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Bank+InsuranceHybridCapital Briefing

Issuers hit receptive market as fears recede, but latest episode prompts pragmatism

With no more cockroaches emerging this week but more banks exiting blackouts, the primary FIG market continued to pick up. However, while oversubscription levels and new issue premiums remain competitive, issuers may rein in their ambitions to make hay while the sun still shines. *Neil Day* reports, with insights from Crédit Agricole CIB syndicate in Europe and the US.

Ongoing technical supports ensured that the few financial institutions venturing into the primary market this week were rewarded with successful outcomes, but while recent credit events have been digested, tight valuations and year-end nearing could see issuers adopt more pragmatic approaches in the face of lingering unease.

Blackouts contributed to subdued supply in euros this week, with only €6.5bn of unsecured benchmarks from seven banks hitting the primary market, although it proved receptive even after a string of political — domestic and international — developments, and question marks over credit quality, particularly in the US.

“In spite of the slightly higher volatility we have seen, I continue to be impressed by how resilient the market is,” said André Bonnal, FIG syndicate at Crédit Agricole CIB. “The reason is the same: the liquidity situation, especially when combined with the carry that investors can enjoy at the moment in credit and specifically financials — from an all-in yield perspective, it’s still pretty much on a par with where we were in Q4 2024, despite the spread environment being tighter.

“So we still have a very solid market. It may not be as exuberant as it was in September or earlier in October — it’s maybe a seven-and-a-half or eight out of 10 market now, if I can put it like that, whereas in September — after a record month of supply in August — it was probably as close to a 10 out of 10 market as you’re going to get”

Translating this into new issue premiums, this equates to around 2bp-5bp rather than the zero NIP market of a month ago.



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“And with spreads remaining pretty near year lows,” added Bonnal, “it’s also a market where investors continue to be happy to go longer on duration, or go down the capital structure for names they like.

“We continue to see spread compression — across regions and across the capital structure — and compression on the credit curve.”

Such trends were evident in the success of new issues for Greece’s Alpha Bank and Dutch insurer Achmea this week (*see below and separate article for more*).

“It’s quite telling that you can have a couple of days, like last Thursday-Friday, when the market is quite shaky and seniors are, say, 4bp-5bp wider,” added Bonnal, “and then the next couple of sessions we have a short squeeze, as any widening is seen as an opportunity to buy by investors.”

However, recent headlines and volatility remain prominent in market participants’ thoughts.

“We have a bit of a nervous market at this point,” he said. “We have had a higher volatility environment over the past couple of weeks and have seen the first signs of cracks on the credit market.

“So investors have been asking themselves if maybe they are missing something.”

Connor Prochnow, US debt syndicate, Crédit Agricole CIB, echoed this.

“Outside of the French political environment, which has limited read-across over here, there hadn’t really been any external factors being a huge talking point in our market,” he said, “but now we’re dealing with two.

“One is the government shutdown, which is now in day 24. Frankly, we don’t see any light at the end of the tunnel and I, personally, wouldn’t be surprised if we get into November and are still shut down. And the impact that is having on economic data is notable.”



André Bonnal,
Crédit Agricole CIB

In the latest impact from the shut-down, the White House on Friday said that it will lead to inflation data probably not being released next month. While this should not directly affect the coming week's FOMC decision — a 25bp rate cut is deemed most likely — it could present problems further down the line.

"It was pretty evident that at the September meeting the committee is still mixed in terms of its perception of the economy and the fact that there are mixed signals on both sides of the dual mandate," said Prochnow. "So that could make things a little bit tricky as we get into year-end."

The second external factor is the return of credit problems among US banks, resulting from headline names such as First Brands and Tricolor. JP Morgan Chase CEO Jamie Dimon's comment last week that "when you see one cockroach, there are probably more" fanned fears around private credit, although the debate has since become more nuanced and balanced.

"There is now a broader discussion around credit quality and the financial

system as a whole," said Prochnow. "How much is the system exposed if credit leaks start to occur?"

"Those two external factors have been more of a talking point in an environment where we haven't had a tonne of supply to occupy us," he added.

Indeed, as financial stocks have been recovering and earnings proving reassuring, the primary market in the US has shown resilience, particularly when it comes to banks. In the wake of post-earnings issuance from the likes of JP Morgan, Goldman Sachs and Morgan Stanley, this week saw issuance from second tier names, including American Express, TruWest and State Street.

"The fact that we saw significant pressure in regional banks on Thursday of last week (16 October) and then on Monday we can see these institutions doing benchmark deals with very solid execution is a pretty strong statement," said Prochnow.

Banks have contributed 60% of all investment grade supply this month, \$32.6bn out of \$53.5bn, and even though overall IG supply is down some 44% on October last year, year-to-date issuance is roughly flat, noted Prochnow, with so much funding having already been done.

Insurers hit the spot

In euros, with most European banks yet to report earnings, financials supply was limited this week — the two largest trades were for north American names, Bank of Montreal raising €1bn and Bank of America €2.75bn of bail-in debt on Tuesday and Wednesday, respectively.

The most significant subordinated debt came not from the banking sector but insurer Achmea, on Monday. Its €300m no-grow perpetual non-call 10.75 Restricted Tier 1, expected ratings BB+/BBB (S&P/



Connor Prochnow,
Crédit Agricole CIB

Fitch), was priced at 5.75% on the back of more than €3.4bn of demand, pre-reconciliation, following initial price thoughts of the 6.25% area, with the final book some €3.6bn.

"Investors want subordinated trades, they want duration, and insurance is perfect for that as it's exactly what they offer," said Bonnal, "so it's no surprise that we are seeing more and that so many are going so well."

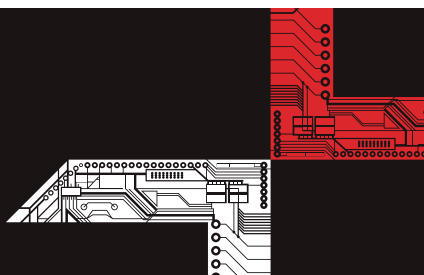
Achmea's RT1 was just the latest in a spate of insurance issuance, with French companies in particular having hit the market last week: Axa sold a €1.5bn dual-tranche trade, equally split between RT1 and Tier 2, on the Monday (13 October), with La Mondiale issuing €500m of Tier 2 the same day, and BPCE Assurances raising €280m in RT1 format and €400m in Tier 2 on the Thursday.

"If you look at Axa's result, the reset is substantially lower than where they printed essentially the same deal with us in May," noted Bonnal, "so again we see the dynamic is very strong. Indeed, the dual-tranche trade was not necessarily planned



MAN CANNOT DISCOVER NEW OCEANS UNLESS
HE HAS THE COURAGE TO LOSE SIGHT OF THE SHORE

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for this year; they brought it forward because conditions have still been looking so good — especially when put in the context of the French situation.

“And it was interesting to see another French group, BPCE, externalising what would normally be internal debt between the insurance part and the bank parent.”

However, insurance supply is likely to be substantially lower in the coming two years, according to Bonnal, with the refinancing of grandfathered Tier 1 debt that has been driving the issuance nearing an end — Achmea’s RT1 was launched in conjunction with a tender offer for two outstanding subordinated issues.

Glass half full?

The largest European unsecured financials trade of the week was a 10 year green senior non-preferred benchmark for Svenska Handelsbanken on Thursday, a day after it announced Q3 results. Three hours after

IPTs of mid-swaps plus 110bp-115bp were announced, pricing was fixed at plus 85bp for a €750m size on the back of books above €2.1bn, pre-reconciliation, with the final order book falling to €1.3bn.

Although the issuer faced order attrition of 38%, it came away with the tightest 10 year SNP pricing of the year in the pre-funding exercise on the back of a new issue premium put at just 2bp-3bp.

“That kind of spread is extremely tight on an historical basis,” said Bonnal. “Yes, you’re probably going to have faster hands looking for a higher NIP dropping out when you get to those levels, but it was impressive that they printed inside Rabobank’s 10 year green SNP from a few weeks ago at 87bp — we’re not at the sub-70bp spreads we saw in 2020 when rates were negative, but we’re not far away.

“To me, it demonstrates the mindset of issuers,” he added. “Handelsbanken is as tight as it comes, best in class, doesn’t

have a lot to do in terms of funding programme, but chose to do this pre-financing. They see the value of locking in that kind of re-offer spread for longer tenors, and I wouldn’t be surprised if we continue to see that kind of pre-funding activity as banks exit blackouts in the next couple of weeks.”

Other banks are likely to see the glass as half full rather than half empty and adopt a similar approach, according to Bonnal.

“The volatility we’ve seen has been a bit of a wake-up call. When issuers see spreads going 5bp wider in a day, they are asking themselves if they are taking a risk by waiting for spreads to tighten 10bp.

“So while the consensus is still for spreads to tighten and it’s hard to see just what exogenous shock could substantially derail the market, issuers are getting a bit more pragmatic about the levels they can achieve in the current market.” ●

October euro financial institutions issuance (excluding covered bonds)

Pricing Date	Issuer	Format	Rating (M/S/F)	Size (MM)	Tenor	Re-offer Spread	Revision	NIP	Final Books	Book Attrition
23-Oct	Alpha Bank	SP/OpCo	Baa2/-/-	500	6NC5	92	28	2	2500	-17%
23-Oct	Svenska Handelsbanken	SNP/HoldCo	A2/A/AA	750	10	85	27	2-3	1300	-38%
22-Oct	NordLB	SP/OpCo	Aa2/-/AA-	500	5	60	25	5	1390	-1%
22-Oct	Bank of America	SNP/HoldCo	A1/A-/AA-	1000	4NC3	3mE+60	20	5	1900	-5%
22-Oct	Bank of America	SNP/HoldCo	A1/A-/AA-	1750	6NC5	72	28	-1	3250	-26%
22-Oct	BIL	T2	Baa3/-/-	200	11.25NC6.25	200	35	NA	720	-22%
21-Oct	MünchenerHyp	SNP/HoldCo	A1/-/-	500	9.4	95	25	5-10	900	-31%
21-Oct	Bank of Montreal	SNP/HoldCo	A2/A-/AA-	1000	4NC3	3mE+65	25	0	1900	-21%
20-Oct	ASN Bank (ex de Volksbank)	SNP/HoldCo	Baa1/-/-A-	500	7	105	25	5	1400	0%
20-Oct	Achmea	RT1	-/BBB+/BBB	300	PerpNC10.75	5.75%	50	0	3600	0%
16-Oct	Nordea	SP/OpCo	Aa3/AA-/AA	1000	3	3mE+38	22	1-3	1800	-22%
16-Oct	SBAB	SP/OpCo	A1/A+/+	500	5.5	55	25	5	1200	-14%
16-Oct	Banco BPM	SNP/HoldCo	Baa3/BB+/BBB-	500	6NC5	90	30	0	1750	-27%
16-Oct	BPCE Assurances	T2	-/BBB	400	10	165	35	5	5200	0%
16-Oct	BPCE Assurances	RT1	-/BBB	280	PerpNC7	5.750%	50	0	4300	0%
15-Oct	Citigroup	SNP/HoldCo	A3/BBB+/A	1250	5NC4	73	32	3	NA	NA
15-Oct	Citigroup	SNP/HoldCo	A3/BBB+/A	1500	9NC8	103	32	3	NA	NA
13-Oct	La Mondiale	T2	-/BBB+/+	500	10	180	25	10-15	1690	0%
13-Oct	Axa	T2	A1/A-/	750	30.8NC10.8	158	32	0	1700	-45%
13-Oct	Axa	RT1	A3/BBB+/+	750	PerpNC6.4	5.125%	25	25	800	-56%
9-Oct	KBC Group	SNP/HoldCo	A3/A-/A	500	4NC3	3mE+60	0	2-3	650	0%
9-Oct	Viridium Group	T2	-/BBB	850	10.1	175	25	5	2900	-9%
8-Oct	DZ Bank	T2	Baa1/A-/A	300	10NC5	135	30	0-5	1900	-21%
7-Oct	Banco Desio	SP/OpCo	-/BBB-/BBB-	300	Long 5NC4	100	33	-10	1750	0%
6-Oct	Swedbank	SNP/HoldCo	A3/A/AA-	750	7	78	25	5	1500	-9%
6-Oct	Piraeus Bank	AT1	B1/-/-	600	PNC7	6.125%	37.5	0	2750	-8%
1-Oct	Nykredit Realkredit	SNP/HoldCo	-/BBB+/A+	750	Long 7	100	25	5	1350	-21%
1-Oct	Cajamar	T2	-/BBB+	750	12NC7	175	25	5-10	950	-41%

* Light green highlight = Green Bond; dark green = EU Green Bond; yellow = Sustainability-Linked Loan Notes; Source: Crédit Agricole CIB

Alpha green debut gets ‘phenomenal’ book in IG return

Alpha Bank's inaugural green bond and first senior issuance since it regained investment grade status, a €500m six non-call five senior preferred bond, attracted a peak book above €3bn and final book above €2.5bn at a minimal NIP on Thursday, cementing its position in the mainstream IG market.

The Greek bank's positive rating trend was demonstrated the previous Thursday (16 October), when Moody's lifted its long term deposit ratings from Baa2 to Baa1, senior non-preferred debt from Ba1 to Baa3, and AT1 from B1 to Ba3 on the back of an upgrade to its Baseline Credit Assessment and Adjusted BCA from ba1 to baa3. The senior unsecured rating was affirmed.

Books for the new issue were opened on Thursday morning with initial price thoughts of the mid-swaps plus 120bp area for the €500m no-grow six year non-call five green senior preferred issue, expected rating Baa2. After around an hour and a quarter, the leads reported books above €1.5bn, and after around two hours and 40 minutes, the spread was set at 92bp on the back of books above €3bn, pre-reconciliation. The final book was above €2.5bn, with more than 140 investors involved, and the deal tightened some 3bp on the break.

Alpha Bank highlighted that the spread is the lowest achieved on a senior preferred bond by a Greek bank in the duration bracket.

“The successful pricing of the €500m green bond represents a strategic milestone for Alpha Bank, enhancing our funding flexibility to finance green and sustainable investments, while also confirming the confidence of international markets in our credit profile,” said Katerina Marmara, chief of global markets and group treasurer, Alpha Bank.

“The strong oversubscription, the participation of leading institutional investors, and the final pricing at a historically low spread for a bond of this type issued by a Greek bank, are additional factors



that reflect the positive assessment of Alpha Bank's strategy and steady growth trajectory.”

Antonios Tsiantas, FIG syndicate at joint bookrunner and green structuring bank Crédit Agricole CIB, said the transaction enjoyed several tailwinds that contributed to its success.

“This is the first investment grade and hence IG index-eligible bond by Alpha Bank,” he said, “and also their first green bond. Alpha Bank has the smallest outstanding curve in seniors among the Greek banks, so it has been an opportunity for investors to buy a name that is scarcer than its peers.

“Additionally, it is 26% owned by UniCredit and has a close partnership with them, which is seen as a stamp of quality from an international player, something that is again unique to Alpha Bank and further highlights their quality.”

These were among factors that gave the issuer and its leads confidence to proceed on Thursday morning, even if the market's direction was not completely clear, according to Tsiantas.

“It turned out to be a positive day and it all came together extremely well to produce a fantastic trade,” he said. “The book was phenomenal in both size and quality.”

Asset managers were allocated 74% of the paper and banks 23%, while 84% was placed outside Greece.

“For the Greek banks overall,” added

Tsiantas, “we’ve moved to the point where they are now considered pretty vanilla. The investors that had supported Greek banks during the hard, non-IG years now find them in general too tight, but their absence is more than compensated for by new real money buyers of IG paper that we tend to see in every other IG book across Europe.”

Fair value was seen around 90bp, based on Alpha Bank's curve and extension out to the six non-call five maturity, and on the delta versus recent southern European supply, such as UniCredit and Banco BPM senior non-preferred issuances. The 92bp re-offer spread arrived at after 28bp of tightening from the 120bp area IPTs therefore equated to a new issue premium of 2bp.

“We had a peak book of €3bn and final book north of €2.5bn,” said Mattia Nobile, DCM at Crédit Agricole CIB, “which is a modest attrition compared to some other recent trades, so Alpha Bank clearly outperformed. The ESG element helped a lot in this respect, because investors tend to be quite sticky when it's a green bond, and in particular in this case where it is their first green bond, so a good opportunity for ESG investors to diversify.

“Overall, the trade is a clear vote of confidence from investors in Alpha Bank and the whole Greek bank universe.”

BNP Paribas, Crédit Agricole CIB, HSBC, JP Morgan, Morgan Stanley and UniCredit were joint lead managers. ●

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