount, MCC: Market Confidence Charge, CBR: Combined Buffer Requirement, CCyB: Countercyclical Buffer)

Additionally, the following subordination requirements have been set based on CRR2:

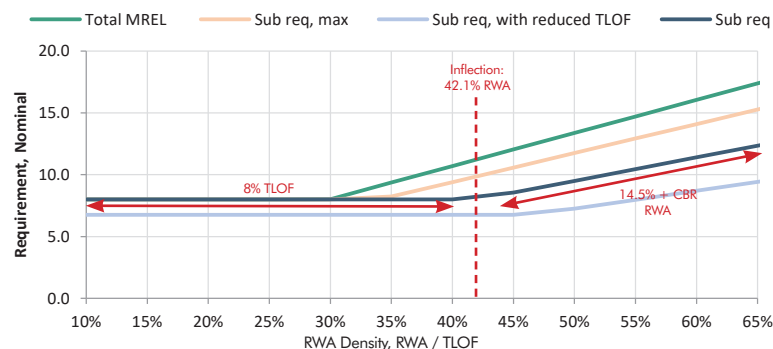
- G-SIB: 14.5% of RWA or 6% of LRE
- Top Tier banks2: 13.5% of RWA or 5% of LRE

The subordination requirement should, however, not be lower than 8% of TLOF for both bank categories (the 8% of TLOF requirement could be increased or reduced subject to certain conditions). Additionally, a subordination requirement cap has been set for Top Tier banks equal to 27% of RWA. Finally, the subordination requirements can be extended to banks not classified as G-SIB or Top Tier.

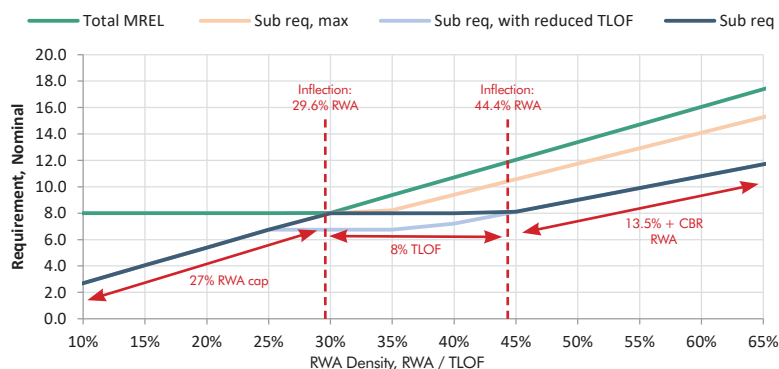
(LRE: Leverage Ratio Exposure; Top Tier bank: total balance sheet > EUR100bn, or balance sheet < EUR100bn but considered as systemic by the resolution authority)

BRRD2 also introduces MDA restrictions based on MREL breach (M-MDA). Although breaching the binding MREL requirement does not automatically translate into MDA restrictions, the bank will be assessed monthly for the duration

#### BRRD2: MREL sensitivities for a G-SII 1.5% P2R, 1% G-SII, 1% CCyB, Total Assets 100



#### BRRD2: MREL sensitivities for a Top Tier bank 1.5% P2R, 1% O-SII, 1% CCyB, Total Assets 100



Source: Crédit Agricole CIB

of the breach, with the resolution authority being required to impose MDA after nine months of breach (subject to certain conditions).

Regarding the revisions to Eligible Liabilities contributing towards the MREL requirement, instruments should not be subject to set-off or netting arrangements which do not translate into a set-off waiver term, but inclusion in future issuances makes recognition of compliance with this article by resolu-

tion authorities easier. Additionally, how long callable senior non-preferred instruments will count towards the MREL requirement will be decided by the EBA as an RTS must be developed on the form and nature of “incentives to redeem” six months after CRR2 enters into force. Finally, actions referred to in Article 72b(2)(j) of CRR2 (early calls, redemptions, repurchases or repayments) require prior authorisation by the resolution authority. ●

#### ECB publishes results of the stress test for 2018

On 1 February, the European Central Bank (ECB) published aggregate results for the 2018 stress test for all participating banks under its supervision. The results show that the 87 banks supervised by the ECB became more resilient to financial shocks over the past two years. Our key takeaways:

- Banks directly supervised by the ECB show improved capital basis, with higher capital buffers than in 2016 (despite a more severe adverse scenario than in the 2016 stress test)
- Average final CET1 for all 87 banks after adverse stress scenario stood at 10.1%, up from 8.8% in 2016
- For 54 medium-sized banks not covered by the EBA stress

test, average final CET1 after adverse stress scenario was 11.8%, up from 8.5% in 2016

#### PRA consults on Pillar 2 capital framework

On 13 March, the UK's Prudential Regulation Authority (PRA) launched a consultation on proposed amendments to the Pillar 2 capital framework. The PRA proposes to update the Pillar 2 capital framework to reflect continued refinements and developments in setting the PRA buffer (Pillar 2B). The PRA also proposes to clarify its approach to assessing weaknesses in risk management and governance, explain the process for updating the benchmarks used to calculate the Pillar 2A requirement for





Michael Benyaya (left), Doncho Donchev (right)  
DCM Solutions, Crédit Agricole CIB  
dcmsolutions@ca-cib.com

credit risk, and correct some minor drafting errors that have been identified in previous publications.

Comments are due by 13 June and the PRA intends to implement the final rules by 1 October.

#### Basel Committee publishes revised minimum capital requirements for market risk

On 14 January, the Basel Committee on Banking Supervision published a revised framework for capital requirements related to market risk incorporating proposals from the March 2018 consultative document into the market risk standards published in January 2016.

Revisions to the January 2016 framework include the following key changes:

- a simplified standardised approach for use by banks that have small or non-complex trading portfolios
- refined standardised approach treatments of foreign exchange risk and index instruments
- revised standardised approach risk weights applicable to general interest rate risk, foreign exchange and certain exposures subject to credit spread risk
- revisions to the requirements for identification of risk factors that are eligible for internal modelling

This revised standard comes into effect on 1 January 2022

#### Basel Committee reports on Basel III monitoring

On 20 March, the Basel Committee on Banking Supervision published the results of its latest review of the implications of the Basel III standards for banks. The report is based on data as at 30 June 2018 for 189 banks, of which 106 were Group 1 banks, defined as internationally active banks with Tier 1 capital of more than EUR3bn. The Basel III minimum capital requirements are expected to be implemented by 1 January 2022 and fully phased-in by 1 January 2027.

Key takeaways from the report:

- On a fully phased-in basis, the capital shortfalls at the reporting date were EUR30.1bn for Group 1 banks at the target level

- The Tier 1 minimum required capital would increase by 5.3% for Group 1 banks (This compares with an increase of 3.2% at end-2017)
- 6 out of 24 G-SIBs reporting total loss-absorbing capacity (TLAC) data have a combined incremental TLAC shortfall of EUR68bn, compared with EUR82bn at end-2017
- The weighted average liquidity coverage ratio (LCR) was 135% for Group 1 banks and 180% for Group 2
- The weighted average net stable funding ratio (NSFR) was 116% for Group 1 banks and 119% for Group 2

#### Danish FSA comments on call options for non-preferred senior instruments:

On 29 March, the Danish FSA (Finanstilsynet) published a press release commenting on the eligibility of call options for non-preferred senior instruments. Following the agreement on the revised CRR (CRR2), the use of call options has been clarified and will be MREL-eligible up to one year prior to the maturity date (and not call date).

#### EC requests EIOPA technical advice on Solvency 2 review

On 20 February, the European Commission (EC) sent a formal request to EIOPA for technical advice on the review of the Solvency 2 directive. The current directive indeed provides that certain items must be reviewed by 1 January 2021, such as the LTG package and measures on equity risk, SCR standard formula (methods, assumptions and standard parameters), calculation of the MCR group supervision and capital management within an insurance/reinsurance group, while the Commission has identified additional areas that are also part of the request to EIOPA. The Commission request notably includes a potential review of the matching and volatility adjustments, further development of a resolution framework, group supervision and own funds in terms of the capital tiering structure in comparison with the banking regulation.

EIOPA is invited to provide its advice by 30 June 2020.

#### EBA updates risk dashboard for EU banks

On 29 March, the European Banking Authority published its risk dashboard for the EU banking sector based on end-2018 data. Compared to 2017, EU banks have an improved asset quality and stable capital position, while profitability remains below long term sustainable levels. More specifically:

- The transitional CET1 ratio was 14.6% in December 2018 (14.9% in 2017). The decrease is driven by an increase in the RWAs
- The fully-loaded CET1 ratio also showed a decrease and stood at 14.4%, compared to 14.6% in 2017
- The asset quality position of EU banks continues to improve, with the NPL ratio continuing its downward path, reaching 3.2% as of December 2018. The coverage ratio was 45.1% in Q4 of 2018, compared to 44.6% in Q4 of 2017
- The RoE increased to 6.5% compared to 6.0% in 2017
- The fully-loaded leverage ratio stood at 5.3% in December 2018 (5.4% in 2017) •

# BBVA

## Capital strategy rewarded

Banco Bilbao Vizcaya Argentaria took advantage of the improvement in market conditions in the first quarter to attract strong demand for AT1, Tier 2 and senior non-preferred at minimal new issue premiums. *Bank+Insurance Hybrid Capital*, in association with Cr dit Agricole CIB, spoke to the Spanish bank's funding team about its strategy, and its views on the latest market and regulatory developments.

**Bank+Insurance Hybrid Capital (BIHC):** You have been very proactive in building up the capital stack of the funding plan in Q1 while boosting the bank's flexibility when it comes to refinancing previous AT1 issues. What were the drivers in the decision process with regards to the timing of the SNP, the Tier 2 and the AT1 transaction?

**BBVA:** The market was not very positive in the last part of 2018, and then in January — even though we saw some issuers tapping the US dollar market for very large amounts — there was high volatility, with prices far away from the last deals that were executed. For example, a senior non-preferred issue for us in January would have been like 80bp wider than what we saw in the last period of stability. We took this into consideration and decided not to tap the market in January but to delay any execution.

At the same time, we have this year a funding plan that envisages the execution of several deals, so when we saw in February a general improvement in market conditions we tapped the market with the Tier 2. This was the first transaction we wanted to execute, because we were facing the call option of the 10 non-call five that we issued back in 2014, and this new issue was partially refinancing the execution of that call option. That is why we announced this first Tier 2 transaction in February at more or less the same time we were announcing the notice to bondholders of the call of the former Tier 2 transaction. These were a couple of factors in our decisions.

The only transaction we feel we accelerated to some extent was the AT1, because the senior non-preferred was a transac-

tion that, frankly speaking, we had wanted to execute in the last part of 2018, but — as I said before — market conditions were not that supportive.

We took the decision to proceed with the AT1 because we have a call option next year — for EUR1.5bn on the transaction we issued in 2015 — and we thought that the best strategy to try to refinance that transaction and be able to execute the call option was to split the refinancing into a couple of tranches. As with all instruments, we have an economic policy regarding AT1 calls, but the difference with this instrument is that reset spreads in terms of euro basis are very volatile and you can face very different situations. Even though we were anticipating the call date almost a year in advance and there is therefore a large cost of carry as we are maintaining the two securities for almost 11 months, we thought that this was the right point in time because in terms of back-end spread we were saving around 56bp, which is quite a lot if you take into consideration the structure of these transactions.

**BIHC:** Were you satisfied with the results and the make-up of the different order books?

**BBVA:** We were positively surprised at the outcomes of these last three transactions. We are not a massive issuer in terms of volumes and we normally spread out the execution of different transactions over the year, whereas here we were executing three transactions in the euro space in a period of just 40 days, but still had a lot of traction on each.







In the first one, the Tier 2, we were kind of cautious about what the right pricing for this instrument would be, given that there had not been much supply during the last months. So we were very prudent, and ultimately we got very strong traction in the book, which peaked at approximately EUR4.5bn. Then we executed the senior non-preferred and the five year maturity proved to be the sweet spot because it also drew almost EUR4bn of demand. And lastly, the AT1 had final demand of approximately EUR3.5bn.

Not only were the books oversubscribed, but also the composition of demand was pleasing. For example, if we compare the AT1 book with the one we got in September 2018, the presence of asset managers has increased materially — this time it was around 80%, which is very high. Geographically, in general we enjoy strong support from France across all products, and specifically from the UK in AT1. Germany is also supportive and Spain, increasingly so. We were also delighted by the granularity of orders, which numbered more than 200.

Additionally, in these transactions we were able to tighten pricing substantially, and the final pricing of all three was close to fair value. The fact that our new issue premium was almost zero reflects the quality of demand and the good momentum in the market.

**BIHC: The five year BBVA SNP launched in February is trading flat to French peers — this would not have been expected a year ago. How do you explain this result?**

**BBVA:** We benefit from some effects that are positive to BBVA. The first is that we profit to an extent from some scarcity value. In terms of MREL, we do not need to raise massive amounts as we are not a globally systemically important financial institution — we just face the MREL requirement, not TLAC. We therefore do not need to raise massive amounts of senior non-preferred — we are raising EUR2.5bn-EUR3.5bn a year, which is not that material, and we can split that into two or three transactions. I believe this is very well understood by the market, which is good for us.

Secondly, we have profited from the work that we have done in servicing and meeting the investor base. In these last three deals we have been very active in visiting investors and exchanging ideas.

And the third factor I would like to highlight is that we have been very transparent about our plans to tap the market. For example, on the last AT1 we were very clear in saying that there may be a second AT1 transaction being executed this year. This is, I think, very valuable for investors to know. We are also transparent about our strategy regarding call options, where investors can see that we are working in advance to prepare for these. There is some discrimination among investors towards issuers in this regard — issuers who are doing their homework and getting the authorisations in advance, versus those who are taking last minute decisions — and in the long term the kind of

strategy we are following pays off, even if sometimes the market values this more than at other times.

**BIHC: Did you get investor feedback regarding the call period of your AT1 following the first call date?**

**BBVA:** We have had a lot of feedback on this issue, although it did not affect the execution of the transaction.

During recent investor meetings — not only in Europe, but also in the US and Asia — it has been a topic that we have raised, since Spanish issuers have, let's say, non-standard quarterly calls, which are an outlier compared to the European standard. There is not a uniform view on this among investors. Some say that they face constraints in hedging such bonds and in valuing them when they are not called — this tends to be a view more among UK investors. But we also have some positive feedback. We had this example of Santander being the first issue not calling an AT1, and a positive effect of the quarterly calls was that the bond did not fall so far in value, because it could be called in the next quarter. That is the first advantage, and a second is that having quarterly calls means that the probability of the bond being called is higher — that is just simple mathematics.

Although there are different opinions among investors, even those who see the quarterly calls in a negative light are not declining to participate in our deals — they simply say that as long as they are granting this extra optionality to the issuer, they may take that into account in their pricing expectations. Our most recent AT1 had exactly the same terms and conditions as when we launched the first under CRD IV in 2013 — we haven't changed the call period — and the investors were all there in the

book, there was no impact on the size or price for BBVA.

**'We have been very transparent about our plans'**

**BIHC: BBVA has already called two AT1 bonds and was the first**

**European bank to do so. How did you approach the economics surrounding the refinancing of the notes? What is the economic tolerance the regulator will give when it comes to economic calls? What tolerance do you use internally to judge economic calls?**

**BBVA:** We have indeed executed a couple of call options and there have been no hard guidelines from the supervisor in this regard. You have to demonstrate your rationale when requesting authorisation to call and there is a section on the economic implications of the call. What we would like to highlight is that BBVA is of course following an economic policy when it comes to call options — and that is widely understood by the market — but there are still two ways in which we have some flexibility. The first is that we can anticipate any call option by prefinancing it, as we have demonstrated previously and again this year.

Secondly, we can combine currencies, which is a strategy that has been excluded elsewhere. We do not believe that you should combine only euros with euros and dollars with dollars — that is not necessary. If you execute a transaction denomi-

nated in euros or dollars, it is because you have exposures, risk weighted assets, denominated in these currencies — you have this natural hedge between the numerator and the denominator of the capital ratio. So if we have RWAs denominated in dollars, we can issue AT1 denominated in dollars because it naturally hedges those assets, and that is what needs to be taken into consideration. So if we face a euro call option, for example, where it is not economic to refinance it in euros, it could be the case that we consider refinancing that in US dollars if it makes sense from this hedging perspective. And if you can combine currencies thus, that makes a big difference.

**BIHC: Do you think liability management on AT1 within the first five years of the instrument will become more common once CRR2 is implemented? Could the tender and exchange of the recent Coventry be an example of how issuers can smoothly transition an AT1 call?**

**BBVA:** This is a very interesting question. We fully agree that this a topic that is now up for debate. However, it is not new — we have been reviewing precedents and found, for example, one regarding Austrian issuer Bawag, which last year did this kind of amortisation before the fifth anniversary of a Tier 2 transaction. So we have a precedent in the euro space and not only in the UK with the Coventry transaction.

It makes a lot of sense. Once the new draft of CRR2 and the changes regarding Article 78 are formalised and approved, we foresee having additional flexibility to minimise the cost of carry. For example, if we had this possibility now we could be offering some kind of liquid exit on those

bonds that will probably be called in the future, and that would reduce the cost of carry substantially. It would have to be considered as a liability management exercise, not as amortisation of capital. And it would need to be of benefit to both parties, with investors having a liquid exit where they can reinvest the proceeds in another security, and with the bank being able to reduce the cost of carry. So yes, I think it may become very common.

**BIHC: Do you think we will see even more standardisation in AT1 structures going forward?**

**BBVA:** Many people are expecting a review of the different Tier 1 instruments in general — not only regarding call frequency, for example, but deeper aspects that are much important, such as the level of the trigger. Some regulators have said publicly that the 5.125% loss absorption trigger is so much out of the money in terms of current capital ratios that an instrument that was initially designed as a going concern tool, to absorb losses before resolution, ultimately seems to be a gone concern instrument, like Tier 2, in the sense that losses are absorbed as resolution is taking place. So this instrument will definitely be reviewed in the future, with a deep review of every feature, but right now supervisors are focused on loss absorption triggers.

You have a precedent there: in the UK, for example, you have the 7% level which is defined on a fully-loaded basis. And unfortunately we have seen what happens in practice, with an AT1 absorbing losses and being converted into shares in resolution when the point of non-viability is called, rather than at the 5.125% trigger, which is so theoretical.

**BIHC: As other European banks increase their capital target and CET1 stock, do you feel pressure to reinforce your capital structure?**

**BBVA:** There is no pressure, but we have decided from our side to increase the capital target.

That we do not face any pressure is demonstrated, firstly, in the SREP requirement, the official requirement set by the ECB for European banks, taking into consideration not only CET1 but also the Pillar 2 requirement: our SREP requirement has been the same for the last three years in a row. It has not been increased. First thing.

Secondly, in the latest published results of the EBA stress tests, we enjoyed a couple of very positive outcomes. The first is that in terms of CET1 fully-loaded depletion, we had one of the lowest figures among our European peer group. The second is that we were one of the few banks that managed to make profits even under the stress test's adverse scenario.

We have taken the decision to increase our capital target on a voluntary basis for one reason, which is to anticipate forthcoming

regulatory changes, mainly Basel IV. Even though we do not expect the impact of these various regulations to be material for BBVA — because we have a very

high capital density and make very limited use of internal models — it is good for us to move to our new, higher target level of 11.5%-12% on a voluntary basis. As was announced alongside our full-year 2018 results, we expect to achieve the lower end of this range the end of 2019.

**BIHC: How do you manage and set the capital targets and buffers internally?**

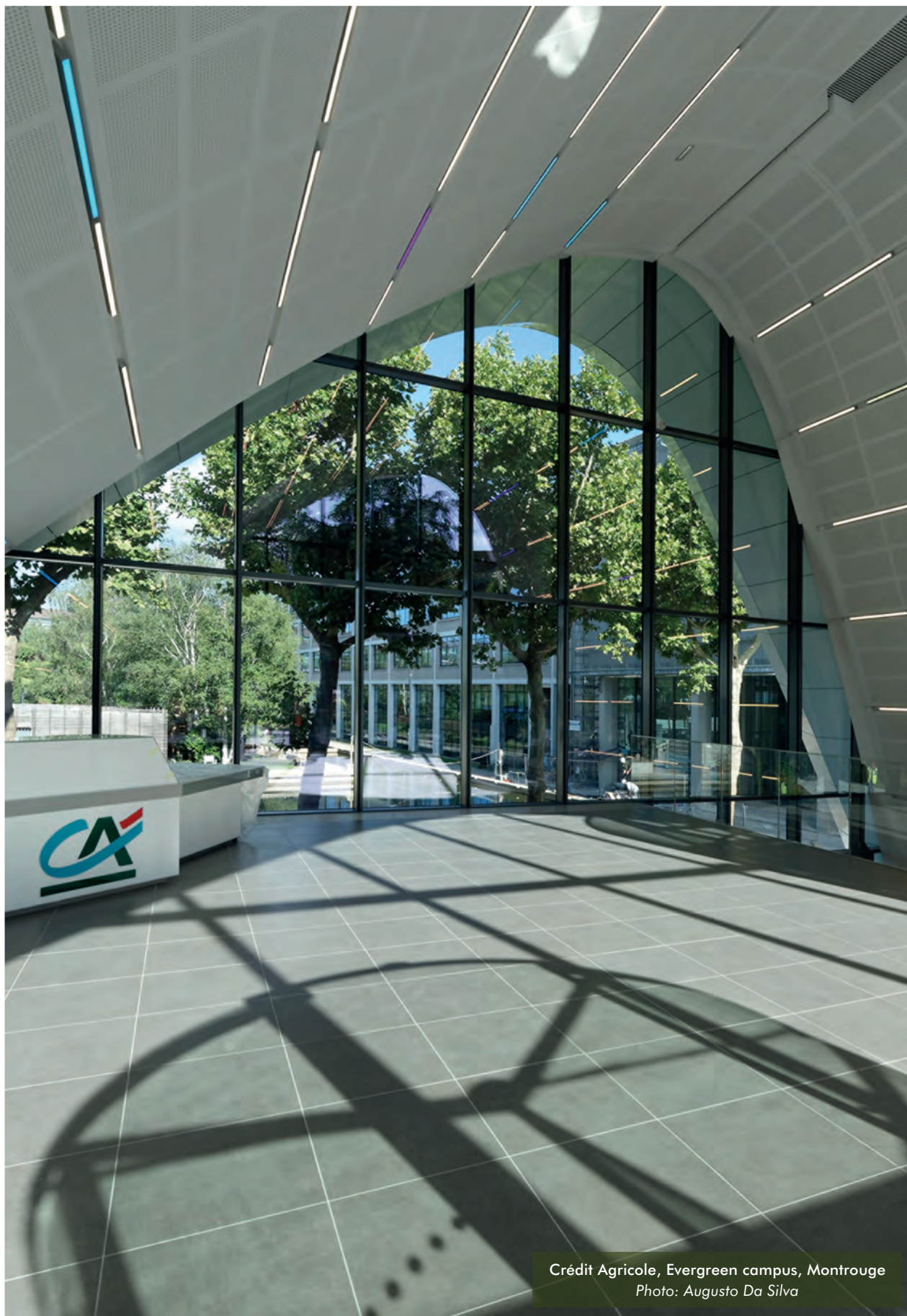
**BBVA:** It's a combination of different factors. The internal capital adequacy assessment process (ICAAP) is very important, where we evaluate internally what are the right capital projections and what we need to do to achieve these levels.

In terms of AT1 and Tier 2, we were one of the first issuers in the European space to fill these buckets. We were the first to volunteer to fill the AT1 bucket for one reason, namely that we thought this would also have a positive effect for fixed income investors. And back in 2013 when we pioneered the AT1 market, we took a long term view.

It is impossible to measure the exact impact of our strategy, but if you look at the willingness of the investor base to invest in BBVA risk, I think it shows the value of the capital structure, it has to some extent been rewarded. ●

**'This instrument will definitely be reviewed in the future'**





Crédit Agricole, Evergreen campus, Montrouge  
Photo: Augusto Da Silva



# Crédit Agricole Hitting the Q1 windows

After a defensive start to the year against an unfriendly backdrop, Crédit Agricole moved quickly to hit windows as they appeared when the market turned bullish, and exceeded expectations in the first quarter. Olivier Bêlorgey, head of Crédit Agricole SA group funding and chief financial officer, Crédit Agricole CIB, and CACIB DCM and FIG syndicate discussed the group's strategy.

**Ahead of your AT1, did you notice a change in questions from investors as a result of the Santander AT1 non-call event?**

**Olivier Bêlorgey, Crédit Agricole:** In fact I only had one opportunity to meet investors in between our AT1 and Santander's non-call decision, when I was roadshowing in London on 14 February — Santander announced its non-call decision on 12 February, after issuing its new AT1 on 5 February, and we issued our new AT1 on 20 February. So that was only two days after the Santander non-call announcement, and investors were very upset, still trying to analyse Santander's reasoning.

Since then I have met with investors again, and to be honest their questions have not changed dramatically from the ones we used to hear — the question is almost always the same, namely: what is your AT1 call policy?

**Did investor feedback influence your decision to change the non-call period post first call date from one year, as per your last AT1 issuance from 2016, to five years (in line with reset dates)?**

**Bêlorgey, Crédit Agricole:** Yes, it did. We try to be investor-friendly whenever possible and when we ask investors what their preference is in this regard, the answer from the clear majority was that the subsequent call be at the next reset, i.e. a five year call period.

We are happy to follow investor appetite on this issue because the call frequency after the first call date is not something we value very much, even if it offers us more options. Why not? Because we are managing the reset spread and interest rate risk and, effectively, we can hedge the interest rate risk. And having a quarterly call can also even potentially be more costly — you have to hedge versus short term rates and this, in effect, increases the reset spread because you have a spread versus short term rates, while your reset coupon remains the same. By having the five year period we simplify the issue somewhat.

**Returning to the question you mentioned in your first answer, what can you tell us about your call policy for AT1 instruments?**

**Bêlorgey, Crédit Agricole:** I cannot say too much about our call policy, since it is restricted by the ECB. However, we can give some indications because the constant question from investors is whether we have a purely economic approach in our call policy. Our answer is, yes, we will have an economic approach. But what is an economic approach? Our economic approach will include at least two elements.

The first is a pure actuarial calculation in terms of reset spread. If we have a reset at 500bp, for example, at what kind of spread can I replace my former issuance? Is it lower? Is it higher? But this is not the only driver in our economic calculation, because if you don't call an instrument when, let's

say, you can issue at 505bp versus having a reset at 500bp, and because of this decision subsequently investors increase the perpetuity premium they require from you for further AT1 issuances — by, let's say, 50bp — you destroy value. So in our economic calculation we will take into account, first, a comparison of the spread of a new issuance and the reset spread of the previous issuance, and second, an appreciation of the consequences of a call or non-call on the perpetuity premium that will be requested by investors. It will remain an economic decision, but the economics are not only based on one single driver, i.e. reset spread versus the spread of a new issuance.

### How has the AT1 market developed in the first quarter?

#### Doncho Donchev, DCM solutions, Crédit Agricole CIB:

The asset class clearly remained obviously open. Investors are much more experienced about AT1 and can distinguish between idiosyncratic issuer decisions. They understand the non-call decision is specific to Santander, and Crédit Agricole, ING or whoever else is not penalised in their issuance.

This confirms, in effect, the maturity of the asset class — with perhaps one clarification, that this statement holds true for dedicated AT1 investors; some less experienced investors in the asset class may need to conduct further analysis in order to fully appreciate such facts

#### Vincent Hoarau, head of FI syndicate, Crédit Agricole CIB:

The AT1 market demonstrated a formidable resilience during the purge in the last quarter of 2018 and strongly recovered in the first quarter of this year. Risk assets have rallied, with European bank equity and high beta AT1 having a great run. Performance has been superb and returns for the first three months of the year exceeded 5% in the asset class.

The market successfully passed the Santander non-call test and absorbed deals easily despite limited new issue premiums. Initially, many investors had been concerned that a non-call could have a disruptive impact on AT1 valuations. But, boosted by the positive dynamic overall, reaction was subdued. Investor reaction to this non-call event showed evidence of a market that is becoming mature in its attitude to the management of call schedules on the issuer's side. European investors now understand that economics come first.

The situation is further supported by technical elements. The outright yield context delivers a powerful support to demand for AT1 product issued by core European issuers. And an important element for the AT1 market is going to be the lack of net issuance. So the combination of firstly, the imbalance in the demand/supply dynamic, and secondly, the historically low yield environment, is a key driver for the asset class.

In terms of due diligence, idiosyncratic risks will continue to be scrutinised and name selection will remain key, but even issuance from second tier names in sub-benchmark format



Olivier Bélorgey, Crédit Agricole: 'It will remain an economic decision, but the economics are not only based on one single driver'

will get done. Looking into the issuance dynamic, globally, issuers have been approaching the refinancing of existing securities very carefully. This is very encouraging for the asset class given the number of calls ahead of us in 2019. So I am very positive about the evolution of the asset class, as long as outright yields continue to collapse and central banks remain dovish.

### Crédit Agricole has been very proactive in Q1 in building up the capital stack of the funding plan. What were the drivers in the decision process regarding timing?

**Bélorgey, Crédit Agricole:** We actually started the year with a covered bond. At the very beginning of January we considered spreads to be very high, clearly distressed, with awful market conditions, and we had the view that spreads would tighten. This was totally different to January 2018, when

spreads were very tight and we had the view that the levels would not persist through the year, so we last year began our funding

'At the very beginning of January we considered spreads to be very high'

programme with the highest beta instrument we had to issue. This year we started with the lowest beta, issuing covered and preferred senior, and a three year preferred senior at that. But why did we begin issuing at all? When you are a big bank, with a funding programme of EUR17bn, you cannot skip a window completely — it would be a nice idea, but if market conditions do not improve but rather deteriorate, you could find yourself in trouble. So we decided, to be on the safe side, that we couldn't remain completely on the sidelines.

We could then afford to wait a little bit, being under absolutely no pressure to issue and given our view that spreads would tighten, and so waited until after the publication of our yearly results. After that, knowing that this is a very window-

driven market, especially for AT1, we moved very quickly to take advantage of a good window for AT1. We succeeded in taking advantage of the first window we could and achieved an AT1 whose reset spread is the lowest of any AT1 issuance we have made since 2014. We then continued by issuing our senior non-preferred and Tier 2, again considering that we have a certain volume to raise and with market conditions being rather attractive.

Now we have issued 40% of our funding programme and we are much more relaxed. With that much already done, we are in a good position to be able to adapt to market conditions and pick what we want to do over the rest of the year.

**You did not execute any deal-related roadshow before those three major trades. Why?**

**Bélorgey, Crédit Agricole:** We conduct regular non-deal roadshows. For example, I was roadshowing in New York in December and in London the week before our AT1 issuance, so there is no need to make a deal-related roadshow. The investor community knows us rather well, but we go over our general strategy, reiterating our capital planning, the construction of our funding plan, and so on. I don't think that a dedicated deal roadshow for an instrument that we have issued many times, like AT1 or Tier 2, was necessary.

**Donchev, CACIB:** Clearly as a frequent issuer, you do these regular roadshows and all the investor bases are covered, taking in the key regions several times per year, London, the US, Asia, etc. But with the new AT1 a global investor call and net roadshow were also offered, because it was one of the first 144A AT1s after the market disruption of Q4 2018. The presentation of course also outlined the key metrics — capital versus MDA thresholds, loss absorption trigger levels, ADI — all the aspects relevant for AT1 investors. Another key feature that was outlined was the call period after the first call date of five years, which we discussed earlier. And I think most investors were happy with that.

**Were you satisfied with the results of the transactions and the make-up of the different order books?**

**Bélorgey, Crédit Agricole:** As I mentioned, with the AT1 we achieved the lowest reset spread in our whole stock of AT1 — also with a new issue concession of between zero and 5bp. If you look at some other issuers and the development of the market, perhaps we could have chosen an even better window, perhaps managing to get a 1/8 better coupon, but that is beside the point — in this market daily volatility can push yields up or down by more than that in a day. Our purpose is not to hit the tightest conditions every time, but to have an effective funding strategy over the course of the year. And if you look at our issuances and the market conditions in Q1, we have successfully ticked many boxes and managed the timing rather well.

**Romain Beillard, DCM FIG origination, CACIB:** As Olivier said, CASA was not planning to be active in senior non-preferred format at the beginning of the year given the overall spread complex, but tapped the market with lower beta instruments. Right after the AT1, they decided to issue their second 10 year SNP benchmark after their inaugural SNP in December 2016. This transaction priced on a very busy day for FIG supply, with five euro issuances, and almost one year after the issuer's previous euro SNP transaction.

It was an outstanding result due to the scarcity element surrounding the signature and the tenor chosen by the issuer.

On the SNP transaction, the granularity of the book was exceptional: 275 investors participated for a final orderbook above EUR6bn. Almost all the relevant European real money accounts participated in the trade. The bid from asset managers and insurance companies represented 73% of the demand, with close to 20 orders in triple-digit sizes. Exotic official institutions played in decent size, showing the extremely good quality of the placement.

The Tier 2 transaction experienced the same success in terms of reception and quality of distribution. No less than 200 investors participated for a total order volume of around EUR4bn. This transaction was a perfect illustration of the bid for quality Tier 2 paper, which has been tremendous since the beginning of the year.

**Hoarau, CACIB:** The funding team delivered well above expectations across the bank capital structure. First of all, the 10 year senior non-preferred and 10 year Tier 2 within

**'We achieved the lowest reset spread in our whole stock of AT1'**

Selected Q1 Crédit Agricole benchmarks

Issue Date	Issuer	Currency	Format	Rating (M/S/F)	Size (m)	Coupon	Maturity	Current i+ bid	Re-offer spread	NIP	Cover
20-Feb	Crédit Agricole SA	USD	AT1	-/BBB-/BBB-	1250	6.88%	PNC24	412	6.875%/432	12.5/25	2.7x
25-Feb	Crédit Agricole SA	EUR	SNP	Baa2/A-/A+	1500	1.75%	Mar-29	98	120	0/5	4.3x
19-Mar	Crédit Agricole SA	EUR	Tier 2	-/BBB+/A	1250	2.00%	Mar-29	141	150	0/5	2.9x

Source: Crédit Agricole CIB



three weeks are notable achievements. In terms of pricing, the 10 year senior preferred came at mid-swaps plus 120bp, 5bp tighter than where a direct peer had printed a five year two weeks earlier. We also managed to print the Tier 2 only 30bp away from the level at which a peer printed senior non-preferred on the same part of the curve the previous day. The 150bp spread in Tier 2 is a very competitive level, bearing in mind that outright swap levels are at historical lows. On all the transactions, the books were several times oversubscribed with almost zero new issue premiums across formats, and the deals performed immediately when free to trade.

**What influenced the maturity structure of the Tier 2, where you chose a bullet structure when one of your peers issued a callable?**

**Bélorgey, Crédit Agricole:** This is an interesting point. We have told investors that we intend to issue more than the 2% of RWA regulatory requirement for Tier 2, because under our capital strategy we are targeting 5%-5.5% of RWAs in Tier 2 and senior non-preferred (with the option of changing our minds if we find that this is not the best strategy) and our intention is to have two layers of more or less the same thickness, meaning that we are targeting around 2.5%-3% of Tier 2. We are doing this because as well as the prudential value of Tier 2, you have the bail-in or liquidation value of it, and whatever the prudential amortisation of a Tier 2, it comes before senior non-preferred in the waterfall.

So having a thicker layer of Tier 2 helps you better protect the senior non-preferred layer, which in turn helps you have a better spread for your senior non-preferred (as well as theoretically having helping you have a better spread for your Tier 2 issuance).

Because we will always exceed the 2% requirement, optimising the prudential value of the Tier 2 with a 10 non-call five structure, for example, is not so important for us, maybe not as important as for some of our peers.

Our syndicate desk meanwhile explained to us that the callable structure would cost around 10bp-15bp more than a non-callable structure, and we were not ready to pay 15bp for a call giving us prudential value that we do not value so much, hence our choice of a bullet structure. The market can of course vary and if the callable structure were to be priced without a premium then we would of course choose that, but that was not the case here.

**Hoarau, CACIB:** With the Fed reversing monetary policy and the ECB getting more dovish throughout the first quarter, bullet structures outperformed callables. From a distribution standpoint, yield hunters tend to favour the bullet format, particular-

ly for highly rated names. Crédit Agricole's outstanding 2.625% March 2027, the 12 year bullet Tier 2 launched in 2015 that was taken as a key reference, outperformed peers and traded at a very tight level in the secondary market when we approached this new Tier 2 project. The most recent French callable issue, the BNP Paribas 2.375% November 2030 callable in November 2025, was trading in the 175bp context on a yield-to-call basis. Against this spread complex, it was pretty obvious that a 10 year bullet would tick all the boxes and appeal to the greatest range of investors, particularly the big French insurance companies where year-end outright yield prospects were in the process of being revised — in that context, nobody could afford to miss out on the 2% coupon headline on the trade. On a spread basis, this was indeed well inside callable levels.

**Can we expect Crédit Agricole to issue callable senior non-preferred soon?**

**Bélorgey, Crédit Agricole:** For the time being, the eligibility for TLAC of a callable structure has not been 100% validated by the European authorities. To be honest, we have no doubt that it will be, but the reason why we have not yet issued it is because it has not been formally validated. We could have considered it for our last issuance, and taken the remote risk of MREL disqualification one year prior to the call date, but,

again, the premium for the callable structure was rather high, around 10bp, and it was not worth paying this for, say, an 11

non-call 10 rather than a 10 year bullet. Should the call have been valued at zero, we could have considered it.

**Why did you elect to issue Tier 2 and not senior non-preferred?**

**Bélorgey, Crédit Agricole:** We issued the Tier 2 to fully optimise the capital structure.

Given the fact that we still have more Tier 2 than senior non-preferred, we could contemplate only issuing only senior non-preferred for now. However, we want to maintain an investor-friendly approach and even if it's a bit more costly we think it's worth providing investors with liquidity on the Tier 2 asset class with some new Tier 2 issuance.

Last but not least, it helps us manage the maturity profile of our Tier 2. If we went too long without issuing any Tier 2, we would potentially have some maturity concentration on our outstanding Tier 2, so that's something we also try to manage.

All these reasons led us not to opt for only senior non-preferred, but to make at least one benchmark Tier 2 issue this year. ●

**'Nobody could afford to miss out on the 2% coupon headline on the trade'**

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# Insurers' financial leverage ratios

## Well adjusted?

Analysis by Crédit Agricole CIB shows that the varied methodologies used by insurance companies to calculate financial leverage ratios make significant differences to the ratios they communicate. However, *Michael Benyaya* and *Szymon Wypiorczyk*, DCM solutions, CACIB, suggests methodologies could converge.

Among the key credit metrics monitored by insurance sector stakeholders, the financial leverage ratio retains a prominent position. The ratio is supposed to be a fairly simple measure to evaluate a company's debt levels in relative terms with a straightforward and intuitive formula.

Yet the communication and methodology, including adjustments, used by insurance companies to calculate their financial leverage can vary significantly.

Based on the full-year 2018 results, CACIB has analysed the different methodologies and disclosures of 11 European insurance companies to underline the different approaches. The table below shows an overview of the results.

For purposes of comparison, we have also calculated a financial leverage ratio using a basic formula:

$$\text{Financial Debt} / (\text{Financial Debt} +$$

$$\text{IFRS Equity} - \text{Non-controlling interest})$$

where the financial debt also includes perpetual instruments accounted for as equity under IFRS. Given the adjustments

described below, the disclosed ratios of some insurers differ significantly from this CACIB methodology.

In the European landscape, the majority of companies rely on IFRS metrics to calculate the financial leverage ratio, but Aviva now discloses a financial leverage based on the Solvency 2 framework. Rating agencies' metrics are also commonly used, either as the unique reference (Groupama) or together with the IFRS ratio (CNP, asr, Phoenix). It is worth noting that S&P's financial leverage ratio currently lacks transparency (as it is based on the S&P insurance capital model), but S&P has in a request for comment proposed changing its financial ratio definition to move to an IFRS basis. This should improve comparability over time.

As highlighted in the table below, the IFRS financial leverage is adjusted by various items:

- Some insurers exclude revaluation reserves from their equity. This adjustment has a meaningful impact on

the ratio (Aegon, Axa and NN).

- Some insurers adjust their equity for the mark-to-market derivatives position (Axa, Scor) and intangible items (only CNP).
- Aegon simplified its definition of the financial leverage ratio and no longer adjusts its equity for the remeasurement of defined benefits plans (pensions, IAS19). This is in line with peers.

In a few years, IFRS17 (postponed to 2022) will likely impact the IFRS equity position of insurance companies, which will in turn affect the leverage position.

By this time, Solvency 2 will probably be even more established in the financial communication of insurance companies. Aviva's disclosures highlight, in our view, the increasing weight of the framework in the management of the balance-sheet, and it would not be surprising if other insurance companies were to follow on the heels of Aviva in the coming years. •

Financial leverage ratio reporting (as of 31/12/2018)									
	Leverage ratio			IFRS Equity adjustments					
	Reported Ratio	Leverage basis	Leverage Ratio (CACIB formula)*	MtM Derivatives	Minority Interest	Perp debt in equity	Revaluation reserve	Pensions	Intangible
Aegon	29.2%	IFRS	25.4%	×	×	✓	✓	×	×
Allianz	27.1%	IFRS	27.1%	×	✓	na	×	×	×
asr	26.7%	IFRS	26.7%	×	na	✓	×	×	×
Aviva	33.0%	S2	31.8%	Solvency 2 basis					
Axa	32.0%	IFRS	27.8%	✓	✓	✓	✓	×	×
CNP	29.9%	IFRS	28.9%	×	×	✓	×	×	✓
Groupama	28.4%	Fitch	26.0%	Fitch leverage					
NN	27.9%	IFRS	21.5%	×	×	✓	✓	×	×
Phoenix	33.0%	IFRS	33.0%	×	✓	✓	×	×	×
Scor	27.5%	IFRS	28.6%	✓	×	✓	×	×	×
Munich RE	13.2%	IFRS	13.2%	×	✓	✓	×	×	×

\*CACIB Formula:  $(\text{Financial Debt} / (\text{Financial Debt} + \text{IFRS Equity} - \text{Non-controlling interest}))$ ; Source: companies, Crédit Agricole CIB

# AT1 To call, or not to call?

The window for Santander to decide whether to call an AT1 in March had been a date for the diary since the turn of the year, and the Spanish bank duly made history with the first non-call. But the market's reaction suggests it may have been a case of much ado about nothing, even if some investors are reappraising pricing and call schedules. *Neil Day* reports.

Fears that the first non-call of an Additional Tier 1 could do lasting damage to the asset class were allayed in February, as AT1 prices held up despite Santander deciding not to call a euro AT1 and investors proved willing to pick up the outstanding Spanish instrument, even if its handling proved contentious.

The EUR1.5bn 6.25% perpetual security with a first call date of 12 March 2019 had long been viewed as a candidate for being the first AT1 not to be called, given that it was trading at a cash price in the low 90s in early January and the anticipated refinancing spread made a call look potentially uneconomic.

Many investors had been concerned that a non-call could have a sustained and negative impact on AT1 valuations, and a quarter of buy-side respondents to a Crédit Agricole CIB survey in November 2018 said that such an event would shut down the primary market for AT1s.

Speculation about Santander's intentions then mounted on 6 February when it approached the market with a new \$1.2bn (EUR1.06bn) 7.5% perpetual non-call five AT1 (CACIB was joint bookrunner) (*see*

*below for more*) — although the new issue announcement did not contain any notice or other confirmation of a call.

The Spanish bank had until 12 February to issue a call notice for the euro AT1 and late that afternoon reports emerged that the issuer would not be exercising the call option.

"When making call judgments we have an obligation to assess the economics and balance the interests of all investors," Santander said in a statement. "We will continue to monitor the market closely and will seek to exercise call options where we believe it is right to do so."

The price then fell from 98.50 to below 97.00, but it quickly recovered and was trading back in the context of 98.50 or higher the next day.

"It dipped below 97.00 for literally a couple of minutes," said Nigel Brady, AT1 trader at Crédit Agricole CIB (CACIB), "and then we had real money accounts — who had all been buying at 98.50 to 99.90 — wanting to top up at 97.00, 97.50."

In spite of complaints from some investors that were amplified in press reports in the immediate aftermath of the

non-call, Brady said the market was well prepared for the event.

"I just don't think this was a huge surprise from Santander," he added. "In the last few days an increasing number of investors were resigned to the fact that it wasn't going to be called — they'd looked through the facts, considered it from the issuer's point of view and its statement around the call exercise the week before when it released earnings on 30 January, and come to that conclusion."

"People were saying that there was a 10%-20% chance of a non-call, but the market was pricing in a much higher probability."

Alexander Pelteshki, investment manager, fixed income, at Kames Capital, noted that Santander had been very vocal that its decision would be primarily an economic one.

"This, combined with the particular structure of the bonds in question, as well as the current size of Santander's AT1 bucket, ought to have left very little to the imagination regarding the call for anyone sporting a decent-sized calculator," he said.





William Shakespeare in the 'Chandos' portrait  
Source: National Portrait Gallery/Wikimedia Commons

### Business as usual

The non-call event had a negligible impact on the rest of the asset class, according to Brady, with prices unmoved. He said this was particularly notable in certain dollar issues that — unlike most euro AT1 — have not been pricing the non-call risk so efficiently, and still have not done so in the aftermath of Santander.

“You would have expected those bonds to have sold off as the market comes to the realisation that bonds aren’t necessarily going to be called,” he added, “but they haven’t.”

Brady said the market’s reaction was encouraging for the future of the asset class.

“The market is now valuing the Santander bond on a yield to perp basis of 6.60% and a lot of investors — real money and retail — are happy to buy it there,” he said. “Previously, we didn’t know whether investors would be comfortable owning the bonds once a call has been skipped, but it has now been proven.”

Buoyant credit market conditions contributed to the market’s benign response to the non-call, according to Vincent Hoarau, head of FI syndicate at CACIB. The market saw successful peripheral subordinated issuance follow in the week of the non-call, such as BBVA in 10 non-call five Tier 2 format enjoying a five times oversubscribed book with no new issue concession — further underlining the idiosyncratic nature of the episode.

“Conditions in primary are very favourable, and that helps explain the reaction we saw from the market,” he said. “If it had happened in the context of an avalanche of supply in SNP, Tier 2 and AT1, the market would in my opinion have collapsed on the back of the absence of a call notice.”

### Investors shift towards uniform pricing stance

A CACIB FI syndicate survey of almost 100 investors in the fortnight after Santander’s non-call found that a clear majority of respondents, 57%, will be pricing an increased likelihood of non-calls into AT1s in light of Santander’s non-call decision.

Of the 42% who said they would not be pricing in an increased likelihood of non-calls, many stated they were already pricing in extension risk appropriately and clearly differentiating in the money and out of the money situations with the appropriate yield-to-call or yield-to-perp approach.

“I already did not assume calls

would be exercised unless economically interesting for the issuer,” said one. “I actually assume the SSM won’t be allowing issuers to call and refinance at a much higher rate.”

Others said they consider Santander to be a special case, noting that its handling of the episode was the main factor in the price action surrounding the AT1 in question, while decisions taken by issuers with forthcoming first calls will be closely monitored.

“I await to see what others do,” said one investor. “If this gains momentum amongst issuers, then expect yields to increase.” ●

“We are in a market characterised by a relative lack of supply in high beta format,” he added. “If you don’t want an AT1 from a high quality issuer at these levels, what are you going to buy? It’s still an issuer’s market, and this predicament investors are facing may have fuelled their misplaced hopes.”

And later in the week Svenska Handelsbanken proved definitively that appetite for AT1 remained strong, with the Swedish bank attracting over \$4.5bn of orders to a \$500m perpetual non-call five and achieving a competitive coupon of 6.25% and a reset below the symbolic 400 mark, as low as 368.9bp.

And Santander’s decision appeared to have a negligible impact on the execution of subsequent AT1s in the dollar market, where ING and Crédit Agricole also successfully launched new issues.

“The topic was not even a focus of any of the major investors during the book-building of the Crédit Agricole AT1 US dollar deal,” said Fadi Attia, managing director, US dollar FIG at bookrunner CACIB. “Investors will continue to distinguish between issuers on the basis of credit and valuation — it’s not a one-size-fits-all approach.”

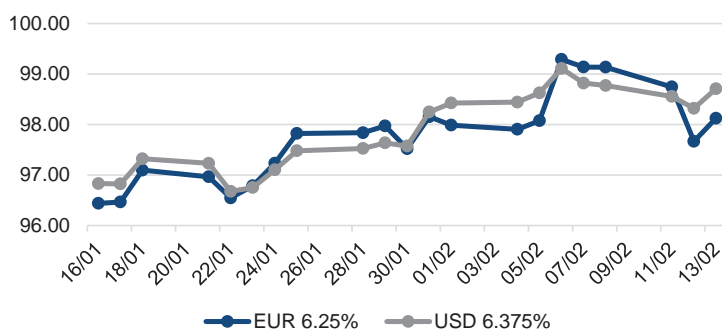
### Pause for thought

Santander’s handling of the non-call was nevertheless deemed to have exacerbated an episode that was always likely to prove sensitive for investors trying to gauge the probability of the bank not calling the issue and potentially setting a new precedent for the relatively young instrument.

“In the case of the Santander instrument, the market’s surprise may have stemmed as much from misreading Santander’s intentions as from underestimating its willingness to challenge market norms,” said Giles Edwards, senior director, financial services ratings at S&P Global. “Santander has long stated that it would make these call decisions based on their economic merit, and the market might have read too much into the bank’s recent issuance of a new US dollar AT1 security.”

Indeed, to some market participants the announcement of the new dollar AT1 on Wednesday, 6 February suggested the issuance might be to refinance a call of the euro. This impression was reinforced by an

Banco Santander EUR 6.25% & USD 6.375% cash prices\*



\*Reset spread of EUR 6.25% is 541bp, USD 6.375% 479bp; Source: Crédit Agricole CIB



unusually short, T+2, settlement period, which market participants initially considered meant settlement would fall on the last day on which Santander could issue a call notice for the euro, two days later, on the Friday. Santander then informed the market that according to its interpretation, the following Tuesday was the last day on which it could issue a call notice — however, this attempt at clarification only reinforced speculation the issuer might call the bond. As a result, the price of the euro rose from 98.00 to above 99.00, before its later price action around the non-call, while the new dollar issue widened after pricing.

One investor said he had initially not expected the euro to be called, but after the decision to print the \$1.2bn AT1 and Santander pointing out its interpretation of the date, he entertained the possibility that it would be called. Others — whether involved in the euro and new dollar trades or not — flagged the Spanish bank's communication strategy and said they would need to be paid more to get involved in future Santander issuance — raising questions over the “economic” decision of the issuer not to call.

Any decision to break with standard practice and simply not call such a hybrid had long been deemed to carry reputational risk.

“They have definitely removed a big no-no,” said Cécile Bidet, head of DCM solutions and advisory at CACIB. “Other issuers will see the market reaction and will now consider it possible to not call.”

But although Santander highlighted that it is prioritising economics in its decisions, Bidet warned against too simplistic a reading of its decision, with issuers making calculations in a variety of ways, depending on swaps, hedges, currencies, ALM strategies, etc.

#### On notice

The reset spread on the 6.25% euro was 541bp, implying a reset coupon of around 5.5% (which was ultimately set at 5.481%), and CACIB's Hoarau estimated that fair value for a new euro perpetual non-call five would have been around 6% ahead of the non-call decision. A straightforward calculation put Santander's saving in line with a threshold of around 50bp that



Vincent Hoarau, CACIB

many market participants previously considered could trigger a non-call.

Some market participants have meanwhile speculated that Santander may not have called the euro simply because it did not manage to put itself in a position to do so in time, and that it could yet call the bond at the second opportunity, during a window from 13 April to 13 May. One suggested Santander would not announce a call before 30 April, when it announces its first quarter results.

Neel Shah, financial credit desk analyst at CACIB, said a call notice is more likely than in February/March.

“The economics are more in favour of

calling it,” he said. “That's just driven by the broader AT1 market, which has been very firm this year and made the economics of issuing AT1 for all issuers more favourable.”

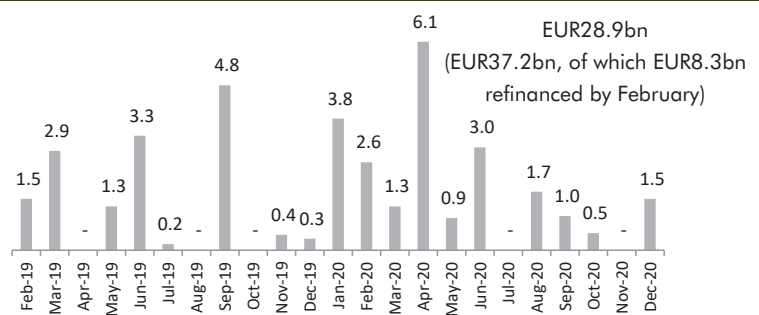
Any upside from the euro being called is mostly priced in, noted Shah, although this also reflects the bond being callable on a quarterly basis.

The bonds rallied an eighth when Santander on 16 April exercised the first call on a \$1.5bn 6.375% AT1, in the first test of its call policy since the non-call. This call had been anticipated and price in, since it had a reset spread of 479bp and the \$1.2bn 7.5% issued in February was trading at 102.75, equivalent to a z-spread of around 450bp.

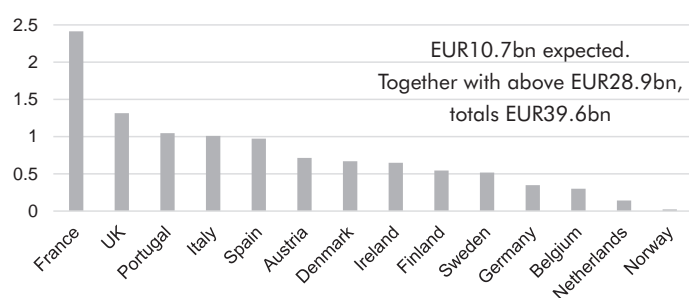
Although a call had been expected, the 6.375% issue rallied in the wake of the call notice, from around 99.875 to 100.30. All of Santander's AT1s rose on the news and the 7.5% issue, now Santander's most liquid AT1, was the biggest beneficiary, rallying from 102.75 to 103.50.

“Santander has demonstrated what it means to have an efficient and thought-out call policy,” said Hoarau. “If you look at the pricing and most importantly reset parameters of the 7.5% dollar AT1 issued in February, you may better understand the dynamic of the decision and the rationale of calling the 6.375% dollar now.”

#### Upcoming AT1 calls in 2019-2020



#### Additional AT1 needs



Source: Crédit Agricole CIB



“Elsewhere AT1 refinancing costs continues to improve. I think we will hear more about Santander AT1s this year to the benefit of the sector.”

Alongside its full-year 2018 results, Santander flagged net AT1 issuance of EUR500m for 2019, and the issuance of its \$1.2bn 7.5% and call of its \$1.5bn 6.375% implies issuance of EUR763m to hit this target — or EUR2.263bn if it calls the EUR1.5bn euro at its second opportunity.

Among other AT1 call decisions being keenly awaited this year are those in respect of Barclays 6.625% dollar and 7% sterling trades on 15 September, and a Crédit Agricole 6.625% dollar on 23 September.

Unlike Santander’s AT1, which is call-



Neel Shah, CACIB

able quarterly after the first call date, these are only callable every five years, meaning that the calculation of extension

risk and hence valuation differs.

(See below for more on call schedules.)

A greater focus on economics when it comes to call decisions is expected to be supported by a slowdown in net issuance of AT1, with major banks having largely filled their 1.5% buckets — subject to increases in RWAs resulting from, for example, the implementation of new Basel IV risk weights in 2022.

“This AT1 market is roughly \$200bn,” said Shah at CACIB, “but most issuers have filled their AT1 bucket, so there is no pressure for them to issue any more AT1, and they are now looking at it purely from an economic perspective, in terms of what it costs them to issue a bond and the existing financing levels.” ●

AT1 Calls in 2019

Issue Date	Issuer	Country	Currency	Amount (m)	Coupon	First Call Date	Reset Spread
3/11/2014	Nationwide Building Society	UK	GBP	1,000	6.88%	6/20/2019	488
6/24/2014	Santander UK Group Holdings	UK	GBP	500	6.63%	6/24/2019	-
4/1/2014	Lloyds Banking Group plc	UK	GBP	1,481	7.00%	6/27/2019	506
7/31/2014	Virgin Money Holdings	UK	GBP	160	7.88%	7/31/2019	579
6/17/2014	Barclays plc	UK	GBP	698	7.00%	9/15/2019	508
6/17/2014	Barclays plc	UK	EUR	1,077	6.50%	9/15/2019	588
6/17/2014	Barclays plc	UK	USD	1,211	6.63%	9/15/2019	502
9/18/2014	Crédit Agricole SA	France	USD	1,250	6.63%	9/23/2019	470
9/23/2014	Nordea Bank AB	Sweden	USD	1,000	5.50%	9/23/2019	356
6/26/2014	Coventry Building Society	UK	GBP	400	6.38%	11/1/2019	411
12/2/2014	Santander UK Group Holdings	UK	GBP	300	7.60%	12/24/2019	-

Shaded = has issued AT1 recently; Source: Crédit Agricole CIB

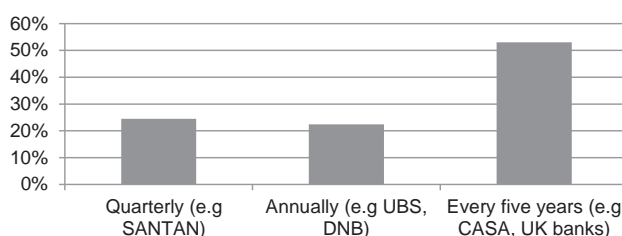
## Call schedules face closer scrutiny

Investor scrutiny of call schedules increased further in the wake of Santander’s AT1 non-call, with a CACIB investor survey finding resistance to giving away quarterly optionality for free, although a KBC EUR500m AT1 on 26 February successfully attracted some EUR2bn of orders in spite of similar concerns.

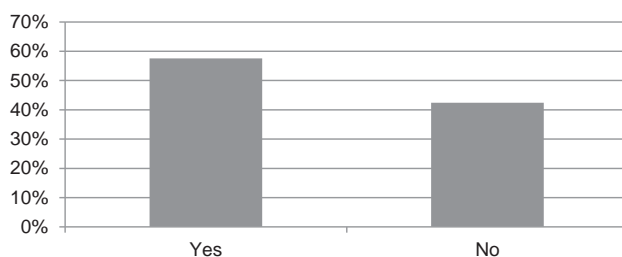
Among AT1 features called into question by the non-call was the quarterly call option after the first call date afforded Santander.

“Issuers already have a lot of value given to them in the call option and investors should no longer be giving quarterly away for free,” said one London-based portfolio manager in the wake of the non-call. “This is something I intend to bring up in every AT1 roadshow I attend going forward if the terms show quarterly calls.”

What is your preference regarding AT1 call frequency (post first call date)?



Now that the first non-call has occurred, will you be pricing an increased likelihood of non-calls into AT1s?



Source: Crédit Agricole CIB

Crédit Agricole CIB (CACIB) FI syndicate surveyed almost 100 investors in the fortnight after Santander's non-call and more than half of respondents, 53%, said they prefer AT1 to be callable every five years. Just less than a quarter, 24.5%, expressed a preference for quarterly calls, and 22.5% prefer annual calls.

Several investors subsequently said they did not participate in a KBC EUR500m 4.75% perpetual non-call five AT1 on 26 February because it is callable semi-annually after the first call date. Others participated despite looking unfavourably on the call schedule.

"We have gone in for it," said one big player in Mayfair, "but for a significantly smaller size and only for a couple of funds. We would expect to end up with 20% of what we did in the last AT1 we liked, and the call schedule has definitely played a strong part in that decision."

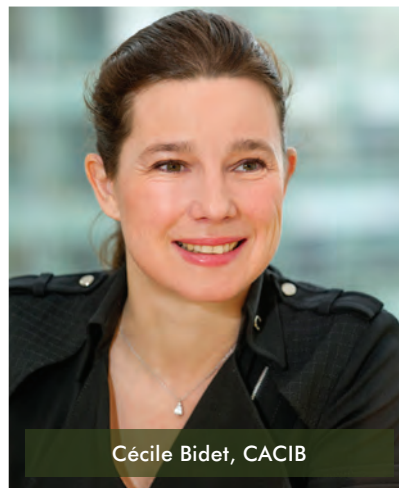
However, any investor disgruntlement with the call schedule had a negligible impact on KBC's outcome, as the Belgian issuer attracted some EUR2bn of demand to its EUR500m no-grow AT1, allowing it to tighten pricing from initial price thoughts of the 5.375% area to a coupon of 4.75%.

"There was considerable interest in the issue of our euro-denominated CRD IV-compliant AT1 instrument of benchmark size, which was four times oversubscribed," said Johan Thijs, KBC Group CEO. "The success of the transaction emphasizes the trust of the market in KBC's solid capital position and business model."

"We continuously monitor our capital structure and our current portfolio of outstanding securities in light of market conditions. The issue of the securities enables us to maintain an optimal capital structure and continue to support our already excellent solvency ratios."

Vincent Hoarau, head of FI syndicate at CACIB, said the limited size of the transaction and modest volumes of KBC worked in favour of the deal and diminished the impact of the call topic.

"KBC is a top credit," added Hoarau, "but not a frequent issuer in subordinated format and the EUR500m no-grow size helped it gain traction from the outset. The books were several times over-



Cécile Bidet, CACIB

subscribed even though the issuer hardly paid any new issue concession.

Despite acknowledging that they may have limited leverage over issuers and pricing, many investors were adamant that too much flexibility is being handed to issuers for free.

"Anything shorter than five years is open to abuse by the issuer," said one portfolio manager. "It is giving too much

optionality away without compensation."

Some respondents suggested that quarterly calls should at least be accompanied by the coupon resetting on a quarterly basis. Others outlined the benefits of FRN AT1 in such circumstances, particularly in a low rate environment

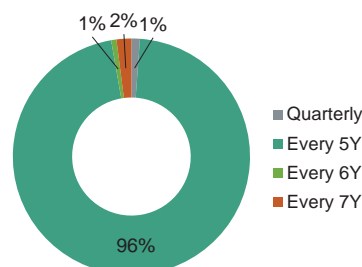
"A quarterly call with quarterly reset is good," said one. "A quarterly call with a five year reset — as in the Spanish case — is not good as it is impossible to hedge."

However, one hedge fund manager argued that quarterly calls reduce the market impact of a non-call — as reflected in the non-called instrument never trading far from par.

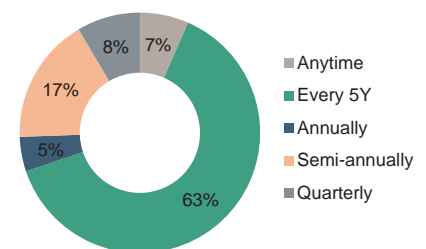
Cécile Bidet, head of DCM Solutions and Advisory at CACIB, expects the majority of issuers to opt for five year subsequent calls, driven by the market and regulators.

"This frequency offers the best response to investors towards hedging and reinvestment risks, and simplifies the call exercise management policy," she said. ●

Reset frequency (post first calldate)

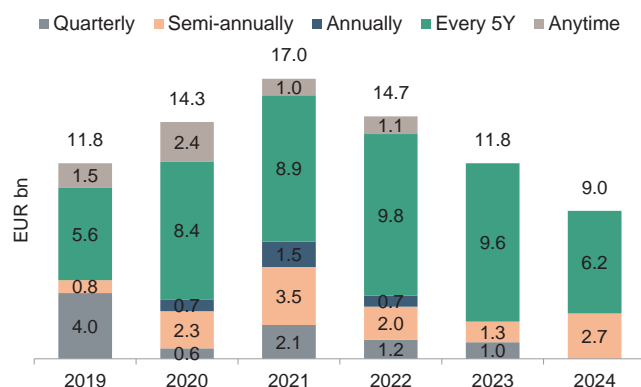


Call Schedule (post first calldate)



Number of AT1s included: 97; Number of countries: 11 (Belgium, Denmark, Finland, France, Germany, Italy, Netherlands, Norway, Spain, Sweden, UK); Non-legacy AT1 instruments only; External issuance only; All currencies; Source: Latest Pillar 3 reports, Crédit Agricole CIB

AT1 redemption profile based on call frequency



Eligibility criteria as above; Source: Latest Pillar 3 reports, Crédit Agricole CIB

# UniCredit

## Progress story gets global buy-in

Supported by the fruits of its Transform 2019 plan and pan-European message, UniCredit has recently underlined its broad market access in a series of TLAC-driven trades, attracting over \$20bn of orders to \$10bn of deals in Q1 alone. Mirko Bianchi, co-chief financial officer, UniCredit, explained the group's strategy to Neil Day for *Bank+Insurance Hybrid Capital*, in association with Crédit Agricole CIB.

**Neil Day, BIHC:** You were very active in the bank capital space in the first quarter, following the senior non-preferred private placements beforehand. What are the reasons for this significant issuance activity following your earlier hiatus from the capital markets space in 2018?

**Mirko Bianchi, UniCredit:** We actually had quite a strong start in 2018, issuing our inaugural euro senior non-preferred in January 2018, and it was afterwards that we were absent from the market for a variety of reasons until we restarted our issuance programmes in November.

One reason was the market volatility driven by the Italian elections, which began in March 2018. Another important factor was the upcoming US sanctions. It became clear that we needed to do more work with the US authorities and we wanted to know exactly where we would end up before coming to the market again — that's very much in line with our approach to transparency. And then in August 2018 we had the Turkish situation, where we took a large impairment.

By November 2018 everything was clearer and we were able to tell the market what the various impacts could be, and that's when we jumpstarted issuance for UniCredit.

Early this year the market had recovered quite substantially, so we began taking advantage of this positive environment to achieve a significant portion of our TLAC funding plan. Another reason for being so active was that we were also anticipating further potential market volatility due to the European elections in May this year, and therefore looked to identify market windows away from those.

**Day, BIHC:** What is the rationale for the Additional Tier 1 and Tier 2 transactions in terms of the UniCredit capital and MREL and TLAC planning? What is your funding plan for this year and how far you are in terms of achievement 2019 year-to-date?

**Bianchi, UniCredit:** There are two factors behind the AT1 and the Tier 2 transactions. The first is we wanted to be in compliance with the TLAC regulation. We are a G-SIFI bank — the only one based in Italy — and because of that we are required to have a 19.6 percent TLAC ratio, of which at least 17.1 percent has to be fulfilled with subordinated instruments including senior non-preferred. The second reason is to ensure that we maintained our AT1 and Tier 2 1.5 percent and 2 percent buckets in full in order to optimise our capital stack. Of course, from a forecasting perspective, we also need to take into account the regulatory amortisation profile of our capital instruments, and the risk weighted asset growth that we are planning for 2019.

Our 2019 TLAC funding plan called for EUR9bn of issuance, including EUR6.5bn in subordinated instruments. Year-to-date we have done a EUR1bn AT1 transaction, then EUR2.1bn of Tier 2, and EUR2.6bn in senior non-preferred, so in the first quarter we issued 90 percent of the TLAC subordinated instruments that we had planned for the year. What's left for the rest of the year is a mere EUR2.5bn of senior preferred, as well as EUR600m of senior non-preferred that will be executed if necessary — this will, of course, depend on the RWA development of the group.



Torre UniCredit, Milan; Photo: Plflcn/Wikimedia Commons



**Day, BIHC:** How satisfied are you with the results — the pricing and distribution, for example — of your various issuances this year?

**Bianchi, UniCredit:** We are actually extremely satisfied with what has been achieved so far — and also with the senior non-preferred we did in November of last year. We have issued almost \$10bn equivalent of subordinated instruments and collected more than \$20bn of orders in total, which gives you an idea of the power and investor appetite for our credit. Demand came from a range of institutional investors across the globe, with both US and European accounts coming in for very significant amounts. We are particularly pleased with the demand from US investors, who once again demonstrated that we have a very broad investor base and very strong market access in different currencies across the capital structure, and also in private placements as well as market instruments.

Take our latest Tier 2, for example: the \$1.25bn 15 non-call 10 transaction was the first callable Yankee Tier 2 for quite some time — back in December 2018 ING had to pull a similar deal. Again, this shows our issuance strengths and how much investors believe in our story and our credit profile.

**Day, BIHC:** You paid limited new issue premiums on the euro AT1 and Tier 2 issuance, while paying some elevated levels in US dollars — how important a consideration is this?

**Bianchi, UniCredit:** First of all, we are a pan-European bank, so our home market is euro-based. But since setting up our global MTN programme in 2017, we have done a lot of work in the US market, a lot of investor meetings and roadshows to open up this new market for us. And normally when you do inaugural trades you pay concessions. However, when swapped back into euros the dollar spreads for subordinated products still look very competitive thanks to the different shape of US rates versus euros.

When we did the very first senior non-preferred deal in January 2018, the market was also still opening up, so we paid a little bit of a concession at that point. But then when we did our Tier 2 transaction and we paid zero new issue concession, this shows you how quickly our profile has developed in the US market, which is a testament to our strategy there.

**Day, BIHC:** As you said, you've done 90% of the subordinated plan for this year — you have been hitting the market quite heavily. That contrasts with 2017, for example, when you had done only around one-third by July. Issuers always have to balance spreading out issuance with optimising funding costs, but some might say this year it's been very much about market access for UniCredit, with less on focus issuance costs — how would you respond to that?

**Bianchi, UniCredit:** We are definitely very focused on issuance costs — we are of course very NII-driven. But at the same time, we are a G-SIFI, and TLAC is coming in by the second quarter, and we want to run a bank that is very safe, not only from a liquidity perspective but also from a capital perspective. We therefore wanted to make sure that firstly, the market sees that we are compliant with TLAC ratios in advance — and we already were at the end of 2018 — and also, that we build a managerial buffer on top to make sure that we run a very safe ship that allows the group to navigate future potential volatility.

The difference between 2017 and 2019 is that we live in a period of quite high uncertainty, and if you want to manage a balance sheet on a conservative basis you need to make sure that you approach the market at the right time, without putting yourself into a difficult situation that can have negative repercussions. That's our approach to the market and why we have done what we have done.

**Day, BIHC:** Would you hope that — particularly for the rest of this year — now you have done so much, you can be a bit more relaxed and able to focus even more on the cost side?

**Bianchi, UniCredit:** For sure. Also, part of our tactics in approaching the market in the first quarter was to use the primary market to manage down our secondary levels, and if you look the spread development of all our instruments, that has been achieved and is a big success for us.

**Day, BIHC:** Unlike some peers, you seem to be targeting a well spread redemption profile in terms of maturities and call dates on capital instruments. Is this a factor in the choice of the June 2026 date as first call date for the new AT1 issue?

**Bianchi, UniCredit:** Definitely. We have a very experienced funding team and we carefully plan the redemption profile, in terms of the calls and maturities of our capital instruments, to make sure that we avoid as much as possible any cliff effects. That's important and the choice of June 2026 as the first call date fits completely into this policy of keeping a very smooth profile on AT1 calls.

Refinancing risk in general is important, and that's one of the reasons why we also use both the euro and dollar investor bases. If you look at our issuance pattern, it is to try to do a euro, then a dollar, a euro, a dollar, etc, so we don't put too much pressure on either investor base. That goes hand in hand with making sure that we tactically position our call dates and our refinancing profile. We have always done this and it's a very important way of making sure that we manage our future issuance in a safe way.

**'This shows you how quickly our profile has developed in the US'**



Day, BIHC: The first non-call of an AT1 has prompted a lot of discussions about various aspects of AT1 structures and issuance. One is the call schedule, whether it coincides with the resets or every interest payment date after the first call. On your most recent AT1, you stuck with what you'd done beforehand. Is it a topic investors have raised with you?

**Bianchi, UniCredit:** We decided to keep our traditional call schedule for the recent AT1 to be aligned with all the other outstanding AT1s — that's the first reason. Also, the recent AT1 non-call decision has been very well absorbed by the market and the market read it as an idiosyncratic event. We did not face any specific questions on call dates.

Day, BIHC: I imagine your AT1 call policy may nevertheless be something AT1 investors ask about in general. What can you say about your policy?

**Bianchi, UniCredit:** We did not actually have any specific questions on our call policy. This is probably because the first call date of any of our new-style AT1 is still two and a half years away, in September 2021. We cannot say anything more on our call policy. What I can say is that also regulators are very focused on this, and we got perhaps more questions on it from regulators than investors.

Day, BIHC: You have been acting to enhance the group's risk profile. How are these efforts coming along and are you seeing any positive outcomes yet?

**Bianchi, UniCredit:** This is the last year of our Transform 2019 plan and we are going to announce the new plan on 3 December. Under the Transform 2019 plan we have made impressive progress in improving several KPIs in asset quality, costs reduction and the group's risk profile. We took very decisive action and massively reduced our NPE stock, which is down EUR38.6bn since Q3 2016, more than 50 percent, and net NPLs are down even more on a relative basis — we have done an incredible EUR27bn of NPE disposals in the period. At the same time, we have increased our NPE coverage by more than eight percentage points — that is very important, especially for future provisioning — and UniCredit had the second highest NPE coverage of all Eurozone banks in the latest EBA transparency exercise and the



Mirko Bianchi, UniCredit

highest in Italy. So from a provisioning perspective, we are extremely well positioned. We have meanwhile strengthened our underwriting processes to contain as much as we can the creation of NPLs — it's not enough simply to reduce NPLs; you have to work on underwriting policies in parallel. We are expected-loss driven and for new business we have an expected loss of 34bp, below the expected loss of the NPE stock, which is 38bp.

Our pro-active and decisive de-risking actions benefit all our stakeholders, and we

are well ahead of regulatory expectations and requirements. We have always stressed that our programme is self-led and not being done for the sake of the regulators — it is above what they would expect of us. We are doing it because we believe we need to have a risk profile that is in line with European and global SIFIs, and that's why we have such demanding targets for ourselves.

In Q3 2018 we also announced that we will be reducing our BTP spread sensitivity by 35 percent and we are doing that to remove the volatility sensitivity of our capital.

And then to further enhance our group risk profile, we will also ensure that all group legal entities become self-funded by progressively reducing intragroup exposures without, of course, reducing funding synergies. One example is what we are doing with Yapi Kredi, where we are reducing our intragroup funding by 50

percent over the next 24 months, and we are basically applying the same approach to all other legal entities.

Finally, we are going to run down the non-core to zero by 2021.

So post-2021 we will have a group with an NPE ratio that is in line with European and global SIFIs, and with an NPE ratio of probably below 4 percent - the core bank is already there.

That's how we are managing our risk profile. And that probably explains the good acceptance of our funding plan by the market. We say what we will do and aim to overachieve, and so far we have been able to do that.

Day, BIHC: You have already mentioned that last year the Italian elections were a factor in your timing and you've mentioned the upcoming elections this year. Is there anything else to add in respect of Italian politics?

**Bianchi, UniCredit:** No. It is important to recognise that more than 50 percent of our assets and revenues are outside

**'We aim to overachieve, and so far we have been able to do that'**



Italy, so we are a very well diversified pan-European bank that has very strong franchises wherever we operate — we always top five wherever we operate, besides Russia. That helps in times of volatility or in times where the economic environment is weaker.

The other important part about being pan-European is that we have market access outside Italy and we make use of that. We have done a couple of Pfandbrief transactions out of Germany and Austria, for example. And going back to the very active first quarter we had, on the same day in January 2019 that we launched the senior non-preferred issue, we launched the Yapı Kredi AT1 and we also launched a German Pfandbrief. Issuing those three transactions on the same day is quite an achievement. On our side, it was again a case of signalling that we have market access via more than one legal entity, and that there is appetite for our paper in a variety of markets — even if we do three transactions in one day.

**Day, BIHC:** What are the main concerns you have in terms of regulatory headwinds?

**Bianchi, UniCredit:** We have the highest visibility on regulations since the financial crisis. However, there are some initiatives that are still underway — the Basel IV package now needs to be transposed into European law, while other important elements of the regulatory framework are still being defined at the European level — BRRD2, FRTB and so on.

We incorporated and communicated on these in our future regulatory headwinds slide at our capital markets day in December 2017, in line with our prudent and transparent approach. It covered these issues in a very comprehensive way and I think we were the first and only bank to really publish something like that — it's important to note that these regulatory headwinds are relevant for the whole banking sector, not just UniCredit. As well as making this information available to the market, we use it as the basis for our capital planning internally, to make sure that we position ourselves vis-à-vis the forthcoming regulatory headwinds. It may be a conservative approach, but it's important that our representation of our capital ratios always gives a true and fair view of, let's say, the economic and regulatory reality. And we had neither on the one hand excess capital nor on the other any shortfall in capital — our capital ratios are fully-loaded and fully compliant with all the regulatory requirements. This is also demonstrated in the recent EBA transparency exercise where UniCredit has one of the best capital ratios in the Eurozone and among its Italian peers.

**Day, BIHC:** What are your expectations in terms of profitability for yourself and the European banking sector? Do you think profitability should be a concern for AT1 investors?

**Bianchi, UniCredit:** At UniCredit, we are very focused on situations that we can control, so we have a real execution-driven philosophy internally for our Transform 2019 business plan. If you look at the last two years, we have already achieved very tangible results. Our profitability is already close to the targets as the full-year 2018 adjusted group RoTE stands at 8 percent (up 0.8 percentage points versus full-year 2017 adjusted). That incorporated provisions for US sanctions, and we have just closed that issue, removing another risk — we also provisioned more than was necessary, so have a release of capital of around 8bp, which is positive news in this respect, also underlining how we deal with situations on a conservative basis.

If I look at the core bank — so post-2021, once the non-core is no longer included — we already have an adjusted RoTE that is above 10 percent, which shows you the underlying profitability power of the group. And in the fourth quarter of 2018 net profit was the best in a decade. This shows that the restructuring plan is really working and that UniCredit is very well positioned in the European context. We have confirmed our RoTE targets of above 9 percent for the group and above 10% for the group core.

Regarding AT1 investors, they definitely appreciate sustainable profitability and capital base, and that goes back to your question. Our capitalisation is strong: we have a fully-loaded regulatory core Tier 1 ratio of 12.07 percent as of year-end 2018, and we have a target of between 12 percent and 12.5 percent by the end of 2019. This corresponds to a very comfortable MDA buffer of 200bp-250bp. That's a very important capital target for us and is how we will manage our capital going forwards, which offers very good support for AT1 investors.

**Possibly related to the profitability question: the new TLTROs were big news — if not surprising. We're still waiting on the full details, but what do you expect from them?**

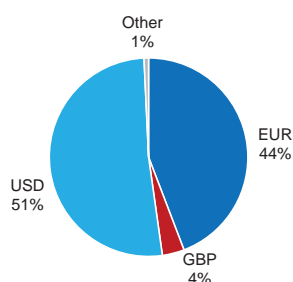
**Bianchi, UniCredit:** TLTRO repayments are embedded in our financial planning for 2019, so we did not rely on a potential TLTRO renewal. Alternative funding sources and the related costs are therefore already taken into consideration in our 2019 projections.

Now we have the new TLTRO III that can potentially be used. First of all, we need to understand the economic characteristics of TLTRO III — we don't yet have that information. What I can say is that I expect it be used tactically. In general we think it will probably be used by banks to manage their net stable funding ratios. I therefore don't expect it to be heavily used, especially the first tranche, because banks are on a much better footing than when we had TLTRO I and TLTRO II — we were in a very different economic and financial crisis mode at that time — and therefore the take-up will be quite different. But let's see — I cannot speak for others. ●

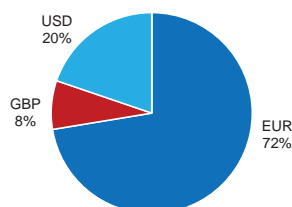
**'Issuing those three transactions on the same day is quite an achievement'**

# Currencies, structures and distribution

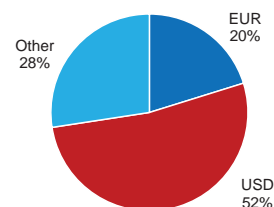
Bank hybrid issuance by currency  
(2018 ytd)



Insurance issuance by currency  
(2018 ytd)

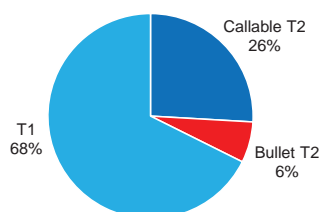


SNP/Senior HoldCo issuance by currency  
(2018 ytd)

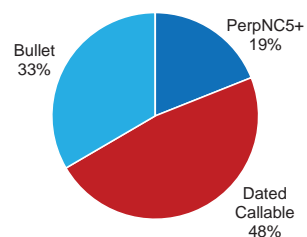


Source: Crédit Agricole CIB

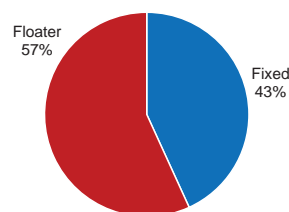
Bank issuance by instrument/structure  
(2018 ytd)



Insurance issuance by instrument/structure  
(2018 ytd)

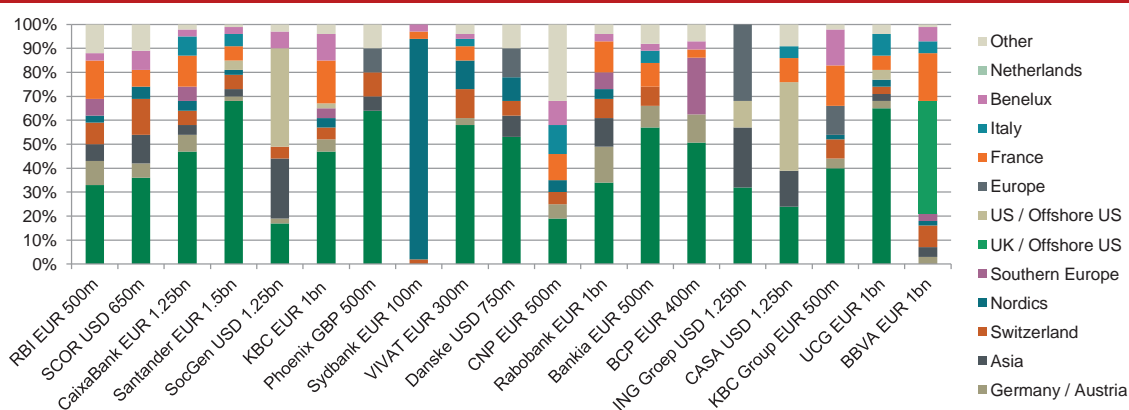


SNP/Senior HoldCo issuance by coupon  
(2018 ytd)

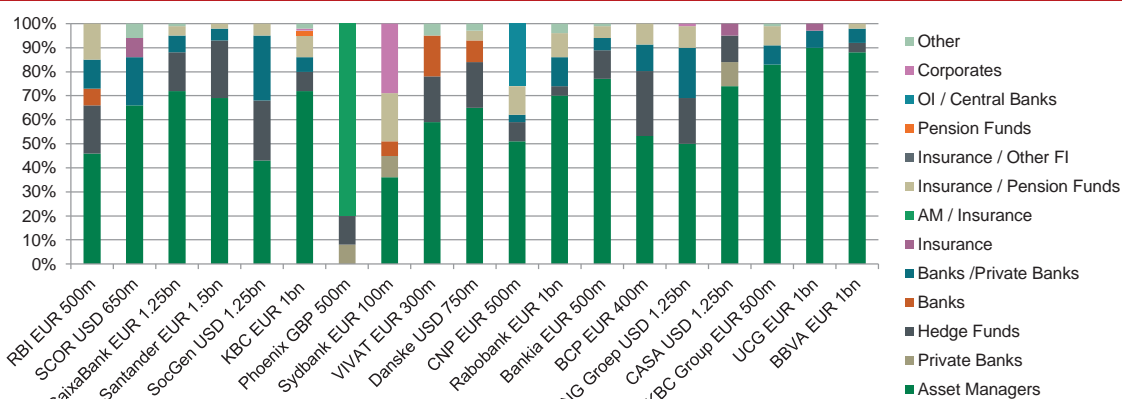


Source: Crédit Agricole CIB

## Tier 1 distribution by geography



## Tier 1 distribution by investor type



# AT1, RT1 monitoring

## AT1 performance monitoring (as at 23/4/19)

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
11-Apr-19	BAMIIIM	Caa1/-/-	EUR	300	8.750%	Perpetual	18-Jun-24	TWD	5.125%	99.38	903	8.91	9.14	892
02-Apr-19	VOWIBA	Ba2/-/-	EUR	220	7.750%	Perpetual	09-Apr-24	TWD	5.125%	100.25	778	7.69	8.99	780
26-Mar-19	COVBS	Baa3/-/BB	GBP	415	6.875%	Perpetual	18-Sep-24	EC	7.000%	102.07	516	6.42	7.29	611
25-Mar-19	LANSNA	-/BB/-	EUR	100	6.750%	Perpetual	01-Apr-24	-	5.125%	100.90	659	6.53	7.78	682
20-Mar-19	BACR	-/B+/BB+	USD	2,000	8.000%	Perpetual	15-Jun-24	EC	7.000%	104.88	450	6.86	8.01	567
19-Mar-19	BBVASM	Ba2/-/BB	EUR	1,000	6.000%	Perpetual	29-Mar-24	EC	5.125%	102.20	555	5.49	6.99	604
19-Mar-19	NDASS	Baa3u/BBB/BBB	USD	1,250	6.625%	Perpetual	26-Mar-26	TWD	5.125%	101.63	386	6.33	6.71	411
18-Mar-19	BNP	Ba1/BBB-/BBB-	USD	1,500	6.625%	Perpetual	25-Mar-24	TWD	5.125%	101.16	393	6.35	6.82	415
13-Mar-19	EBIUH	-/-/-	USD	1,000	6.125%	Perpetual	20-Mar-25	-	-	101.23	344	5.87	6.23	366
12-Mar-19	UCGIM	B1/-/B+	EUR	1,000	7.500%	Perpetual	03-Jun-26	TWD	5.125%	104.11	661	6.76	8.06	733
07-Mar-19	RBIIV	-/-/-	EUR	100	9.000%	Perpetual	30-May-24	TWD	5.125%	117.35	-	4.96	7.58	-
06-Mar-19	CYBGLN	Ba2u/B/BB-	GBP	250	9.250%	Perpetual	08-Jun-24	EC	7.000%	105.34	672	7.96	9.18	831
05-Mar-19	ERSTBK	Ba1u/BBB/-	EUR	500	5.125%	Perpetual	15-Oct-25	TWD	5.125%	102.04	461	4.75	5.84	485
26-Feb-19	KBCBB	Ba1/BB+/-	EUR	500	4.750%	Perpetual	05-Mar-24	PWD	5.125%	103.28	400	4.00	5.60	469
20-Feb-19	ACAFF	-/BBB-/BBB-	USD	1,250	6.875%	Perpetual	23-Sep-24	PWD	5.125%	103.13	376	6.18	6.83	432
19-Feb-19	INTNED	Ba1/-/BBB-	USD	1,250	6.750%	Perpetual	16-Apr-24	EC	7.000%	101.50	398	6.39	6.83	420
14-Feb-19	SHBASS	Baa3/BBB/BBB+	USD	500	6.250%	Perpetual	01-Mar-24	EC	5.125%	101.54	337	5.87	6.22	369
06-Feb-19	SANTAN	Ba1/-/BB	USD	1,200	7.500%	Perpetual	08-Feb-24	EC	5.125%	103.54	427	6.63	7.51	499
28-Jan-19	UBS	Ba1u/BB/BBB-	USD	2,500	7.000%	Perpetual	31-Jan-24	PWD	7.000%	103.33	377	6.18	6.87	434
22-Jan-19	BCPPL	B3/CCC+/B-	EUR	400	9.250%	Perpetual	31-Jan-24	TWD	5.125%	105.72	800	7.80	9.99	941
14-Jan-19	CIMWLB	Ba1/-/-	USD	400	6.500%	Perpetual	24-Jan-24	PWD	-	103.31	328	5.69	6.46	395
09-Jan-19	DIBUH	-/-/-	USD	750	6.250%	Perpetual	22-Jan-25	PWD	-	103.37	312	5.55	4.06	366
08-Jan-19	YKBNK	Caa1u/-/-	USD	650	13.875%	Perpetual	15-Jan-24	PWD	5.125%	98.40	1,193	14.34	14.19	125
05-Nov-18	SANBBZ	-/-/-	USD	1,250	7.250%	Perpetual	08-Nov-23	-	-	100.02	484	7.24	7.25	-
02-Oct-18	LLOYDS	Baa3/BB-/BB+	USD	1,500	7.500%	Perpetual	27-Sep-25	EC	7.000%	103.12	450	6.89	7.22	450
27-Sep-18	SOCGEN	Ba2/BB+/-	USD	1,250	7.375%	Perpetual	04-Oct-23	TWD	5.125%	101.50	457	6.97	7.06	430
20-Sep-18	HSBC	Baa3/-/BBB	GBP	1,000	5.875%	Perpetual	28-Sep-26	EC	7.000%	104.09	387	5.20	5.62	428
18-Sep-18	BBVASM	Ba2/-/BB	EUR	1,000	5.875%	Perpetual	24-Sep-23	EC	5.125%	100.57	585	5.73	6.81	566
12-Sep-18	ADIBUH	B1/-/-	USD	750	7.125%	Perpetual	20-Sep-23	-	-	106.31	309	5.49	6.62	427
11-Sep-18	BOCHKL	Ba2u/BBB/-	USD	3,000	5.900%	Perpetual	14-Sep-23	-	-	104.35	238	4.79	5.57	304
05-Sep-18	CS	Ba2u/BB-/BB	USD	1,500	7.250%	Perpetual	12-Sep-25	PWD	7.000%	102.51	431	6.76	7.01	433
03-Sep-18	RABOBK	Baa3/-/BBB-	EUR	1,000	4.625%	Perpetual	29-Dec-25	TWD	5.125%	104.49	367	3.86	5.04	410
08-Aug-18	BNP	Ba1/BBB-/BBB-	USD	750	7.000%	Perpetual	16-Aug-28	TWD	5.125%	102.76	405	6.60	6.73	398
07-Aug-18	BACR	Ba3/B+/BB+	USD	2,500	7.750%	Perpetual	15-Sep-23	EC	7.000%	103.25	454	6.88	7.49	484
09-Jul-18	CS	Ba2u/BB-/BB	USD	2,000	7.500%	Perpetual	17-Jul-23	PWD	7.000%	104.85	377	6.17	7.07	460
20-Jun-18	DANBNK	-/BB+/BB+	USD	750	7.000%	Perpetual	26-Jun-25	EC	7.000%	96.30	532	7.76	7.19	413
23-May-18	SYDBDC	Ba1/-/-	EUR	100	5.250%	Perpetual	25-Aug-25	PWD	7.000%	101.07	492	5.05	5.77	462
21-May-18	CFG	-/BB+/BB-	USD	300	6.000%	Perpetual	06-Jul-23	-	-	100.00	360	6.00	5.81	300
18-Apr-18	BGAV	Ba1/-/-	EUR	300	5.000%	Perpetual	14-May-25	TWD	5.125%	96.02	571	5.79	5.85	441
17-Apr-18	KBCBB	-/BB+/BB+	EUR	1,000	4.250%	Perpetual	24-Oct-25	TWD	5.125%	95.04	502	5.16	5.05	359
12-Apr-18	PBBGR	-/BB/-	EUR	300	5.750%	Perpetual	28-Apr-23	TWD	7.000%	98.92	610	6.06	6.51	538
04-Apr-18	SOCGEN	Ba2/BB+/-	USD	1,250	6.750%	Perpetual	06-Apr-28	TWD	5.125%	96.03	483	7.36	7.03	393

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

## RT1 performance monitoring (as at 23/4/19)

Launch	Issuer	Issue ratings	Currency	Amount (m)	Coupon	Maturity date	First call date	Principal loss absorption	Price	I-Spread	Yield to call	Yield to maturity	Reset spread
28-Mar-19	AEGON	Baa3/BBB-/BB+	EUR	500	5.625%	Perpetual	15-Apr-29	EC	104.05	459	5.10	5.99	521
14-Mar-19	JUSTLN	-/-/BBB-	GBP	300	9.375%	Perpetual	26-Apr-24	EC	102.70	746	8.70	9.54	843
26-Feb-19	MSINS	A3/A/-	USD	910	4.950%	Perpetual	06-Mar-29	-	101.95	213	4.70	5.48	326
05-Sep-18	ROTHLF	-/-/BBB-	GBP	350	6.875%	Perpetual	12-Sep-28	PWD	96.39	602	7.41	7.20	542
14-Jun-18	CNPFP	Baa3/BBB/-	EUR	500	4.750%	Perpetual	27-Jun-28	TWD	103.60	384	4.27	4.98	391
13-Jun-18	VIVATN	-/-/BB-	EUR	300	7.000%	Perpetual	19-Jun-25	PWD	106.29	568	5.77	6.91	646
19-Apr-18	PHNXLN	-/-/BBB-	GBP	500	5.750%	Perpetual	26-Apr-28	PWD	91.30	569	7.07	6.29	417
06-Mar-18	SCOR	Baa1u/A/-	USD	625	5.250%	Perpetual	13-Mar-29	TWD	86.66	459	7.16	6.01	237
01-Dec-17	DLGLN	Ba1u/BBB/-	GBP	350	4.750%	Perpetual	07-Dec-27	EC	86.76	544	6.80	5.62	339
12-Oct-17	ASRNED	-/BB/-	EUR	300	4.625%	Perpetual	19-Oct-27	EC	96.35	482	5.16	5.23	379

Source: Crédit Agricole CIB



# Tier 2 bank, insurance hybrids

Bank Tier 2 performance monitoring (as at 23/4/19)

Launch	Issuer	Issue ratings	Currency	Amount (m)	Coupon	Maturity date	First call date	I-Spread	Yield to call	Yield to maturity	Reset spread
17-Apr-19	COOPBK	-/-/-	GBP	200	9.500%	25-Apr-29	25-Apr-24	828	9.52	9.75	855
08-Apr-19	UOBSP	A2/-/A+	USD	600	3.750%	15-Apr-29	15-Apr-24	122	3.63	3.91	150
01-Apr-19	BNP	-/-/-	EUR	120	2.250%	11-Jan-27	-	185	-	2.18	-
27-Mar-19	SHNHAN	Baa1/BBB+/BBB+	USD	400	4.000%	23-Apr-29	-	157	-	4.13	-
27-Mar-19	MONTPI	Caa2/-/B-	EUR	100	10.500%	03-Apr-29	03-Apr-24	1,113	11.18	11.32	51
26-Mar-19	UCGIM	Ba1/-/-	USD	1,250	7.296%	02-Apr-34	02-Apr-29	465	7.21	7.36	491
19-Mar-19	ACAFP	Baa2/BBB+/A	EUR	1,250	2.000%	25-Mar-29	-	133	-	1.88	-
19-Mar-19	DANBNK	-/BBB/A-	EUR	750	2.500%	21-Jun-29	21-Jun-24	214	2.21	2.84	250
19-Mar-19	BGAV	Baa2/-/-	EUR	400	2.375%	26-Mar-29	26-Mar-24	226	2.31	2.79	230
11-Mar-19	BBT	A2 */-/BBB+/A	USD	650	3.875%	19-Mar-29	19-Feb-29	124	3.80	3.80	-
04-Mar-19	CMARK	Baa1 */-/BBB+	EUR	750	3.375%	11-Mar-31	-	224	-	2.95	-
25-Feb-19	UBIIM	Ba3/BB/BB+	EUR	500	5.875%	04-Mar-29	04-Mar-24	525	5.29	5.94	575
19-Feb-19	CINDBK	Baa3/-/-	USD	500	4.625%	28-Feb-29	28-Feb-24	193	4.34	4.62	225
14-Feb-19	BBVASM	Baa3/BBB/BBB+	EUR	750	2.575%	22-Feb-29	22-Feb-24	194	1.98	2.69	245
13-Feb-19	UCGIM	Ba1/BB+/BBB-	EUR	1,000	4.875%	20-Feb-29	20-Feb-24	386	3.90	4.73	474
12-Feb-19	CCB	-/BBB+/BBB+	USD	1,850	4.250%	27-Feb-29	27-Feb-24	168	4.09	4.33	188
11-Feb-19	BTGPBZ	B1/-/B	USD	600	7.750%	15-Feb-29	15-Feb-24	515	7.57	7.74	526
11-Feb-19	FNB	Baa3/-/-	USD	120	4.950%	14-Feb-29	14-Feb-24	272	5.14	5.12	240
07-Feb-19	BKIASM	-/BB+/BBB-	EUR	1,000	3.750%	15-Feb-29	15-Feb-24	294	2.98	3.75	362
31-Jan-19	SNV	-/BB+/BB+	USD	300	5.900%	07-Feb-29	07-Feb-24	306	5.47	5.75	338
29-Jan-19	ERSTBK	Baa2/-/A-	EUR	150	2.500%	19-Feb-29	-	129	-	1.83	-
28-Jan-19	CTINAT	Baa1/BBB+/A-	USD	450	4.500%	01-Feb-29	-	158	-	4.14	-
17-Jan-19	BNP	-/BBB+/A	EUR	105	3.340%	28-Jan-39	28-Jan-34	140	2.29	2.16	219
11-Jan-19	ABANCA	Ba3/-/BB+	EUR	350	6.125%	18-Jan-29	18-Jan-24	542	5.45	6.10	593
10-Jan-19	SHCMBK	A3/-/BBB+	USD	300	5.000%	17-Jan-29	17-Jan-24	190	4.31	4.72	250
08-Jan-19	DAHSIN	Baa1/-/BBB	USD	225	5.000%	15-Jan-29	15-Jan-24	192	4.33	4.74	255
05-Nov-18	SANBBZ	-/-/-	USD	1,250	6.125%	08-Nov-28	08-Nov-23	241	4.82	5.41	-
02-Oct-18	BMO	Baa1/BBB+/A+	USD	850	4.338%	05-Oct-28	05-Oct-23	142	3.82	3.90	128
20-Sep-18	BSMXB	Baa3/-/BBB-	USD	1,300	5.950%	01-Oct-28	01-Oct-23	281	5.22	5.44	300
28-Aug-18	SHBASS	A3/A-/AA-	EUR	750	1.625%	05-Mar-29	05-Mar-24	138	1.42	1.85	127
18-Jun-18	MTROLN	-/-/-	GBP	250	5.500%	26-Jun-28	26-Jun-23	819	9.39	7.77	446
15-Jun-18	CXGD	Ba3/-/BB-	EUR	500	5.750%	28-Jun-28	28-Jun-23	353	3.50	4.88	550
04-Jun-18	DBSSP	A2/-/A+	USD	750	4.520%	11-Dec-28	11-Dec-23	133	3.74	4.00	159
16-May-18	BBVASM	Baa3/BBB/BBB+	USD	300	5.250%	29-May-33	-	295	-	5.62	-
18-Apr-18	LEED	Baa2/-/BBB+	GBP	200	3.750%	25-Apr-29	25-Apr-28	276	4.14	4.12	229

Insurance Tier 2 performance monitoring (as at 23/4/19)

Launch	Issuer	Issue ratings	Currency	Amount (m)	Coupon	Maturity date	First call date	I-Spread	Yield to call	Yield to maturity	Reset spread
03-Apr-19	AGSBB	-/BBB+/BBB+	EUR	500	3.250%	02-Jul-49	02-Jul-29	253	3.10	4.27	380
01-Apr-19	NYLIFE	Aa2/AA-/AA	USD	1,000	4.450%	15-May-69	15-Nov-68	175	4.45	4.45	-
26-Mar-19	SRENVX	A2/A/-	USD	1,000	5.000%	02-Apr-49	02-Apr-29	209	4.66	5.53	358.2
14-Mar-19	SRENVX	A2/A/-	EUR	750	2.534%	30-Apr-50	30-Apr-30	173	2.36	3.40	285
28-Feb-19	MASSMU	A1 */-/AA-/AA-	USD	800	5.077%	15-Feb-69	15-Feb-49	201	4.77	4.92	319.1
11-Feb-19	ZURNVX	-/A/-	EUR	500	2.750%	19-Feb-49	19-Feb-29	170	2.24	3.60	320
25-Jan-19	CNPFP	A3/BBB+/A-	EUR	500	2.750%	05-Feb-29	-	167	-	2.20	-
21-Jan-19	ASSGEN	Baa3/-/BBB	EUR	500	3.875%	29-Jan-29	-	279	-	3.32	-
17-Jan-19	WSFIN	A2/A/A+	USD	500	5.150%	15-Jan-49	15-Jul-48	188	4.64	4.65	-
07-Nov-18	LGEN	A3/BBB+/A-	GBP	400	5.125%	14-Nov-48	14-Nov-28	275	4.14	5.21	465
19-Sep-18	PHNXLN	-/-/BBB	EUR	500	4.375%	24-Jan-29	-	389	-	4.42	-
14-Sep-18	PICORP	-/-/BBB+	GBP	350	5.625%	20-Sep-30	-	415	-	5.59	-
30-Aug-18	MAPSM	-/-/BBB-	EUR	500	4.125%	07-Sep-48	07-Sep-28	294	3.43	4.71	430
28-Aug-18	ASAMLI	-/-/BB	USD	430	6.500%	Perpetual	05-Sep-23	390	6.30	7.09	458.8
10-Jul-18	LIFEVT	Baa1/A/-	USD	372	5.250%	19-Jul-68	19-Jul-48	254	5.30	5.39	331.4
04-Jul-18	VITTAS	-/-/BBB-	EUR	250	5.750%	11-Jul-28	-	437	-	4.85	-
14-May-18	KHLIIN	-/-/BB	USD	200	7.500%	21-May-48	21-May-23	625	8.65	7.82	465.8
17-Apr-18	ZURNVX	A2/A/A-u	USD	500	5.125%	01-Jun-48	01-Jun-28	235	4.95	5.50	326.5
16-Apr-18	MYLIFE	A3/BBB+/A-	USD	1,000	5.100%	26-Apr-48	26-Apr-28	200	4.53	5.32	315
16-Apr-18	HLINSU	A3/-/A-	USD	1,000	4.700%	Perpetual	23-Apr-23	306	5.46	4.86	326.5
04-Apr-18	AEGON	Baa1/BBB/BBB-	USD	800	5.500%	11-Apr-48	11-Apr-28	277	5.30	5.86	354

Source: Crédit Agricole CIB

# SNP, HoldCo issuance

## SNP performance monitoring (as at 23/4/19)

Launch	Issuer	Issue ratings	Currency	Amount (m)	Coupon	Maturity date	I-Spread	Yield to maturity
18-Apr-19	BYLAN	-/-/A-	EUR	100	1.100%	30-Apr-29	-	-
17-Apr-19	NWIDE	-/-/A	USD	1,000	3.622%	26-Apr-23	-	-
15-Apr-19	FRLBP	-/BBB/A-	EUR	750	1.375%	24-Apr-29	-	-
04-Apr-19	CMARK	Baa1 */-/A-	EUR	500	1.625%	15-Apr-26	95	1.20
02-Apr-19	LBBW	-/-/-	EUR	100	0.400%	05-Apr-24	41	0.46
02-Apr-19	NIBCAP	-/BBB-/BBB	EUR	300	2.000%	09-Apr-24	177	1.82
26-Mar-19	BPCEGP	Baa2/A-/A+	EUR	1,000	1.000%	01-Apr-25	72	0.87
21-Mar-19	SOCGEN	Baa2/BBB+/A	USD	1,500	3.875%	28-Mar-24	132	3.73
21-Mar-19	NYKRE	-/BBB+/A	EUR	600	0.875%	17-Jan-24	80	0.83
21-Mar-19	SOCGEN	Baa2/BBB+/A	USD	1,500	3.875%	28-Mar-24	134	3.76
12-Mar-19	DANBNK	Baa2/BBB+/A	EUR	500	1.625%	15-Mar-24	135	1.40
01-Mar-19	LBBW	-/-/-	EUR	100	1.000%	19-Dec-25	48	0.70
28-Feb-19	BNP	-/-/A+e	EUR	100	1.250%	19-Mar-25	66	0.81
28-Feb-19	DANBNK	-/-/A	EUR	100	1.180%	11-Mar-22	113	0.99
28-Feb-19	BNP	Baa1/A-/	USD	100	3.820%	07-Mar-24	114	3.56
28-Feb-19	BNP	Baa1/A-/	USD	100	3.990%	07-Mar-25	128	3.72
25-Feb-19	ACAFFP	Baa2/A-/A+	EUR	1,500	1.750%	05-Mar-29	84	1.38
22-Feb-19	DANBNK	Baa2/BBB+/A	EUR	1,250	1.375%	24-May-22	114	1.02
21-Feb-19	BNP	Baa1/A-/A+	EUR	750	1.125%	28-Aug-24	62	0.71
20-Feb-19	BBVASM	Baa2/BBB+/A-	EUR	1,000	1.125%	28-Feb-24	80	0.84
20-Feb-19	RABOBK	A3/A-/AA-	EUR	1,250	0.625%	27-Feb-24	40	0.44
19-Feb-19	BYLAN	A2/-/A-	EUR	150	0.169%	22-Feb-24	-	0.27
19-Feb-19	LBBW	-/-/-	EUR	100	1.585%	22-Feb-34	68	1.57
14-Feb-19	LBBW	-/-/-	EUR	100	1.250%	19-Apr-29	59	1.14
12-Feb-19	SOCGEN	Baa2/BBB+/A	EUR	1,750	1.250%	15-Feb-24	82	0.86
11-Feb-19	LBBW	-/-/-	EUR	100	1.125%	13-Apr-28	55	1.00
11-Feb-19	DB	Baa3/BBB-/BBB+	USD	1,250	5.000%	14-Feb-22	172	4.14
08-Feb-19	LBBW	-/-/-	EUR	100	1.000%	12-Aug-27	53	0.92
08-Feb-19	LBBW	-/-/-	EUR	100	1.220%	13-Feb-29	54	1.07

## HoldCo performance monitoring (as at 23/4/19)

Launch	Issuer	Issue ratings	Currency	Amount (m)	Coupon	Maturity date	First call date	I-Spread	Yield to maturity
17-Apr-19	BAC	A2/A-/A+e	USD	3,000	3.559%	23-Apr-27	23-Apr-26	107	3.57
17-Apr-19	BAC	A2/A-/A+e	USD	1,500	4.078%	23-Apr-40	23-Apr-39	135	4.09
16-Apr-19	C	-/-/A	USD	2,750	3.352%	24-Apr-25	24-Apr-24	95	3.38
03-Apr-19	AIB	Baa3/BBB-/BBB-	USD	1,000	4.263%	10-Apr-25	10-Apr-24	171	4.17
03-Apr-19	C	A3/BBB+/A	EUR	1,350	1.250%	10-Apr-29	10-Mar-29	82	1.36
03-Apr-19	KBCBB	-/A-/A	EUR	500	0.625%	10-Apr-25	-	57	0.72
02-Apr-19	INTNED	Baa1/A-/A+	USD	1,000	3.550%	09-Apr-24	-	114	3.55
02-Apr-19	INTNED	Baa1/A-/A+	USD	1,000	4.050%	09-Apr-29	-	147	4.04
21-Mar-19	RBS	Baa2/BBB-/A	GBP	500	3.125%	28-Mar-27	28-Mar-26	160	2.99
19-Mar-19	RBS	Baa2/BBB-/A	USD	2,000	4.269%	22-Mar-25	22-Mar-24	141	3.90
18-Mar-19	INTNED	Baa1/-/A+	EUR	138	1.625%	21-Mar-29	-	82	1.36
13-Mar-19	C	A3/BBB+/A	USD	2,500	3.980%	20-Mar-30	20-Mar-29	129	3.88
12-Mar-19	BAC	A2/A-/A+	USD	2,750	4.330%	15-Mar-50	15-Mar-49	143	4.19
12-Mar-19	BAC	A2/A-/A+	USD	2,250	3.458%	15-Mar-25	15-Mar-24	92	3.36
05-Mar-19	HSBC	A2/A/AA-	GBP	1,000	3.000%	22-Jul-28	22-Jul-27	131	2.72
05-Mar-19	LLOYDS	A3/BBB+/A+	USD	1,000	3.900%	12-Mar-24	-	117	3.58
04-Mar-19	CS	-/-/-	USD	1,050	3.395%	08-Mar-24	08-Mar-23	-	2.61
04-Mar-19	HSBC	A2/A/AA-	USD	2,500	3.803%	11-Mar-25	11-Mar-24	105	3.51
04-Mar-19	HSBC	A2/A/AA-	USD	500	3.831%	11-Mar-25	11-Mar-24	-	3.74
26-Feb-19	MUFG	A1/A-/A	USD	1,500	3.407%	07-Mar-24	-	83	3.24
26-Feb-19	MUFG	A1/A-/A	USD	1,500	3.741%	07-Mar-29	-	98	3.54
26-Feb-19	MUFG	A1/A-/A	USD	1,500	3.218%	07-Mar-22	-	59	3.02
26-Feb-19	MUFG	A1/A-/A	USD	500	3.307%	07-Mar-22	-	-	3.21
26-Feb-19	MUFG	A1/A-/A	USD	500	4.153%	07-Mar-39	-	124	3.97
15-Feb-19	C	A3/BBB+/A	EUR	512	2.000%	07-Mar-34	07-Mar-29	112	2.01
15-Feb-19	BAC	A2/A-/A+	EUR	120	2.305%	22-Feb-39	22-Feb-29	133	2.06

Source: Crédit Agricole CIB

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1.375% Inaugural  
Green Senior  
Non-Preferred Due 2029

Sole Green Bond Structuring Advisor  
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APRIL 2019



CRÉDIT MUTUEL ARKÉA

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1.625% Senior  
Non Preferred Bond  
Due 2026

Joint Bookrunner

MARCH 2019



BBV S.A.

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

6.000% Additional Tier 1  
Perpetual NC5

Joint Bookrunner

MARCH 2019



CRÉDIT AGRICOLE S.A.  
CRÉDIT AGRICOLE S.A.

**EUR 1,250,000,000**

2.000% Subordinated  
Tier 2 Notes  
Due 2029

Sole Bookrunner

MARCH 2019



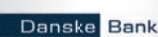
UNICREDIT SPA

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

7.5% AT1  
Perpetual NC7.25

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DANSKE BANK A/S

**EUR 500,000,000**

1.750% Non-Preferred  
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Due 2024

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3.375% Subordinated Tier 2  
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CRÉDIT AGRICOLE S.A.  
CRÉDIT AGRICOLE S.A.

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

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Non-Preferred Notes  
Due 2029

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FEBRUARY 2019



CRÉDIT AGRICOLE S.A.  
CRÉDIT AGRICOLE S.A.

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6.875% Additional Tier 1  
PerpNC5.5

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BBVA S.A.

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FEBRUARY 2019



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PerpNC5

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