

AT1 Securities: Call Dates on the Horizon



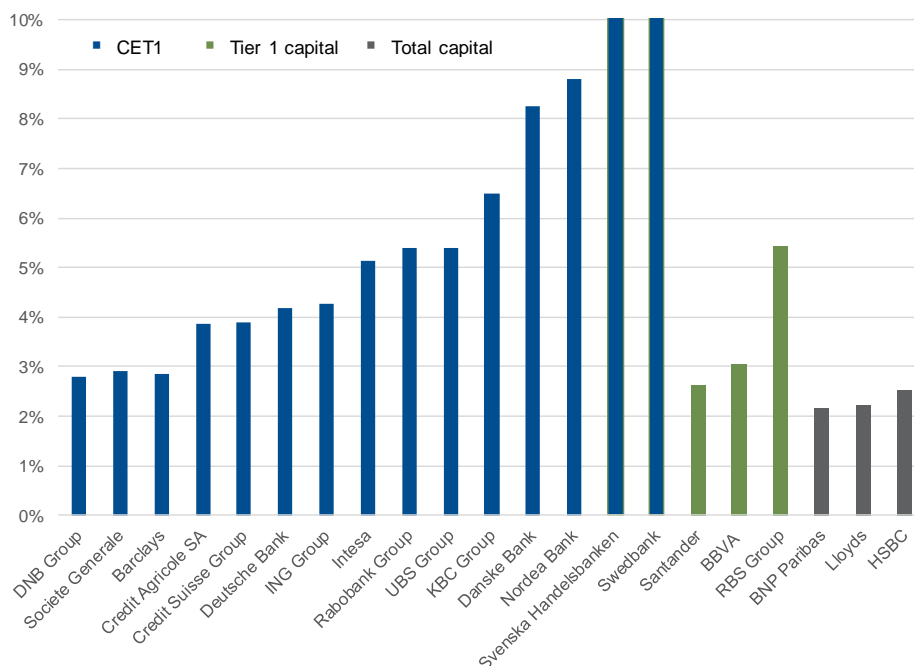
Scope
Ratings

As a rating agency, Scope focuses on credit fundamentals. However, also being active followers of the Additional Tier 1 (AT1) market (see full rating list in Appendix), we also pay attention to investor-relevant considerations such as call dates. Over the coming months and increasingly next year, AT1 securities issued by large European banks in 2013/2014 will be coming up to their first call dates. As call decisions have become more nuanced, we reiterate our view that investors need to be comfortable with issuer fundamentals or at least be appropriately compensated for the risks taken.

Headroom to capital requirements coming down

The chart below highlights that the narrowest headroom to the Maximum Distributable Amount (MDA) hurdle may not be for Common Equity Tier 1 (CET1) capital, but Tier 1 or total capital. As a reminder, in order to meet the MDA hurdle, ECB supervised banks have to comply with CET1, Tier 1 and total capital requirements. Therefore, evaluating the headroom based on CET1 capital alone does not provide the complete picture. Below we look at how YE 2017 capital figures compare to 2018 MDA relevant requirements (further details provided in Appendix).

Figure 1: Narrowest headroom to MDA relevant requirements



Note: Based on capital figures as of YE 2017 and requirements for 2018 – except for the Swedish banks which are based on requirements for Q4 2017.
Source: Company data, Scope Ratings

Since the last time we did this exercise – comparing Q3 2017 capital figures to 2017 MDA relevant requirements – the headroom has generally come down. This is not so surprising as the average CET1 requirement has increased by about 1% for the above sample of banks (in a range of 0.1% to 1.9%). For most banks, the capital conservation buffer continues to phase in, increasing to 1.875% from 1.25%. In addition, countercyclical buffers are starting to add to requirements. Meanwhile, apart from UK banks, Pillar 2 requirements have been generally stable.

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Related Methodology

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Call dates on the horizon

This year a few of the AT1 securities issued in 2013 by large European banks (e.g. BBVA, Barclays, Societe Generale) will be coming up to their first call dates. The number of calls increase steadily in 2019 and will reach more than 20 in 2020.

In the past, the market generally assumed that legacy hybrid Tier 1 securities would be called on their first call date and priced them on this basis. The call decision, however, has now become more nuanced and there is the possibility that AT1 securities may not be called. This reinforces our view that investors need to be comfortable with the fundamentals of the issuers or at least be appropriately compensated for the risks being taken.

One of the first AT1 securities likely to be called this year was issued by BBVA. The bank issued a statement in March announcing its intention to call USD 1.5bn in AT1 securities in May 2018, once consent has been obtained from the regulator.

Regulators have a say in the decision

In November 2016, the European Commission proposed amendments to the Capital Requirements Regulation (CRR) which included proposals to provide supervisors with more oversight regarding calls and redemptions.

In the proposals, prior permission must be obtained to reduce, redeem or repurchase CET1 instruments. Prior permission will also be needed to call, redeem or repurchase AT1, Tier 2 and eligible liabilities before their contractual maturity. Permission will be granted if the above instruments are replaced by own funds or eligible liabilities at a sustainable cost considering the bank's income capacity.

Permission will also be granted if the bank can demonstrate its ability to meet requirements by a margin that the competent authority deems necessary. The competent authority will consult the resolution authority before granting permission. There are also provisions for a bank to obtain general prior permission for a certain time (no more than a year) and for pre-determined amounts.

The proposals are still moving through the legislative process. If adopted, there appears to be a substantial increase in supervisory oversight regarding calls and redemptions which may limit issuers from calling AT1 securities. We would, however, expect competent authorities to consider the potential impact on a bank's future funding costs and market access when making such decisions.

At the same time, large European issuers of AT1 securities generally maintain solid capital positions which should not be materially weakened by redeeming outstanding capital securities – a key consideration for supervisors.

I. Appendix

Headroom to MDA relevant CET1 requirements

	Basis	2017	2018	4Q 2017			
		Req CET1	Req CET1	4Q17 CET1	Gap %	Currency	Gap bn
Barclays	Fully loaded	9.1%	10.3%	13.3%	3.0%	GBP	13.2
BBVA	Transitional	7.6%	8.4%	11.7%	3.3%	EUR	14.7
BNP Paribas	Transitional	8.0%	9.2%	11.9%	2.7%	EUR	24.9
Credit Agricole Group	Transitional	7.8%	8.6%	14.8%	6.2%	EUR	37.0
Credit Agricole SA	Transitional	7.3%	7.9%	11.7%	3.9%	EUR	13.3
Credit Suisse Group	Transitional	9.0%	9.5%	13.4%	3.9%	CHF	10.7
Danske Bank	Transitional	8.1%	9.4%	17.6%	8.2%	DKK	72.1
Deutsche Bank	Transitional	9.5%	10.6%	14.8%	4.2%	EUR	18.3
DNB Group	Transitional	13.2%	13.6%	16.4%	2.8%	NOK	33.4
HSBC	Fully loaded	8.6%	10.3%	14.5%	4.2%	USD	51.4
ING Group	Transitional	9.0%	10.4%	14.7%	4.3%	EUR	17.6
Intesa	Transitional	7.3%	8.1%	13.3%	5.1%	EUR	17.3
KBC Group	Transitional	8.7%	10.0%	16.5%	6.5%	EUR	7.2
Lloyds	Fully loaded	8.3%	9.9%	14.1%	4.2%	GBP	12.2
Nordea Bank	Fully loaded	10.6%	10.7%	19.5%	8.8%	EUR	11.1
Rabobank Group	Transitional	9.0%	10.4%	15.8%	5.4%	EUR	13.4
RBS Group	Fully loaded	8.4%	10.3%	15.9%	5.7%	GBP	15.1
Santander	Transitional	7.8%	8.7%	12.3%	3.6%	EUR	27.3
Societe Generale	Transitional	7.8%	8.7%	11.6%	2.9%	EUR	13.4
Svenska Handelsbanken	Fully loaded	10.9%	11.2%	22.7%	11.5%	SEK	58.7
Swedbank	Fully loaded	11.0%	11.3%	24.6%	13.3%	SEK	54.4
UBS Group	Transitional	9.1%	9.5%	14.9%	5.4%	CHF	12.9

Note: For the Swedish banks, 2018 requirements are in fact Q4 2017 requirements and 2017 requirements are in fact Q4 2016 requirements.

Headroom to writedown/conversion trigger

	Basis	Trigger	4Q 2017			
			2016 CET1	3Q17 CET1	4Q17 CET1	Gap %
Barclays	Fully loaded	7.00%	12.4%	13.1%	13.3%	6.3%
BBVA	Transitional	5.125%	12.2%	11.9%	11.7%	6.6%
BNP Paribas	Transitional	5.125%	11.6%	11.9%	11.9%	6.8%
Credit Agricole Group	Transitional	7.00%	14.4%	14.9%	14.8%	7.8%
Credit Agricole SA	Transitional	5.125%	12.1%	12.0%	11.7%	6.6%
Credit Suisse Group	Transitional	7.00%	13.4%	13.9%	13.4%	6.4%
Danske Bank	Transitional	7.00%	16.3%	16.7%	17.6%	10.6%
Deutsche Bank	Transitional	5.125%	13.4%	14.6%	14.8%	9.7%
DNB Group	Transitional	5.125%	16.0%	16.3%	16.4%	11.3%
HSBC	Fully loaded	7.00%	13.6%	14.6%	14.5%	7.5%
ING Group	Transitional	7.00%	14.1%	14.5%	14.7%	7.7%
Intesa	Transitional	5.125%	12.7%	13.0%	13.3%	8.1%
KBC Group	Transitional	5.125%	16.2%	16.1%	16.5%	11.3%
Lloyds	Fully loaded	7.00%	13.6%	14.1%	14.1%	7.1%
Nordea Bank	Fully loaded	8.00%	18.4%	19.2%	19.5%	11.5%
Rabobank Group	Transitional	7.00%	14.0%	15.0%	15.8%	8.8%
RBS Group	Fully loaded	7.00%	13.4%	15.5%	15.9%	8.9%
Santander	Transitional	5.125%	12.5%	12.2%	12.3%	7.1%
Societe Generale	Transitional	5.125%	11.8%	11.7%	11.6%	6.5%
Svenska Handelsbanken	Fully loaded	8.00%	25.1%	23.6%	22.7%	14.7%
Swedbank	Fully loaded	8.00%	25.0%	23.9%	24.6%	16.6%
UBS Group	Transitional	7.00%	16.8%	15.1%	14.9%	7.9%

Source: Company data, Scope Ratings



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II. Appendix

Scope AT1 ratings (as of 17 April 2018)

Bank	Issuer Rating	Outlook	AT1 rating
Banco Santander SA	AA-	Stable	BBB-
Barclays Bank PLC	A+	Stable	BB+ (<i>Barclays PLC</i>)
BBVA SA	A+	Stable	BB+
BNP Paribas SA	AA-	Stable	BBB
Credit Agricole SA	AA-	Stable	BBB-
Credit Suisse AG	A+	Stable	BBB-, BB+ (<i>CS Group</i>)
Danske Bank A/S	A+	Stable	BBB-
Deutsche Bank AG	BBB+	Stable	B
DNB Bank ASA	AA-	Stable	BBB-
HSBC Holdings PLC	AA	Stable	BBB
ING Bank NV	AA-	Stable	BBB (<i>ING Group</i>)
Intesa Sanpaolo SPA	A	Stable	BB+
KBC Group NV	A+	Stable	BBB-
Lloyds Bank PLC	A+	Stable	BB+ (<i>Lloyds Banking Group PLC</i>)
Nordea Bank AB	AA-	Stable	BBB-
Rabobank Group	AA-	Stable	BBB-
Royal Bank of Scotland PLC ^[1]	A-	Stable	B+
Societe Generale SA	A+	Stable	BBB-
Svenska Handelsbanken AB	A+	On review for upgrade	BB+
Swedbank AB	A	On review for upgrade	BB
UBS AG	AA-	Stable	BBB (<i>UBS Group</i>)

Notes: The Royal Bank of Scotland PLC's Issuer Rating benefits from one notch of rating uplift due to the UK government's majority ownership while its AT1 rating does not. The AT1 ratings of Svenska Handelsbanken and Swedbank are also on review for upgrade.



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