WINTER 2019

Bank+Insurance Hybrid Capital

With CRÉDIT AGRICOLE CORPORATE & INVESTMENT BANK

#TimeForAction

Generali, CNP Assurances lay insurance ESG foundations as banks push ahead

ECB
Handover of power

Australia
ANZ, NAB Tier 2 firsts

Fitch
Sub actions in store

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#TimeForAction

"Time for Action" has been the theme of COP25, but the omens were negative from the start, with unrest in host country Chile resulting in a late relocation to Madrid. The battle ahead was perhaps most aptly demonstrated by teenage activist Greta Thunberg's long journey from Europe to Madrid via the UN in New York and Latin America — all without taking a single flight.

Fortunately, the debt capital markets give more cause for hope. Generali and CNP Assurances brought the green bond concept to the European insurance industry in subordinated format, and we spoke to them about their motivations and strategies, as well as banks taking the market in new SDG-impactful directions, such as ANZ, Rabobank and RBS.

As well as assisting in many key transactions, Crédit Agricole itself in October took its green bond issuance into the senior non-preferred market, then in November launched an inaugural CA Home Loan SFH green covered bond while Crédit Agricole CIB sold a ground-breaking "transition bond" to AXA.

"Starting in 2009, Crédit Agricole has made significant progress to identify and promote green and sustainable financings within its 'distribute to originate' business model," said the bank. "We are proud that AXA Group recognizes this expertise and partners with us to finance the environmental transition projects of some of our key clients."

Incoming ECB president Christine Lagarde has already shown an openness to sustainability being increasingly integrated into the institution's mission, but "time for action" could have been the rallying cry of Mario Draghi, in light of his regular exhortations to EU leaders to make structural changes and, latterly, to use fiscal policy more forcefully. CACIB Eurozone economist Louis Harreau gives his verdict on the central bank's impact in this issue.

Finally, will the New Year be a time for action in the primary market? Boris Johnson's victory in the UK general election as *Bank+Insurance Hybrid Capital* was going to press removes one uncertainty but potentially creates others, while who knows whether or not Donald Trump's positive turn in the trade war saga will persist? In his primary market outlook, CACIB FI syndicate head Vincent Hoarau warns against complacency, but sees reasons to hope for a strong start to 2020.

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Market news

La Banque Postale in €750m AT1 milestone

La Banque Postale achieved one of the lowest ever coupons on a euro AT1 with its debut issue on 13 November, a €750m perpetual non-call seven that attracted a peak €3.5bn of demand, but also demonstrated the price sensitivity of investors in the low yield environment.

The €750m debut fully meets La Banque Postale's limited Additional Tier 1 requirements, replacing AT1 provided by parent La Poste that was converted to equity in the first half of 2019, according to Stéphane Magnan, head of corporate and investment banking at La Banque Postale.

Dominique Heckel and Stéphane Magnan, La Banque Postale

"We had this empty AT1 bucket," he said, "so we thought that it would be a good idea to issue an AT1 on the market to optimise our capital structure and diversify our investor base."

The deal comes as CNP Assurances is being fully integrated into La Banque Postale in a transaction set to close next year, and the creation of the new bankassurance group was a topic in premarketing of the AT1 from Friday, 7 November, after plans for the debut were announced the previous day.

"The key messages that we wanted to convey to investors," said Magnan, "were firstly, that La Banque Postale presents a very low risk profile, supported by French state ownership via La Poste, and secondly, that we have an increasingly diversified model rooted in a strong domestic footprint that is going to be strengthened by the transaction with CNP."

The following Wednesday, La Banque Postale's leads went out with initial price thoughts of the 4.25% area for the perpetual non-call seven euro benchmark AT1, rated BB/BB (S&P/Fitch). After around an hour and five minutes, they reported books above €1.5bn, and after around two and a half hours set guidance at the 3.875% area, plus or minus 12.5bp, will price in range, on the back of books in excess of €3.5bn, including over 260 accounts. The deal was ultimately priced at 3.875% and sized at €750m, the upper end of the issuer's target, with over €1.7bn of orders good at re-offer. It enjoyed a strong domestic bid, with France taking 36% — the deal is the first French euro AT1 since 2015 — while typical AT1 investors lent their support.

"This AT1 was a key milestone for La Banque Postale in the context of the CNP takeover," said Vincent Hoarau, head of FI syndicate at Crédit Agricole CIB. "It was also a remarkable achievement in terms of pricing, breaking the psychological 4% threshold despite softer market conditions."

He said the new issue premium was limited and noted that the coupon is the fourth lowest on a Basel III Tier 1 hybrid instrument, after Rabobank (3.25%), Nordea (3.5%) and Belfius (3.625%).

"The bonds traded above par on the break and it is very stable in the secondary market," added Hoarau.

Almost half of orders nevertheless fell away as the deal was tightened to the re-offer, and Dominique Heckel, head of long term funding at La Banque Postale, attributed this to the rate environment.

"If we look at the volume of issuance, particularly in euro AT1, it has been very low, while many investors, struggling to achieve a decent return on their investments, are on the hunt for yield," he said. "But the fact we are at very low levels has made investors a bit more cautious and they won't accept just any price.

"We also wanted investors to have a fair deal and to leave room for some performance on the secondary market."

Magnan attributed part of the apparent price sensitivity to the European convention of moving pricing by steps of 0.125% in the AT1 market.

"This is not very efficient," he said. "The price discovery process could have been better and the outcome different if we had been able to move the coupon by a couple of basis points rather than one-eighth, because we don't know exactly what was the price sensitivity of the investors.

"In US dollars the AT1 market already works in decimal points and not one-eighths. The US equity market adopted decimalisation in 2001 and we are now in 2019 — it's about time we changed."

The transaction was only the second AT1 from a Eurozone bank to include a "six month par call" feature, with La Banque Postale able to call the instrument from May 2026 until the first call and coupon reset in November 2027.

Nationwide Building Society in September issued the first AT1 to incorporate the feature, but in spite of the relative novelty of the feature, few investors asked questions about it, according to Magnan.

"We explained that we think it's a win-win situation," he said, "whereby we try to optimise and maximise the probability of the call because we can issue a refinancing deal in the six month period before the reset date, then call the existing AT1 so as not to pay two coupons at the same time." ●

Rare German LBBW €750m AT1 debut hits high

Landesbank Baden-Württemberg capped a busy 2019 with its inaugural Additional Tier 1 on 28 October, a €750m perpetual non-call 5.5 year issue launched at the market's peak, helping the rare German supply achieve pricing at the tight end of expectations.

LBBW announced its planned debut on 21 October, mandating banks to arrange a roadshow running from 23 October for a perpetual non-call 5.5 or 7.5 year temporary write-down AT1 transaction with a 5.125% CET1 trigger and expected rating of Ba1 from Moody's.

The German bank said it was issuing the AT1 instrument to optimise its capital structure and during the roadshow, which took in over 80 accounts, it said that part of its issuance strategy was to preserve an appropriate distance to MDA and capital requirements, taking into account future considerations such as a change in the countercyclical buffer and the phase-out of legacy AT1 instruments.

LBBW's AT1 offered rare German benchmark AT1 supply in euros. Commerzbank debuted in AT1 in July, but did so in US dollar Reg S-only format. With old Deutsche Bank AT1 the only other German benchmark paper in euros, market participants had to look further afield for pricing considerations, with feedback putting fair value in a range of the high 3% to mid-4%.

Among euro-denominated comparables cited by the leads were KBC 4.75% non-call March 2024s (rated Ba1/BB+/-) quoted at a yield-to-call of 3.14%, bid, Erste 5.125% October 2025s (-/BBB/-) at 3.53%, and ABN Amro 4.75% September non-call 2027s (-/-/BB+) at 3.91%, while at the tight end of the market Rabobank 3.25% non-call December 2026s (Baa3/-/BBB-) were at 3.33% and Nordea 3.5% non-call March 2025s (-/BBB/BBB) at 3.39%. Resets for those bonds ranged anywhere from 300bp to 485bp. Secondary levels for LBBW's Tier 2 and senior non-preferred issuance was also circulated alongside the respective Tier 2 and SNP/HoldCo paper for relative value purposes and to capture AT1-Tier 2 differentials.

A banker at one of the leads said that following the roadshow and ahead of launch, indications of interest totalled around €770m at or inside the initial price thoughts of the 4.5% area with which LBBW's leads opened books on the morning of 28 October for the perpetual non-call April 2025 Reg S euro benchmark AT1 issue, with a coupon reset every five years.

They've had a very busy year, but a very successful one.

A first update after around an hour and 50 minutes put books above €2bn, and after around three and a half hours guidance was set at 4.125% plus or minus 12.5bp, will price in range, with orders at around €3.25bn and a peak of more than 240 accounts involved. The new issue was ultimately priced at 4% on the back of a final order book of well above €2bn, comprising over 200 accounts. The 4% level implied a spread of 275bp over LBBW's Tier 2 curve.

"This successful transaction offers not only scarcity value given the format of the note, but showcases LBBW's credit strength and support from the Tier 1 investor base as well as its excellent execution process," said the German bank.

It had discussed a €500m-plus size ahead of launch, with the eventual €750m size at the upper end of its target.

"The deal was extremely well timed, coming into a structurally undersupplied euro AT1 sector at the peak of the market," said Vincent Hoarau, head of FI syndicate at Crédit Agricole CIB. "It was subsequently very well received, despite pricing coming towards the tight end of expectations."

Fund managers were allocated 72% of the deal, banks and private banks 18%, pension funds and insurance companies 6%, and central banks and official institutions 4%. Asian investors took 20% of the deal, Germany and Austria 19%, Switzerland 16%, the UK and Ireland 11%, France 11%, southern Europe 9%, the Nordics 3%, the Benelux 2%, and others 9%.

A banker at one of the leads highlighted the level of demand from Asian accounts, particularly given that AT1 was issuing in euros rather than their typical preference of US dollars. He suggested that LBBW's previous work in relation to Tier 2 issuance in Singapore and Australian dollars and euro covered bond issuance had contributed to the success of the new issue.

The AT1 issue took LBBW's year-to-date benchmark issuance to almost €5bn, including also covered bonds, senior non-preferred and Tier 2, with green and social bonds among its activity.

"They've had a very busy year," said CACIB's Hoarau, "but a very successful one."

The new issue was off a €1.5bn AT1 notes programme and an analyst calculated LBBW's AT1 bucket at around €1.25bn. ●

2020: Primary outlook from CACIB's FI syndicate

After a surprising 2019, what does the year ahead hold in store for euro credit markets, notably bank debt? *Vincent Hoarau*, head of FI syndicate at Crédit Agricole CIB, suggests that geopolitical developments hold risks for a complacent market, even if technicals will be supportive. And while lower-for-longer is the mantra, issuers should not take demand at negative yields for granted when approaching the primary market.


Vincent Hoarau, CACIB

Bank+Insurance Hybrid Capital: 2019 did not unfold as might have been expected at the beginning of the year. What are the key take-aways from the past 12 months?

Vincent Hoarau, Crédit Agricole CIB: 2019 has been a year of surprises. A year ago, in December 2018, markets were discounting three rate hikes in the US and one rate hike in Europe over the next 12 months. Precisely the opposite materialised, after an unprecedented reversal of monetary policy in the US in early 2019 fully restored confidence that stimulus was coming. Central bankers did away with quantitative tightening, in a prelude to the revival of asset purchases in capital markets.

On 12 September, outgoing ECB president Mario Draghi duly confirmed the introduction of a tiered deposit rate, with its modality suggesting that interest rates could technically move lower than the current minus 0.50%. Markets reacted positively to the prospect of lower rates for a longer period of time, while in the US the balance sheet of the Fed was again growing. Draghi also managed expectations extremely well with the announcement of Quantitative Easing #2 and surprised with less than was anticipated. The market was expecting greater QE (some €40bn-€50bn), but there are simply not enough bonds to buy. What the ECB delivered with the announcement of "only" €20bn was remarkable. Markets appreciated the fact that one of the main objectives was more or less achieved: lowering the cost of spending for (southern) European governments and flattening the long end of their yield curves.

Globally, the overall compression of government bond yields and credit spreads observed throughout 2019 was also supported by the absence of new bad news and the fact that the two major political headaches that dominated H2 2018 and H1 2019, i.e. the US-China trade war and Brexit, had less impact in H2 2019.

> **Overpriced growth stocks are a risk for the market**

In December 2018 we wrote that "the ECB could review its interest rate rise commitment … and this could give succour to the market". We were certainly right, but we never thought 10 year swap rates could trade as low as minus 30bp and the 10 year Bund as low as minus 0.70%.

What are the key risks to current levels?

Hoarau, CACIB: The US economy is buoyant, with good momentum. So the risk of disappointment is high. The next earnings season will again be decisive for rates and the market's medium term direction. In this context, overpriced growth stocks are a risk for the market, and we don't see how an equity market correction would not impact the credit market. At the moment, too many people care too much about stories and narratives and neglect cashflow and profit generation. What does the WeWork debacle mean for peers and global markets? Some situations remind us suspiciously of the 2010-2013 period.

But more importantly, near term, we scrutinise the risks involved in the macro/geopolitical side of the equation, and the uncertainty over trade policy. This can damage global growth durably. After a dramatic escalation over the summer, talks between Beijing and Washington resumed and fuelled strong momentum in Q4. On that front, a "phase one" trade deal by January will reduce investor fears of a global downturn and support a strong start to the year. A negative outcome would be critical for markets.

Staying in the US, in terms of risk factors, the Fed could also prove to be more reluctant to cut rates during an election year even if the macro backdrop deteriorates — another key element in terms of potential market drivers. Elsewhere, the risk of a deterioration in the trade relationship between the US and Europe in 2020 is also on the table, and this is certainly where the next surprise could come from. Finally, Brexit could also have a stronger impact than expected, while Italian politic risks, currently dormant, could resurface.

How is the market poised for the January reopening? How should issuers go about approaching the new year primary market?

Hoarau, CACIB: The markets have priced in only good news. The post-summer credit rally was mainly driven by the prolongation of loose monetary policy across the board and strong fundamentals in the US. Investors have subsequently demonstrated a fairly high level of complacency, sending credit spreads to historical lows and equities to new highs in a very liquid market. President Trump's most recent pronouncements towards a possible longer and wider than expected trade war could make investors less amenable in January 2020. This could fuel the return of volatility on the equity and rate fronts, even if economic data points remain strong in the US

Pressure on senior non-preferred/HoldCo new issue premiums and spreads could materialise in January on the back of the resurgence of primary market supply. Why should issuers wait when spreads are at historical lows and the senior preferred-SNP subordination premium is as low as 15bp-20bp in core markets? In higher beta, the playground should remain supportive. The AT1 market is structurally undersupplied — particularly in euro-denominated format — so the-lower-for-longer rates narrative should support valuations further, while net supply will remain limited.

At the other end of the credit spectrum, the covered bond arena should also benefit from the new situation and remain fairly immune from what may come to pass. With €2bn-plus a month in terms of net purchases and almost €4bn of redemptions to be reinvested by the Eurosystem in January alone, the sector will remain well bid.

We also bet on the return in force of opportunistic covered bond buyers, with plenty of liquidity to invest in primary in order to buy bonds they can then recycle with the central banks in the secondary market. The unlimited backstop bid from the Eurosystem is there to stay. Covered bond spreads will therefore remain firm, with supply likely to be well skewed towards long and very long maturities.

At the shorter end, decisions over tenor are likely to be driven by the evolution of outright yields. Yes, negative yields work, but the quality of the order book can deteriorate rapidly. We therefore expect issuers to be mindful of the decreasing granularity of order

books when the yield on offer turns too negative, and to choose tenor and timing accordingly.

What do you expect in terms of sub debt/bank capital supply in 2020?

Hoarau, CACIB: AT1s outperformed every other asset class in 2019, and for the community of issuers the direct result of this has been the possibility of refinancing existing debt at lower coupon and/or reset spreads. We expect the reset/coupon complex to continue to be favourable for issuers and encourage the refinancing of the existing stock at the first call date. In terms of net supply, it will be limited. Banks have filled their buckets and the forthcoming supply is likely to be to refinance redemptions when bonds are called. The demand/supply dynamic should also support Tier 2 debt, in spite of the expected increase in supply coming from Asia-Pacific. Net supply will remain limited, with a decent amount of redemptions and calls throughout 2020. Gross issuance in euro Tier 2 reached €30bn in 2019. It should not exceed €20bn in 2020, while call amounts are in excess of €10bn.

The AT1 market is structurally undersupplied

Funding needs in senior non-preferred format will continue to move within a low to mid-single digit range for individual issuers, and both SNP/HoldCo should reach €160bn across EUR/USD-denominated formats in 2020 versus €180bn in 2019.

What good news could be on the horizon?

Hoarau, CACIB: While the ECB lacks ammunition, Christine Lagarde will likely focus on structural reforms during her mandate and increase pressure on European governments to work on budget policies. So far, the ECB has managed pretty well to reduce the volatility of funding costs for private as well as public sector issuers. The greatest challenge for her will be to connect monetary policy to fiscal policy, i.e. to orchestrate the shift from unconventional monetary policy measures to structural reform and fiscal action. The good news would be to finally see progress on that front after Draghi paved the way during his eight year mandate and bought time for markets. A good scenario would be indeed to see governments following up with a programme of spending. Indeed, over 10 years, Germany is paid 30bp to borrow, while France can spend for free. ●

RBS pushes social agenda with €750m SME debut

The Royal Bank of Scotland Group issued the first bond from a UK financial institution aligned with the Social Bond Principles on 8 November, a €750m six year non-call five social bond with proceeds earmarked for SME lending in deprived parts of the UK.

The transaction is the first off a broader green, social and sustainability bond framework the issuer published in July, and Scott Forrest, Head of Treasury DCM at RBS, said the bank was keen to push forward the social bond agenda with its inaugural trade.

"We are acutely aware of the development in green bonds being issued by both corporates and financial institutions," he said, "but we felt that there would be interest in a social bond issuance.

"It was also a very good way in which we could help align our overall leading position in the SME lending sector with our ambitions on the sustainability agenda," he added. "We wanted to find a way in which we could look to redress some of the geographical inequalities that we see within the UK."

RBS has a leading position in lending to the UK SME sector, with close to 170,000 loans in a £26.4bn portfolio as of Q1. Asset selection for the social bond involves filtering these down using criteria such as seasoning, performance and sector to some £8.6bn, and these are then ranked into deciles according to Office of National Statistics (ONS) measures of regional economic standing (Gross Value Added per capita and Unemployment Claimant rates) and the bottom 30%, around £2.5bn, constituting the asset pool reflect lending to deprived areas.

"We were keen to try to develop a methodology and approach that would, firstly, be viewed favorably by investors, and secondly, be capable of being replicated by other issuers, and we wanted everything we did to be perceived as best practice," said Forrest. "The quantification metrics we use and report on are therefore not bespoke RBS internal information, but from publicly available reports released by the government on a consistent basis.

"We therefore use Office of National Statistics data to define our lending to deprived areas and use that in our impact reporting. As it's a government formula and statistic, it's a demonstrable methodology that other issuers can use and which investors can monitor. From that perspective, it's a very neat way to try to solve something that could be quite complex."

According to RBS, the social bond impacts four main Sustainable Development Goals: SDG 1 No poverty; SDG 5 Gender equality; SDG 8 Decent work and economic growth; and SDG 10 Reducing inequality.

RBS announced its plans for the social bond on Monday, 4 November then held a two-day roadshow from the following day. Forrest said the reception from investors was overwhelmingly positive.

"They were very appreciative of the quality and detail of this framework we have put together," he said. "They also were very appreciative that we were trying to lead the charge a little with the social bond element.

"From their perspective, it offers some diversification benefit, particularly away from green bonds, and a number of investors were keen to see more product come to market in this particular sub-sector of ESG.

Despite marketing the social bond against the backdrop of Brexit and the UK general election, RBS received very few questions on the topics, according to Forrest.

"Interestingly, one account did say they had been off risk for UK bank names but that, in light of the social angle, they would use this as an opportunity to try to reverse that stance," he added. "We did see that name in the order book, but given the size of the book we were able to move pricing to a level they weren't comfortable with, so they ultimately passed. It was nevertheless great to see that we had at least one account for whom the positive aspect of the product was sufficient to overcome the hurdle of Brexit from an internal credit risk perspective."

Upon announcing its plans, RBS retained the option of issuing in sterling and/or euros, but ultimately only issued in the latter currency.

"Ultimately we would like to have more sterling on our balance sheet and we wanted the opportunity to engage with investors to test the appetite for sterling," he said, "but we were acutely aware that the ESG product is predominantly euro-denominated.

On the Friday (8 November) after the social bond was teed up, leads ABN Amro, Crédit Agricole CIB, ING, NatWest and Nomura went out with initial price thoughts of the mid-swaps plus 120bp area for the HoldCo six year non-call five euro benchmark transaction. Books were above €1.25bn after around two hours and guidance was set at 105bp+/-5bp, will price in range, after around four hours, with books at around €2bn. The deal was ultimately priced at mid-swaps plus 100bp and the size at €750m (£641m) on the back of more than €2bn of orders.

Forrest said the pricing for the inaugural social bond was equivalent to flat to through RBS secondaries.

"So it had a positive impact from a financial perspective," he said, "which was very pleasing to see."

George Kalbin, director, FI syndicate at Crédit Agricole CIB, said RBS was able to tap into investors' willingness to add UK risk, with the social feature helping it secure a superior result than comparable conventional supply.

"Just a couple of days earlier, we saw another UK name enjoy a strong reception, but they paid a new issue premium of 7bp-10bp, and RBS's outcome is quite rare in a market where even core European issuers are being pushed to pay anything between 5bp and 10bp," he said. "The social element certainly helped, as did having a limited size."

According to Kalbin, the new issue encountered "robust" demand from SRI investors. Fund managers were allocated 71%, banks and private banks 14%, insurance companies and pension funds 9%, central banks 5%, and others 1%. The UK took 27%, France 27%, Germany, Austria and Switzerland 16%, southern Europe 14%, the Nordics 7%, Netherlands and Luxembourg 6%, and others 3%.

Scott Forrest, RBS

"There was strong demand for this bond, with institutional investors increasingly targeting socially useful lending and opportunities to track and measure the impact of their investments," said RBS chief executive Alison Rose. "This is an important milestone for RBS as we build a more sustainable, purpose-led bank that champions the communities we serve and helps them to thrive."

According to Forrest, RBS's green, social and sustainability bond framework affords the issuer the flexibility of supporting a variety of sectors going forward.

"Back in 2018 we announced targets in relation to £10bn of lending to renewable energy and clean transportation by the end of 2020, so we have assets that we would consider from the green side," he said. "We have further capacity for a similar type of transaction to the debut, but within the Social Bond Principles there are other areas there we feel we could continue to help service and support as well as lending to SMEs, such as education, healthcare and affordable housing.

"We are hugely pleased that we have been able to bring something to market that is hopefully moving the debate in relation to social bonds," he added, "and it would be great to see others follow in a similar pattern in the future."

RBS's social bond is listed on the Sustainable Bond Market launched by the London Stock Exchange last month.

"It's a nascent market," said Forrest, "but one that we are keen to help support to really promote this asset class as much as possible." ●

Main photo: RBS CFO Katie Murray opening the market at the London Stock Exchange to mark the social bond.

League tables

Bookrunners all European FI hybrids (euros and US dollars)
01/01/2019-02/12/2019

	Managing bank or group	No of issues	Total EUR m	Share (%)
1	Barclays	24	8,262	10.2
2	UBS	43	6,714	8.3
3	BNP Paribas	30	5,906	7.3
4	JP Morgan	45	5,693	7.0
5	HSBC	36	5,118	6.3
6	Credit Suisse	21	4,825	6.0
7	Crédit Agricole CIB	18	4,389	5.4
8	Morgan Stanley	27	3,913	4.8
9	BofA Merrill Lynch	28	3,572	4.4
10	Goldman Sachs	27	3,538	4.4
11	Citi	27	3,399	4.2
12	Deutsche Bank	17	2,329	2.9
13	Société Générale CIB	18	1,848	2.3
14	DZ Bank	3	1,588	2.0
15	NatWest Markets	12	1,462	1.8
	Total	191	81,068	

Source: Dealogic, Thomson One Banker, Crédit Agricole CIB

Bookrunners all investment grade financials (euros)
01/01/2019-02/12/2019

	Managing bank or group	No of issues	Total EUR m	Share (%)
1	BNP Paribas	91	19,852	8.5
2	Société Générale CIB	61	17,987	7.7
3	HSBC	94	15,661	6.7
4	Crédit Agricole CIB	72	14,538	6.2
5	JP Morgan	68	13,456	5.8
6	Deutsche Bank	59	12,817	5.5
7	Natixis	46	10,242	4.4
8	Goldman Sachs	49	8,183	3.5
9	UniCredit	52	7,821	3.4
10	Barclays	53	7,381	3.2
11	UBS	44	6,816	2.9
12	Citi	47	6,274	2.7
13	Credit Suisse	37	6,173	2.7
14	Morgan Stanley	40	6,037	2.6
15	ING	43	5,937	2.5
	Total	378	232,899	

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

UBI Banca caps year with strong SNP return

UBI Banca made a swift return to the senior non-preferred sector on 14 October, taking advantage of a strong market to sell a €500m long five year benchmark almost 100bp inside where it sold a five year in June. *Giorgio Erasmi*, head of funding at UBI Banca, discussed the issuer's strategy, the ECB-primed market, and the Italian landscape with *Bank+Insurance Hybrid Capital*.


Giorgio Erasmi, UBI

Bank+Insurance Hybrid Capital: You have been very active across the bank capital structure this year, in benchmark as well as private placement formats. What are the reasons for this?

Giorgio Erasmi, UBI Banca: UBI has been focused on two main goals in its funding activity this year. Firstly, building up our MREL buffer, and secondly, strengthening our ratings. That is why we have issued such an important variety of instruments — including both senior and subordinated paper — and we are now in line with our objectives. Regarding MREL, UBI had already achieved an amount of eligible liabilities exceeding the expected required buffer. Regarding ratings, Moody's at the end of June modified the outlook on its rating from negative to stable.

BIHC: What was the rationale for the timing of the latest senior non-preferred trade? You chose a long five year maturity after issuing a straight five year before the summer break.

Erasmi, UBI: Firstly, according to our plan, we were still missing one deal that would qualify as subordinated under the rating agency methodology, and we chose a non-preferred senior, which could achieve that. Secondly, we were strongly oriented towards issuing before the black-out period ahead of our quarterly results, beginning in late October, so the window was not very wide. We saw the week start positively on the Monday morning and decided to go to market.

Regarding the maturity, bear in mind the maturities of our previous non-preferred senior issues. We issued our first in April 2018 and that matures in 2023, while the second that we issued in June matures in June 2024. We wanted the new bond to mature the following year, so in 2025, to build up a well distributed curve with maturities in different years, hence the five-and-a-half year maturity.

BIHC: How satisfied are you with the outcome of this new benchmark?

Erasmi, UBI: We are very satisfied with the results of the issue. Indeed, we achieved the best outcome we could have imagined when we decided to proceed with the deal. We received orders from about 140 investors for a total order book of €1.4bn before reconciliation. We tightened significantly, from IPTs of the 220bp area to a re-offer spread of 198bp. In terms of distribution, we had a strong participation from Italian investors, with 44%, but I would highlight that on top of that the bond was well distributed across Europe, with notably France taking 18%, Germany 14%, and the UK 10%. We achieved similar distribution to international investors with our deal in June, so this confirms that they appreciate our issuance and it is of course very important to have access to this investor base. And because we had already issued a lot this year this latest issue was something of a test of whether investors would still have appetite for our name, and the answer was yes, so arguably the international participation on this issue was even more notable.

BIHC: You achieved that result even thought the spread was almost 100bp tighter than your June issue — what do you make of that?

Erasmi, UBI: We feel that international investors are looking for yield. In Europe it is now common for bonds up to five years to trade at a negative yield, so when a credit like UBI Banca offers an interesting spread we can find buyers.

BIHC: France has been a prominent investor base for Italian issuers. What are you thoughts on that?

Erasmi, UBI: France has historically been a strong investor base for our bonds. In my experience, it has been one of the countries in Europe that better understands Italian dynamics and has more credit lines open towards Italy, even in periods during the crisis when Italian credits were in general not so sought after

— I remember times when French banks were still open to Italian issuers when some other countries were more negative. And of course we regularly update investors, visiting them at least once a year in different venues.

BIHC: What are your funding plans for the rest of the year? Will you consider any 2020 prefunding? Is TLTRO3 impacting your 2020 funding plan?

Erasmi, UBI: We had the usual blackout period ahead of our third quarter results, so there is only a very short window before the end of the year. At the moment we are not planning to use that window for further public issues, while we might consider a reverse enquiry or private placement. We have issued a lot this year and don't really need any prefunding activity on the public side.

Regarding the TLTROs, we are analysing the next steps for reimbursing the outstandings, so it could be that we prepay part of TLTRO2, but at the moment I'm not able to deliver any detailed information. I can say that we are very long in terms of liquidity at the moment.

BIHC: What are the main risk factors for Italian issuers? The BTP-Bund spread is at long term lows — are we completely out of the woods when it comes to political risk?

Erasmi, UBI: On this point, I would remark that in Italy — as in other countries — predicting the evolution of the political situation it not an easy task. And since the main risk factor is political risk, there may yet be volatility on BTPs. At the moment we are not seeing this as a risk for the short term, but it is not easy to anticipate what will happen in the future.

In terms of levels, we are indeed close to long term lows in terms of spread. We are in a new environment, with negative rates, QE, and investors seeking positive yields — things are changing completely. It could be that the search for yield and support from QE further tightens the spread of peripheral issuers, such as Italian banks, that are linked to government spreads. So I'm optimistic on this point: I think that we could see further tightening.

BIHC: How do you perceive the recent ECB announcements?

Erasmi, UBI: Generally speaking, the rate cut is not positive for financial institutions. The tiering only partly compensates for the 10bp cut. So for banks the environment remains tough.

Regarding QE, it is important to remember that we have the reinvestment of the maturities in the APP portfolio on top of the new bond purchases, and this is a very important factor. The ECB intervention will give another strong tightening push to the credit market.

TLTRO3 should further support spreads over the coming years, with the last opportunity being in 2021 and not expiring until 2024. So overall I expect very strong tightening momentum over the next couple of years.

BIHC: What are your expectations in terms of profitability for UBI Banca? Are you satisfied with progress made in terms of competitiveness?

Erasmi, UBI: Despite a difficult operating environment — modest domestic economic growth, volatile financial markets and prolonged ultra-low interest rates — UBI has achieved quite resilient profitability consistent with its conservative, low risk profile. The strategy of safeguarding spreads pursued from the second half of 2018 had its positive effects during the course of the first nine months of 2019. Current structural scenario challenges (new market conditions and competition) will be addressed in the next business plan, which will be presented in the first half of 2020.

BIHC: What about the stock of NPLs?

Erasmi, UBI: Asset quality has improved materially in recent quarters, at a faster pace than the business plan envisages. The targeted gross NPL ratio of less than 10% in 2020 was reached well in advance. We are now around 9% and have recently announced a further sale which should bring us to around 8% by year end. Internal management of credit recovery also remains the key strategy, in light of an excellent recovery rate, particularly on bad loans. Consider that in the last 12 months we sold €1bn of gross NPLs but recovered a further €1.5bn through internal work-out.

BIHC: Do you see consolidation of the banking landscape accelerating next year?

Erasmi, UBI: M&A could be an option for the Italian banking industry to create fewer, stronger and more profitable players. There would be relevant scope for cost synergies in a sector under pressure on the revenue side. So it is not really a matter of whether but rather a matter of when it will happen. ●

Nationwide 'six month par call' promises savings

Banks could substantially cut cost of carry when refinancing AT1s by using a "six month par call" feature introduced in a £600m Nationwide Building Society deal in September that increases issuers' flexibility.

Under the six month par call feature, issuers maintain the minimum five year non-call period necessary for instruments to qualify as AT1 (Additional Tier 1), but, while keeping a first call date at around five years, push back the coupon reset date to six months beyond this. The instrument is then callable at par anytime from the initial call date to the first coupon reset date six months later.

"If an issuer refinances within the six month timeframe, from the moment they have done the new issue they can give a call notice and thereby reduce the period of overlapping interest to as little as a week," says Doncho Donchev, DCM solutions, Crédit Agricole CIB (CACIB). "So it's a neat way to minimise the cost of carry, which in the case of AT1 can be quite substantial."

The feature had previously been incorporated into corporate hybrids, and was taken up in the financial institutions space in March when Aegon included it on a €500m 5.625% perpetual non-call 10 Restricted Tier 1 (RT1) issue. The Dutch insurer's issue is callable from April 2029 until October 2029, when the first coupon reset occurs.

Nationwide Building Society's £600m (€695m) perpetual AT1 issue is callable from December 2024 until its first coupon reset in June 2025. Launched on 17 September, the AT1 attracted some £3.75bn of orders, enabling pricing to be tightened from initial price thoughts of the 6.375% area to 5.875%, equivalent to a new issue premium of around 0.125%, according to the leads.

"Success speaks for itself," said a syndicate banker at one of the leads, "as the UK building society ended up more than six times oversubscribed and able to tighten 0.5%."

AIB Group then became the first Eurozone bank to adopt the feature when on 2 October it sold a €500m perpetual

AT1 callable from October 2024 ahead of an April 2025 first coupon reset date. The pricing was tightened from IPTs of the 5.75% area to 5.25% on the back of books of some €3.5bn, with the leads deeming the pricing flat to fair value.

"We'd already had a couple of test cases on the insurance side that went perfectly smoothly," says Donchev, "and both of these new AT1s were highly successful, well placed, and are trading up nicely in the secondary market.

It's a neat way to minimise the cost of carry

"The feature is not significantly impacting pricing," he added, noting that the first call coming before the first reset date means investors will not face a different coupon if the call is exercised during the six months.

The structure's minimum maturity of 5.5 years means that issuers may be paying for a six month longer maturity, but Cécile Bidet, head of DCM solutions and advisory at CACIB, notes that this is more than compensated for by the saving achieved on the cost of carry.

The adoption of the feature within the banking sector comes against the backdrop of the first wave of AT1 call dates five years after the instrument's introduction, with issuers now seeking to optimise management of their call schedules. In March, this saw Coventry Building Society tackle the issue by launching 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.

Bidet at CACIB says the issue has come into sharper focus as issuers have sought to play it safer in refinancing upcoming calls.

"Previously, Tier 1 instruments were being refinanced six months before the call date," she says, "but over the last two years we've seen refinancing being done increasingly early — more than 12 months before the call in some cases — and the cost of carry has suddenly increased materially.

"So banks have had to start thinking about ways of reducing the double cost of carry, and having a feature that allows you to do this is very interesting."

Gark Kirk, portfolio manager at TwentyFour Asset Management, said the feature should come as a welcome development for all AT1 issuers and be adopted by more borrowers going forward.

"We believe this latest development from Nationwide is further evidence the UK regulator is assisting banks in making the refinancing of these capital notes as efficient as possible," he said, noting it followed Coventry's liability management initiative.

The wave of first calls in the AT1 market and questions over who may call or not call their issues has increased the focus on how often they are callable after the first call date, which can be anything from anytime to every five years. Donchev says banks who include less frequent call dates on their AT1s will find the six month par call most valuable, but that it should be attractive even if issues are callable every three months, as this feature avoids a reset to a potentially substantially lower coupon level in the event of a non-call.

Since its introduction into the banking sector, Banque Internationale à Luxembourg has used it on a €175m perpetual non-call six AT1, and La Banque Postale on its inaugural AT1 *(see separate article)*. LBBW did not include such a feature in its recent debut *(see separate article)*, but a six month par call clause is included in its AT1 prospectus for potential future use. ●

SMFG happy with size and price on €1.25bn 10s

Sumitomo Mitsui Financial Group (SMFG) was able to achieve an attractive size and price when it issued a €1.25bn 10 year senior HoldCo benchmark on 15 October, raising funding some 20bp inside what was available in US dollars thanks in part to the ECB-fuelled strength of the euro market.

According to Shoma Aosaki in SMFG's debt issuance team, the issuer targets euro issuance at least once a year to help diversify its investor base and TLAC funding sources.

"And thanks to the further ECB quantitative easing announced in September, the euro investment grade market became very strong," he said, "and there was a chance to issue at a cheaper funding cost compared to our US dollar curve.

"We therefore decided to go ahead with the euro TLAC issue."

On the morning of 15 October, SMFG's leads went out with initial price thoughts of the 85bp over mid-swaps area for the 10 year euro benchmark, rated A1/A-. After around two hours and 20 minutes, the leads reported books above €1.1bn, and after around three hours and 50 minutes guidance was set at 65bp-70bp, will price in range, on the back of over €1.8bn of orders. The spread was then set at mid-swaps plus 65bp and the deal was ultimately sized at €1.25bn on the back of €1.7bn of demand good at re-offer, pre-reconciliation.

"We were greatly satisfied with both pricing and deal size," said Aosaki. "According to our calculations, mid-swaps plus 65bp for the 10 year was 20bp tighter than our US dollar curve! This is the cheapest funding we have achieved compared to our USD curve.

"Before we announced this transaction, our target was a benchmark size (€500m-€750m), but thanks to the very strong demand, we were able to up size the issuance size, as well as achieving the cheaper funding cost."

The deal is the second largest euro TLAC bond from a Japanese issuer, behind a €1.5bn issue SMFG launched in 2016.

"We expected to see strong demand from European investors," added Aosaki, "especially insurance type investors hunting for yield in such a low interest rate environment, and we preferred the longer tenor to the shorter tenor. In addition, from our ALM point of view, over 10 years was not suitable.

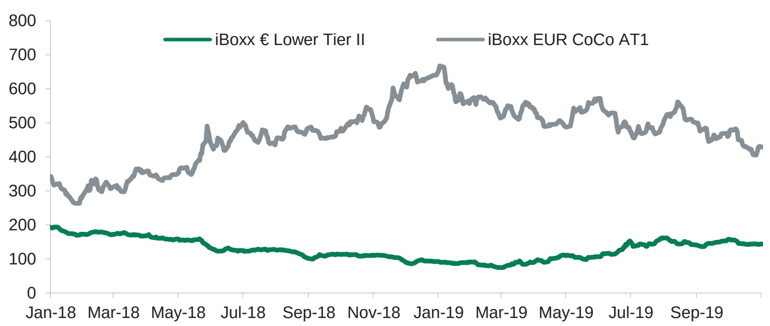
"Thus, considering both investor demand and our ALM strategy, we made the decision to issue the 10 year bond, which was a well-balanced option for us."

The Japanese implementation of the Basel Committee on Banking Supervision TLAC Holdings Standard came into force at the end of March, making it difficult for Japanese regional banks to invest in TLAC bonds and lessening one potential source of funding for Japan's G-SIBs.

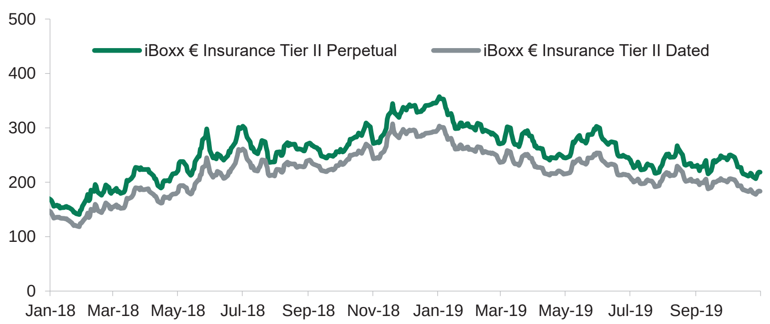
Aosaki said that to prepare for this, SMFG continued to expand its investor base and funding tools.

"Thanks to these efforts," he added, "there has been no need to change our issuance strategy, even after the new regulation applied in Japan." ●

Secondary bank subordinated indices (bp)



Secondary insurance subordinated index (bp)



Source: Markit, Crédit Agricole CIB

Rabobank green SNP debut impresses on price

Rabobank sold its first green senior non-preferred bond on 22 October, a €750m seven year priced some 3bp through fair value, with the deal's impressive outcome attributed largely to its green nature. The Dutch cooperative has also sought to make its transaction the first aligned with the latest draft of the EU Green Bond Standard.

On 22 October, leads Crédit Agricole, HSBC, Rabobank, SEB and UBS went out with initial price thoughts of the mid-swaps plus 65bp-70bp area for Rabobank's senior non-preferred (SNP) seven year green bond. After around an hour and 20 minutes, books were over €1.5bn, and after around two and a half hours, guidance was revised to mid-swaps plus 45bp-50bp, will price in range, on the back of over €2.3bn of orders, and the size was set at €500m-€750m. Books closed in excess of €1.8bn, pre-reconciliation, and the deal was ultimately sized at €750m and priced at plus 45bp, with €1.4bn of orders good at re-offer.

Rabobank said the transaction was received enthusiastically, in particular by responsible investors, which constituted two-thirds of the order book.

"The new issue concession was negative 3bp-4bp, with a final order book of €1.8bn, and represented the tightest seven year senior non-preferred euro transaction of the year," said Ken Fontijn, funding manager, Rabobank.

George Kalbin, director, FI syndicate at Crédit Agricole CIB, said he saw fair value at 48bp-49bp, based on the issuer's 2024 SNP paper trading at 43bp and its 2031s at 53bp. The negative new issue premium was better than prevailing levels and he said this pricing achievement was largely attributable to the green element.

"They capitalized on what we've been seeing for some time, namely a fairly significant supply/demand imbalance," said Kalbin. "The green and SRI angle has increased traction across the investor community, with more and more green funds being created, and it's evident that there is a dire lack of these sorts of assets.

"Also, Rabo have traditionally taken out €1bn to €1.5bn tranches in the senior preferred space," he added, "and limiting the size to €750m gave investors some reassurance of this deal working and performing in secondary as well. Combine that with the fact that this is Rabobank, probably the best bank capital-wise when it comes to looking at senior non-preferred, that all laid the foundations for a very solid trade and eventually got us to landing inside fair value."

There is a dire lack of these sorts of assets

Kalbin said Rabobank had also been presented with a "decent window", with many European banks in blackouts and a series of geopolitical developments having ahead of launch limited supply, but the market then proved stable on the day, providing a relatively benign backdrop.

"Due to all the political developments throughout the weeks, it was a challenge to find the right moment," said Fontijn. "The final launch at a re-offer of mid-swaps plus 45bp indicates that our patience was rewarded."

Asset managers were allocated 67% of the new issue, banks and private banks 18%, central banks and official institutions 9%, pension funds and insurance companies 4%, and others 2%. Austria and Germany took 34%, France 26%, the UK and Ireland 15%, the Nordics 10%, southern Europe 6%, the Benelux 3%, and other 6%.

Rabobank said that the issue is the first green bond to be aligned with the current draft EU Green Bond Standard (GBS), as well as the Green Bond Principles, following updates to its framework in July.

"We are extremely happy to be the first green bond issuer to do this," said Fotijn. "This represents a huge step forward for the market."

Its green bond framework makes reference to elements of the draft GBS, such as the contributions it makes to EU environmental objectives, the "do no significant harm" principle, and taking into account minimum social safeguards. A banker away from the deal said this goes further than other issuers who have declared that their frameworks will be kept aligned with the GBS, although another noted that key elements of the proposed standard — including the EU taxonomy — remain undefined.

Maarten Biermans, head of sustainable markets, Rabobank, said that its initiative fits the cooperative bank's profile as the highest ranked commercial bank globally in Sustainalytics' ESG ratings.

"We believe the EU is doing work of paramount importance by rolling out this masterplan that will spur the urgent allocation from private capital to sustainable investments," he said.

"Following this, we gladly show our support by being the first bank to embrace the EU Green Bond Standard." ●

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Depressed rates a twin spur to insurance issuance

Some 16 insurance trades hit the market between the post-summer reopening and mid-October, providing for the sector's busiest period of 2019, as the depressed rate environment enabled companies to raise subordinated debt at attractive levels and top up their solvency ratios.

Yields sunk to new lows over the summer — following outgoing ECB president Mario Draghi's June Sintra speech and the subsequent governing council meeting — and upon returning from their holidays, Europe's insurance companies were prompted to approach the market by the prevailing level of rates — but not all for the same reason, according to André Bonnal, FI syndicate at Crédit Agricole CIB.

"There is one reason why we have seen so much supply in insurance post-summer, which is clearly where rates are", he said, "but then we have had two different motivations from insurers to come to the market with subordinated trades.

"One is for those who have been most impacted by the fall in rates to come to the capital market to increase solvency ratios, such as life insurance players. The other is insurers who are more diversified and less directly impacted by the rates environment who are coming to the market simply because they can't pass on the opportunity to fund themselves at extremely low coupons."

See page 18 for analysis of solvency ratio developments.

Among the opportunists were issuers such as Allianz, Hannover Re and Swiss Re. Bonnal noted that Hannover Re, for example, approached the market on 1 October to sell a €750m 20 non-call 10 benchmark Tier 2 at a coupon of 1.125% ahead of a call on an outstanding bond next year.

"There was clearly an incentive for them to do it now, rather than potentially paying more later," said Bonnal at CACIB, which was a joint bookrunner on the trade. "In that respect, it was a no-brainer."


Hannover Re

Hannover Re's deal was meanwhile the first 20 non-call 10 subordinated insurance issue in euros since a change to S&P Global's methodology allowed for the shorter final maturity date than the 30NC10s typical of the sector for those companies focusing on S&P. Bonnal noted that the structure helped Hannover Re's new issue trade some 10bp inside a 30NC10 from Moody's-targeting Allianz, although he said the scarcity value of the name in the subordinated space strongly contributed as well.

> Everything has been extremely well absorbed

Allianz's €1bn deal on 16 September was the first in a particularly busy period, with ASR tapping its RT1 for €200m the next day, Achmea issuing a dual-tranche €250m Tier 2 and €500m debut RT1 the same week, Mandatum Life and Generali raising €250m and €750m of Tier 2, respectively, the following week, and a Royal London £600m Tier 2 alongside Hannover Re the week after that.

"So you had a lot coming to the market," said Bonnal, "but everything has been extremely well absorbed by investors, who are clearly still very keen to get their hands on subordinated insurance paper after a period when there was a lack of supply."

He noted that almost all the post-summer euro issuance had followed the European Central Bank's 12 September confirmation of a new round of QE as part of its wider stimulus package.

"Obviously the market has been extremely supportive as well for the credit market in general," he said. "With the ECB having providing clarity, we had a window where rates were extremely low — the 10 year swap was at around minus 45bp, although it has backed up since."

Outside the subordinated sphere, the new yield environment was most starkly demonstrated by a €500m three year funding agreement backed issue for MetLife that was priced with a yield of minus 0.021%, making it (excluding covered bonds) the first euro issue from a financial institution to be priced at a negative yield. ●

Ageas shows strong insurance bid into year-end

A €5bn book for an inaugural, €750m RT1 from Ageas on 3 December showed the subordinated insurance sector to be in surprisingly fine fettle going into year-end, as a flurry of deals provided a welcome late encore to the slew of post-summer issuance.

Ageas had on 19 November launched a consent solicitation and tender for outstanding FRESH equity-linked securities issued by subsidiary Ageasfinlux, which counted as grandfathered RT1 capital, with the consent solicitation enabling the offer running until 2 December and tender offer results due to be announced on 3 January. Investors consenting and tendering bonds during the consent solicitation period were eligible to receive 59% of the principal amount, equivalent to a premium of 5.417 percentage points over the previous day's closing price and 9.53 percentage points over the average of the last 100 trading days.

The insurer said that to mitigate any consequent impact on the group's solvency, it was intending to issue the new Restricted Tier 1 out of ageas SA/NV.

"With this offer to purchase the FRESH securities, Ageas provides investors with an opportunity to exit a financing instrument stemming from the past," said Ageas CEO Bart De Smet. "In conjunction with the intended new debt issuance, Ageas modernises its capital structure, by proactively reducing its reliance on grandfathered capital instruments and pursuing its objective of centralising funding and capital issuance at the level of the parent company ageas SA/NV."

On 3 December, Ageas announced that 65.4% (€817.5m) of the aggregate principal amount had consented, enabling their purchase by Ageasfinlux.

Following a roadshow, the RT1 was launched the same day, with initial price thoughts of the 4.375% area for the BBB/BBB- perpetual non-call 10.5 year issue. The order book peaked at €5bn and, following guidance of the 4% area, plus or minus 0.125%, will price in range, the coupon was ultimately set some 50bp inside IPTs, at 3.875%.

According to André Bonnal, FI syndicate, Crédit Agricole CIB, the pricing was flat to slightly inside fair value, demonstrating the success of the trade, particularly with the deal having come on a weak day in the market. He said that actors working in Ageas's favour included its status as the only Belgian benchmark insurance issuer, the investment grade ratings of its RT1, and the support of the liability management exercise.

We are very pleased with the outcome

"The fact that you had a €5bn book shows that investors, even at this time of year, are happy to engage with something that is high yielding and pretty rare," he said.

The deal follows a successful €500m 30 non-call 10 trade for the insurer in April.

"We are very pleased with the outcome of the placement of this second major debt instrument by Ageas this year," said De Smet. "Its success demonstrates that investors are confident about the future of our company and our ability to deliver."

Ageas announced its planned exercise just as Legal & General and CNP Assurances were approaching the market with Tier 2 trades on 19 and 20 November, respectively.

Legal & General announced on 19 November that it was approaching the market to issue a sterling-denominated benchmark Tier 2 transaction, "taking advantage of current favourable market conditions", while some market participants had been anticipating a potential issue in light of L&G's Solvency II coverage ratio having fallen, from 193% at the end of the first half of 2018 to 171% at the end of H1 2019.

It went out with initial price thoughts of the Gilts plus 325bp area for a 30 non-call 10 issue, rated A3/BBB+. After around two hours books were above £1.5bn, and after around three and a half hours guidance was revised to 305bp-310bp, will price in range, on the back of over £2.35bn of demand. The deal was ultimately priced at 305bp and sized at £600m (€710m) on the back of books above £2.5bn good at re-offer, pre-reconciliation.

"It went extremely well," said Bonnal at CACIB. "They tightened by 20bp and in the end left up to 5bp of new issue premium on the table, pricing £600m off a £2.5bn book, so a very healthy trade." ●

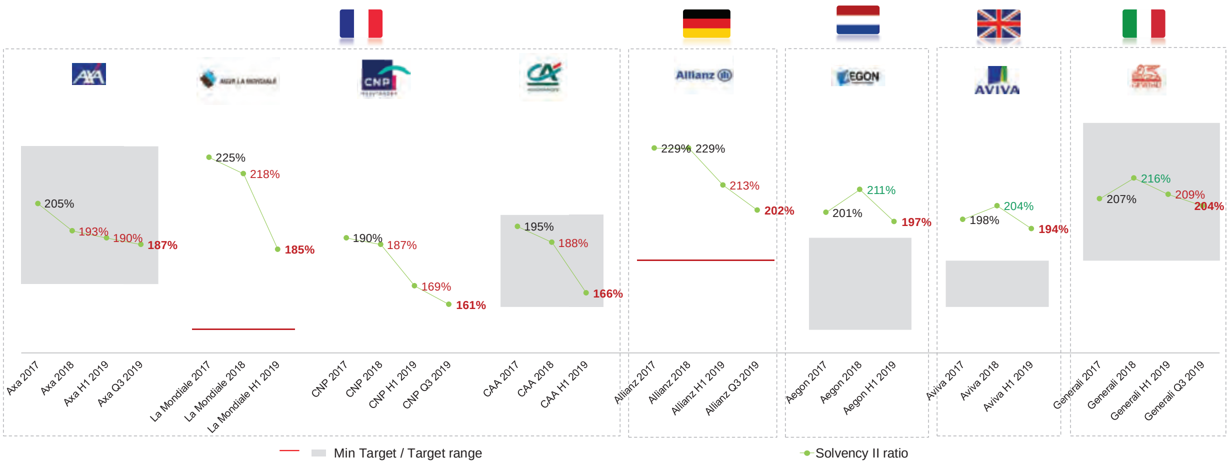
Read CNP Assurances Q&A for more on its green bond. Ageas photo credit: Getty

Insurers' results reveal S2 headwinds, more to come

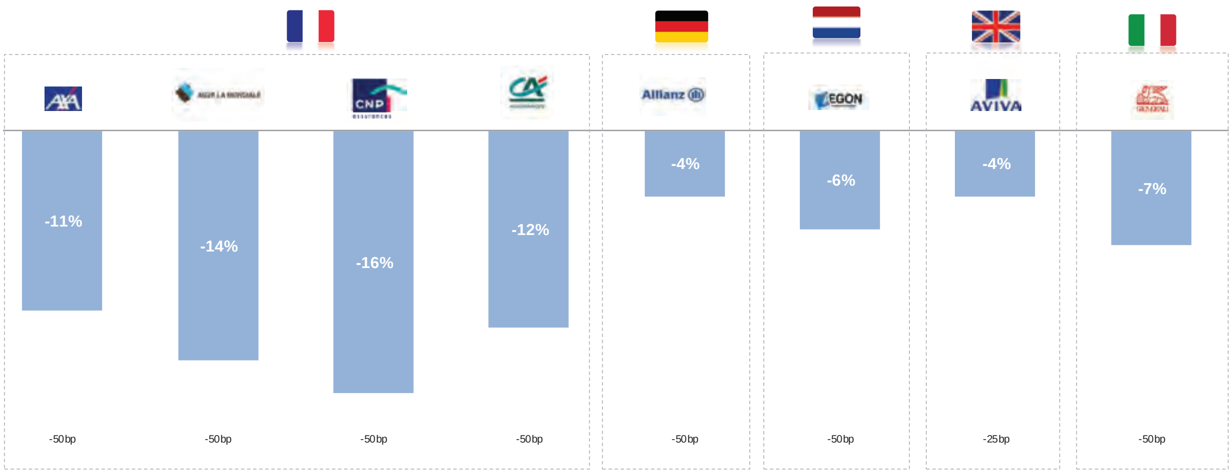
The half year and Q3 2019 results of European insurance companies again (after the 2016 episode) revealed the volatile nature of the Solvency 2 framework. Several companies reported a sharp drop in the S2 margin and the solvency situation has likely worsened since then. Michael Benyaya and Szymon Wypiorczyk in Crédit Agricole CIB's DCM Solutions team highlight here some of the recent trends and potential implications of the persistence of the low/negative interest rate environment.

- Half year 2019 results showed that the market environment and the low interest rates exerted meaningful pressure on the solvency position of insurance companies. For example, duration gaps in France and exposures to mortgage spreads in the Netherlands appear indeed extremely painful through the S2 lenses. As expected, the drop in interest rates during Q3 has weakened S2 margins, in particular life insurers'.
- Yet the S2 margins still remain relatively strong and generally well positioned in the target ranges (see chart below). Insurers are therefore unlikely to launch cash calls on the equity markets. However, as further pressure is expected (as shown below by the sensitivity to interest rates), revisions to the S2 targets cannot be ruled out in the short to medium term.
- Financial flexibility in terms of S2 capital headroom is strong across the sector. This has allowed companies to tap the debt capital markets to boost the solvency position (see preceding article). In this context, the deleveraging trend has probably come to an end and financial leverage ratios will probably increase again.
- However, the use of subordinated debt has to be viewed as a temporary fix. The adaptation of business models and/or the regulatory framework will be needed to ensure the long term resilience of the sector. In France, several companies have already announced that the access to the general account will be restricted and crediting rates will decrease sharply. There are also some discussions on technical adjustments in the S2 framework of the treatment of specific provisions (e.g. Provision pour risque d'exigibilité in France) that could have a positive impact.
- In terms of regulation, the debate around the 2020 review of the S2 Directive will be fierce, in particular regarding negative interest rates in the standard formula and the volatility adjustment.

Solvency 2 ratio generally at the high end or above target



Solvency 2 ratio sensitivity: Interest Rate



Source: CACIB

Generali green insurer first boosted by sub tender

Generali became the first European insurer to issue a green bond on 23 September, a €750m 11 year Tier 2 deal launched in conjunction with a tender for €1bn-equivalent of outstanding subordinated debt, and the landmark trade attracted €3.25bn of demand from 275 accounts, allowing it to be priced some 10bp through fair value.

Announced on 16 September alongside the planned new Tier 2 issue, the tender offer targeted up to €1bn-equivalent of two euro and one sterling subordinated issues callable in 2022 totalling €2.559m-equivalent, with a view to smoothing the company's maturity profile, reducing its debt by €250m, and cutting interest costs.

The Italian insurer also took the opportunity provided by the liability management exercise to inaugurate a new green bond framework as part of its overall sustainability strategy.

Generali is targeting €4.5bn in new green and sustainable investments over the 2018-2021 period and last year renegotiated €4bn of revolving credit lines with sustainability features linked to the achievement of its green and sustainable investment target. The green bond framework includes six categories of use of proceeds, but the proceeds of the debut are mainly earmarked for green buildings and clean transportation.

"The feedback has been very positive," said Giulia Raffo, group head of investor and rating agency relations, Generali. "Pure credit investors have appreciated the consistency of the exercise with our group strategy, while ESG/green investors have praised the clarity of our green bond framework and the strong link between the framework and our sustainability commitments.

"Our group CFO, Cristiano Borean, launched the initiative of creating the Generali green bond framework after the November 2018 investor day. This was a very prescient vision which has been rewarded by the market."

Generali held an internet roadshow and one-on-one calls while the tender was open from 16-20 September, ahead

of the new green Tier 2 issue's launch the following Monday. Priority allocation in the new issue was available to those tendering bonds, subject to the discretion of the issuer, which also retained flexibility by not prioritising in advance any of the targeted bonds.

Ultimately €1.513bn of the targeted bonds were tendered — with participation rates ranging from 50.9% to 62.4%, for an average of around 59% — with Generali accepting €999m, allocating in full the two issues callable first, but 38.4% of the third.

The new green Tier 2 issue was launched on 23 September with initial price thoughts of the mid-swaps plus 260bp area for the October 2030 euro benchmark. Orders exceeded €2bn after two hours and guidance of the 235bp area for a €750m deal size was subsequently released. Demand ultimately reached €3.25bn, pre-reconciliation, allowing for pricing of mid-swaps plus 225bp, which the leads said was equivalent to 10bp through fair value. The coupon of 2.124% is the lowest achieved by Generali on a subordinated bond.

"This was a trade investors couldn't afford to miss," said André Bonnal, FI syndicate, Crédit Agricole CIB (CACIB), which was joint bookrunner, green structuring adviser, and dealer manager on the tender. "It's a subordinated trade, green, and investors like the Generali signature, while as an Italian name it offers some pick-up versus its peers. Meanwhile, we have had substantial relief in Italian political risk.

"We launched the trade just a few days after the ECB provided a clear direction," he added, "so in terms of market timing it made perfect sense, too."

The diversification offered by the first European insurance green bond and the time allowed for investors to analyse the framework during the tender period also played into the success of the transaction, according to Pascale Forde Maurice in CACIB's sustainable banking team.

"Key to this transaction is its alignment with Generali's full sustainability strategy," she added, "in particular towards climate, where the issuer is the most advanced in terms of investment commitments in the insurance sector."

Accounts declaring a green interest constituted a significant share of the order book, including investors new to the Generali name, some of whom participated in one-on-one calls with the issuer.

Véronique Diet Offner, in charge of liability management for EMEA and corporate hybrid structuring, DCM solutions and advisory, CACIB, said a "very significant" proportion of bondholders participating in the tender offer requested priority allocation codes, further improving the dynamic for both the tender and the new issue.

"It is understandable that in a context where investors are hunting for yield, giving them a way to get a more favourable allocation creates a real incentive for them to participate in the tender," she added.

The confidence with which Generali could enter into the liability management exercise thanks to the strength of its offering meant that it could leave its new issue until after the completion of the tender offer so as to calibrate the size of the new issue based on the results of the offer, according to Diet Offner. ●

Read the Generali Q&A for more.

Photo: The Ballon de Paris Generali, which monitors air quality as well offering tourist rides; Credit: Aero4/Wikimedia Commons

Generali hits targets with green first

On 23 September, Generali reinforced its sustainability push by issuing the first green bond from a European insurer. The landmark trade was the finale to a liability management exercise that helped the Italian insurer attract €3.25bn of orders to the €750m 11 year Tier 2, allowing for a negative new issue premium. Generali's *Giulia Raffo*, *Lucia Silva* and *Laura Venchiarutti* discussed its sustainability and liability management strategies with *Bank+Insurance Hybrid Capital*.

Bank+Insurance Hybrid Capital: What determined the structure of the offer and what were your objectives?

Laura Venchiarutti, group head of debt capital markets, Generali: The tender offer was structured in order to achieve three main financial objectives. First of all, we were aiming to reduce our 2022 refinancing risk by proactively managing the debt profile, extending the average maturity of our debt and smoothing the peaks going forward. Secondly, the transaction was designed to achieve a €250m debt reduction, consistent with the group strategy of reducing external debt; this was achieved by repurchasing €1bn and issuing €750m. Thirdly, the transaction has enabled us to reduce the annual interest expense by €68m, which means that by January 2020, when our senior bond will expire, we will exceed the €70m-€140m interest expense reduction target range that was announced at our investor day in November 2018.

Tender offer structure enabled Generali to retain a very significant degree of flexibility and discretion — *Venchiarutti*

BIHC: What was investors' feedback on the exercise?

Giulia Raffo, group head of investor and rating agency relations, Generali: The feedback has been very positive. Pure credit investors have appreciated the consistency of the exercise with our group strategy while ESG/green investors have praised the clarity of our green bond framework and the strong link between the framework and our sustainability commitments. What pleased us in particular is that we received orders and requests for one-to-one meetings from investors who had never previously participated in our deals in the primary market.

BIHC: Why were these existing bonds chosen? Why didn't you give a clear priority among the target bonds?

Venchiarutti, Generali: The bonds were selected in order to reduce the amount of debt to be redeemed in 2022. The decision not to include any explicit priority was driven by the objective of avoiding discouraging holders of the non-prioritized bonds from participating in the tender offer, hence jeopardizing the outcome of the entire exercise. We structured the tender offer in a manner that enabled us to retain a very significant degree of flexibility and discretion, and this served us well during the execution process.

BIHC: Why did you decide to accept all instructions on two bonds and have a larger proration on the third one?

Venchiarutti, Generali: The decision was primarily driven by financial risk management considerations. We repurchased all the bonds tendered on the 6.416% and the 10.125% issues because these were coming due first, with call dates in February 2022 and July 2022. We believe that this choice is very consistent with the risk management objectives we set for ourselves in this transaction.

BIHC: Why did you choose the 11 year bullet structure for the new issue?

Raffo, Generali: As we often said during internal discussions on this transaction, "those who do not study history are destined to repeat it". We learned from the past that concentrating more maturities in one year can lead to sub-optimal outcomes, such as the debt pile in 2022 that we tackled with this transaction. Already having a 2029 bond in the market, we decided to issue a 2030 bond, also keeping in mind that it is possible that in 2021 we may issue new debt to pre-fund the remaining 2022 maturities.

BIHC: Why did you issue the new bond in green format?

Lucia Silva, group head of sustainability and social responsibility, Generali: The November 2018 investor day put sustainability at the centre of our strategy. Every department in Generali is rethinking the way it does business with a focus on sustainability. As such, our group CFO, Cristiano Borean, launched the initiative of creating the Generali green bond framework, which is also an element of continuity with the green credit lines negotiated in 2018 and the update of the Euro Medium Term Note programme in the same year. Having the group CFO's endorsement has enormously facilitated the success of this project.

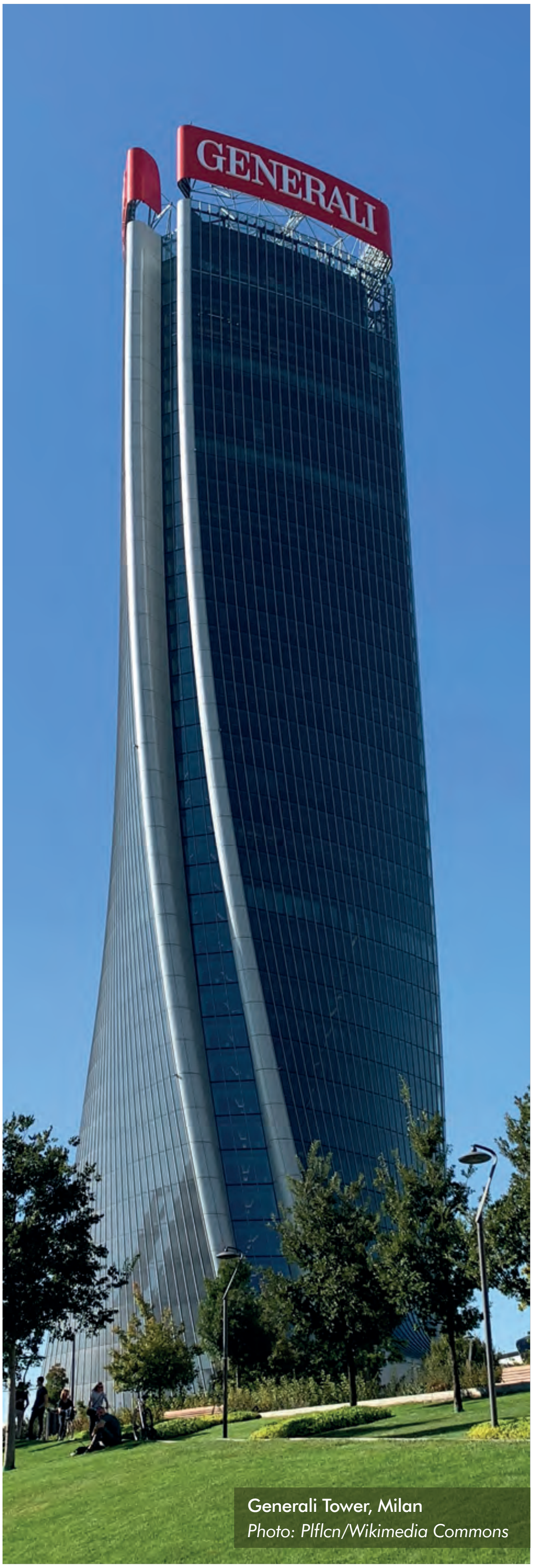
We believe that the insurance sector is playing and will continue to play a very significant role on climate change, and we are proud to have been the first European insurance company to have issued a green bond. We believe that we have paved the way for more and more green bonds issues from the insurance sector.

BIHC: How does the green bond fit into Generali's overall ESG strategy?

Silva, Generali: The green bond is really about creating long term value, focusing on the impact we can have on the environment and on the society that is at the core of our ESG framework. It definitely supports our focus on integrating ESG into our core business, using our technical skills to accelerate the transition toward a more sustainable society.

BIHC: How do you manage the green bond proceeds from an ALM perspective?

Silva, Generali: The proceeds will be managed by applying the so-called "equivalence principle" and will be primarily invested in green buildings and green infrastructure, especially clean transportation. These investments are consistent with our strategic asset allocation and provide the kind of duration we need for our ALM.



Generali Tower, Milan
Photo: Plflcn/Wikimedia Commons

The pricing dynamic was undoubtedly supported by the strong demand from dedicated green investors — *Raffo*

BIHC: Why did you proceed with the transaction at this time? To what extent were market conditions a factor?

Raffo, Generali: The current market environment — with BTP spreads below 150bp versus Bunds and with the strong demand for yield engendered by the dovish tilt of both the ECB and the Fed — provided the ideal backdrop for issuing an 11 year subordinated bond, which was priced at a 2.124% coupon, the lowest coupon ever on a subordinated bond issued by Generali.

BIHC: What are your takeaways on the extent of investor demand and the distribution of this green bond? Did investor diversification play a role?

Raffo, Generali: The green bond attracted enormous demand. The orderbook was around €3bn and over half of that came from investors who declared that their order was for ESG/green portfolios or within the context of an ESG/green investment plan. The price tension on the new issue demonstrates this strong demand: the deal was announced at mid-swaps plus 260bp and priced at plus 225bp, basically flat to the ASSGEN 3.875% January 2029 bond in terms of spread, despite having a maturity date 20 months later. This dynamic was undoubtedly supported by the strong demand from dedicated green investors. Many of these investors have never bought Generali bonds before, so the green bond format not only led to a lower spread but also translated into a broadening of our investor base.

BIHC: To what extent is Generali aiming to become a repeat issuer in green?

Silva, Generali: This was our first green bond, and it is likely that it will not be the last. Issuing green bonds fits perfectly with our sustainability commitments. In addition, our pool of green eligible assets will continue to grow as the new investment strategy, which emphasizes real estate and infrastructure debt, continues to unfold.

BIHC: Do you anticipate doing further similar liability management exercises?

Venchiarutti, Generali: We do not anticipate another liability management exercise, but we demonstrated that we are flexible and that we look proactively at all options when it comes to making our debt structure more efficient. We pay close attention to the objectives of our investors and in the coming months we will continue to engage closely with them. We believe that this this two-way dialogue provides us with valuable insight and enables Generali to be a renowned issuer in the European credit market.

Issuing green bonds fits perfectly with our sustainability commitments — *Silva*

BIHC: How resilient is your Solvency 2 ratio to the current interest rates environment?

Raffo, Generali: The gradual product re-design that took place over the past three years with the expansion of our unit-linked offering and the introduction of at-maturity-guaranteed policies has mitigated our sensitivity to interest rates. In addition, in the past three years we have closed the ALM duration gap and revised our strategic asset allocation to make it more capital-efficient. These actions, combined with the asset disposals we have executed in the past two years, have also reduced our sensitivity to interest rates. However, we acknowledge the challenge posed by the current interest rate environment. As a result, we are working to shape our product mix, investment portfolio and business profile to navigate through the low rate landscape. ●

Issuer: Assicurazioni Generali S.p.A.
Issue rating: Baa3 (Moody's)/ BBB (Fitch)/A- (AM Best)
Description: Senior Dated Green Subordin\ated Notes, Tier 2
Issue size: EUR750m
Maturity: 1 October 2030
Coupon: 2.124%
Re-offer price: 100.00%
Re-offer spread: mid-swaps plus 225bp
Distribution:
By geography: UK and Ireland 23%, France 20%, Italy 15%, Switzerland 9%, Germany and Austria 8%, Benelux 8%, Nordics 6%, Iberia 5%, other 7%
By investor type: Asset managers 67%, banks and private banks 15%, insurance companies and pension funds 9%, central banks and official institutions 8%, other 1%

CNP Assurances
Responsible investment 'showcase' excites

After becoming the first European insurance company to publish a green bond framework in June, CNP Assurances on 20 November attracted close to €2bn of demand to a €750m long 30NC10 Tier 2 issue and achieved its lowest ever coupon on such debt. CNP's Jean-Philippe Médecin and Stéphane Trarieux explained to *Bank+Insurance Hybrid Capital* how the issuance fits in with the insurer's wider contribution towards a decarbonised economy.

Bank+Insurance Hybrid Capital: What is CNP Assurances' motivation for issuing green bonds? How does it fit in with the company's overall sustainability strategy and commitments?


Jean-Philippe Médecin, CNP

Jean-Philippe Médecin, director for funding and own assets management, CNP: CNP Assurances Group has applied an ESG strategy in its asset management activity since 2006, when specific criteria were implemented for the equity portfolio. In 2011, we committed ourselves to respecting the UN Principles for Responsible Investment. In 2015, a global climate strategy was established. Finally, in 2018 then again in 2019, we committed to make €5bn in green investments from 2018 to 2021, an objective that has already been reached.

These initiatives, on top of others which we won't go into here, show our strong commitment in favour of the energy and environmental transition. It therefore seemed completely natural to us to complete this policy with an innovation in our financial policy, with the launch of our inaugural green bond transaction.

BIHC: What are the use of proceeds of the transaction?

Stéphane Trarieux, head of funding, CNP: The use of proceeds are described in our framework published in June (which was the first in Europe released by an European insurance company). The net proceeds will exclusively finance or refinance, in full or in part, assets falling under three eligible green assets categories: high energy-performance buildings (new builds and renovations); sustainably-managed forests; and green infrastructure, such as renewable energy projects and means of transport with low CO_2 emissions. Those assets are intended to contribute to three main environmental objectives: climate change mitigation, biodiversity protection, and pollution prevention.

BIHC: Your first green bond had been expected somewhat earlier — can you explain how the timetable evolved?

Médecin, CNP: 2019 has been an active year for CNP Assurances, with several corporate events. As you know, we are in the process of welcoming a new controlling shareholder, La Banque Postale. Moreover, we signed in September 2019 a new agreement with our banking partner in Brazil, Caixa Econômica Federal. As a responsible issuer, we did not want


CNP

to launch a new transaction before market participants have received comprehensive information about these developments. Finally, we considered that it was more responsible to issue after our Q3 results releases, in the context of the sharp decrease in interest rates that occurred this summer.


Stéphane Trarieux, CNP

BIHC: There have been some questions over the applicability of the green bond concept to both insurance companies' business models and also to capital instruments — what are your thoughts on this?

Trarieux, CNP: Insurance companies like CNP Assurances can choose to be socially responsible investors. We think we can demonstrate a strong influence on society and the natural environment through our investment policy, given the size of our portfolio (€279bn of assets under management integrating ESG criteria). Having said that, it is true that issuing green capital is quite innovative. Being the first European insurance company to publish a green bond framework, we took the view that having a subordinated bond as a host instrument was not an issue in relation to the Green Bonds Principles, and that there was no difficulty to be faced with our supervisor. On this specific point, it is worth mentioning that the use of proceeds language does not contradict the objective of obtaining the regulatory capital treatment. The instrument is compliant with Solvency II requirements for eligible own funds.

BIHC: What were the key messages you wanted to convey to investors during premarketing? How did they respond and did they focus, either positively or negatively, on any particular aspects?

Médecin, CNP: Firstly, we wanted to convince investors of the strength of our longstanding green commitment (since 2006 regarding the equity portfolio). Secondly, we wanted to detail our green investment strategy by highlighting concrete projects to the extent they could be found in the framework. We received enthusiastic feedback from investors, with some astonishment regarding the forestry investments. The investors were not all aware that CNP Assurances is the biggest private owner of forests in France. Forests are attractive because they strengthen CO_2 capture, while delivering a proper long term yield. Regarding real estate, we have shown how new builds and renovations constitute an economic activity that contributes fully to the transition towards a decarbonised economy.

BIHC: What determined the choice of the 30 non-call 10 Tier 2 euro benchmark at this time?

Trarieux, CNP: We have explained to the market and to the rating agencies that we intend to manage dynamically our portfolio of debt instruments, optimizing the fixed charges and rating agency requirements. That is why for each issuance we retain the flexibility whether or not to opt for the 30 non-call 10 format, which is more expensive, but implies better treatment with our two rating agencies. We also felt it was good timing for this transaction, with almost €3bn of debt coming to its first call date or maturity between 2020 and 2022.

How do you feel about the outcome of the transaction?

Médecin, CNP: We are very satisfied with this transaction, which opens a new financing market for us at a very reasonable cost. The 2% coupon is the lowest ever for CNP Assurances for Tier 2 capital. Moreover, it is a nice showcase for our responsible investment policy.

BIHC: How, if at all, did the green aspect affect distribution and pricing?

Trarieux, CNP: We appreciate that the vast majority of investors in this transaction are ESG-driven. Hence, we consider that we obtained welcome investor diversification, including pure green funds.

Overall, we consider there is a small green premium that allowed us to price slightly inside the fair value of a similar non-green instrument.

BIHC: What are your plans for green bond issuance going forward?

Médecin, CNP: We think this market will develop, and we will of course be part of it. On the other hand, some clarification is expected from European authorities, in order to normalize standards.

BIHC: Is there anything else about your green strategy or the deal that you would like to highlight?

Trarieux, CNP: It has been a great experience for the funding team, bringing together our CSR colleagues and the real estate and infrastructure investment specialists. As you can imagine, we usually have the same type of recurring questions during our roadshows; this time, it was very different, with exciting discussions and very pertinent questions asked by the green investor community. ●

Regulatory updates

SRB launches public consultation on its 'Expectations for Banks'

On 23 October, the Single Resolution Board (SRB) launched the first public consultation on its "Expectations for Banks" document, which outlines best practice on key aspects of resolvability. The document sets out the capabilities the SRB expects banks to demonstrate in order to show they are resolvable. It will provide clarity to the market on the actions banks are expected to take.

The SRB's expectations focus on seven objectives as described below, which are further substantiated by principles:

- Governance: facilitate the preparation as well as the implementation of the resolution strategy
- Loss absorption and recapitalisation capacity: identify and quantify the amount of eligible liabilities that are likely and not likely to contribute to loss absorption as well as the amount liabilities mandatorily excluded
- Liquidity and funding in resolution: estimate the liquidity and funding needs for the implementation of the resolution strategy, measure and report the liquidity situation in resolution, and identify and mobilise available collateral
- Operational continuity and access to FMIs: ensure continuity of services
- Information systems and data requirements: management information systems, valuation capabilities and technological infrastructure to provide the information necessary
- Communication: ensure timely, robust and consistent communication to relevant stakeholders supporting the implementation of the resolution strategy
- Separability and restructuring: banks' structure, complexity and interdependencies do not present obstacles to, and ideally support, the operational implementation of the resolution strategy

The SRB invites feedback between 23 October and 4 December 2019.

Finally, the SRB will publish its next wave of MREL policy (2020) by the end of this year or beginning of 2020, which will aim to draft a path towards Banking Package integration in MREL settings.

DNB to implement RWA floor on domestic mortgages

On 15 October, the Dutch National Bank (DNB) published its biannual Financial Stability Report, which intends to impose a floor for mortgage portfolio risk weights to limit the impact of a potential house price adjustment in the Netherlands. The DNB aims to add €3bn in additional capital against Dutch banks' mortgage loan portfolios. As a result of this proposal, the risk weights of mortgage loans will on average increase from 11% to 14%-15%, which will push up Dutch banks' RWAs.

EBA offices, Paris

EBA will clarify the prudential treatment applicable to own funds instruments at the end of the grandfathering period expiring on 31 December 2021

On 9 September, the European Banking Authority (EBA) announced its intention to provide clarity on the appropriate treatment of so-called "legacy instruments" at the end of 2021, when the benefits of the grandfathering period will expire. The aim of the clarification is to preserve a consistent and high quality capital base for EU institutions under the CRR.

EU banks' funding plans indicate increased appetite for market-based funding in the coming years

On 28 August, the EBA published its annual update on EU banks' funding plans. The results show that banks plan to increase debt issuances over the next three years, in particular unsecured debt instruments. These issuances are driven by the conjunction of the maturities of central bank funding and the recently endorsed revised Bank Recovery & Resolution Directive (BRRD2), which requires greater levels of subordination.

EBA publishes latest Basel III capital monitoring report and update on EU banks' compliance with liquidity measures

On 2 October, the EBA published the monitoring report of final Basel III reforms and the current implementation of liquidity measures in the EU. Overall, the EBA estimates that the Basel III reforms, once fully implemented, would determine an average increase by 19.3% of EU banks' Tier 1 minimum required capital. As for liquidity measures, the report shows that EU banks have continued to improve their compliance with the

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liquidity coverage ratio (LCR), which stood at around 149% on average in June 2018, well above the minimum threshold of 100%.

EBA publishes work programme for 2020

On 10 October, the EBA released its detailed annual work programme for 2020, describing the specific activities and tasks of the authority for the coming year, and highlighting the key strategic areas of work for 2020. The EBA's strategic priorities have taken into account the current legislative proposals and input from the European Council, Parliament and Commission. The 2020 strategic priorities are:

- Supporting the deployment of the risk reduction package and the implementation of the global standards in the EU
- Providing efficient methodologies and tools for supervisory convergence and stress-testing
- Moving towards an integrated EU data hub and a streamlined reporting framework
- Making anti-money laundering (AML) a real priority for the EU
- Contributing to the sound development of financial innovation and sustainability
- Promoting an operational framework for resolution

Regarding the deployment of the Risk Reduction Measures (RRM) package and the implementation of the global standards in the EU, the EBA will work on the implementation of CRD V/CRR2/BRRD2, together with the introduction of the IFD/IFR regime and the covered bonds directive. The aim of these regulatory packages is to: (i) reduce excessive leverage; (ii) address long term funding risk; (iii) address market risks by increasing the risk sensitivity of the framework and enhancing proportionality; and (iv) ease the compliance burden for smaller institutions.

Two other key areas are the implementation of the fundamental review of the trading book (FRTB) for market risk requirements and the finalisation of the EBA roadmap for calculating minimum capital requirements for credit risk. Additionally, the EBA will work with the Commission for the implementation of Basel III standards in the EU.

Regarding the efficient methodologies and tools for supervisory convergence and stress-testing, due to the application of the new regulatory standards in the EU, the EBA will start consulting on Pillar 2 revisions, improved incorporation of proportionality, coherence with Pillar 1, and the levels of application policies on capital and liquidity. Finally, the EBA will conduct another EU-wide stress test, in line with its previous decision to aim for a biannual exercise, while it will continue monitoring capital issuances on CET1 and AT1, also expanding work on pre-CRR instruments as well as on MREL issuances.

APRA consults on proposed revisions to Prudential Standard APS 111

On 15 October, the Australian Prudential Regulation Authority (APRA) released for consultation a discussion paper on its proposed revisions to Prudential Standard APS 111. The proposal will require the big four banks to risk weight their equity exposure at 250% (vs. 400% currently for unlisted subsidiaries) up to 10% of the banks' Level 1 CET1 capital, with any excess to be deducted from CET1. This means the banks will require dollar-for-dollar capital for exposures above 10% of their CET1 capital. Additionally, APRA proposes a full deduction of TLAC exposures and pari passu instruments from Tier 2 capital, which is in line with the Basel Committee on Banking Supervision TLAC holdings framework but does not adopt a threshold approach. APRA intends to finalize the changes in early 2020 with implementation starting 1 January 2021.

EIOPA releases consultation for 2020 review of Solvency II

On 15 October, the European Insurance & Occupational Pension Authority (EIOPA) launched a public consultation on an opinion that sets out technical advice for the 2020 review of Solvency II. The deadline for submission of feedback is 15 January 2020. EIOPA will issue the opinion on the 2020 review in June 2020.

- Own funds
  - EIOPA advises not to change the Solvency II tiering structure. It has deemed the differences in the tiering and limits approaches between the insurance and the banking frameworks to be justifiable. A deletion of Tier 3 has been envisaged but EIOPA has decided to maintain this bucket.
  - No change in the calculation of tiering limits.
  - In terms of double leverage (a parent entity in a group provides Tier 1 capital support to a subsidiary that is financed by externally issued parental non-Tier 1 capital), EIOPA advises the Commission to amend Article 258 of the directive in order to clarify that the group supervisor should assess the level of double leverage and take actions when double leverage is excessive (e.g. where the leverage ratio is above 100%).
  - No change in terms of the attribution of EPIFPs to Tier 1 but EIOPA will continue the work on the treatment of EPIFPs (other options have been envisaged, e.g. limiting the recognition of EPIFP as uT1 own fund or downgrade the tiering of EPIFP).
  - Write-up mechanism in RT1 is not discussed.
- VA and MA
  - Both VA and MA will be maintained. VA and its deficiencies are analyzed over ca. 100 pages.
  - The DVA could be maintained, if disincentives are solved in the VA ("at source").
- Risk mitigation techniques
  - For both capital contingent or contingent convertible bonds, the transfer of risk is non-existent or limited.
  - As a consequence, EIOPA advises not to recognize these instruments as risk mitigation techniques, i.e. no SCR reduction.
  - This non-recognition under Standard Formula could potentially create some inconsistency between Standard Formula and Internal Models.

EIOPA issues opinion on sustainability within Solvency II

On 30 September, EIOPA published an opinion on sustainability within Solvency II. In doing so, EIOPA followed the questions posed by the European Commission with a focus on aspects relating to climate change mitigation.

The opinion sets out EIOPA's views on the integration of sustainability risks and metrics into the three pillars of the Solvency II framework.

- Pillar 1: EIOPA acknowledges that the medium to long term impacts of climate change cannot fully be captured in the SII capital requirements, which are designed to reflect the risks that undertakings are exposed to over a one year time horizon. EIOPA does not consider that the horizon should be changed. However, some risk modules, in particular natural catastrophe, could be enhanced to better capture such risks. On the asset side, EIOPA indicates that it might be possible to differentiate the risk profiles of instruments (including brown assets) if and when relevant data become available.
- Pillar 2: In the short term, it seems that Pillar 2 (i.e. stress-testing and governance) will be the most impacted in terms of factoring sustainability risks. EIOPA emphasizes the importance of scenario analysis under Pillar 2. The authority already committed to enhance its stress-testing methodology with the inclusion of climate-related risks. Also, it advises that sustainability risks scenario analysis should be embedded in the undertakings' governance and ORSA.
- Pillar 3: Mandatory requirements for public disclosure on sustainability risks on both sides of the balance sheet should be considered. EIOPA also highlights the CRR requirements for large banks to disclose ESG risks.
- Providing efficient methodologies and tools for supervisory convergence and stress-testing.

PRA proposes in CP26/19 to adjust for the reduction of loss absorbency where own fund instruments are taxed on conversion

On 11 October, the UK Prudential Regulation Authority (PRA) proposed in a consultation paper to amend its expectation on the treatment of Restricted Tier 1 (RT1) own funds instruments in light of recent information from HMRC.

Back in February, the PRA released its final policy statement requiring insurers to deduct the maximum tax charge generated upon write-down (i.e. a reduction in the eligible amount). This amendment reflected tax changes introduced by HRMC in the October 2018 Budget. At the time, the PRA stated that equity conversion RT1 instruments were not affected.

The PRA has recently received additional information from HRMC focusing on equity conversion RT1 instruments featuring a Conversion Share Offer (CSO). A CSO allows the issuer to sell the conversion and give the cash proceeds to the Noteholders. The CSO is a customary feature of equity conversion RT1 issued so far in the UK (and The Netherlands).

According to HRMC, the issuer's exercise of a CSO would mean that the release of debt is not in consideration for shares but in consideration for cash. As a consequence, the proceeds would be taxable in the same manner as hybrid instruments which write down upon trigger.

Therefore, the PRA proposes that the maximum tax charge generated on conversion would be calculated as: the instrument's face value (less any minimum CSO price per share specified in the terms of the instrument at issuance multiplied by the number of ordinary shares created on trigger) multiplied by the prevailing corporate tax rate. An exception to this proposed expectation would be if the insurer has provided the PRA with a properly reasoned independent tax opinion (to be provided at least 30 days before issuance). ●

Ratings

Tier 2 under threat from Fitch draft, AT1 set for boost

Fitch's ratings of Tier 2 debt could be cut by one notch under proposed new rating criteria released in a report on 15 November, although AT1 instruments could be lifted one notch.

The report, "Exposure Draft: Bank Rating Criteria", specifies Fitch Ratings' methodology for assigning new ratings to banks and monitoring existing ratings. Fitch's proposed rating framework for banks is largely consistent with previous criteria with respect to the core VR and Support Rating aspects of the framework.

The most material changes proposed relate to notching applied to senior and subordinated (AT1 and Tier 2) unsecured debt:

- Fitch proposes a more forward-looking approach to determining when to notch up a senior debt rating, Derivative Counterparty Rating (DCR) and/or deposit rating:
    - Based on resolution plan and forward-looking issuance expectations — of note, no timeframe on forward-looking horizon provided by Fitch
        - For reference, Moody's takes MREL/TLAC issuance plans/targets up to three years in advance (base case two years), while S&P has a two year forward-looking horizon
    - Threshold for upgrade revised to a generic 10% of RWA — this replaces current framework of Fitch calculating individual recapitalization amounts on a per bank basis
        - 10% of RWA = approximation of 8% P1 + generic 2% P2R assumption (CACIB view)
    - For jurisdictions with general deposit preference (e.g. Portugal, Italy, Greece, Cyprus, Bulgaria, Romania, etc), Fitch will notch down senior (preferred) debt from the IDR (= VR + support, if any), to take into account situations where:
        - "debt buffers are thin or resolution debt buffers are likely to include more senior liabilities"
- Tier 2 debt notching (banks with VR of bbb- or above):
    - Currently Tier 2 debt is notched down one notch from the relevant rating anchor (typically the VR in the EU + UK)
    - Future proposed method: notch down twice from the relevant rating anchor (same approach as S&P; Moody's rates Tier 2 debt based on LGF outcome)
- AT1 debt notching (banks with VR of bbb- or above):
    - Currently AT1 debt is notched down five notches from the relevant rating anchor (typically the VR in the EU + UK)
    - Future proposed method: four notches down from the relevant rating anchor (same approach as S&P; Moody's typically three notches down)
        - Of note, this is the base case notching for AT1 by Fitch. It remains to be seen whether additional notches will be applied for cases with heightened non-performance risk (e.g. risk of coupon reduction or cancellation due to low ADI or MDA)
- Additionally, Fitch suggests it can factor sovereign support more routinely into junior debt of banks with IDRs that are driven by sovereign support
- Fitch also proposes a new approach for its core capitalization metric. Where disclosed, Fitch proposes to use the regulatory Common Equity Tier 1 ratio instead of its existing approach based on Fitch Core Capital. If fully-loaded CET1 ratios are disclosed, this is the measure that Fitch intends to take, otherwise transitional CET1 ratios will be applied

Fitch is currently gathering market feedback until 31 December, after which it will consider the feedback and finalise the criteria. During the exposure draft period, it will apply the existing criteria to existing ratings, but will already apply the criteria described in the exposure draft to new rating assignments. We expect the finalisation to occur in 1H20.

With the base case Tier 2 notching of -2 (from -1), some banks' Tier 2 ratings are more at risk of falling into sub-investment grade category and losing index eligibility. UniCredit Tier 2 bonds (Baa3 Stable/BB+ Stable/BBB- Negative) may be vulnerable to falling back to sub-IG if downgraded by Fitch. This is after they received index eligibility on 18 July when Moody's upgraded its Tier 2 rating to IG. Tier 2 bonds from CaixaBank, Commerzbank and Aareal Bank could also be vulnerable because of the review, still remaining IG, but closer to sub-IG territory.

With the base case AT1 notching of -4 (from -5), notable beneficiaries include Lloyds (Baa3/BB-/BB+) and Nationwide (Baa3/BB+/BB+), with a Fitch upgrade resulting in two out of the three ratings being IG. ●

	Key Proposed Changes to Criteria	Potential Direct Rating Impact
Senior Debt and OpCo Notching	Fitch proposes to notch up: ● preferred senior debt (and, where relevant, deposit and derivative counterparty ratings) ● an OpCo's IDR in situations where it expects senior preferred creditors or OpCo senior creditors to be protected by a bank's or resolution entity parent's more junior debt in resolution. Some exceptions will exist, for example where a bank's IDR is driven by support, but it is notched down from the parent's IDR and/or is not part of the parent's resolution group. Fitch also proposes that uplift for preferred senior obligations or for an issuer's IDR may occur where junior debt (or "qualifying junior debt" (QJD) in the case of an IDR) exceeds 10% of risk-weighted assets (RWA)	Multiple (potentially >150) one-notch upgrades of preferred senior debt, OpCo IDRs, deposit ratings and DCRs mainly in EMEA, but some also in APAC and North America. A very small number of one-notch downgrades of IDRs and related ratings
	The maturing of bank resolution frameworks and the introduction in some jurisdictions of depositor preference mean that Fitch believes there is a heightened risk of below average recoveries on senior obligations in some situations. Unless certain conditions are met, Fitch proposes notching down from an issuer's IDR: ● senior debt issued by banks in jurisdictions where deposits are preferred to the debt class, there is sophisticated bank resolution and where debt buffers are thin or resolution debt buffers are likely to include more senior liabilities ● BHC senior debt under some circumstances where debt buffers are thin.	In the region of 20 one-notch downgrades of senior debt ratings, mostly in EMEA
Junior Debt Notching	Fitch proposes: ● to change the baseline notching for vanilla subordinated (Tier 2) debt to two notches from the relevant rating anchor from one notch to reflect a heightened risk of poor recoveries arising from subordination and further maturing of bank resolution frameworks as buffers of more senior bail-in debt are built. One notch will still be possible where loss severity risk is mitigated e.g. by thick debt buffers, prevalence of liquidity risks, partial support or precedent.	Multiple of one-notch downgrades of T2 debt that is currently notched once. Potentially >100 in EMEA, in the region of 30 in each of North America and APAC, and in the region of 10+ in LatAm
	● to change the baseline notching for Additional Tier 1 and US preferred securities to four notches from an issuer's VR from five notches at higher rating levels (anchor BBB-/bbb- or above) by reducing the incremental non-performance risk notching to two notches from three notches. The change is driven by a reduction in Fitch's assessment of the incremental non-performance risk in such bonds' fully flexible coupons and Fitch's assessment of the overall credit risk in such instruments versus other subordinated instruments. Where incremental risks are still considered high, three or more incremental non-performance risk notches may still be applied, resulting in total notching of five notches or more	Multiple one-notch upgrades of T1 debt that is currently notched five times. In the region of 40 in each of EMEA and North America (ultimate parent basis), with the balance in APAC and LatAm
	● to be able to factor sovereign support more routinely into junior debt (including AT1 debt) of banks whose IDRs are driven by sovereign support, while retaining existing rating caps. The proposed change reflects some instances of sovereign support for AT1 securities observed by Fitch	None
New Core Capital Metrics	Fitch proposes to use the regulatory Common Equity Tier 1 ratio (CET1). Where an "end-point" or "fully-loaded" CET1 ratio is reported, Fitch will use that, otherwise the transitional CET1 ratio will be used, if available. In some markets and circumstances, for example where a Basel-based CET1 ratio is not yet reported, Fitch will continue to use Fitch Core Capital (FCC)/FCC-adjusted risk-weighted assets	None
Incorporation of Updated Short-Term Rating	Fitch proposes to incorporate into this criteria report the updated short-term rating framework outlined in the cross-sector criteria report *Short-Term Ratings Criteria*, dated 2 May 2019. The two key updates are the incorporation of two new crossover points between long-term and short-term ratings and the use of an issuer's Funding & Liquidity factor score as the principal determinant of whether the "baseline" or "higher" short-term IDR is assigned at cusp points	None (all rating changes have taken place)

Source: Fitch Ratings, CACIB

The Handover of Power

The message behind Mario Draghi's parting package will be as important going forward as the measures themselves, argues Crédit Agricole CIB Eurozone economist *Louis Harreau*. Here, he analyses their impact on bond markets, banks and the wider economy, and anticipates that incoming ECB president Christine Lagarde will now be free to apply her political skills to the service of the central bank, with fiscal policy and political risk in focus.

Bank+Insurance Hybrid Capital: Was the package of measures announced by the ECB in September in line with your expectations? What do you think was most interesting about it?

Louis Harreau, Crédit Agricole CIB: The most interesting part of the September package is the horizon of the ECB's monetary policy tools: the reinforcement of the forward guidance on rates, the open-ended duration of QE2 and the extension of TLTRO III's maturity show that the ECB intends to remain very accommodative for a very prolonged period of time. This is a significant change versus the ECB's communication in the past, including when it started implementing the forward guidance or when it announced QE1. At that point, the ECB was communicating on the fact that its tools were temporary and that they should help increase inflation in the near term, allowing the ECB to exit its accommodative monetary policy. As stated by former ECB president Mario Draghi in 2016: "Interest rates have to be low today to be high tomorrow".

In September, however, the ECB did not even pretend that it intends to normalise its monetary policy in the foreseeable future — the message was, "rates are low today and they will remain low tomorrow".

The second element of this package is that, in line with what was suggested in Sintra, the ECB tried to show that its monetary policy has no limits: the implementation of the tiering system is not only a way to support banks' profitability, but also, and more importantly, it is a way to show markets that the ECB can cut its rate further; the open-ended duration of QE is not just a long term commitment to buy bonds, but more importantly symbolic evidence that the ECB can buy whatever it wants.

Regarding our expectations, we have to admit that the ECB had prepared markets — and economists — for the package: in Draghi's speech in Sintra, most elements of this package were explicit, starting with QE2 and the rate cut. The tiering had been discussed at the ECB since March this year, so its implementation was also expected. As for the change in the modalities of TLTRO III, it was not necessarily publicly discussed, but the disappointing aspects of those operations (short maturity, high cost) naturally led us to expect a change if the ECB embarked on more easing. So overall, the announcements were broadly in line with our expectations, even if we were surprised by the fact that the ECB extended its timeline for the intervention.

BIHC: Has the market's reaction to the September measures been reasonable?

Harreau, CACIB: The market's initial reaction was choppy — partly because, one, there was a misunderstanding of the possible impact of the tiering and, two, the announcement on QE was mixed. Several market participants expected the tiering to increase interbank rates (Eonia, €STR, repo rates) and consequently trigger an increase in the short end of the curves — which has been proven wrong since then. Regarding QE, the worries are more legitimate in my view — the fact that the ECB did not discuss limits creates uncertainties about the length of QE2.

This second issue, the fact that markets remain uncertain about the ECB's ability to implement a long and ambitious QE2, partly explains the repricing that has happened since Septem-

Farewell event for Mario Draghi; *Photo: ECB/Flickr*

ber: 10 year Bund yields have increased by almost 30bp, while 10 year swaps have remained above 0% since mid-October.

Other elements have to be taken into account: lower risk aversion due to better developments regarding the trade war, as well as lower Italian political risk and the feeling that recession risks have faded.

My feeling, however, is that markets continue to underprice the ECB's willingness and ability to support the Eurozone: the technical question of QE's limits is minor regarding the ECB's commitment to its mandate and to its inflation target. Consequently, we expect the ECB to issue stronger communication on accommodative monetary policy, and we expect markets to gradually re-integrate this renewed pressure on yields.

BIHC: To what extent does the tiering (in conjunction with the whole package of measures) help banks? To what extent is it a reaction to criticism of ECB policies?

Harreau, CACIB: Tiering has an immediate effect for banks: the total cost of excess liquidity put at the deposit facility (at €10bn before the implementation of tiering) was reduced by €4bn. So this should support banks' profitability. In the September package, the ECB announced another significant measure to help banks: the easing of TLTRO III modalities, specifically that TLTRO III will have a maturity of three years (instead of the two years previously announced) and a rate equal to the deposit rate (instead of deposit rate plus 10bp).

TLTROs' support for banks is often undervalued: they provide liquidity (more than €600bn today), at a very low cost (banks are paid to take liquidity from the ECB), and more importantly, TLTROs provide term funding for banks: four years in the TLTRO II series and three years in the TLTRO III series.

What is interesting with the September package is that the ECB is trying to use every lever it can to improve credit conditions for the private sector: lower market rates with the QE and so lower market-funding cost for banks, improved ability to take risk for banks due to the better profitability thanks to the tiering and term funding via TLTROs.

Most criticism of the ECB's policies is unfounded. However, what is true is that with those measures, the ECB tried to address the only legitimate point of criticism: unconventional monetary policy hurts banks. This criticism is not legitimate because banks' profitability is an important topic (it is not), but rather because if banks' profitability is too low and if banks are too weak to take risk, they cannot grant loans to risky actors (households and SMEs), which means that the ECB's very accommodative monetary stance does not benefit the private sector.

Unfortunately, tiering and TLTROs are not enough to overcome the negative impact of low rates on banks; this is why the banking sector will probably have to continue its efforts to regain profitability. The good news, however, is that the ECB is aware of this concern and it is likely to pursue its supports for banks as much as possible.

BIHC: Some market participants seem to disagree with the ECB about the likelihood of it hitting APP limits. How do you explain this and what are your expectations?

Harreau, CACIB: When talking about the APP limits, what we actually mean is the purchasable universe of German public bonds below the 33% issue and issuer limit: when the ECB runs out of German bonds to buy, the PSPP — and so the APP — will have to end. This is why the question of the APP limits is so important.

Estimating the purchasable universe in the APP is an extremely complex task: you have to list all purchasable assets (more than 2,000 bonds for the PSPP alone), you have to know the outstanding amount for each of them, and — this is the most complex part — you have to estimate the market price of all bonds at the time the ECB bought them. This is why nobody has a perfect estimate of what is still purchasable — apart from the ECB.


Louis Harreau, CACIB

More importantly, the ECB could be flexible in the implementation of the APP. First, in the breakdown of programmes: it could weigh more on the private purchase programme (CSPP and CBPP3), and therefore keep some space for a longer PSPP.

The second option is deviation from the capital key: theoretically, German bonds should represent 24% of the PSPP purchases. However, since the beginning of the PSPP, the ECB allowed itself some flexibility in this allocation: Estonia, Cyprus, Latvia, Lithuania have been “underpurchased” by more than 60%. The ECB has only purchased 40% of what it is supposed to according to the capital keys, because the public debt was too small (as for Estonia, the ECB simply has not purchased a single public bond since May 2016). The ECB could apply the same for Germany: not enough public debt implies no purchase, and QE continues without Germany. However, for obvious political reasons (and for monetary policy reasons), it is hard to justify QE that excludes a quarter of the Eurozone economy. This is why the ECB could be flexible on this front, but only to a certain extent: limited deviation from the capital keys.

‘The only powerful-enough answer is a fiscal capacity at the Eurozone level’

From those caveats, we estimate that the ECB can continue its QE for 12 to 18 months, possibly 24 months depending on how flexible it is. However, the communication around QE is far more important than the basic implementation: the fact that the ECB states that QE may continue is more important than whether or not it actually continues QE.

If the ECB does not address the limits issue, it will struggle to convince markets that it can continue QE over an extended duration. Even worse, if markets believe that the limits are unmovable, the ECB risks being perceived as powerless. This means that, no matter how likely it is that the ECB will hit the PSPP limits, the ECB will have to change those limits. Not necessarily so it can continue QE, but so it can *communicate* on the fact that it can continue the QE if it wants to.

BIHC: Do you expect governments — notably Germany — to rise to Draghi’s challenge, i.e. make fiscal policy do more of the work?

Harreau, CACIB: In my view, the biggest challenge Draghi addressed before leaving the ECB is not about national fiscal policy. His biggest challenge was this one: “There is one thing that all the successful monetary unions have, and that’s a central fiscal capacity.”

Indeed, a more balanced fiscal policy in Germany and in other northern countries would support the economy there and therefore slightly ease the ECB’s task. However, I do not think that a fiscal package in Germany or in other countries is likely to dramatically change the Eurozone outlook. Even if they change their minds about fiscal consolidation — which is what seems to be gradually happening — they are unlikely to adopt a very aggressive fiscal policy and, more importantly, if they increase their fiscal support they are likely to calibrate this fiscal support for their national needs, not for the Eurozone’s.

Governments are pragmatic: if the outlook deteriorates further, then they are likely to react appropriately, not to ease the ECB’s burden, but rather for their own goals. These reactions will make the ECB’s job slightly less complicated, but are unlikely to remove all pressure on the ECB. So yes, I assume that Germany and other governments will use more fiscal policy if needed, but I do not think that it will change the ECB’s situation.

On the other hand, the best — if not only — solution to ease the ECB’s task and so favour a quicker exit from non-conventional monetary policy is the implementation of a common fiscal capacity for the Eurozone. National governments can — and have to — act, but in my view, the only answer that is commensurable with the current situation, the only powerful-enough answer is a fiscal capacity at the Eurozone level — a fiscal capacity that would be implicitly backed by the ECB. This is Draghi’s challenge that the Eurozone will have to rise to, or it will face negative rates for an extremely prolonged period of time.

On the probability of such an implementation in the short term, I would be pessimistic — there is political work to be done. However, the technical work is ready, European citizens are increasingly convinced of the benefits of the euro as a currency, and the political will is present in several countries, so I'm rather optimistic on the medium term — also because it is the best, if not the only, solution for the Eurozone.

BIHC: Does the restart of APP on 1 November and prior announcement of the September package mean that Lagarde's influence will not be felt for some time, with the direction of ECB policy now set for a prolonged period?

Harreau, CACIB: On the contrary, the September announcement should help Lagarde make her mark as the head of the ECB. The monetary policy tools that have been announced are not supposed to be changed in the coming months, if not years. This means that the new president will be free to focus on the structural issue regarding the ECB's monetary policy: the broader scheme of monetary policy implementation, redefinition of the target, discussions on "greening" monetary policy or taking into account inequalities. Being released from the monetary policy tools, Lagarde will be able to exert a stronger influence on the monetary policy system.

It is true that Lagarde will have limited influence on the ECB's monetary policy stance over the next few months: rates will not be hiked, QE will not be stopped, the TLTRO III will not be changed regardless of what she thinks about them. However, I would say that this is always the case: all ECB presidents have their hands tied by their predecessors' decisions: past monetary policy impacts economic outlook, and economic outlook is the basis on which future monetary policy will be decided. Finally, it is worth reiterating that all decisions are taken by the governing council, not by the president — even if the president has significant influence — consequently, Lagarde will be dependent not only on what was decided in September, but also on what other members of the governing council think.

'The September announcement should help Lagarde make her mark'

BIHC: What changes in style and substance do you anticipate under Lagarde, if any?

Harreau, CACIB: Lagarde has a very different background from Draghi: he was an incredible technician who gradually morphed into a politician. When appointed president, he was already known to be a very good central banker, who had to add more leadership and communications skills to his arsenal. Lagarde, by contrast, is famous for being an exceptional leader and a very good speaker; she will have to put those skills to the service of the ECB's monetary policy.

More structurally, Lagarde is a consensus builder — this is pretty clear when looking back at her work at the Eurogroup when she was minister of finance or at the European Council during the 2015 Greek crisis when she was at the head of the IMF. Draghi was more inclined to make decisions by himself or with a limited group of people and then to force the governing council to consent to his decision. This strategy was extremely powerful during the crisis: the ECB was proactive, because its president was proactive. However, it may have reached its limits at last September's meeting: the dissensions were too big, which muddled the ECB's communication.

The consequence of having a consensus-builder as president could encourage a more united governing council and hence clearer communication. On the other hand, since consensus-building takes time and, to reach a consensus, you need to make concessions, this could mean that the ECB will be less proactive and slightly more hawkish under Lagarde's presidency.

BIHC: What are the key risk factors for the macroeconomic outlook? What are your expectations for the Eurozone economy?

Harreau, CACIB: The Eurozone will probably face a long slowdown: GDP growth should be around 1% in 2020 and 2021 — the global slowdown and trade tensions are likely to continue next year and could fade gradually in 2021. The ECB's accommodative monetary policy should help the Eurozone, but to a limited extent beyond what it has already done.

Regarding the main risks, Brexit seems to be the most limited: a no-deal Brexit would have a negative impact on the Eurozone, but this impact should be limited, and not significantly different than what is already expected in the event of a Brexit deal.

The trade war is (and is likely to remain) the main theme of the coming years. If it intensifies, it would harm the global economic outlook for all countries around the world, so it would have an indirect but significant impact on the Eurozone. But the main risk is an escalation of tensions between the US and the EU: a full trade war between the two economic areas is unlikely given their interconnection, but, given the magnitude of the consequences, we cannot ignore the possibility of it.

Finally, the political situation in the Eurozone remains a source of uncertainty. Markets have totally de-priced this risk since the change in government in Italy this summer; however, the Italian story is not over: the current coalition seems to be holding on, but we do not know for how long — the polls show that political risk is still there. Other countries may face political uncertainties: in Spain and Belgium, there is still not a stable coalition, whereas in Germany the political landscape is fragmented, making future coalitions more complicated.

For most of the past 10 years, political risk has been the biggest threat for the Eurozone. Today, this risk is lower, but it has not disappeared. ●

NAB
Going large offshore, long at home

National Australia Bank on 18 November extended the Australian domestic Tier 2 curve with the first 12 year non-call seven issue, after having on 29 July sold the equal-largest US dollar Basel III Tier 2 tranche from an Aussie bank, as it begins meeting an incremental A$12bn requirement following APRA's ALAC announcement in early July. *Andrew Ker*, associate director, long term funding, NAB, discussed the bank's issuance strategy with *Bank+Insurance Hybrid Capital*.


Andrew Ker, NAB

Bank+Insurance Hybrid Capital: What were your increased issuance needs in light of the APRA announcement and how have you planned to meet these?

Andrew Ker, National Australia Bank: APRA's requirement for three percentage points of additional loss absorbing capacity (ALAC) will for NAB represent an incremental capital requirement of just over A$12bn (€7.4bn, US$8.1bn). We expect to meet that requirement primarily through the issuance of Tier 2 instruments, with a corresponding decrease in the amount of senior unsecured debt that we have outstanding. The compliance date for this new requirement is January 2024, and so by that time we'd expect Tier 2 outstandings somewhere in the vicinity of A$20bn. There are a number of different ways we can reach that finish line, and I anticipate getting there at a comfortable cadence, bearing in mind factors like our growth in risk weighted assets and what sort of maturity profile we want to have after that commencement date in January 2024.

BIHC: Why did you opt to start with the 15 non-call 10 144A/Reg S US dollar trade? How was that received?

Ker, NAB: NAB did its first Basel III Tier 2 issuance at the end of 2014 and in the almost five year timeframe since then we hadn't issued such an instrument in US dollars. The APRA announcement was in early July and by the end of the month the market had absorbed the announcement and demonstrated quite a clear appetite for that particular format. Market conditions were conducive, and we really just responded to those.

We were very pleased with the market's response. Orders exceeded US$9bn for the single-tranche transaction and we issued US$1.5bn, which we understand to be the equal-largest tranche size for a US dollar Basel III Tier 2 issuance by an Australian major.

BIHC: More recently you launched the first 12NC7 Tier 2 issuance in Australian dollars, extending beyond the typical 10NC5 format. We've tended to see your peers seek longer maturities in other currencies. Why did you decide to push the envelope a bit domestically?

Ker, NAB: We've seen increased depth in the Aussie dollar capital markets throughout the year and we'd seen that in successful capital issuances from international issuers in 2019. We'd done a 10NC5 issuance in May and we had confidence that the investor appetite would be there for a Basel III instrument with a longer tenor, and as one of the four major banks in Australia we felt it was important to take a leadership role

Photo: NAB

in our domestic market and take that step out from a non-call five to a non-call seven.

BIHC: How did the outcome for this new point on the curve compare with your expectations?

Ker, NAB: Our expectations were anchored around the May Basel III Tier 2 trade, which was A$1bn in 10NC5, and it comfortably exceeded those expectations. The final book for our 12NC7 exceeded A$2.8bn, which is a 75% increase from the order book we achieved on the 10NC5, so it allowed us to print A$1.4bn, split into A$1.175bn floating and A$225bn fixed rate tranches. This points to the continued evolution and growing depth in the Aussie dollar market.

BIHC: You've got quite a bit more to do before 2024. How do you see yourselves acting across markets, such as euros, where you haven't issued since July but we recently saw ANZ with its Tier 2 SDG bond?

Ker, NAB: In the more or less five years since we issued our first Basel III Tier 2 instrument, before July we'd issued in five currencies — Aussies, our debut trade was in euros, and within our own time zone we've also done Hong Kong dollars, Singaporean dollars, and Yen. Each of these currencies will provide individual issuers, including NAB, the opportunities to tailor their ALAC issuance to their respective objectives for diversification in terms of tenor, structure and investor. The timeframe that we are thinking about for ALAC compliance is really over the next four years, and currencies like euros will play a role in that. As an industry, it's pleasing to see an Australian major bank successfully reopen that market.

BIHC: You mentioned in respect of the dollar transaction that you were pleased to see how the market was absorbing the news and initial supply. There had been concerns in the industry about the cost and way in which banks would have to meet the ALAC requirement. What are the takeaways in that respect from how things have developed?

Ker, NAB: Certainly this Tier 2 issuance is at an increased spread to instruments that have been used for loss absorption in other jurisdictions, but overall we have been pleased with the market response so far. But it's only been four months since the clarification of the requirements, so it still is very much early days. But over the four months, the progress has been pleasing.

I suspect that prior to ALAC the idea of Aussie major bank Tier 2 would have been quite niche for investors, who probably would have thought that doing the due diligence on the Australian issuers for Tier 2 instruments wasn't really worth the time. But now, with the increased supply, it will become a much more relevant asset class for investors. It is certainly pleasing to see a large number of them around the world having invested the time for that and showing that appetite exists for sub debt from well-rated issuers. ●

ANZ moves towards dual targets with SDG T2

Australia & New Zealand Banking Group sold the first SDG-linked Tier 2 bond in euros on 15 November in a step towards achieving ALAC requirements and a A$50bn sustainability target. *Simon Reid*, director, group funding, ANZ group treasury, discussed the transaction and the bank's broader Tier 2 and sustainability strategies with *Bank+Insurance Hybrid Capital*.

Bank+Insurance Hybrid Capital: What were your increased issuance needs in light of the APRA announcement and how have you planned to meet these?


Simon Reid, ANZ

Simon Reid, ANZ: The TLAC requirement entails an additional A$12bn (€7.4bn, US$8.1bn) of Tier 2 for ANZ, implying a required portfolio increase from A$8.5bn at 30 September 2019 to A$21bn by January 2024. That's equivalent to A$4bn per year, which we expect to achieve in a broadly linear fashion, although we'll have a bias towards being marginally ahead of that run rate. Clearly there is a significant cost of carry, but this is a higher risk product and we are aware that there will be times throughout the build-up of this capital that Tier 2 markets won't be available to us.

BIHC: You moved quite quickly, on 19 July, with the first domestic Tier 2 after APRA's announcement. Why did you decide to kick off your issuance thus?

Reid, ANZ: We think the domestic market is going to play a really important role in providing us with this capital and that its capacity for subordinated debt investment is likely to increase, both because of our increased requirement and because of the dynamics that are developing in Australia, which most of the rest of the world is very familiar with, particularly the low rate environment.

The 10 non-call five tenor/call combination made sense for us since we had room in that maturity bucket — which essentially you either use then or lose the ability to do so — and particularly at that point in time 10NC5 was the best available Tier 2 trade in Australian dollars. We also had some really constructive feedback from a number of Australian investors that gave us a great deal of confidence to approach such a trade. In spite of the Australian banks' large Tier 2 issuance requirements, and the fact that meant we would be regular issuers over a fairly long period of time, investors came to us and said that they wanted to buy the paper now, and that was really helpful.

BIHC: Were the pricing and volume in line with your expectations?

Reid, ANZ: The transaction overall surprised us to the upside, but the size of the order book in particular and the size that we were able to raise really surprised us. We discussed at great length the appropriate size for the deal — obviously it was significantly larger than the previous largest deal in the Australian market, and we knew that we had to be really responsible with the first trade since the APRA announcement. But at A$3.6bn

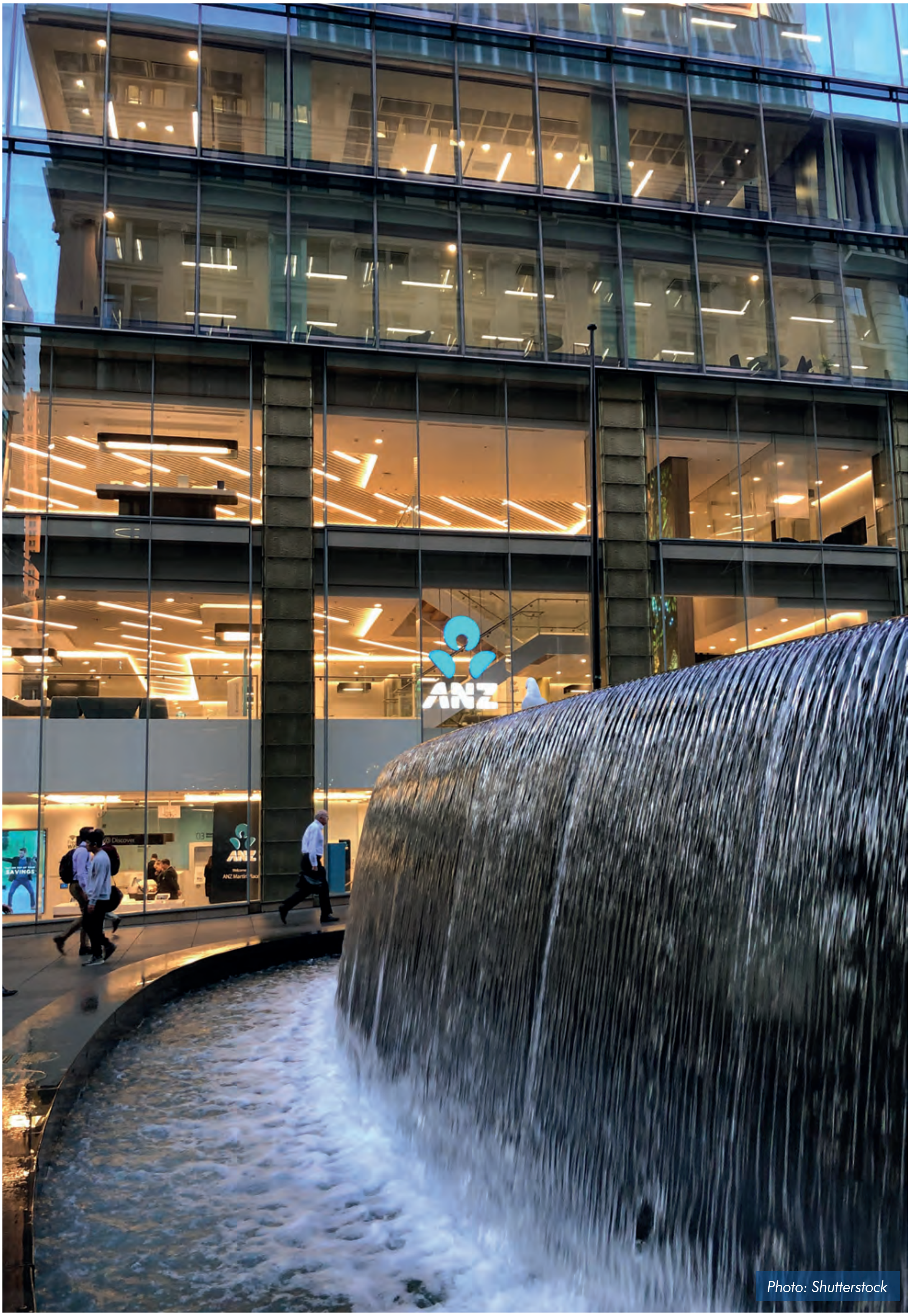


Photo: Shutterstock

the order book was of such size and quality that we felt comfortable doing that size, and on balance we felt we needed to do A$1.75bn in order to have sufficient bonds to sell to investors who really wanted them.

BIHC: On 15 November, you issued a €1bn Tier 2 SDG bond, when any ESG-related subordinated issuance has been rare. What was the thinking behind going ahead with such a transaction?

Reid, ANZ: The SDGs generally are very important to ANZ and we've recently announced our commitment to a new A$50bn 2025 sustainability target aligned to the SDGs, which replaces a A$15bn low carbon target that we have met and exceeded. It's significant that we've gone from a low carbon target to a broader SDG target.

So the SDG bond framework is very consistent with the broader goals of the bank and we were the first bank to issue an SDG bond in euros, in February 2018. This was really well received and we were in a position where we wanted to do another SDG-linked bond. We feel that Europe is the centre of excellence for ESG matters — for the time being we still receive far better engagement when discussing ESG in general with European investors than we do in other markets, notably the US, which is our other most significant offshore debt capital market.

We obviously have a significantly increased Tier 2 requirement, which reduces our senior and covered bond requirement basically one-for-one. In addition, balance sheet dynamics including a modestly reduced requirement for funding and a preference for shorter dated, three to five year senior and/or covered funding means that opportunities to issue in euros in senior or covered format are likely to be challenging in the near term, particularly due to the low rate environment.

For these reasons, it made sense for us to proceed with a Tier 2 SDG-linked bond. And during the roadshow our discussions with investors regarding the SDG framework and ANZ's broader approach to sustainability were largely really positive and encouraging.

BIHC: Why did you choose the 10 non-call five maturity for the euro, like your domestic issue?

Reid, ANZ: We will broadly have a preference for shorter-dated callable subordinated debt, due to the lower cost and the efficiency of the call feature, avoiding the amortisation of our capital. We were, however, open to other tenors, in particular a 10 year bullet. We recognised the importance of this trade being a success and we weren't going to try to sell bonds to investors that they didn't want to buy, so there was an active discussion through our roadshow with investors as to their preference between 10 non-call five and a 10 year bullet. To be honest, going into those meetings I thought we would more consistently hear a preference for a 10 year bullet. However, while it was broadly balanced, I would say there was a general preference for a 10 non-call five. Obviously we didn't meet with all investors, and some investors, particularly insurance companies, have a clear preference for longer dated bullet debt. But generally the feedback for a 10NC5 was favourable, and the transaction we ultimately executed demonstrated that.

BIHC: To what extent do you feel the SDG element affected the execution and outcome, whether that be in demand, pricing or any other aspect?

Reid, ANZ: It's difficult to say. This was obviously a significant transaction for a number of reasons: there is the SDG angle, but it was also the first Australian bank Tier 2 issue in euros since the APRA announcement, and it was our first euro Tier 2 deal for 10 years. So while we were really pleased with the trade and most particularly the investor response, trying to determine what impact the SDG framework had on demand is hard to say — it certainly helped, but on our senior unsecured SDG trade its influence on the size and composition of the book was a little clearer.

BIHC: You mentioned the broad A$4bn per year Tier 2 issuance target earlier. Where do you currently stand and how do you see issuance developing?

Reid, ANZ: We've raised about A$3.3bn so far, and are targeting a further A$2.5bn-equivalent of Tier 2 debt by next September.

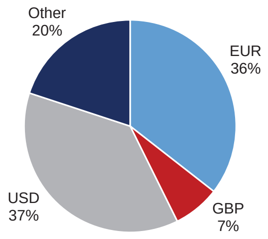
I'd consider what we've done as a really positive start. There has been good support for Australian bank Tier 2 since the APRA announcement, despite what you might call a supply overhang. I believe the volume of the requirement has in some markets — particularly in euros — helped, because it means that Australian major banks as a group will be regular issuers of subordinated debt and that makes us more relevant to investors. We are very fortunate that this announcement has taken place at a time when there is historically high demand for subordinated debt and riskier higher-yielding assets more generally. We are very pleased with the initial response to Australian bank Tier 2 across US dollars, Australian dollars and euros, and we think there's really good opportunities to issue in a range of other currencies, including Japanese yen, Great British pounds and others. But we are also aware that this will not be the case consistently over the four year period in which we need to build up this Tier 2 capital, so we do need to be proactive and try to develop as broad an investor base as possible, and that is one of the key reasons that we chose to issue in euros.

BIHC: How do you envisage your SDG issuance going forward?

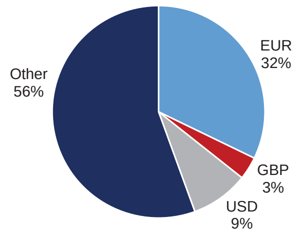
Reid, ANZ: It is something that we would like to continue to issue, but the frequency will be dependent on both balance sheet dynamics and the activities that constitute the A$50bn sustainability target. That amount includes lending but also facilitation of sustainable financing, for example, taking our customers to the debt capital markets to raise sustainable finance. So it's hard to say how frequently we will be an issuer in SDG or when our next trade will be, but we do expect to be back in this format. ●

Currencies, structures and distribution

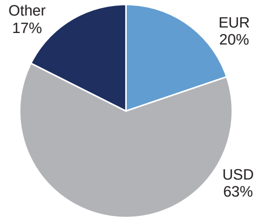
Bank hybrid issuance by currency
(2019 ytd)



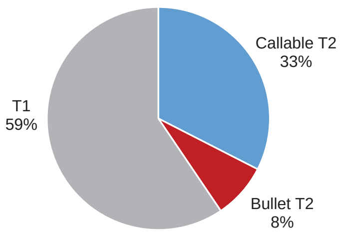
Insurance issuance by currency
(2019 ytd)



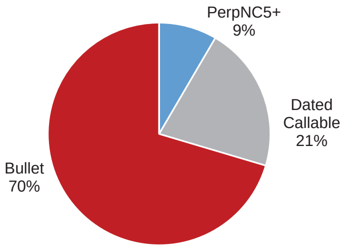
SNP/Senior HoldCo issuance by currency
(2019 ytd)



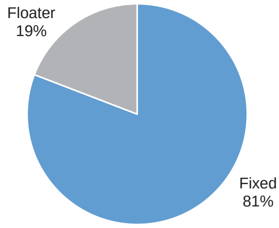
Bank issuance by instrument/structure
(2019 ytd)



Insurance issuance by instrument/structure
(2019 ytd)

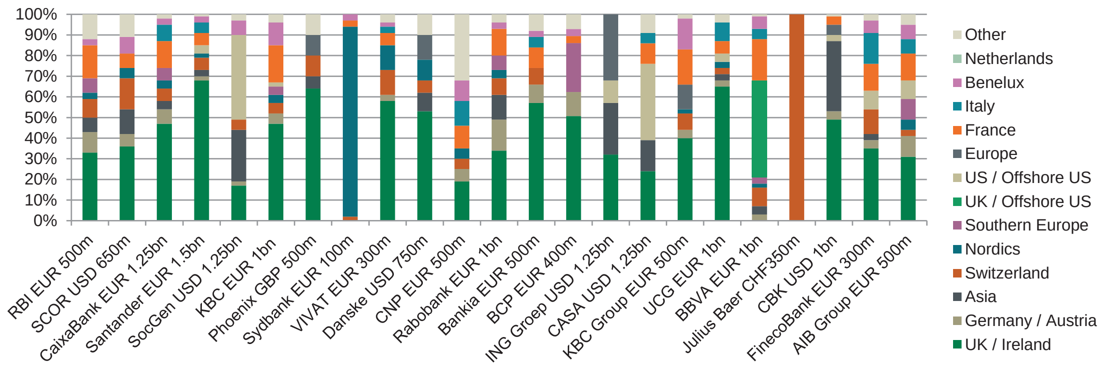


SNP/Senior HoldCo issuance by coupon
(2019 ytd)

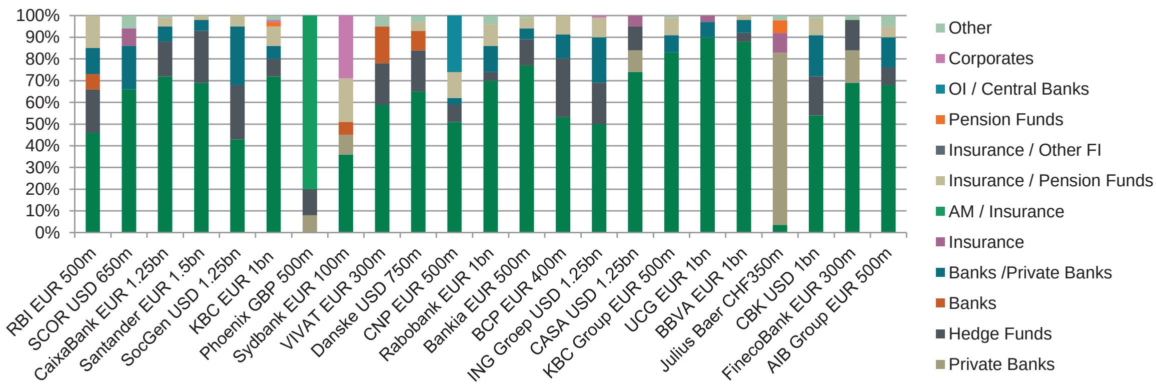


Source: Crédit Agricole CIB

Tier 1 distribution by geography



Tier 1 distribution by investor type



Source: Crédit Agricole CIB

AT1, RT1 monitoring

AT1 performance monitoring (as at 8/11/19)

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
05-Nov-19	DNBNO	-/-/-	USD	850	4.875%	Perpetual	12-Nov-24	TWD	5.125%	99.48	320	5.00	5.06	314
29-Oct-19	SEB	Ba1/-/BBB	USD	900	5.125%	Perpetual	13-May-25	EC	5.125%	99.62	346	5.21	5.42	346
28-Oct-19	LBBW	Ba1/-/-	EUR	750	4.000%	Perpetual	15-Apr-25	TWD	5.125%	99.43	426	4.12	4.66	421
02-Oct-19	AIB	Ba3/-/-	EUR	500	5.250%	Perpetual	09-Oct-24	TWD	7.000%	104.78	444	4.16	5.86	570
24-Sep-19	FUJAIR	-/-/-	USD	350	5.875%	Perpetual	01-Oct-24	-	-	102.10	365	5.38	6.10	430
18-Sep-19	BACR	Ba3/B+/BB+	GBP	1,000	6.375%	Perpetual	15-Dec-25	EC	7.000%	105.18	452	5.37	6.62	602
17-Sep-19	NWIDE	Baa3/BB+/BB+	GBP	600	5.875%	Perpetual	20-Dec-24	EC	7.000%	105.77	373	4.59	6.00	539
09-Sep-19	BNKEA	Ba2/BB/-	USD	650	5.875%	Perpetual	19-Sep-24	-	-	103.58	330	5.03	5.98	426
04-Sep-19	WOORIB	Ba1/BB+/-	USD	550	4.250%	Perpetual	04-Oct-24	PWD	-	99.76	261	4.32	4.60	266
03-Sep-19	INTNED	Ba1/-/BBB-	USD	1,500	5.750%	Perpetual	16-Nov-26	EC	7.000%	103.63	335	5.13	5.96	434
02-Sep-19	RABOBK	Baa3/-/BBB-	EUR	1,250	3.250%	Perpetual	29-Dec-26	TWD	5.125%	98.94	347	3.42	4.12	370
28-Aug-19	BBVASM	Ba2/-/BB	USD	1,000	6.500%	Perpetual	05-Mar-25	EC	5.125%	103.60	401	5.71	6.84	519
22-Aug-19	SWEDA	Ba1/BBB/BBB*	USD	500	5.625%	Perpetual	17-Sep-24	EC	5.125%	102.38	333	5.06	5.90	413
14-Aug-19	CS	Ba2/BB-/BB	USD	1,750	6.375%	Perpetual	21-Aug-26	PWD	7.000%	105.78	358	5.35	6.34	482
23-Jul-19	BMO	Baa3/BBB-/-	USD	500	4.800%	Perpetual	25-Aug-24	EC	-	102.55	247	4.20	4.83	298
22-Jul-19	BBT	Baa1*/BBB-/BBB-	USD	1,700	4.800%	Perpetual	01-Sep-24	-	-	102.13	257	4.30	4.87	300
11-Jul-19	FINBAN	-/BB-/-	EUR	300	5.875%	Perpetual	03-Dec-24	TWD	5.125%	106.85	456	4.35	6.23	614
10-Jul-19	KFINKK	-/-/-	USD	200	9.130%	Perpetual	16-Jul-24	-	-	98.00	794	9.67	9.48	731
02-Jul-19	CMZB	Ba2/BB/-	USD	1,000	7.000%	Perpetual	09-Apr-25	TWD	5.125%	103.97	428	6.11	6.81	523
02-Jul-19	CHOHIN	Ba2/-/-	USD	400	5.700%	Perpetual	15-Jul-24	PWD	-	103.24	319	4.91	5.66	386
02-Jul-19	BGBKKK	-/-/-	USD	500	5.749%	Perpetual	09-Jul-24	-	-	100.32	395	5.67	5.95	401
26-Jun-19	TBCBGE	-/-/B-	USD	125	10.775%	Perpetual	03-Oct-24	PWD	5.125%	101.36	865	10.38	10.87	900
25-Jun-19	SIB	-/-/-	USD	500	5.000%	Perpetual	02-Jul-25	PWD	-	102.41	277	4.51	3.44	321
20-Jun-19	BANORT	Ba2/BB/-	USD	600	6.750%	Perpetual	27-Sep-24	PWD	5.125%	102.48	448	6.16	6.83	497
20-Jun-19	BANORT	Ba2/BB/-	USD	500	7.500%	Perpetual	27-Jun-29	PWD	5.125%	104.13	513	6.91	7.29	547
17-Jun-19	BAC	Baa3/BBB-/BBB-	USD	1,000	5.125%	Perpetual	20-Jun-24	-	-	105.41	211	3.83	5.00	329
13-Jun-19	GZHRCB	-/-/-	USD	1,430	5.900%	Perpetual	20-Jun-24	EC	5.125%	96.84	488	6.71	6.13	404
12-Jun-19	LLOYDS	Baa3/BB-/BB+	USD	500	6.750%	Perpetual	27-Jun-26	EC	7.000%	106.86	378	5.51	6.45	482
12-Jun-19	GS	Ba1/BB/BB+	USD	500	5.500%	Perpetual	10-Aug-24	-	-	106.48	226	3.98	5.22	362
06-Jun-19	BACR	Ba3/B+/BB+	GBP	1,000	7.125%	Perpetual	15-Jun-25	EC	7.000%	110.51	411	4.96	6.88	658
29-May-19	KIBKK	-/-/-	USD	300	5.625%	Perpetual	10-Jun-24	PWD	-	102.85	320	4.92	5.47	360
11-Apr-19	BAMIIM	B3/-/-	EUR	300	8.750%	Perpetual	18-Jun-24	TWD	5.125%	107.55	711	6.81	8.85	892
02-Apr-19	VOWIBA	Ba2/-/-	EUR	220	7.750%	Perpetual	09-Apr-24	TWD	5.125%	108.74	577	5.49	7.89	780
26-Mar-19	COVBS	Baa3/-/BB	GBP	415	6.875%	Perpetual	18-Sep-24	EC	7.000%	107.31	429	5.15	6.66	611
25-Mar-19	LANSNA	-/BB/-	EUR	100	6.750%	Perpetual	01-Apr-24	-	5.125%	108.36	488	4.62	6.83	682
20-Mar-19	BACR	Ba3/B+/BB+	USD	2,000	8.000%	Perpetual	15-Jun-24	EC	7.000%	109.23	401	5.70	7.20	567

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

RT1 performance monitoring (as at 8/11/19)

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
17-Oct-19	LAMON	-/BBB-/-	EUR	500	4.375%	Perpetual	24-Apr-29	-	103.36	385	3.94	4.69	441
19-Sep-19	ACHMEA	-/BB+/BBB-	EUR	500	4.625%	Perpetual	24-Mar-29	-	100.78	441	4.52	5.14	478
27-Aug-19	SRENVX	A2/A/-	USD	1,000	4.250%	Perpetual	04-Sep-24	-	102.04	201	3.77	4.60	286
18-Jul-19	PICORP	-/-/BBB-	GBP	450	7.375%	Perpetual	25-Jul-29	EC	108.90	516	6.14	6.98	666
18-Jul-19	PICORP	-/-/BBB-	GBP	450	7.375%	Perpetual	25-Jul-29	EC	108.90	516	6.14	6.98	666
16-May-19	LIBMUT	Baa3/BB+/BB	EUR	500	3.625%	23-May-59	23-May-24	-	104.10	-	-	-	370
28-Mar-19	AEGON	Baa3/BBB-/BB+	EUR	500	5.625%	Perpetual	15-Apr-29	EC	112.43	396	4.03	5.19	521
14-Mar-19	JUSTLN	-/-/BBB-	GBP	300	9.375%	Perpetual	26-Apr-24	EC	103.42	-	-	-	843
26-Feb-19	MSINS	A3/A-/-	USD	910	4.950%	Perpetual	06-Mar-29	-	110.74	-	-	-	326
05-Sep-18	ROTHLF	-/-/BBB-	GBP	350	6.875%	Perpetual	12-Sep-28	PWD	102.55	-	-	-	542
14-Jun-18	CNPFP	Baa3/BBB/-	EUR	500	4.750%	Perpetual	27-Jun-28	TWD	109.77	-	-	-	391
13-Jun-18	VIVATN	-/-/BB-	EUR	300	7.000%	Perpetual	19-Jun-25	PWD	105.29	-	-	-	646
19-Apr-18	PHNXLN	-/-/BBB-	GBP	500	5.750%	Perpetual	26-Apr-28	PWD	94.72	-	-	-	417
06-Mar-18	SCOR	Baa1u/A-/-	USD	625	5.250%	Perpetual	13-Mar-29	TWD	98.56	-	-	-	237
01-Dec-17	DLGLN	Ba1u/BB+/-	GBP	350	4.750%	Perpetual	07-Dec-27	EC	89.25	-	6.48	-	339
12-Oct-17	ASRNED	-/BB+/-	EUR	500	4.625%	Perpetual	19-Oct-27	EC	104.59	-	-	-	379

Source: Crédit Agricole CIB

Tier 2 bank, insurance hybrids

Bank Tier 2 performance monitoring (as at 8/11/19)

Launch	Issuer	Issue ratings	Currency	Amount (m)	Coupon	Maturity date	First call date	I-Spread	Yield to call	Yield to maturity	Reset spread
06-Nov-19	UCAJLN	Ba3/-/BB+e	EUR	300	2.875%	13-Nov-29	13-Nov-24	282	-	3.10	311
05-Nov-19	STANLN	-/-/A-e	USD	1,000	3.516%	12-Feb-30	12-Feb-25	180	-	3.68	185
05-Nov-19	DANBNK	-/BBB/A-	EUR	750	1.375%	12-Feb-30	12-Feb-25	164	-	1.84	170
29-Oct-19	RBS	Baa3/BB+/A-	USD	750	3.754%	01-Nov-29	01-Nov-24	200	-	3.89	210
29-Oct-19	STT	A2/A-/A+	USD	500	3.031%	01-Nov-34	01-Nov-29	122	-	3.01	149
17-Oct-19	PNC	A3/A-/A	USD	750	2.700%	22-Oct-29	-	102	-	2.88	-
07-Oct-19	ALFARU	B1/-/BB	USD	400	5.950%	15-Apr-30	15-Apr-25	371	-	5.90	455
07-Oct-19	BKIR	Ba1/BB/BBB-	EUR	300	2.375%	14-Oct-29	14-Oct-24	214	-	2.77	318
30-Sep-19	SOVCOM	-/-/BB	USD	300	8.000%	07-Apr-30	07-Apr-25	511	-	7.45	643
26-Sep-19	ABANCA	Ba2/-/BB+	EUR	300	4.625%	07-Apr-30	07-Apr-25	373	-	4.42	501
25-Sep-19	JUSTLN	-/-/BBB	GBP	125	8.125%	26-Oct-29	-	678	-	7.77	-
24-Sep-19	BAMIIM	B1/-/-	EUR	350	4.250%	01-Oct-29	01-Oct-24	372	-	4.28	467
23-Sep-19	LBBER	Baa1/-/-	EUR	200	1.750%	01-Oct-29	-	155	-	1.72	-
20-Sep-19	KBANK	Baa3/-/BBB	USD	800	3.343%	02-Oct-31	02-Oct-26	203	-	3.80	170
20-Sep-19	BCPPL	Ba3/B/BB-	EUR	450	3.871%	27-Mar-30	27-Mar-25	395	-	4.23	423
16-Sep-19	UCGIM	Baa3/BB+/BBB-	EUR	1,250	2.000%	23-Sep-29	23-Sep-24	230	-	2.49	240
16-Sep-19	BBLTB	Baa3/-/BBB	USD	1,200	3.733%	25-Sep-34	25-Sep-29	199	-	3.91	190
10-Sep-19	SUMIBK	A2/BBB+/-	USD	500	3.202%	17-Sep-29	-	142	-	3.27	-
09-Sep-19	BBT	A2 *-/A-/A	USD	750	2.636%	17-Sep-29	17-Sep-24	110	-	2.97	115
06-Sep-19	PNFP	-/-/-	USD	300	4.125%	15-Sep-29	15-Sep-24	217	-	4.28	278
05-Sep-19	CBAAU	Baa1/BBB+/A+	USD	1,250	3.743%	12-Sep-39	-	191	-	3.92	-
05-Sep-19	CBAAU	Baa1/BBB+/A+	USD	1,250	3.610%	12-Sep-34	12-Sep-29	183	-	3.84	205
05-Sep-19	BBVASM	Baa3/-/BB+	USD	750	5.875%	13-Sep-34	13-Sep-29	368	-	5.77	431
04-Sep-19	RBIAV	Baa3/-/-	EUR	500	1.500%	12-Mar-30	12-Mar-25	177	-	2.12	215
27-Aug-19	KBCBB	-/BBB/A-	EUR	750	0.500%	03-Dec-29	03-Dec-24	103	-	1.23	110
29-Jul-19	NAB	Baa1/BBB+/A+	USD	1,500	3.933%	02-Aug-34	02-Aug-29	186	-	3.81	188
29-Jul-19	SHINFN	Baa1/BBB/-	USD	500	3.340%	05-Feb-30	05-Feb-25	145	-	3.33	150
24-Jul-19	USB	A1/A-/A+	USD	1,000	3.000%	30-Jul-29	30-Apr-29	94	-	2.78	-
23-Jul-19	BPSOIM	-/-/BB	EUR	200	6.250%	30-Jul-29	30-Jul-24	506	-	5.82	656
16-Jul-19	MONTE	Caa2/-/CCC+	EUR	300	10.500%	23-Jul-29	-	936	-	9.52	-
15-Jul-19	WSTP	Baa1/BBB+/A+	USD	1,250	4.110%	24-Jul-34	24-Jul-29	185	3.70	3.83	200
15-Jul-19	WSTP	Baa1/BBB+/A+	USD	1,000	4.421%	24-Jul-39	-	188	-	3.89	-
11-Jul-19	ETEGA	Caa2/CCC/CCC-	EUR	400	8.250%	18-Jul-29	18-Jul-24	589	5.71	7.06	846
08-Jul-19	OTPHB	Ba1/-/-	EUR	500	2.875%	15-Jul-29	15-Jul-24	244	2.26	2.93	320
08-Jul-19	ICBCST	-/-/-	USD	100	4.677%	31-Jul-29	31-Jul-24	-	4.03	4.32	-

Insurance Tier 2 performance monitoring (as at 8/11/19)

Launch	Issuer	Issue ratings	Currency	Amount (m)	Coupon	Maturity date	First call date	I-Spread	Yield to call	Yield to maturity	Reset spread
17-Oct-19	APCLPR	Baa2/-/-	EUR	250	4.000%	24-Oct-29	-	330	-	3.47	-
02-Oct-19	MASSMU	-/AA-/AA-	USD	838	3.729%	15-Oct-70	-	196	-	3.93	-
01-Oct-19	HANRUE	-/A/A-u	EUR	750	1.125%	09-Oct-39	09-Jul-29	118	1.35	2.25	238.00
30-Sep-19	RLMI	Baa1/BBB+/-	GBP	600	4.875%	07-Oct-49	07-Apr-39	373	4.83	5.09	510.00
25-Sep-19	JUSTLN	-/-/BBB	GBP	125	8.125%	26-Oct-29	-	678	-	7.77	-
23-Sep-19	ASSGEN	Baa3/-/BBB	EUR	750	2.124%	01-Oct-30	-	177	-	1.99	-
16-Sep-19	ALVGR	A2/A+/Au	EUR	1,000	1.301%	25-Sep-49	25-Sep-29	130	1.46	2.49	235.00
12-Sep-19	NWMLIC	Aa2/AA-/AA	USD	1,347	3.625%	30-Sep-59	30-Mar-59	166	3.67	3.67	-
10-Sep-19	ROTHLF	-/-/BBB+	GBP	400	5.500%	17-Sep-29	17-Sep-24	306	3.97	4.91	515.00
03-Sep-19	BEZLN	-/-/BBB+	USD	300	5.500%	10-Sep-29	-	295	-	4.80	-
09-Jul-19	ROTHLF	-/-/BBB+	GBP	300	3.375%	12-Jul-26	-	252	-	3.43	-
04-Jul-19	FWDGRP	-/-/-	USD	900	5.750%	09-Jul-24	-	327	-	5.00	-
04-Jul-19	MGNLN	A3/BBB/BBB+	GBP	300	3.875%	20-Jul-49	20-Jul-24	253	3.40	4.34	-
06-Jun-19	RSURUK	-/-/BBB	GBP	500	5.867%	13-Jun-29	-	401	-	4.99	-
06-Jun-19	RSURUK	-/-/BBB	GBP	250	5.766%	13-Jun-29	13-Jun-24	396	4.82	5.47	-
06-Jun-19	RSURUK	-/-/BBB	GBP	250	4.016%	13-Jun-26	-	303	-	3.94	-
16-May-19	SAMPFH	Baa1/-/-	EUR	500	3.375%	23-May-49	23-May-29	185	1.99	3.60	-
25-Apr-19	ASRNED	-/BBB-/-	EUR	500	3.375%	02-May-49	02-Feb-29	207	2.18	3.66	-
03-Apr-19	AGSBB	-/BBB+/BBB+	EUR	500	3.250%	02-Jul-49	02-Jul-29	192	2.07	3.50	-
01-Apr-19	NYLIFE	Aa2/AA-/AA	USD	1,000	4.450%	15-May-69	15-Nov-68	186	3.84	3.84	-
26-Mar-19	SRENVX	A2/A/-	USD	1,000	5.000%	02-Apr-49	02-Apr-29	186	3.70	4.74	358.2

Source: Crédit Agricole CIB

SNP, HoldCo issuance

SNP performance monitoring (as at 8/11/19)								
Launch	Issuer	Issue ratings	Currency	Amount (m)	Coupon	Maturity date	I-Spread	Yield to maturity
22-Oct-19	RABOBK	A3/A-/AA-	EUR	750	0.250%	30-Oct-26	44	0.41
18-Oct-19	CRDEM	Ba1/-/BBB	EUR	500	1.500%	25-Oct-25	157	1.49
16-Oct-19	BPCEGP	Baa2/A-/A+	EUR	1,000	0.500%	24-Feb-27	75	0.73
15-Oct-19	SBAB	Baa2/BBB+/-	SEK	1,250	0.701%	23-Oct-24	-	0.80
15-Oct-19	SBAB	Baa2/BBB+/-	SEK	750	0.780%	23-Oct-24	82	1.12
14-Oct-19	ACAFP	Baa1/A-/A+	EUR	1,000	0.375%	21-Oct-25	64	0.53
14-Oct-19	UBIIM	Ba3/BB+/BBB-	EUR	500	1.625%	21-Apr-25	190	1.76
14-Oct-19	SKANEB	-/BBB+/-	SEK	1,000	0.846%	21-Oct-24	-	0.95
08-Oct-19	SOCGEN	Baa2/BBB+/A	USD	1,000	2.625%	16-Oct-24	116	2.89
07-Oct-19	TD	Aa3/A/-	USD	350	2.540%	01-Dec-22	-	2.41
02-Oct-19	SWEDA	A3/A/AA- *-	EUR	750	0.250%	09-Oct-24	71	0.54
02-Oct-19	MTROLN	-/-/BB *-	GBP	350	9.500%	08-Oct-25	731	8.46
30-Sep-19	BNP	Baa1/A-/A+	CHF	160	0.300%	15-Oct-27	83	0.56
26-Sep-19	SOCGEN	Baa2/BBB+/A	GBP	250	1.875%	03-Oct-24	111	1.98
24-Sep-19	SOCGEN	Baa2/BBB+/A	CHF	125	0.250%	08-Oct-26	84	0.50
24-Sep-19	BBVASM	Baa2/BBB+/A-	EUR	1,000	0.375%	02-Oct-24	67	0.50
12-Jul-19	MUNHYP	A2/-/-	EUR	5	0.370%	16-Dec-27	32	0.37
11-Jul-19	NWIDE	Baa1/BBB+/A	USD	1,000	3.960%	18-Jul-30	141	3.32
10-Jul-19	BNP	Baa1/A-/A+	EUR	1,000	0.500%	15-Jul-25	66	0.54
01-Jul-19	BYLAN	A2/-/A-	EUR	250	0.010%	10-Oct-22	48	0.20
27-Jun-19	BKTSM	Baa3/BBB/-	EUR	750	0.875%	08-Jul-26	87	0.81
26-Jun-19	UCGIM	Baa2/BBB-/BBB	EUR	750	1.625%	03-Jul-25	125	1.22
24-Jun-19	NYKRE	-/BBB+/A	EUR	500	0.625%	17-Jan-25	67	0.52
24-Jun-19	SOCGEN	Baa2/BBB+/A	EUR	750	0.875%	01-Jul-26	80	0.74
18-Jun-19	BKIASM	Ba3u/BBB-/BBB	EUR	500	1.000%	25-Jun-24	104	0.85
14-Jun-19	AEGON	-/A/A-	EUR	500	0.625%	21-Jun-24	42	0.23
13-Jun-19	JYBC	-/BBB+/-	EUR	500	0.625%	20-Jun-24	72	0.58
13-Jun-19	CMZB	Baa2/BBB/BBB+	EUR	500	1.125%	22-Jun-26	96	0.90
13-Jun-19	UBIIM	Ba3/BB+/BBB-	EUR	500	2.625%	20-Jun-24	174	1.56

HoldCo performance monitoring (as at 8/11/19)									
Launch	Issuer	Issue ratings	Currency	Amount (m)	Coupon	Maturity date	First call date	I-Spread	Yield to maturity
05-Nov-19	LLOYDS	A3/BBB+/A+	EUR	1,000	0.500%	12-Nov-25	12-Nov-24	81	0.72
31-Oct-19	HSBC	A2/A/AA-	USD	2,000	2.633%	07-Nov-25	07-Nov-24	107	2.83
24-Oct-19	WFC	A2/A-/A+	USD	3,500	2.879%	30-Oct-30	30-Oct-29	113	3.01
24-Oct-19	WFC	A2/A-/A+	USD	3,000	2.406%	30-Oct-25	30-Oct-24	84	2.58
23-Oct-19	UBS	-/A-/-	USD	140	0.000%	04-Nov-49	04-Nov-22	174	3.77
22-Oct-19	RY	A2/A/AA	GBP	400	1.375%	09-Dec-24	-	59	1.46
21-Oct-19	RY	A2/A/AA	USD	1,500	2.250%	01-Nov-24	-	68	2.41
17-Oct-19	BAC	A2/A-/A+	USD	2,000	2.456%	22-Oct-25	22-Oct-24	78	2.53
17-Oct-19	BAC	A2/A-/A+	USD	2,000	2.884%	22-Oct-30	22-Oct-29	110	2.89
15-Oct-19	SUMIBK	A1/A-/-	EUR	1,250	0.632%	23-Oct-29	-	61	0.78
26-Sep-19	GS	A3/BBB+/A	USD	185	2.250%	30-Oct-20	30-Dec-19	78	2.58
24-Sep-19	SUMIBK	A1/A-/-	USD	1,000	2.448%	27-Sep-24	-	87	2.60
24-Sep-19	SUMIBK	A1/A-/-	USD	500	2.724%	27-Sep-29	-	110	2.95
18-Sep-19	WFC	A2/A-/A+	EUR	1,000	0.625%	25-Mar-30	-	65	0.85
17-Sep-19	WFC	A2/A-/A+	GBP	600	2.125%	24-Sep-31	-	118	2.21
12-Sep-19	STANLN	-/-/Ae	USD	750	3.334%	10-Sep-22	10-Sep-21	#N/A N/A	2.86
12-Sep-19	HSBC	A2/A/AA-	GBP	150	2.100%	31-Oct-25	31-Oct-24	106	1.96
10-Sep-19	LLOYDS	A3/BBB+/A+	USD	1,500	2.858%	17-Mar-23	17-Mar-22	77	2.62
09-Sep-19	MIZUHO	A1/A-/-	USD	600	2.555%	13-Sep-25	13-Sep-24	109	2.83
09-Sep-19	MIZUHO	A1/A-/-	USD	500	2.977%	13-Sep-23	13-Sep-22	#N/A N/A	2.70
09-Sep-19	MIZUHO	A1/A-/-	USD	500	2.869%	13-Sep-30	13-Sep-29	137	3.24
06-Sep-19	BAC	A2/-/-	USD	170	0.000%	23-Sep-59	23-Sep-24	193	3.94
05-Sep-19	STANLN	A2/BBB+/A	USD	1,500	3.334%	10-Sep-22	10-Sep-21	#N/A N/A	2.81
05-Sep-19	STANLN	A2/BBB+/A	USD	1,250	2.744%	10-Sep-22	10-Sep-21	77	2.63
04-Sep-19	CS	Baa2/BBB+/A-	USD	2,000	2.593%	11-Sep-25	11-Sep-24	103	2.82
03-Sep-19	CS	Baa2/BBB+/A-	EUR	1,000	0.650%	10-Sep-29	-	77	0.92

Source: Crédit Agricole CIB

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OCTOBER 2019	OCTOBER 2019	OCTOBER 2019	OCTOBER 2019
Rabobank	CREDEM	CRÉDIT AGRICOLE S.A	UBI
COÖPERATIEVE RABOBANK U.A.	CREDEM S.P.A	CRÉDIT AGRICOLE S.A.	UBI BANCA S.P.A.
EUR 750,000,000	**EUR 500,000,000**	**EUR 1,000,000,000**	**EUR 500,000,000**
0.250% Green Senior Non-Preferred Notes Due 2026	1.500% Senior Non-Preferred Notes Due 2025	0.375% Green Senior Non-Preferred Notes Due 2025	1.625% Senior Non-Preferred Notes Due 2025
Joint Bookrunner	Joint Bookrunner	Sole Bookrunner	Joint Bookrunner

SEPTEMBER 2019	SEPTEMBER 2019	JULY 2019	JUNE 2019
BANCO BPM	kutxabank	LB≡BW	bankinter.
BANCO BPM S.P.A.	KUTXABANK S.A.	LANDESBANK BADEN-WÜRTTEMBERG (LBBW)	BANKINTER S.A.
EUR 350,000,000	**EUR 500,000,000**	**EUR 500,000,000**	**EUR 750,000,000**
4.250% Subordinated Tier 2 Notes Due 2029	0.500% Inaugural Senior Non-Preferred Notes Due 2024	0.375% Senior Non-Preferred Green Bond Due 2026	0.875% Inaugural Senior Non-Preferred Bond Due 2026
Joint Bookrunner	Joint Bookrunner	Joint Bookrunner	Joint Bookrunner

JUNE 2019	MARCH 2019	MARCH 2019	MARCH 2019
AEGON Bank	Crédit Mutuel ARKEA	BBVA	UniCredit
AEGON BANK N.V.	CRÉDIT MUTUEL ARKÉA	BBVA S.A.	UNICREDIT S.P.A
EUR 500,000,000	**EUR 750,000,000**	**EUR 1,000,000,000**	**EUR 1,000,000,000**
0.625% Inaugural Senior Non-Preferred Notes Due 2024	3.375% Subordinated Tier 2 Due 2031	6.000% Additional Tier 1 Perpetual NC5	7.500% AT1 Perpetual NC7.25
Joint Lead Manager	Joint Bookrunner	Joint Bookrunner	Joint Bookrunner

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