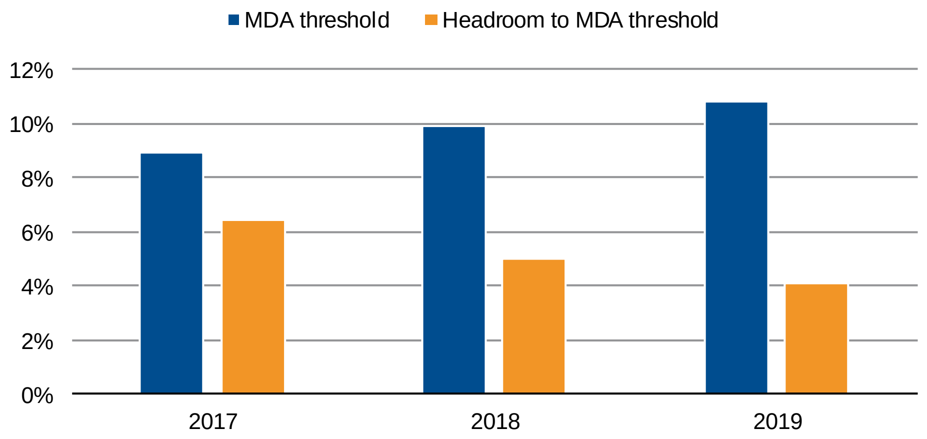
AT1 securities: A maturing market, evolving analytical focus

After five years of following and rating the European Additional Tier 1 (AT1) market, Scope reflects upon what has happened and looks ahead to see how the market may develop. The lessons learned can be summed up as follows: (i) the risks that we associate with AT1 securities are still valid, (ii) issuer credit fundamentals remain key, given that regulatory action has led to default-like situations, and (iii) analytical considerations need to be flexible as the focus of the supervision and regulation of European banks continues to evolve.

When Scope published its first AT1 Handbook in 2014, the market was still relatively new with market participants coming to grips with the securities and trying to understand the risks. Over time, the terms and structures of the securities have become more standardized and the investor base has grown. Moreover, the market is now entering a phase where the earliest issued AT1 securities are coming up to their first call dates. We would also contend that the asset class is maturing based on the contained market reaction last year to the write down of Banco Popular's capital securities (AT1 and Tier 2) and the coupon cancellation by Bremer Landesbank on its AT1 securities.

This does not mean however that investors can be complacent. Capital requirements for banks have been on the rise, meaning that the maximum distributable amount (MDA) threshold (i.e. the point where the MDA needs to be calculated and distributions are restricted) has also been increasing. Meanwhile, the headroom to the MDA threshold has been on the decline as banks balance the demands of various stakeholders.

Figure 1: Rising CET1 MDA thresholds and falling headroom



Note: Averages based on the universe of 19 European, UK and Nordic banks covered in the AT1 Handbook.
Source: Company data, Scope Ratings

The rise in capital requirements has not been due solely to the phasing-out of transitional arrangements, but also due to growing supervisory expectations. Here we point to the relevance of Pillar 2, Tier 1 and total capital requirements when assessing the MDA threshold and to the latest proposals to further include MREL/TLAC requirements as well as a leverage ratio buffer for the largest banks. The bar for banks to be considered prudentially sound continues to climb, potentially increasing coupon-cancellation risks overall.

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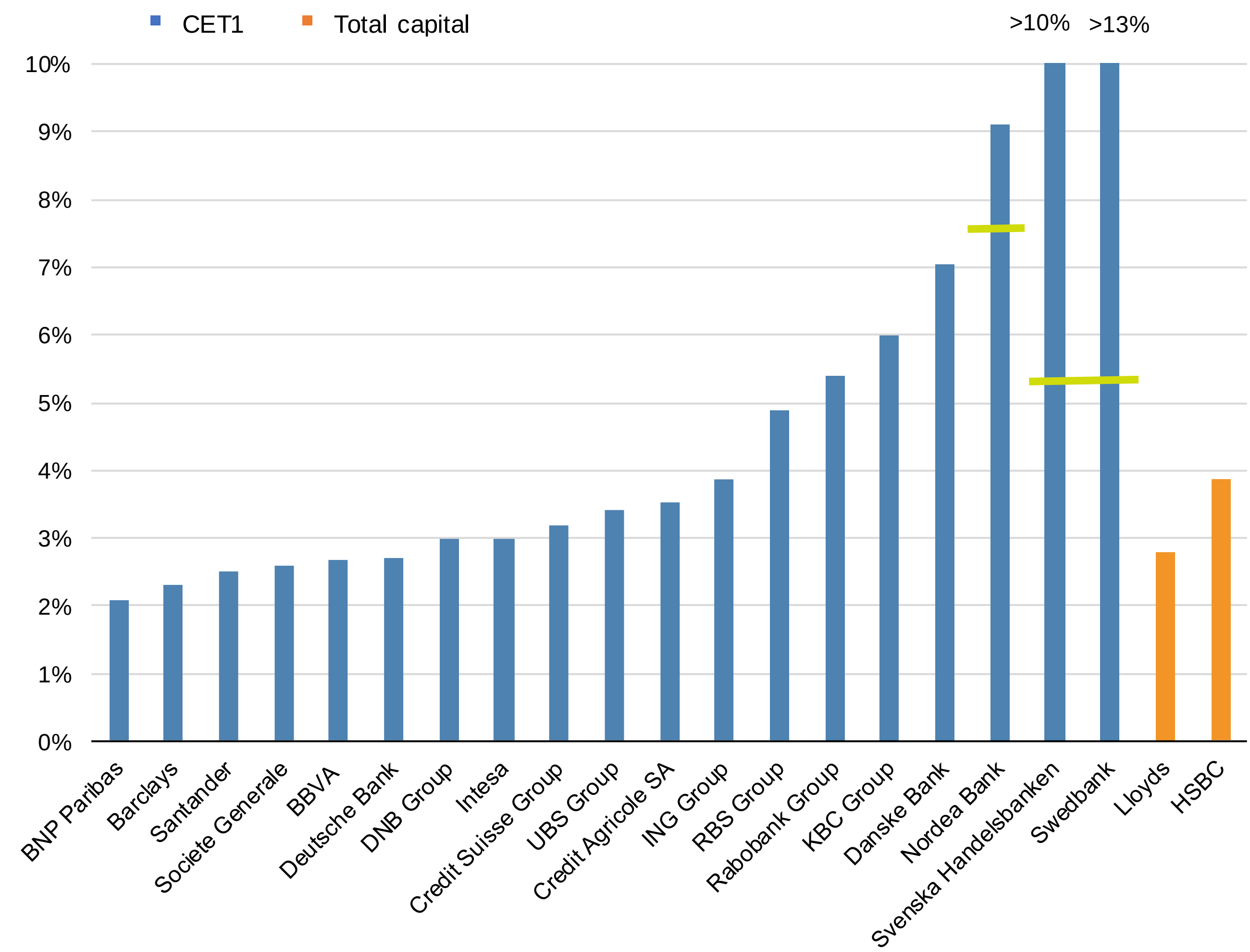
Evolving supervisory expectations necessitate analytical adroitness

As banks have become more closely supervised and further prudential requirements are imposed, there have been material implications for AT1 investors. In December 2015, the EBA issued an opinion which clarified that all capital requirements (i.e. CET1, Tier 1 and Total capital) as well as the combined buffer were relevant for determining the MDA threshold. With 2017 SREP decisions, there was further clarification that for EU-supervised banks Pillar 2 requirements should also be included in determining the MDA threshold.

In Norway, Pillar 2 requirements are not currently relevant for the MDA calculation, but this may change as the country moves to fully implement CRR/CRD. Meanwhile, in Sweden, the FSA has proposed replacing the current Pillar 2 guidance for Swedish mortgages with a hard Pillar 1 requirement which would have implications for the headroom to the MDA threshold (details in specific AT1 reports that follow).

Figure 2: Narrowest headroom to requirements



Notes: Based on capital figures as of 1Q 2018 except for Rabobank which are as of YE2017.
Green lines show estimated impact of proposed change to Pillar 1 requirements on the headroom to the MDA threshold for Swedish banks.
Source: Company data, Scope Ratings

Leverage and MREL/TLAC likely to become constraints

The European Commission's November 2016 package of banking reforms included a proposal to situate the combined buffer above MREL/TLAC requirements and to introduce restrictions on distributions when these requirements are not met. In a situation where a bank breaches the combined buffer requirement due to an inability to issue new MREL-eligible liabilities (while continuing to comply with capital requirements), the bank would have six months to restore the breach before restrictions on distributions would apply. The restrictions on distributions, however, may not come into effect if the resolution authority assesses that the breach is due to a serious and broad disturbance of financial markets or exercising this power would have negative spill-over effects which may undermine financial stability.

As well, the EC proposes a leverage ratio buffer requirement for global systemically important institution (G-SIIs). This would be equal to 50% of the bank's G-SII buffer and must be met with Tier 1 capital. If a bank does not meet the leverage ratio buffer requirement, distribution restrictions would apply (like with the combined buffer requirement) and the leverage ratio-related MDA would be calculated.

While the proposals have yet to be approved, the likelihood of them being incorporated in the revised CRR/CRD package now appears more probable. In March 2018, the EU Council published compromise texts regarding the proposals and further compromise texts were published in May 2018. We note that the MREL/TLAC and leverage buffer proposals remained in the compromise texts which are now being considered by the European Parliament. The Council needs a qualified majority, in agreement with Parliament, to adopt the package.

We note that currently in the UK, a bank which does not have sufficient CET1 capital to cover its combined buffer or PRA buffer in addition to any CET1 counted towards its MREL would face enhanced supervisory action and would be required to prepare a capital restoration plan. The PRA could require the bank to strengthen its capital position through actions such as restricting or prohibiting distributions.

Meanwhile, the AT1 instruments of the two Swiss systemically important banks contain language which prohibits coupon payments if they are not in compliance with all applicable minimum capital adequacy requirements. For the Swiss banks, this means TLAC requirements (going concern and gone concern) on both a RWA and leverage basis.

Risks still material

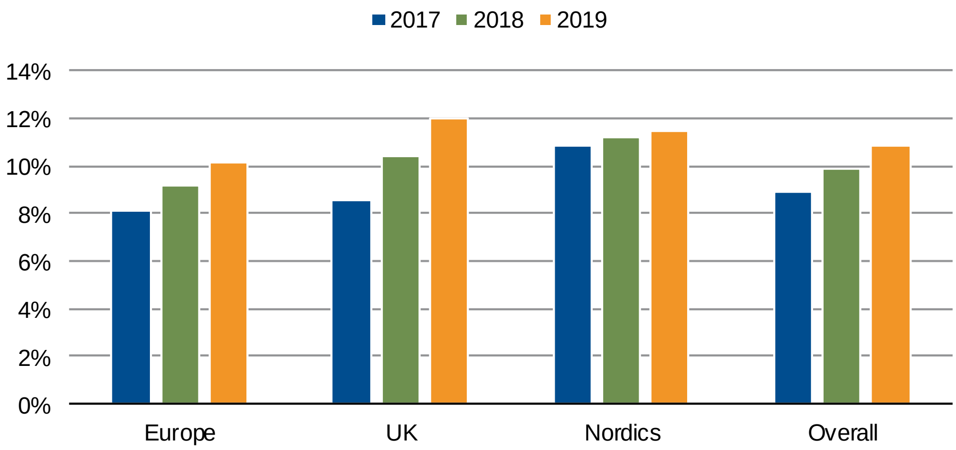
When Scope first published its AT1 rating methodology in 2014, we highlighted their primary role in providing a private-sector alternative for strengthening the capital positions of financial institutions, in addition to the issuance of equity. Hence, the rating approach remains focused on the inherent coupon-cancellation and principal-loss absorption risks.

Scope sees the likelihood of coupon cancellation as materially less remote than the likelihood of principal conversion or write-down but cautions that the loss from principal conversion or write-down is materially higher than from missed coupons. Over time, the risk of a fundamentally sound bank hitting the contractual triggers in AT1 securities leading to write-down or equity conversion has diminished. This is a consequence of banks building up their capital positions to meet higher regulatory solvency norms. For example, if minimum CET1 requirements are above 8%, banks are unlikely to maintain capital positions that risk breaching a trigger of 7%, let alone a lower trigger.

Further, as demonstrated with Banco Popular, it was supervisory judgement and action which led to the write-down of its AT1 securities rather than a breach of contractual triggers.

Meanwhile, the risk of coupon cancellation has been growing, not only due to rising MDA thresholds but also due to other developing prudential requirements that may impact a bank's ability to pay coupons. MDA thresholds have continued to increase, normally incorporating Pillar 2 requirements and the phase-in of various capital buffers (capital conservation, systemic and countercyclical).

Figure 3: Rising MDA relevant CET1 requirements



Note: Europe = BBVA, BNPP, Credit Agricole, Deutsche Bank, ING, Intesa, KBC, Rabobank, Santander and Societe Generale. UK = Barclays, HSBC, Lloyds and RBS. Nordics = Danske, Nordea, Handelsbanken, Swedbank and DNB.
Source: Company data, Scope Ratings

Issuer credit fundamentals remain key

While highlighting the structural risks inherent in AT1 securities, we emphasize that it is the less easily measured risks which may be more important. These relate to the discretion and powers of supervisors to suspend coupon payments and force write down or conversion – tools which are available before a bank has been placed into resolution and which are part of the supervisory toolkit.

This leads us to stress the importance of issuer fundamentals. For if a bank is fundamentally sound, it is unlikely that supervisors would feel the need to intervene and use their powers regarding AT1 securities. While certain risks are inherent to the securities, the probability of incurring losses depends to a large degree on the credit fundamentals of the issuer.

The case of Banco Popular last year illustrates this. Based on the latest publicly available data at the time (1Q 2017), the bank's CET1 capital ratio was above 10% and there was no imminent danger of breaching the 5.125% and 7% contractual triggers on its AT1 securities. For years, however, the bank had been struggling with elevated provisions related to real estate assets and other bad credits. Combined with declining customer confidence and a deteriorating liquidity situation, the ECB and the Single Resolution Board (SRB) determined that the bank was failing or likely to fail. This resulted in the write-down of shares, AT1 securities and Tier 2 securities (which were converted into new shares and then transferred to Banco Santander).

Appendix: Summary of rated AT1 securities

Issuer	Trigger	Senior Unsecured Debt Rating [1]	Minimum Notching	Additional Notching	AT1 Rating
Banco Santander	5.125% (issuer and group)	A+	4	1	BBB-
Barclays plc	7% fully loaded	A	4	1	BB+
BBVA SA	5.125% (issuer and group)	A	4	1	BB+
BNP Paribas	5.125%	A+	4	0	BBB
Credit Agricole SA	7% (CA group) or 5.125% (CASA)	A+	4	1	BBB-
Credit Suisse Group	5.125% (CET1+ higher trigger)	A	4	0	BBB-
Credit Suisse Group	7.0%	A	4	1	BB+
Danske Bank	7% (issuer and group)	A/rev Pos	4	0	BBB-/rev Pos
Deutsche Bank	5.1%	BBB/Neg	4	2	B/Neg
DNB Bank	5.125% (bank, bank group, group)	A+	4	1	BBB-
HSBC Holdings	7% fully loaded	AA-	4	1	BBB
ING Group	7.0%	A+	4	0	BBB
Intesa Sanpaolo	5.125% (issuer and group)	A-	4	0	BB+
KBC Group	5.1%	A	4	0	BBB-
Lloyds Banking Group	7% fully loaded	A	4	1	BB+
Nordea Bank AB	5.125% bank, 8% group	A+	4	1	BBB-
Rabobank	5.125% unconsolidated, 7% group	A+	4	1	BBB-
RBS Group	7% fully loaded	BBB+/rev Pos	4	2	B+/rev Pos
Societe Generale	5.1%	A	4	0	BBB-
Svenska Handelsbanken	5.125% issuer, 8% group	A+	4	1	BBB-
Swedbank	5.125% bank, 8% group	A	4	1	BB+
UBS Group	5.125% or 7% (CET1+ higher trigger)	A+	4	0	BBB

Note: 1. Senior unsecured debt rating – eligible for MREL/TLAC as applicable.
Source: Scope Ratings.

KBC GROUP – AT1 RATING REPORT

Security ratings

Outlook	Stable
5.625% EUR 1.4bn undated deeply subordinated Additional Tier 1 fixed rate resettable callable securities	BBB-
4.25% EUR 1bn undated deeply subordinated Additional Tier 1 fixed rate resettable callable securities	BBB-

The ratings were not solicited by the issuer; the analysis is based solely on public information.

Rating rationale

Scope assigns a rating of BBB-, with Stable Outlook, to the above-referenced, undated deeply subordinated AT1 notes issued by KBC Group NV. The ratings are based on the following:

- Senior unsecured debt rating (eligible for MREL): A, Stable Outlook
- Minimum notches down from the senior unsecured debt rating: 4
- Additional notches: 0

In accordance with our rating methodology, the starting point for notching down when rating capital instruments is the senior unsecured debt rating. The minimum four notches reflect the deeply subordinated status of AT1 capital instruments in the priority of claims, their going-concern loss-absorbing features and investors' exposure to coupon-cancellation risks. We believe no other factors warrant additional notching at this time.

Please also refer to Scope's *Bank Capital Instruments Rating Methodology* published in May 2018 for more details.

Issuer credit profile

KBC's A+ Issuer Rating reflects the group's solid franchise as a leading bancassurer in its home market of Belgium and in the Czech Republic. The Belgian group has successfully put the crisis years behind them. State aid was fully repaid ahead of schedule, and the group's overall risk profile has improved materially with the disposal of legacy activities. Further, asset quality continues to recover steadily, supported by improving macro conditions in Ireland. Solvency has strengthened to solid levels, and the liquidity position remains sound.

The release of this rating report does not constitute a rating action. The last rating action was assigned on 3.12.2015. For further information on the last rating action and regulatory information please click here.

Summary terms

Issuer	KBC Group
Issue Date	**March 2014**
Amount	EUR 1.4bn
Coupon	• 5.625% fixed until first call date, reset every five years thereafter • After first call date, rate equal to 5Y EUR mid swap rate plus 4.759% • Payable quarterly
Format	Undated deeply subordinated Additional Tier 1 fixed rate resettable securities, callable on 19 March 2019 and every interest payment date thereafter
ISIN	BE0002463389

Issuer	KBC Group N.V.
Issue Date	**April 2018**
Amount	EUR 1bn
Coupon	• 4.25% fixed until first call date, reset every five years thereafter • After first call date, rate equal to 5Y EUR mid swap rate plus 3.594% • Payable semi-annually
Format	Undated deeply subordinated Additional Tier 1 fixed rate resettable securities, callable on 24 October 2025 and every interest payment date thereafter
ISIN	BE0002592708

Main Risks	
Coupon Cancellation	• Fully discretionary • Mandatory if coupon payments on all own funds instruments a) would exceed the Distributable Items of the issuer; or b) would cause the Maximum Distributable Amount (MDA) then applicable to the issuer to be exceeded. Cancellation is also subject to the competent supervisory authority's decision.
Principal Loss Absorption	• If the CET1 ratio falls below the trigger level, the issuer needs to reduce the current principal amount of each note by the relevant write-down amount, in a sufficient proportion to bring the CET1 ratio above the trigger • If a positive consolidated net profit is recorded at any time then the issuer may, at its full discretion and subject to the MDA, increase the current principal amount of each note up to a maximum of the original principal amount on a pro-rata basis with the other notes • Resolution authorities may reduce the principal amount of the notes to zero on a permanent basis or convert the notes into CET1 capital at the point of non-viability (PONV) or in any case in the context of regulatory bail-in.
Trigger for Principal Loss Absorption	Consolidated CET1 ratio < 5.125% on a transitional basis

Source: Prospectuses, Scope Ratings

Key risks

A. Coupon cancellation

Key risk: Coupon cancellation

Coupon payments on the securities are fully discretionary and are subject to distribution restrictions

Coupon payments on the securities are fully discretionary and are subject to distribution restrictions. Furthermore, coupons are mandatorily cancelled if there are insufficient distributable items (based on issuer accounts on an unconsolidated basis) or if payments exceed the MDA. The MDA is calculated if the issuer does not meet its combined buffer requirement.

Available Distributable Items

Coupons are mandatorily cancelled if available distributable items (ADIs) are insufficient. The amount of available distributable items as of year-end 2017 for the issuer, KBC Group, was approximately EUR 6.4bn. KBC currently has two outstanding CRD IV compliant AT1 securities totalling EUR 2.4bn (the above issues). In 2018, KBC is expected to make EUR 100m of distributions related to the above notes.

Combined Buffer Requirement (CBR)

Article 141 of CRD IV imposes certain restrictions on discretionary distributions (dividends, variable remuneration and payments on AT1 securities) if the combined buffer requirement (CBR) is not met. The CBR comprises the capital conservation buffer, the countercyclical buffer and systemic risk buffers as applicable. The MDA needs to be calculated if banks supervised by the ECB do not meet both Pillar 1 and Pillar 2 capital requirements as well as the CBR.

By 2019, we estimate that KBC Group will need to maintain a CET1 ratio (under the Danish Compromise) of at least 10.6%, a Tier 1 capital ratio of 12.1%, and a total capital ratio of 14.1% to avoid distribution restrictions (Table 1). This assumes that the Pillar 2 requirement of 1.75% does not change, the capital conservation buffer is fully phased in to 2.5% and the countercyclical buffer (CCyB) increases to 0.35% (following the Czech and Slovak authorities' decisions to increase the CCyB to 1.25%).

The estimate also assumes that the systemic buffer requirement of 1.5% imposed by the National Bank of Belgium for 2018 does not change.

In Q1 2018 KBC Group's CET1 ratio, based on the Danish Compromise, stood at 15.9%[1], 600 bps or EUR 5.6bn above the requirement relevant for distribution restrictions.

[1] From 1 January 2018 no difference between fully loaded and phased-in ratio.

Table 1: Distance to Combined Buffer Requirement

	2017	Q1 2018	2019
Required CET1 associated with distribution restrictions:	**8.7%**	**9.9%**	**10.6%**
Combined buffer (CBR)			
- Capital conservation	1.25%	1.88%	2.50%
- Systemic	1.00%	1.50%	1.50%
- Countercyclical	0.15%	0.25%	0.35%
Pillar 2 CET1 requirement	1.75%	1.75%	1.75%
Pillar 1 CET1 requirement	4.50%	4.50%	4.50%
KBC Group NV CET1, transitional (%)	16.5%	15.9%	14% Target
Distance to CET1 requirement incl. CBR (%)	**7.8%**	**6.0%**	
Distance to CET1 requirement incl. CBR (EUR bn)	**7.2**	**5.6**	
KBC Group NV Tier 1, transitional (%)	18.0%	17.4%	
Required Tier 1 incl. CBR (%)	10.2%	11.4%	12.1%
Distance to Tier 1 requirement incl. CBR (%)	**7.8%**	**6.0%**	
KBC Group NV total capital, transitional (%)	20.4%	19.7%	
Required total capital, incl. CBR (%)	12.2%	13.4%	14.1%
Distance to total capital requirement incl. CBR (%)	**8.2%**	**6.3%**	
RWAs (EUR bn)	92	93	

Source: Company data, Scope Ratings

B. Principal loss absorption

Key risk: Principal loss absorption

The mechanism for loss absorption is temporary write-down

The rated securities have one trigger:

- Consolidated CET1 ratio < 5.125% on a transitional basis

Pursuant to the terms and conditions of the notes, the principal amount of the notes will be written down if KBC Group CET1 ratio breaches the 5.125% trigger. At its discretion, the group may write-up the principal amount of the notes if it reports a profit, subject to the constraint of the MDA.

Distance to trigger

As of 31 March 2018, KBC Group's CET1 ratio (under the Danish Compromise) was 15.9%, well above the trigger of 5.125% (Table 2). Therefore, the distance to the trigger of 5.125% was 10.8% or EUR 10bn (based on risk-weighted assets of EUR 93.2bn). We expect KBC Group's CET1 ratio to remain comfortably positioned with regard to the trigger level.

Table 2: Distance to trigger.

	2017	Q1 2018	2019
Trigger level	5.1%	5.1%	5.1%
KBC Group NV CET1, transitional (%)	16.5%	15.9%	14% Target
Distance to trigger (%)	**11.3%**	**10.8%**	
Distance to trigger (EUR bn)	**10.4**	**10.0**	

Based on EUR 92bn in risk-weighted assets as of YE2017 and EUR 93bn in risk-weighted assets at Q1 2018
Source: Company data, Scope Ratings

DANSKE BANK – AT1 RATING REPORT

Security Ratings

Outlook	On review
5.75% EUR 750m Perpetual Non-Cumulative Resettable Additional Tier 1 Capital Notes	BBB-
5.875% EUR 750m Perpetual Non-Cumulative Resettable Additional Tier 1 Capital Notes	BBB-
Floating DKK 3bn Perpetual Non-Cumulative Additional Tier 1 Capital Notes	BBB-
6.125% USD 750m Perpetual Non-Cumulative Resettable Additional Tier 1 Convertible Capital Notes	BBB-

The ratings have not been solicited by the issuer; the analysis is based solely on public information.

Rating rationale

Scope assigns long-term ratings of BBB- (on review for possible upgrade) to Danske Bank's four Additional Tier 1 (AT1) notes (the Notes) listed in the table above. For details on the rated instruments, see the next page. The ratings are based on the following considerations:

- Senior unsecured debt (eligible for MREL): A, on review for possible upgrade
- Minimum notches down from the senior unsecured debt rating: 4
- Additional notches: 0

Our methodology states that when rating capital instruments the starting point for notching-down is the MREL/TLAC-eligible senior unsecured debt rating, and no longer the issuer rating. Please refer to Scope's *Bank Capital Instruments Rating Methodology* published in May 2018 for more details.

The minimum four notches reflect the deeply subordinated status of AT1 capital instruments in the priority of claims, their going concern loss-absorbing features and investors' exposure to coupon-cancellation risks.

Despite high triggers at 7%, we believe that given the high distance to the triggers, both for Danske Bank A/S and for the group, a further notch is not warranted.

The release of this rating report does not constitute a rating action. The last rating action was assigned on 3.12.2015. For further information on the last rating action and regulatory information please click here.

Issuer credit profile

Scope assigns Danske Bank an Issuer Rating of A+, on review for possible upgrade.

The ratings are driven by the group's strong franchise as the leading universal bank in its domestic market, Denmark. Having largely recovered from the financial crisis, the group has managed to improve its returns, even in an environment of subdued growth and negative interest rates. While Danske pursues a Nordic universal bank strategy, its measured expansion outside of Denmark helps to manage the usual risks associated with fast growth in mature markets.

The relatively high dependence on market funding is substantially mitigated by the large and stable component of covered bonds. In 2017, Danske Bank reported a 13.6% ROE, ahead of its 12.5% long-term target.

We continue to monitor the group's expansion in Norway and Sweden in light of the potentially less favourable market dynamics in these countries.

Summary terms

Issuer	Danske Bank A/S
Issue Date	**March 2014**
Amount	EUR 750m
Coupon	• 5.75% fixed until first call date, reset every six years thereafter
Format	• Perpetual non-cumulative resettable AT1 capital notes, callable on 6 April 2020 and on any interest payment date thereafter
ISIN	XS1044578273

Issue date	February 2015
Amount	EUR 750m
Coupon	• 5.875% fixed until first call date, reset every seven years thereafter
Format	• Perpetual non-cumulative resettable AT1 capital notes, callable on 6 April 2022 and on any interest payment date thereafter
ISIN	

Issue date	November 2016
Amount	DKK 3bn
Coupon	• Floating: CIBOR + 4.75%
Format	• Perpetual non-cumulative resettable AT1 capital notes, callable on 23 Nov 2021 and on any interest payment date thereafter
ISIN	DK0030386610

Issue date	March 2017
Amount	USD 750m
Coupon	• 6.125% fixed until first call date, reset every seven years thereafter at 7Y Mid-Swap rate + 2.229%
Format	• Perpetual non-cumulative resettable AT1 convertible capital notes, callable on 28 March 2024 and on any interest payment date thereafter
ISIN	XS1586367945

Main risks	
Coupon cancellation	• Fully discretionary • Mandatory to the extent that – there are insufficient distributable items to pay the coupon on the security; – the combined buffer requirement is not met and if coupons were paid, the amount of such payments would exceed the Maximum Distributable Amount; or – the relevant regulator requires such coupons to be cancelled
Principal loss absorption	• Upon trigger breach • EUR and DKK notes: Automatic writedown upon trigger event. At the issuer's discretion, the principal amount may be written up to a maximum of the original principal amount, on a pro-rata basis with Parity Trigger Loss Absorbing Instruments, up to the reinstatement limit • USD notes: Automatic conversion into shares upon trigger event at greater of current market price and USD 23.97. • Statutory loss absorption at point of non-viability
Trigger for principal loss absorption	• Danske Bank A/S CET1 ratio < 7% and/or • Danske Bank Group CET1 ratio < 7%

Source: Prospectus. Scope Ratings

Key risks

A. Coupon cancellation

Key risk: Coupon cancellation

Coupon payments on the Notes are fully discretionary and are subject to distribution restrictions

Coupons must be cancelled if the issuer has insufficient distributable items, if the combined buffer requirement is not met and coupon payments exceed the Maximum Distributable Amount (MDA), or if the regulator requires that coupon payments be restricted.

At the end of December 2017, Danske Bank Group disclosed Available Distributable Items of DKK 133bn. Also at the end of 2017 Danske Bank reported DKK 117.5bn of Available Distributable on an unconsolidated basis (1Q18: DKK 112 bn), giving us comfort that its ability to pay coupons is not limited by any lack of distributable items.

Combined Buffer Requirement (CBR)

In line with CRD IV, mandatory restrictions on distributions apply if Danske's CET1 ratio falls below its CBR (defined as the total of the capital conservation buffer, the countercyclical buffer and the systemic risk buffer). For 2019, Danske's CBR is currently expected to consist of:

- a 2.5% capital conservation buffer
- a 3.0% systemic risk buffer
- a 0.8 % countercyclical capital buffer for exposures in Norway and Sweden (both set at 2%) and Denmark (set at 0.5%).

The systemic risk buffer is being phased in from 2015 to 2019 and the capital conservation buffer from 2016 to 2019.

Countercyclical buffers have been in place from 2015. A new countercyclical buffer was recommended by the Danish Systemic Risk Council December 2017 for exposures in Denmark, with the level set at 0.5%. This is to be applied from end-March 2019. Danske estimates that this will increase the Group's fully phased in CET1 requirement for 2019 by c.0.2%. This is included in our calculations.

Including the minimum 4.5%, in order to avoid distribution restrictions, the required CET1 ratio is expected to be 10.8% in 2019. This does not include the Pillar 2 requirement, which under Danish rules does not affect the MDA calculation. The latest disclosure points to a CET1 requirement under Pillar 2 of 1.4%. However, it is our view that a regulator would consider a breach of the total solvency need, including Pillar 2 and buffers, when deciding on whether to cancel the coupons on the Notes.

Table 1: Combined buffer requirements Danske Bank group

	2017	Q1 2018	2019
Required CET1 associated with distribution restrictions:	**8.1%**	**9.4%**	**10.8%**
Combined buffer (CBR)			
- Capital conservation	1.25%	1.88%	2.50%
- Systemic	1.80%	2.40%	3.00%
- Countercyclical	0.50%	0.60%	0.80%
Pillar 2 CET1 requirement*	1.50%	1.40%	1.40%
Pillar 1 CET1 requirement	4.50%	4.50%	4.50%
Danske Bank Group CET1, transitional (%)	17.6%	16.4%	
Distance to CET1 requirement incl. CBR (%)	**9.6%**	**7.0%**	
Distance to CET1 requirement incl. CBR (DKK bn)	**72.1**	**53.2**	
Danske Bank Group Tier 1, transitional (%)	20.1%	18.9%	
Required Tier 1 incl. CBR (%)	9.6%	10.9%	12.3%
Distance to Tier 1 requirement incl. CBR (%)	**10.5%**	**8.0%**	
Danske Bank Group total capital, transitional (%)	22.6%	21.4%	
Required total capital, incl. CBR (%)	11.6%	12.9%	14.3%
Distance to total capital requirement incl. CBR (%)	**11.1%**	**8.5%**	
RWAs (DKK bn)	753	755	

Note: *under current Danish rules, Pillar 2 does not count towards automatic MDA restrictions.
Source: Company data, Scope Ratings

The Group's CET1 ratio is currently well above requirements. As various capital buffers are phased in, the gap between Danske's CET1 ratio and the requirements is expected to decline but to remain solidly above the required level. Danske's target CET1 range of 14-15% provides an ample buffer, even to the fully phased-in requirement of 10.8%, or 12.2% if we were to prudently include Pillar 2 in the calculation.

B. Principal loss absorption

Key risk: Principal loss absorption

The mechanism for loss absorption is temporary write-down (EUR and DKK notes); or equity conversion (USD notes)

There are two triggers:

- Danske Bank A/S CET1 ratio < 7% and/or
- Danske Bank Group CET1 ratio < 7%

Furthermore, the Notes are all subject to the provisions of the Bank Recovery and Resolution Directive (BRRD), which empowers relevant authorities to permanently write down or convert into equity AT1 capital instruments, such as the Notes, in the course of resolution or before, at the point of non-viability.

Distance to trigger

At Q1 2018, Danske Group's transitional CET1 ratio was 16.4%, compared to the 7% trigger level in the securities. Therefore, the distance to trigger is 9.4%, or DKK 71.1bn, based on a risk exposure amount of DKK 755bn.

We expect the Group's CET1 capital ratio to remain comfortably above the trigger level in light of its stated target of 14-15%. Danske Bank states that this implies a management buffer of 200-300 bps in relation to the fully loaded CET1 capital requirement.

Danske Bank A/S's CET1 ratio stood at 18.3% as of 1Q18, hence the distance to trigger would be even more material when considering the parent company's solo trigger.

Table 2: Distance to trigger – Danske Bank (group)

	2017	Q1 2018	2019
Trigger level	7.0%	7.0%	7.0%
Danske Bank Group CET1, transitional (%)	17.6%	16.4%	
Distance to trigger (%)	**10.6%**	**9.4%**	
Distance to trigger (DKK bn)	**80.0**	**71.1**	

Source: Company data, Scope Ratings

BNP PARIBAS – AT1 RATING REPORT

Security ratings

Outlook	Stable
6.125% EUR 0.75bn perpetual fixed rate resettable Additional Tier 1 notes (June 2015) Temporary write down	BBB-
7.375% USD 1.5bn perpetual fixed rate resettable Additional Tier 1 notes (August 2015) Temporary write down	BBB-
7.625% USD 1.5bn perpetual fixed rate resettable Additional Tier 1 notes (March 2016) Temporary write down	BBB-
6.75% USD 750mn perpetual fixed rate resettable Additional Tier 1 notes (December 2016) Temporary write down	BBB-
5.125% USD 750mn perpetual fixed rate resettable Additional Tier 1 notes (November 2017) Temporary write down	BBB-
6.125% EUR 0.75bn perpetual fixed rate resettable Additional Tier 1 notes (June 2015) Temporary write down	BBB-
7.375% USD 1.5bn perpetual fixed rate resettable Additional Tier 1 notes (August 2015) Temporary write down	BBB-

The ratings have not been solicited by the issuer; the analysis is based solely on public information.

Rating rationale

Scope rates BNP Paribas (BNPP)'s above-referenced Additional Tier 1 notes at BBB with a Stable Outlook. The ratings are based on the following considerations:

- Senior unsecured debt rating (MREL/TLAC eligible): A+, Stable Outlook
- Minimum notches down from senior unsecured debt rating: 4
- Additional notches: 0

In accordance with our rating methodology, the starting point for notching down when rating capital instruments is the senior unsecured debt rating rather than the Issuer Rating. The minimum four notches reflect the deeply subordinated status of AT1 capital instruments in the priority of claims, their going concern loss absorbing features and investors' exposure to coupon-cancellation risks. Please refer to Scope's *Bank Capital Instruments Rating Methodology* published in May 2018 for more details.

The release of this rating report does not constitute a rating action. Last rating action was assigned on 15 June 2017. For further information on the last rating action and regulatory information please click here.

Issuer credit profile

The Issuer Rating of AA- for BNPP reflects our view that the group, which ranks as the euro area's largest banking group by total assets, continues to preserve reassuring, stable credit fundamentals, underpinned by a relatively well-balanced universal-bank business model. Besides being one of the dominant players in the French banking market, BNPP has over the years built or acquired retail and commercial bank franchises – among them on the US West Coast, and in Italy and Belgium. Its wholesale and investment banking businesses remain substantial, but the group has been able to reduce risk and scale back during and after the crisis without fundamentally altering its business model. The earning profile is also well supported by its profitable consumer finance and insurance businesses.

BNPP displays reassuring prudential and financial metrics, with asset quality and ROAA each on an improving trend in FY17. We are also confident that internal controls and risk management, including business conduct across the group, have been reinforced in the aftermath of the financially painful settlement with US authorities in 2014. The remediation plan agreed as a result remains a key focus but is nearing completion.

Summary terms

Issuer	BNP Paribas SA
Issue Date	**17 June 2015**
Amount	EUR 0.75bn
Coupon	• 6.125% fixed until first call date (17 June 2022), reset on each five-year anniversary thereafter at the 5-year Mid-Swap Rate plus 5.23%. • If any, payable semi-annually in arrears on 17 June and 17 December of each year
Format	Perpetual fixed rate resettable additional Tier 1 notes under the EUR 90bn EMTN programme
ISIN	XS1247508903

Issue Date	19 August 2015
Amount	USD 1.5bn
Coupon	7.375% fixed until first call date (19 August 2025), reset every five years after the first call date at the 5-Year Mid-Swap Rate plus 5.15%. If any, payable semi-annually in arrears on 19 February and 19 August of each year from (and including) 19 February 2016.
Format	Perpetual fixed rate resettable additional Tier 1 notes programme
ISIN	US05565AAN37 (Rule 144A)/ USF1R15XK367 (Regulation S)

Issue Date	30 March 2016
Amount	USD 1.5bn
Coupon	• 7.625% fixed until first call date (30 March 2021), reset on each five-year anniversary thereafter at the 5-year Mid-Swap Rate plus 6.314%. • If any, payable semi-annually in arrears on 30 March and 30 September of each year
Format	Perpetual Fixed Rate Resettable Additional Tier 1 Notes
ISIN	US05565AAQ67 (Rule 144A)/ USF1R15XK441 (Regulation S)

Issue Date	16 December 2016
Amount	USD 750mn
Coupon	• 6.75% fixed until first call date (14 March 2022), reset on each five-year anniversary thereafter at the 5-year Mid-Swap Rate plus 4.916%. • If any, payable semi-annually in arrears on 14 March and 14 September of each year
Format	Perpetual Fixed Rate Resettable Additional Tier 1 Notes
ISIN	US05565ACA97 (Rule 144A)/ USF1R15XK698 (Regulation S)

Issue Date	15 November 2017
Amount	USD 1.5bn
Coupon	• 7.625% fixed until first call date (30 March 2021), reset on each five-year anniversary thereafter at the 5-year Mid-Swap Rate plus 6.314%. • If any, payable semi-annually in arrears on 30 March and 30 September of each year
Format	Perpetual Fixed Rate Resettable Additional Tier 1 Notes
ISIN	US05565AAQ67 (Rule 144A)/ USF1R15XK441 (Regulation S)

Main Risks	
Coupon Cancellation	• Fully discretionary • Mandatory (1) if the relevant regulator notifies the issuer that it has determined that the interest amount (in whole or part) should be cancelled based on its assessment of the financial and solvency situation of the issuer; or (2) if the coupon payable under the Notes, together with the interest payments or distributions to be paid on own funds items would be higher than the amount of distributable items available to the issuer or if the interest payments under the notes together with other distributions of the kind referred to in Article 141 (2) of CRD IV would cause the applicable Maximum Distributable Amount to be exceeded.
Principal Loss Absorption	• Temporary write-down - If a trigger event occurs (i.e. if at any time the CET1 ratio of the group is below 5.125%), the issuer reduces the then prevailing outstanding amount of each note by the relevant write-down amount. Write downs can occur on more than one occasion and the principal amount of a note may never be reduced to below one cent. - If a positive group net income is recorded at any time, the issuer may at its discretion reinstate some or all of the principal amount of the notes on a pro-rata basis with all other discretionary temporary loss absorption instruments (if any) which would, following such reinstatement, constitute additional Tier 1 capital. • Permanent write-down following the exercise of the Bail-in power by the relevant resolution authority
Trigger for Principal Loss Absorption	CET1 <5.125% on a transitional basis

Source: Prospectuses, Scope Ratings

Key risks

A. Coupon cancellation

Key risk: Coupon cancellation

Coupon payments on the security are fully discretionary and are subject to distribution restrictions

We note that to be permitted to pay coupons on the notes, BNPP must report sufficient distributable items, which are determined based on its individual accounts, i.e. at the parent company level. Coupons are mandatorily cancelled if there are insufficient distributable items or if payments would exceed the Maximum Distributable Amount (MDA). The MDA is calculated when the issuer does not meet its combined buffer requirement.

In the Terms and Conditions of the notes issued 15th November 2017 we note that the issuer considers distributable items to be equivalent to distributable retained earnings. At the Annual General Meeting on 24 May 2018, the Board of Directors proposed an appropriation of income for the year ended 31 December 2017 based on retained earnings of EUR 29.3bn. We do not consider distributable items to be a constraint for BNPP's payment of coupons.

Combined buffer requirement

Article 141 of CRD IV imposes restrictions on discretionary distributions (dividends, variable remuneration and payments on AT1 securities) when CET1 capital falls below the level of the combined buffer (CBR). The CBR is defined as the sum of the capital conservation buffer, the countercyclical buffer and systemic risk buffers as applicable. To determine whether the MDA needs to be calculated, banks supervised by the ECB should meet both Pillar 1 and Pillar 2 capital requirements as well as the CBR.

By 2019, we estimate that BNPP will need to maintain a CET1 ratio of at least 9.83% on a fully loaded basis, a Tier 1 capital ratio of 11.33%, and a total capital ratio of 13.33% in order to avoid distribution restrictions (Table 1). This assumes that the Pillar 2 Requirement (P2R) of 1.25% does not change, the capital conservation buffer is fully phased in up to 2.5%, the G-SIB buffer applicable to BNPP is phased in up to 1.5% and the countercyclical buffer rate for BNPP remains as estimated for Jan 1 2019, at 0.08%.

As of Q1 2018 BNP reported a transitional CET1 ratio of 11.6%, 244bps above its requirement for 2018. On a fully-loaded basis, the CET1 ratio was 11.6%. The further sale of part of BNPP's stake in First Hawaiian, announced 9th May 2018, following earlier share offerings in 2016 and 2017, is expected to have a positive impact of c.5 basis points on BNP Paribas' CET1 ratio. If the underwriters' option is exercised in full, BNP Paribas' remaining stake would decrease to about 48.81%.

As of the end of 2017, BNPP estimated that its countercyclical buffer rate would be c.0.08% by 1 January 209. Subsequently, in June 2018, France's High Council for Financial Stability announced that it would set a countercyclical buffer of 0.25% with effect from July 2019. In our projections below, we have included an estimate of the impact on BNPP's countercyclical buffer.

BNPP has demonstrated strong organic capital generation over the last few years, which has been sufficient to absorb the impact of significant litigation charges. Management targeted and met a CET1 ratio of 11.5% on a fully loaded basis by end-2016. A CET1 ratio of 12% by 2020 has been targeted in the Group's 2017-2020 business plan, which would allow a buffer of 213bps above the minimum SREP CET1 requirement, assuming that the countercyclical buffer reaches 0.12%. This process should be aided by the reduction in the Group's target G-SIB capital buffer (i.e. the systemic risk buffer rate) by the Financial Stability Board to 1.5% from 2.0% during 2017.

Table 1: Estimated CET1 requirements

	2017	Q1 2018	2019
Required CET1 associated with distribution restrictions:	**8.0%**	**9.2%**	**9.9%**
Combined buffer (CBR)			
- Capital conservation	1.25%	1.88%	2.50%
- Systemic	1.00%	1.50%	1.50%
- Countercyclical	0.00%	0.03%	0.12%
Pillar 2 CET1 requirement	1.25%	1.25%	1.25%
Pillar 1 CET1 requirement	4.50%	4.50%	4.50%
BNP Paribas SA CET1, transitional (%)	11.9%	11.6%	12% FL target
Distance to CET1 requirement incl. CBR (%)	**3.9%**	**2.5%**	
Distance to CET1 requirement incl. CBR (EUR bn)	**24.9**	**15.8**	
BNP Paribas SA Tier 1, transitional (%)	13.2%	13.0%	
Required Tier 1 incl. CBR (%)	9.5%	10.7%	11.4%
Distance to Tier 1 requirement incl. CBR (%)	**3.7%**	**2.3%**	
BNP Paribas SA total capital, transitional (%)	14.8%	14.7%	
Required total capital, incl. CBR (%)	11.5%	12.7%	13.4%
Distance to total capital requirement incl. CBR (%)	**3.3%**	**2.1%**	
RWAs (EUR bn)	641	638	

Notes: Systemic Buffer = Buffer for G-SIBs, phased-in between 2016 and 2019. Countercyclical buffer, If applicable, may range from 0-2.5%. Would normally be phased in between 2016 and 2019
Source: Company data, Scope Ratings

B. Principal loss absorption

Key risk: Principal loss absorption

The notes are subject to temporary write-down as a consequence of a breach of the trigger level.

The trigger level is breached when BNPP's transitional CET1 ratio hits the 5.125% threshold.

As shown in Table 2. BNPP's distance to trigger is ample, at 650bps or EUR 41.5bn as of Q1 2018

Table 2: Distance to trigger

	Q1 2017	2018	2019
Trigger level	5.125%	5.125%	5.125%
BNP Paribas SA CET1, transitional (%)	11.9%	11.6%	
Distance to trigger (%)	**6.8%**	**6.5%**	
Distance to trigger (EUR bn)	**43.3**	**41.5**	

Source: Company data, Scope Ratings

CRÉDIT AGRICOLE SA – AT1 RATING REPORT

Security ratings	
Outlook	Stable
7.875% USD 1.75bn undated deeply subordinated additional Tier 1 notes	BBB-
6.5% EUR 1.0bn undated deeply subordinated additional Tier 1 notes	BBB-
7.5% GBP 500m undated deeply subordinated additional Tier 1 notes	BBB-
6.625% USD 1.25bn undated deeply subordinated additional Tier 1 notes	BBB-
8.125% USD 1.25bn undated deeply subordinated additional Tier 1 notes	BBB-

The ratings have not been solicited by the issuer; the analysis is based solely on public information.

Rating rationale

Scope rates at BBB-, Stable the above referenced undated deeply subordinated AT1 notes issued by Credit Agricole SA (CASA). The ratings are based on the following considerations:

- Senior unsecured debt rating (MREL/TLAC eligible): A+, Stable Outlook
- Minimum notches down from senior unsecured debt rating: 4
- Additional notches: 1

In accordance with our rating methodology, the starting point for notching down when rating capital instruments is the senior unsecured debt rating. The minimum four notches reflect the deeply subordinated status of AT1 capital instruments in the priority of claims, their going concern loss absorbing features and investors' exposure to coupon-cancellation risks. Please refer to Scope's *Bank Capital Instruments Rating Methodology* published in May 2018 for more details. The additional notch for these securities reflects some complexity in the terms of the Notes:

- There are two triggers – one for CASA consolidated (the issuer) at 5.125% and one for CA Group at 7%. The business and earnings profiles of the two entities are not identical as CA Group benefits from a greater proportion of more stable retail-related banking activities while CASA is also involved in potentially more volatile corporate and investment banking activities.
- Upon a breach of the combined buffer requirement, the relevant maximum distributable amount (MDA) would be the lower of CASA or CA Group. There is some uncertainty as to how the relevant maximum distributable amount would be calculated.

The release of this rating report does not constitute a rating action. Last rating action was assigned on 7 April 2016. For further information on the last rating action and regulatory information please click here.

Issuer credit profile

CASA is the central body of the Credit Agricole Group. The Issuer Rating of AA- for CASA is based on the credit fundamentals of the Credit Agricole Group. With cooperative and mutual roots, the group is a market leader in France pursuing a universal banking model. In recent years, management has successfully de-risked and refocused on core businesses, primarily domestic and selected international retail while leveraging its size and expertise in savings products (asset management and insurance).

As detailed in its 2016-2020 medium-term plan, the group's key priorities are to improve operational efficiency and to increase integration to cross-sell more products and services offered by CASA and other group entities to customers. This should further support and enhance the group's earnings; increasingly important in light of evolving competitive dynamics and changing customer behaviour. We note positively that the medium-term plan continues to be underpinned by a focus on core businesses and a commitment to financial prudence.

Summary terms

Issuer	Crédit Agricole SA
Issue Date	**23 January 2014**
Amount	USD 1.75bn
Coupon	• 7.875% p.a. until first call date, reset every five years thereafter at 5Y Mid-swap rate + 4.898% • Payable quarterly in arrears
Format	Undated deeply subordinated additional Tier 1 fixed rate resettable notes, callable 23 January 2024 and every five years thereafter
ISIN	US225313AD75 (Rule 144A)/ USF22797RT78 (Reg S)

Issue Date	8 April 2014
Amount	EUR 1.0bn
Coupon	• 6.5% p.a. until first call date, reset every five years thereafter at 5Y Mid-swap rate + 5.120% • Payable quarterly in arrears
Format	Undated deeply subordinated additional Tier 1 fixed rate resettable notes, callable 23 June 2021 and every five years thereafter
ISIN	XS1055037177

Issue Date	8 April 2014
Amount	GBP 500m
Coupon	• 7.5% p.a. until first call date, reset every five years thereafter at 5Y Mid-swap rate + 4.535% • Payable quarterly in arrears
Format	Undated deeply subordinated additional Tier 1 fixed rate resettable notes, callable 23 June 2026 and every five years thereafter
ISIN	XS1055037920

Issue Date	18 September 2014
Amount	USD 1.25bn
Coupon	• 6.625% p.a. until first call date, reset every five years thereafter at 5Y Mid-swap rate + 4.697% • Payable quarterly in arrears
Format	Undated deeply subordinated additional Tier 1 fixed rate resettable notes, callable 23 September 2019 and every five years thereafter
ISIN	US225313AE58 (Rule 144A)/ USF22797YK86 (Reg S)

Issue Date	19 January 2016
Amount	USD 1.25bn
Coupon	• 8.125% p.a. until first call date, reset every five years thereafter at 5Y Mid-swap rate + 6.185% • Payable quarterly in arrears
Format	Undated deeply subordinated additional Tier 1 fixed rate resettable notes, callable 23 December 2025 and every year thereafter
ISIN	US225313AJ46 (Rule 144A)/ USF2R125CD54 (Reg S)

Main Risks	
Coupon Cancellation	• Fully discretionary • Mandatory if there are insufficient Distributable Items to pay coupons on all Tier 1 capital instruments or coupons and other distributions referred to in Article 141(2) of CRD IV would exceed the maximum distributable amount (MDA) • Regulatory decision based upon an assessment of CASA's financial and solvency situation
Principal Loss Absorption	• Temporary write-down upon trigger breach. The write-down will be in an amount that when taken together with other loss absorbing instruments is sufficient to restore the relevant ratio above the trigger level. If a full write-down is not sufficient to restore the relevant ratio, then each Note will be written down to a principal amount of one cent • A write-up can occur at the issuer's discretion, i.e. after CASA records positive net income, subject to the relevant MDA on a pro rata basis with other loss absorbing instruments. • Write-down or conversion at point of non-viability (PONV)
Trigger for Principal Loss Absorption	CA Group CET1 ratio < 7% or CASA consolidated CET1 ratio < 5.125% (transitional basis)

Source: Prospectuses, Scope Ratings

Key risks

A. Coupon cancellation

Key risk: Coupon cancellation

Coupon payments on the securities are fully discretionary and are subject to distribution restrictions

Coupons are mandatorily cancelled if there are insufficient distributable items (based on issuer accounts on an unconsolidated basis) to pay coupons on all Tier 1 capital instruments (including these securities). We do not consider distributable items to be constraining factor for CASA to pay coupons. As of end-2017, distributable items were EUR 37.9bn, comprised of EUR 12.2bn in share issue premium and EUR 25.7bn in reserves.

Combined buffer requirement (CBR)

Article 141 of CRD IV imposes certain restrictions on discretionary distributions (dividends, variable remuneration and payments on AT1 securities) when the combined buffer requirement (CBR) is not met. The CBR is comprised of the capital conservation buffer, the countercyclical buffer and systemic risk buffers as applicable. To determine whether the MDA needs to be calculated, banks supervised by the ECB should meet both Pillar 1 and Pillar 2 capital requirements as well as the CBR.

When assessing whether the CBR is being met, this must be done at the level of CASA as well as CA Group. With respect to the Notes, the relevant MDA is defined as the lower of the amount resulting from the calculation at the level of CASA or CA Group. The distance to the MDA trigger level is lower for CASA and therefore this is the relevant one.

However, in the "risk factors" of the prospectuses, it highlights that in the case of a CBR breach it is not completely clear which entity's consolidated net income would be used to determine the MDA.

By 2019, we estimate that CASA will need to maintain a CET1 ratio of at least 8.6%, a Tier 1 capital ratio above 10%, and a total capital ratio above 12% to avoid distribution restrictions (Table 1). This assumes that the Pillar 2 requirement (P2R) of 1.5% does not change, the capital conservation buffer is fully phased-in to 2.5% and the countercyclical buffer does not substantially change. Due to small exposures in Sweden, Hong Kong and Norway, the countercyclical buffer is currently immaterial. In June 2018, France's High Council for Financial Stability announced that it would set a countercyclical buffer of 0.25% with effect from July 2019. Scope's projections include an estimate of the impact on the group's countercyclical buffer.

In its medium-term plan, management has set fully loaded CET1 targets of at least 11% for CASA and 16% for CA Group by end-2019.

Table 3: Estimated capital requirements for CASA

	2017	Q1 2018	2019
Required CET1 associated with distribution restrictions:	**7.3%**	**7.9%**	**8.6%**
Combined buffer (CBR)			
- Capital conservation	1.25%	1.88%	2.50%
- Systemic	0.00%	0.00%	0.00%
- Countercyclical	0.00%	0.01%	0.10%
Pillar 2 CET1 requirement	1.50%	1.50%	1.50%
Pillar 1 CET1 requirement	4.50%	4.50%	4.50%
Credit Agricole SA CET1, transitional (%)	11.7%	11.4%	≥ 11% FL target
Distance to CET1 requirement incl. CBR (%)	**4.5%**	**3.5%**	
Distance to CET1 requirement incl. CBR (EUR bn)	**13.3**	**10.3**	
Credit Agricole SA Tier 1, transitional (%)	14.1%	13.6%	
Required Tier 1 incl. CBR (%)	8.8%	9.4%	10.1%
Distance to Tier 1 requirement incl. CBR (%)	**5.4%**	**4.2%**	
Credit Agricole SA total capital, transitional (%)	18.3%	18.0%	
Required total capital, incl. CBR (%)	10.8%	11.4%	12.1%
Distance to total capital requirement incl. CBR (%)	**7.6%**	**6.6%**	
RWAs (EUR bn)	296	299	

Note: Countercyclical buffer in 2019 based on estimate of 0.25% countercyclical rate for exposures in France.
Source: Company data, Scope Ratings

Table 4: Estimated capital requirements for CA Group

	2017	Q1 2018	2019
Required CET1 associated with distribution restrictions:	**7.8%**	**8.6%**	**9.6%**
Combined buffer (CBR)			
- Capital conservation	1.25%	1.88%	2.50%
- Systemic	0.50%	0.75%	1.00%
- Countercyclical	0.00%	0.01%	0.10%
Pillar 2 CET1 requirement	1.50%	1.50%	1.50%
Pillar 1 CET1 requirement	4.50%	4.50%	4.50%
Credit Agricole Group CET1, transitional (%)	14.8%	14.6%	16% FL target
Distance to CET1 requirement incl. CBR (%)	**7.1%**	**6.0%**	
Distance to CET1 requirement incl. CBR (EUR bn)	**37.0**	**31.4**	
Credit Agricole Group Tier 1, transitional (%)	16.2%	15.9%	
Required Tier 1 incl. CBR (%)	9.3%	10.1%	11.1%
Distance to Tier 1 requirement incl. CBR (%)	**6.9%**	**5.7%**	
Credit Agricole Group total capital, transitional (%)	18.6%	18.6%	
Required total capital, incl. CBR (%)	11.3%	12.1%	13.1%
Distance to total capital requirement incl. CBR (%)	**7.4%**	**6.5%**	
RWAs (EUR bn)	522	525	

Note: CA Group is considered a G-SIB and is subject to a 1% G-SIB buffer. Countercyclical buffer in 2019 based on estimate of 0.25% countercyclical rate for exposures in France.
Source: Company data, Scope Ratings

B. Principal loss absorption

Key risk: Principal loss absorption

The mechanism for loss absorption is temporary write down.

The securities have two triggers:

- CA Group CET1 ratio < 7%, transitional basis, or
- CASA consolidated CET1 ratio < 5.125%, transitional basis

Both CASA and CA Group maintain a considerable distance to their respective trigger levels as shown below. Going forward, there may be some divergence between the two entities considering their different capital targets. Nevertheless, we would expect the distances to remain at comfortable levels. Further, due to the intragroup support mechanisms, it is unlikely that CASA's CET1 ratio would reach 5.125% before CA Group's CET1 ratio would reach 7%.

Table 3: Distance to trigger – CASA

	2017	Q1 2018	2019
Trigger level	5.1%	5.1%	5.1%
Credit Agricole SA CET1, transitional (%)	11.7%	11.3%	≥ 11% FL target
Distance to trigger (%)	**6.6%**	**6.2%**	
Distance to trigger (EUR bn)	**19.6**	**18.6**	

Source: Company data, Scope Ratings

Table 4: Distance to trigger – CA Group

	2017	Q1 2018	2019
Trigger level	7.0%	7.0%	7.0%
Credit Agricole Group CET1, transitional (%)	14.8%	14.6%	16% FL target
Distance to trigger (%)	**7.8%**	**7.6%**	
Distance to trigger (EUR bn)	**40.9**	**40.0**	

Source: Company data, Scope Ratings

SOCIÉTÉ GÉNÉRALE – AT1 RATING REPORT

Security ratings	
Outlook	Stable
8.25% USD 1.25bn undated deeply subordinated resettable interest rate notes	BBB-
7.875% USD 1.75bn undated deeply subordinated resettable interest rate notes	BBB-
6.75% EUR 1bn undated deeply subordinated resettable interest rate notes	BBB-
6% USD 1.5bn undated deeply subordinated resettable interest rate notes	BBB-
8% USD 1.25bn undated deeply subordinated resettable interest rate notes	BBB-
7.375% USD 1.5bn undated deeply subordinated resettable interest rate notes	BBB-
6.75% USD 1.25bn undated deeply subordinated AT1 fixed rate resettable callable notes	BBB-

The ratings have not been solicited by the issuer; the analysis is based solely on public information.

Rating rationale

Scope rates at BBB- with Stable Outlook the above referenced securities issued by Société Générale SA. The ratings are based on the following:

- Senior unsecured debt rating (MREL/TLAC eligible): A, Stable Outlook
- Minimum notches down from senior unsecured debt rating: 4
- Additional notches: 0

In accordance with our rating methodology, the starting point for notching down when rating capital instruments is the senior unsecured debt rating. The minimum four notches reflect the deeply subordinated status of AT1 capital instruments in the priority of claims, their going concern loss absorbing features and investors' exposure to coupon-cancellation risks. At this time, we do not see other factors which would justify additional notching beyond the minimum four. Please refer to Scope's *Bank Capital Instruments Rating Methodology* published in May 2018 for more details.

The release of this rating report does not constitute a rating action. Last rating action was assigned on 9 October 2014. For further information on the last rating action and regulatory information please click here

Issuer credit profile

The Issuer Rating of A+ on Société Générale (SocGen) reflects the group's strong and well managed retail franchises in France and Central & Eastern Europe. As well, the group's diversified universal banking business model contributes to earnings resilience although there is room for profitability to improve.

Meaningful capital markets activities and pockets of emerging markets presence (e.g. Russia, Africa) expose the group to greater risks such as the volatility inherent in these markets and the need to ensure consistent compliance and controls across diverse geographies. The ratings also recognize the significant efforts the group has undertaken to reduce risks and to strengthen prudential metrics relating to capital and liquidity.

Summary terms

Issuer	Société Générale
Issue Date	**September 2013**
Amount	USD 1.25bn
Coupon	• 8.25% fixed until first call date, reset every 5 years thereafter • After first call date, rate equal to 5-year Mid Swap Rate plus 6.394% • Payable semi-annually in arrears
Format	Undated deeply subordinated resettable interest rate notes, callable November 2018 and every 5 years thereafter
ISIN	XS0867614595

Issue Date	December 2013
Amount	USD 1.75bn
Coupon	• 7.875% fixed until first call date, reset every 5 years thereafter • After first call date, rate equal to 5-year Mid Swap Rate plus 4.979% • Payable semi-annually in arrears
Format	Undated deeply subordinated resettable interest rate notes, callable December 2023 and every 5 years thereafter
ISIN	USF8586CRW49 / US83367TBF57

Issue Date	April 2014
Amount	EUR 1.0bn
Coupon	• 6.75% fixed until first call date, reset every 5 years thereafter • After first call date, rate equal to 5-year Mid Swap Rate plus 5.538% • Payable semi-annually in arrears
Format	Undated deeply subordinated resettable interest rate notes, callable April 2021 and every 5 years thereafter
ISIN	XS0867620725

Issue Date	June 2014
Amount	USD 1.5bn
Coupon	• 6% fixed until first call date, reset every 5 years thereafter • After first call date, rate equal to 5-year Mid Swap Rate plus 4.067% • Payable semi-annually in arrears
Format	Undated deeply subordinated resettable interest rate notes, callable January 2020 and every 5 years thereafter
ISIN	USF8586CXG25 / US83367TBH14

Issue Date	September 2015
Amount	USD 1.25bn
Coupon	• 8% fixed until first call date, reset every 5 years thereafter • After first call date, rate equal to 5-year Mid Swap Rate plus 5.873% • Payable semi-annually in arrears
Format	Undated deeply subordinated resettable interest rate notes, callable September 2025 and every 5 years thereafter
ISIN	US83368JFA34 / USF43628B413

Issue Date	September 2016
Amount	USD 1.5bn
Coupon	• 7.375% fixed until first call date, reset every 5 years thereafter • After first call date, rate equal to 5-year Mid Swap Rate plus 6.238% • Payable semi-annually in arrears
Format	Undated deeply subordinated resettable interest rate notes, callable September 2021 and every 5 years thereafter
ISIN	USF43628C734 / US83368JKG49

Issue Date	April 2018
Amount	USD 1.25bn
Coupon	• 6.75% fixed until first call date, reset every 5 years thereafter • After first call date, rate equal to 5-year Mid Swap Rate plus 3.929% • Payable semi-annually in arrears
Format	Undated deeply subordinated resettable interest rate notes, callable April 2028 and every 5 years thereafter
ISIN	USF8586CBQ45 / US83367TBU25

Main Risks	
Coupon Cancellation	• Fully discretionary • Mandatory if coupon payments on all own funds instruments (a) would exceed the Distributable Items of the issuer; or (b) would cause the Maximum Distributable Amount (MDA) then applicable to the issuer to be exceeded.
Principal Loss Absorption	• If the group's CET1 ratio falls below the trigger, the issuer needs to reduce the current principal amount of each note by the relevant write-down amount, either (1) in a sufficient proportion to bring the CET1 ratio above the trigger; or (2) if (1) is insufficient to bring the CET1 ratio above the trigger level, then by an amount necessary to reduce the current principal amount of the note to one cent. • If a positive consolidated net income is recorded at any time ("return to financial health") then the issuer may at its full discretion and subject to the MDA, increase the current principal amount of each note up to a maximum of the original principal amount on a pro-rata basis with the other notes. • Resolution authorities may reduce the principal amount of the notes to zero on a permanent basis at the point of non-viability (PONV) defined as (1) the institution failing or likely to fail; (2) there is no reasonable prospect that private action would prevent the failure and (3) a resolution action is necessary in the public interest.
Trigger for Principal Loss Absorption	Consolidated group CET1 ratio < 5.125% on a transitional basis

Source: Prospectuses, Scope Ratings

Key risks

A. Coupon cancellation

Key risk: Coupon cancellation

Coupon payments are fully discretionary and are subject to distribution restrictions.

Coupon payments on the securities are fully discretionary and are subject to distribution restrictions. As well, coupons are mandatorily cancelled if there are insufficient distributable items (based on issuer accounts on an unconsolidated basis) or if payments exceed the Maximum Distributable Amount (MDA). The MDA is calculated when the issuer does not meet its combined buffer requirement.

We do not consider distributable items to be a constraining factor for SocGen to pay coupons. As of year-end 2017, SocGen had available distributable items of EUR 13.4bn.

Combined buffer requirement (CBR)

Article 141 of CRD IV imposes certain restrictions on discretionary distributions (dividends, variable remuneration and payments on AT1 securities) when the combined buffer requirement (CBR) is not met. The CBR is comprised of the capital conservation buffer, the countercyclical buffer and systemic risk buffers as applicable. To determine whether the MDA needs to be calculated, banks supervised by the ECB should meet both Pillar 1 and Pillar 2 capital requirements as well as the CBR.

By 2019, we estimate that SocGen will need to maintain a CET1 ratio of at least 9.7%, a Tier 1 capital ratio above 11%, and a total capital ratio above 13% to avoid distribution restrictions (Table 1). This assumes that the Pillar 2 requirement of 1.5% does not change and the capital conservation buffer is fully phased-in to 2.5%. In June 2018, France's High Council for Financial Stability announced that it would set a countercyclical buffer of 0.25% with effect from July 2019. In our projections below, we have included an estimate of the impact on SocGen's countercyclical buffer.

While the group's CET1 position in 1Q 2018 was negatively impacted by the implementation of IFRS 9 and payments related to resolution and deposit guarantee funds, management targets a CET1 ratio of 11.5% in 2018 and at least 12% for 2020 and beyond.

Table 1: Distance to estimated capital requirements

	2017	Q1 2018	2019
Required CET1 associated with distribution restrictions	**7.8%**	**8.7%**	**9.7%**
Combined buffer (CBR)			
- Capital conservation	1.25%	1.88%	2.50%
- Systemic	0.50%	0.75%	1.00%
- Countercyclical	0.05%	0.07%	0.20%
Pillar 2 CET1 requirement	1.50%	1.50%	1.50%
Pillar 1 CET1 requirement	4.50%	4.50%	4.50%
Societe Generale Group CET1, transitional (%)	11.6%	11.3%	
Distance to CET1 requirement incl. CBR (%)	**3.8%**	**2.6%**	
Distance to CET1 requirement incl. CBR (EUR bn)	**13.3**	**9.3**	
Societe Generale Group Tier 1, transitional (%)	14.0%	13.6% fully loaded	
Required Tier 1, incl. CBR (%)	9.3%	10.2%	11.2%
Distance to Tier 1 requirement incl. CBR (%)	**4.7%**	**3.4%**	
Societe Generale Group total capital, transitional (%)	17.2%	16.8% fully loaded	
Required total capital, incl. CBR (%)	11.3%	12.2%	13.2%
Distance to total capital requirement incl. CBR (%)	**5.9%**	**4.6%**	
RWAs (EUR bn)	353	356	

Note: Countercyclical buffer in 2019 includes an estimate based on a 0.25% countercyclical buffer for French exposures.
Source: Company data, Scope Ratings

B. Principal loss absorption

Key risk: Principal loss absorption

The mechanism for loss absorption is temporary writedown.

The securities have one trigger:

- consolidated group CET1 ratio < 5.125% on a transitional basis

Pursuant to the terms and conditions of the notes, the principal amount of the notes will be written down when SocGen's consolidated CET1 ratio breaches the 5.125% trigger. The CET1 ratio used to determine whether the trigger has been breached reflects the group's insurance activities through the computation of RWAs rather than through deductions (i.e. the Danish compromise). At its discretion, the group may write-up the principal amount of the notes if it reports a profit, subject to the constraint of the MDA.

Distance to trigger

As of 31 March 2018, SocGen's transitional CET1 ratio was 11.3%, well above the trigger of 5.125% (Table 2). Considering the group's minimum CET1 requirements (SREP plus G-SIB buffer) and management's 12% plus CET1 target (for 2020), we expect the group to remain solidly positioned against the trigger level.

Table 2: Distance to trigger

	2017	Q1 2018	2019
Trigger level	5.125%	5.125%	5.125%
Societe Generale Group CET1, transitional (%)	11.6%	11.3%	
Distance to trigger (%)	**6.4%**	**6.2%**	
Distance to trigger (EUR bn)	**22.8**	**22.0**	

Source: Company data, Scope Ratings

DEUTSCHE BANK AG – AT1 RATING REPORT

Securities ratings

Outlook	Negative
6% EUR 1.75bn undated non-cumulative fixed to reset rate Additional Tier 1 notes	B
6.25% USD 1.25bn undated non-cumulative fixed to reset rate Additional Tier 1 notes	B
7.125% GBP 0.65bn undated non-cumulative fixed to reset rate Additional Tier 1 notes	B
7.50% USD 1.5bn undated non-cumulative fixed to reset rate Additional Tier 1 notes	B

The ratings were not solicited by the issuer; the analysis is based solely on public information.

Rating rationale

Scope assigns a rating of B, with Negative Outlook, to the above-referenced, undated non-cumulative fixed to reset rate AT1 notes issued by Deutsche Bank AG. The ratings are based on the following:

- Senior unsecured debt rating (MREL/TLAC eligible): BBB, Negative Outlook
- Minimum notches down from senior unsecured debt rating: 4
- Additional notches: 2

In accordance with our rating methodology, the starting point for notching down when rating capital instruments is the senior unsecured debt rating. The minimum four notches reflect the deeply subordinated status of AT1 capital instruments in the priority of claims, their going-concern loss-absorbing features and investors' exposure to coupon-cancellation risks.

At this time, we see other factors which justify the additional notching beyond the minimum four:

- Deutsche Bank's Available Distributable Items (ADIs) strike us as comparatively low;
- The distance to the combined buffer requirement (CBR) has, for some time, been low compared to our rated peers and the bank's capital accumulation capabilities are somewhat doubtful, especially in light of its earnings performance over the past years. The advantage deriving from the 2017 EUR 8bn capital increase has been partially eroded and, given the group's poor tack record with regard to stable profitability to drive capital accretion, we see the sustainability of a CET1 ratio above 13% at risk.

Please also refer to Scope's *Bank Capital Instruments Rating Methodology* published in May 2018 for more details.

The release of this rating report does not constitute a rating action. The last rating action was assigned on 6 June 2018. For further information on the last rating action and regulatory information please click here

Issuer credit profile

The Issuer Rating of BBB+ on Deutsche Bank reflects our view that the group's business model and financial recalibration remain less than reassuring, which could affect a return to healthier profitability and more sustainable growth in business volumes.

Deutsche Bank's Strategy 2020 agenda, which is ongoing since 2015, was updated in March 2017 and should gradually address many of the intrinsic weaknesses in Deutsche Bank's business model and fundamentals. Nevertheless, the process of business-model streamlining, cost-cutting, further deleveraging and capacity reduction has already taken a toll on medium-term profitability and is likely to continue to do so.

Summary terms

Issuer	Deutsche Bank
Issue date	**May 2014**
Amount	EUR 1.75bn
Coupon	• 6% fixed until first call date, reset every five years thereafter • After first call date, rate equal to 5Y EUR swap rate plus 4.698% • Payable annually
Format	Undated non-cumulative additional Tier 1 notes, callable on 30 April 2022 and every five years thereafter
ISIN	DE000DB7XHP3

Issue date	May 2014
Amount	USD 1.25bn
Coupon	• 6.25% fixed until first call date, reset every five years thereafter • After first call date, rate equal to 5Y USD swap rate plus 4.358% • Payable annually
Format	Undated non-cumulative additional Tier 1 notes, callable on 30 April 2020 and every five years thereafter
ISIN	XS1071551474

Issue date	May 2014
Amount	GBP 0.65bn
Coupon	• 7.125% fixed until first call date, reset every five years thereafter • After first call date, rate equal to 5Y GBP swap rate plus 4.257% • Payable annually
Format	Undated non-cumulative additional Tier 1 notes, callable on 30 April 2026 and every five years thereafter
ISIN	XS1071551391

Issue date	November 2014
Amount	USD 1.5bn
Coupon	• 7.50% fixed until first call date, reset every five years thereafter • After first call date, rate equal to 5Y USD swap rate plus 5.003% • Payable annually
Format	Undated non-cumulative additional Tier 1 notes, callable on 30 April 2025 and every five years thereafter
ISIN	US251525AN16

Main risks	
Coupon Cancellation	• Fully discretionary • Mandatory if coupon payments on all own funds instruments a) would exceed the Distributable Items of the issuer; or b) would cause the Maximum Distributable Amount (MDA) then applicable to the issuer to be exceeded. Cancellation is also subject to the competent supervisory authority's decision, or another prohibition of distribution is imposed by law or an authority.
Principal loss absorption	• If the group's CET1 ratio falls below the trigger level, the issuer must reduce the current principal amount of each note by the relevant write-down amount, in a sufficient proportion to bring the CET1 ratio above the trigger • If an annual profit is recorded at any time then the issuer may, at its full discretion and subject to the MDA, increase the current principal amount of each note up to a maximum of the original principal amount on a pro-rata basis with the other notes, provided such a write-up would not increase the annual loss. • Resolution authorities may reduce the principal amount of the notes to zero on a permanent basis or convert the notes into CET1 capital at the point of non-viability (PONV) or in any case in the context of regulatory bail-in.
Trigger for principal loss absorption	Consolidated group CET1 < 5.125% on a transitional basis

Source: Prospectuses, Scope Ratings

Key risks

A. Coupon cancellation

Key risk: coupon cancellation

Coupon payments are fully discretionary and are subject to distribution restrictions.

Coupon payments on the securities are fully discretionary and are subject to distribution restrictions. Moreover, coupons are mandatorily cancelled if there are insufficient distributable items (based on issuer accounts on an unconsolidated basis) or if payments exceed the MDA. The MDA is calculated if the issuer does not meet its Combined Buffer Requirement (CBR).

Available Distributable Items

The ability for Deutsche to pay coupons on its AT1 notes will depend on its ability to generate enough Available Distributable Items (ADIs) at the parent company level. Deutsche's ADIs are calculated as:

The distributable profit at the parent level, which under German GAAP accounting principles includes both the year's net income and the profit carried forward, plus revenue reserves. Part of this amount is, however, blocked, as non-distributable reserves (e.g. share premium account, internally generated intangible assets and deferred tax liabilities) must be deducted. The resulting ADIs are then added to the prior year's interest expenses on CRR-compliant and legacy Additional Tier 1 instruments.

Table 1: Available Distributable Items Deutsche Bank AG parent company 2014-2017, EUR m

	YE2014	YE2015	YE2016	YE2017
Distributable Profit	1,169	165	447	399
Other revenue reserves after net income attribution	6,332	6,323	6,280	6,560
Net distributable profit / Total dividend potential	7,501	6,488	6,727	6,959
Minus non-distributable reserves (dividend amount blocked § 268 Abs. 8 HGB)	5,483	6,254	6,213	6,562
= ADIs	2,018	234	514	397
+ Increase for interest expenses on T1 instruments	852	858	724	694
Total amount available for interest payments on T1 instruments (ADIs)	2,870	1,092	1,238	1,091

Source: Company data, Scope Ratings

We estimate that Deutsche Bank paid ca. EUR 320mn in coupons on new AT1s on 30 April 2018, while we estimate the coupons paid (and to be paid) on legacy instruments during 2018 to be ca. EUR 170m, taking into consideration the call of two instruments in January and May 2018. Despite being sufficient, compared to other issuers, Deutsche Bank ADIs strike us as comparatively low.

Combined Buffer Requirement (CBR)

Article 141 of CRD IV imposes certain restrictions on discretionary distributions (dividends, variable remuneration and payments on AT1 securities) if the CBR is not met. The CBR comprises the capital conservation buffer, the countercyclical buffer and systemic risk buffers as applicable. The MDA needs to be calculated, if banks supervised by the ECB do not meet both Pillar 1 and Pillar 2 capital requirements as well as the CBR.

By 2019, we estimate that Deutsche Bank will need to maintain a CET1 ratio of at least 11.8%, a Tier 1 capital ratio of 13.3%, and a total capital ratio of 15.3% to avoid distribution restrictions (Table 1). This assumes that the Pillar 2 requirement of 2.75% does not change, the capital conservation buffer is fully phased-in to 2.5% and the countercyclical buffer remains around 0.02%.

Deutsche Bank is currently subject to a 2% G-SII buffer requirement in 2019 and an O-SII buffer of 2% to be met in 2019 as well, but with different phase-in steps. According to Article 131.14 of CRD IV, the higher of the two applies, which in 2018 is the G-SII at 1.50%.

The group’s capital position benefited from the EUR 8bn capital increase completed in April 2017 and recorded in Q3 2017, which added 200 bps to the CET1 ratio (both under transitional rules and fully-loaded)[2].

Q1 2018 CET1 ratio stood at 13.4%, 270 bps above the requirement (including the CBR), reflecting some one-off effects as IFRS9 day-one in negative and DWS minority sale in positive. Management targets a ratio “comfortably” above 13%.

[2] As of 1 January 2018, with the phasing-in of 100% transitional adjustments and the exclusion of minority interest, CET1 under transitional rules and on a fully-loaded basis converged. Also, transitional rules for the recognition of equity investments in risk-weighted assets expired.

Table 2: Distance to estimated capital requirements

	2017	Q1 2018	2019
Required CET1 associated with distribution restrictions	**9.5%**	**10.6%**	**11.8%**
Combined buffer (CBR)			
- Capital conservation	1.25%	1.88%	2.50%
- Systemic (G-SII)	1.00%	1.50%	2.00%
- Countercyclical	0.02%	0.02%	0.02%
Pillar 2 CET1 requirement	2.75%	2.75%	2.75%
Pillar 1 CET1 requirement	4.50%	4.50%	4.50%
Deutsche Bank AG CET1, transitional (%)	14.8%	13.4%	Target >13%
Distance to CET1 requirement incl. CBR (%)	**5.3%**	**2.7%**	
Distance to CET1 requirement incl. CBR (EUR bn)	**18.1**	**9.6**	
Deutsche Bank AG Tier 1, transitional (%)	16.8%	15.8%	
Required Tier 1 incl. CBR (%)	11.0%	12.1%	13.3%
Distance to Tier 1 requirement incl. CBR (%)	**5.8%**	**3.6%**	
Deutsche Bank AG total capital, transitional (%)	18.6%	17.5%	
Required total capital, incl. CBR (%)	13.0%	14.1%	15.3%
Distance to total capital requirement incl. CBR (%)	**5.6%**	**3.4%**	
RWAs (EUR bn)	343	354	

Source: Company data, Scope Ratings

B. Principal loss absorption

Key risk: principal loss absorption

The mechanism for loss absorption is temporary write-down.

The securities have one trigger:

- 5.125% CET1 ratio, transitional basis

At its discretion, the group may write up the principal amount of the notes if it reports a profit, subject to the constraint of the MDA.

Distance to trigger

As of 31 March 2018, Deutsche Bank's CET1 ratio was 13.4%, well above the trigger of 5.125% (Table 2). Considering the group's minimum CET1 requirements (SREP plus G-SIB buffer) and management's 13% plus CET1 target, we expect the group to remain solidly positioned with regard to the trigger level.

Table 3: Distance to trigger

	2017	Q1 2018	2019
Trigger level	5.125%	5.125%	5.125%
Deutsche Bank AG CET1, transitional (%)	14.8%	13.4%	Target >13%
Distance to trigger (%)	**9.7%**	**8.2%**	
Distance to trigger (EUR bn)	**33.2**	**29.2**	

Based on EUR 343bn in risk-weighted assets as of YE2017 and EUR 354bn in risk-weighted assets at Q1 2018

Source: Company data, Scope Ratings

INTESA – AT1 RATING REPORT

Security ratings

Outlook	Stable
7.7% USD 1.0bn perpetual AT 1 notes (September 2015) temporary write-down on 5.125% trigger	BB+
7% EUR 1.25bn perpetual AT 1 notes (January 2016) temporary write-down on 5.125% trigger	BB+
7.75% EUR 1.25bn perpetual AT 1 notes (January 2017) temporary write-down on 5.125% trigger	BB+
6.25% EUR 750m perpetual AT 1 notes (May 2017) temporary write-down on 5.125% trigger	BB+

The ratings were not solicited by the issuer; the analysis is based solely on public information.

Rating rationale

Scope rates the above securities issued by Intesa at BB+/Stable. The ratings are based on the following:

- Senior non-preferred unsecured debt rating (MREL eligible): A-, Stable Outlook
- Minimum notches down from senior unsecured debt rating: 4
- Additional notches: 0

In accordance with our rating methodology, the starting point for notching down when rating capital instruments is provided by the senior unsecured debt rating. The minimum four notches reflect the deeply subordinated status of AT1 capital instruments in the priority of claims, their going-concern loss-absorbing features and investors' exposure to coupon-cancellation risks. Please refer to Scope's *Bank Capital Instruments Rating Methodology* published in May 2018 for more details.

The lack of additional notching for these securities reflects the following considerations:

1. Intesa has a very strong capital position, and according to our estimates will have a buffer of over EUR 23bn to the trigger at group level at the end of Q1 2018. Although the notes carry a separate trigger on the parent company's CET1 ratio, we deem this to be irrelevant given that the parent company is very well capitalised.
2. We consider it unnecessary to add further notches for coupon-cancellation risk. There are significant buffers to both the Pillar 1 CBR and the total SREP requirements, and we estimate that Intesa has ample distributable items, which should not represent a constraint to coupon payments. The recent separation of Pillar 2 requirements and guidance has further reduced the coupon-cancellation risk for Intesa's AT1 securities.

The release of this rating report does not constitute a rating action. The last rating action was assigned on 15 June 2017. For further information on the last rating action and regulatory information please click here.

Issuer credit profile

Intesa Sanpaolo SpA has an issuer rating of A, with a Stable Outlook

The ratings are driven by Intesa's strong capital position and resilient profitability despite the challenging operating environment in Italy, where 81% of the loan portfolio is based. The group has been the leading retail and commercial bank in Italy since the merger of Intesa BCI and San Paolo IMI in 2007. Group earnings and asset quality have suffered from the weak domestic economic environment in the past, but pre-provision profitability has been resilient, and the group has remained profitable if we exclude large write-downs of goodwill in 2011 and 2013.

Although it has operations in Central and Eastern Europe, Intesa's primarily domestic-based operations, combined with significant holdings in Italian sovereign debt, mean it is particularly exposed to market confidence in Italian banks and Italy in general.

In January 2018, following the introduction of a new category of non-preferred senior debt by the Italian government's 2018 budget law, Scope Ratings upgraded the institution's senior unsecured debt not eligible for MREL from A- to A and assigned a rating of A- to Intesa's senior unsecured debt eligible for MREL. The latter rating is the relevant starting point for notching down when rating capital instruments.

Summary terms

Issuer	Intesa
Issue date	**17 September 2015**
Amount	USD 1bn
Coupon	• 7.70% from 17 September 2015 to 17 September 2025, then 5y USD mid-swap + 5.462% • Paid semi-annually (March 2017 and September 2017)
Format	• Non-cumulative temporary write-down deeply subordinated fixed-rate resettable notes (perpetual) • Redeemable at the option of the bank, subject to regulatory consent, in case of change in capital treatment or tax treatment • Redeemable at the sole option of the bank, subject to regulatory consent, from first call date (17 September 2025)
ISIN	US46115HAU14/ US46115HAV96/ IT0005136251/ IT0005136269

Issue date	19 January 2016
Amount	EUR 1.25bn
Coupon	• 7.0% from 19 January 2016 to 19 January 2021, then 5y EUR mid-swap + 6.884% • Paid semi-annually (January 2019 and July 2019)
Format	• Non-cumulative temporary write-down deeply subordinated fixed-rate resettable notes (perpetual) • Redeemable at the option of the bank, subject to regulatory consent, in case of regulatory event (change in classification) or change in tax treatment; • Redeemable at the sole option of the bank, subject to regulatory consent, from first reset date (19 January 2021)
ISIN	XS1346815787

Issue date	11 January 2017
Amount	EUR 1.25bn
Coupon	• 7.75% from 11 January 2017 to 11 January 2027, then 5y EUR mid-swap + 7.192% • Paid semi-annually (January 2011 and July 2011)
Format	• Non-cumulative temporary write-down deeply subordinated fixed-rate resettable notes (perpetual) • Redeemable at the option of the bank, subject to regulatory consent, in case of regulatory event (change in classification) or change in tax treatment • Redeemable at the sole option of the bank, subject to regulatory consent, from first reset date (11 January 2027)
ISIN	XS1548475968

Issue date	16 May 2017
Amount	EUR 750m
Coupon	• 6.25% from 16 May 2017 to 16 May 2024, then 5y EUR mid-swap + 5856% • Paid semi-annually (May 2016 and November 2016)
Format	• Non-cumulative temporary write-down deeply subordinated fixed-rate resettable notes (perpetual) • Redeemable at the option of the bank, subject to regulatory consent, in case of regulatory event (change in classification) or change in tax treatment (upon occurrence of a tax event) • Redeemable at the sole option of the bank, subject to regulatory consent, from first reset date (16 May 2024)
ISIN	XS1614415542

Main risks	
Coupon cancellation	• Fully discretionary • Mandatory if Available Distributable Items are insufficient • Mandatory if distributions exceed the Maximum Distributable Amount • Mandatory if relevant authority orders the issuer to cancel relevant interest payments
Principal loss absorption	• Temporary write-down upon trigger event: reduction of current principal amount of each note by the relevant write-down amount (pro rata for other notes and equal loss-absorbing instruments). • Permanent write-down or conversion to equity at the point of non-viability
Trigger for principal loss absorption	• CRD IV transitional CET1 ratio (group) < 5.125% or • CRD IV transitional CET1 ratio (Intesa Sanpaolo Spa) < 5.125%

Source: Prospectus, Scope Ratings

Key risks

A. Coupon cancellation

Key risk: coupon cancellation

Coupon payments are fully discretionary and subject to distribution restrictions

Coupon payments on the securities are fully discretionary and are subject to supervisory distribution restrictions. Coupons are mandatorily cancelled if there are insufficient distributable items or if payments exceed the Maximum Distributable Amount (MDA). The MDA is calculated if the issuer does not meet its combined buffer requirement.

We see no need for further notching for coupon-cancellation risk due to the comfortable distance to both CBR and SREP requirements, the sufficiency of Available Distributable Items (ADIs), and significant managerial flexibility to adjust dividend policy if needed.

Available Distributable Items (ADIs)

The concept of ADI is defined in the Capital Requirements Regulation (CRR; article 4.1-128) as "the amount of the profits at the end of the last financial year plus any profits brought forward and reserves available for that purpose before distributions to holders of own funds instruments less any losses brought forward, profits which are non-distributable pursuant to provisions in legislation or the institution's by-laws and sums placed to non-distributable reserves in accordance with applicable national law or the statuses of the institution, those losses and reserves being determined on the basis of the individual accounts of the institution and not on the basis of the consolidated accounts".

Intesa has only disclosed ADIs of EUR24bn as of YE 2014. We estimate that this figure has not changed much since, given that the bank has been distributing most of its profit to shareholders.

Combined Buffer Requirement (CBR)

The CRD4-CRR restrictions on discretionary distributions, effective from 1 January 2016, are based on transitional CET1 requirements. The restrictions apply when CET1 capital falls below the CBR, defined as the sum of the capital conservation buffer, the countercyclical buffer and systemic risk buffers as applicable.

These buffers are in addition to Pillar 1 and Pillar 2 requirements, while the Pillar 2 guidance does not affect the level at which the Maximum Distributable Amount needs to be calculated.

Helpfully for investors, banks disclose their capital requirements stemming from the Supervisory Review and Evaluation Process (SREP). The SREP capital requirement comprises the minimum Pillar 1 CET1 requirement and an institution-specific Pillar 2 CET1 requirement for risks not covered explicitly under CRD IV.

For 2018, Intesa has disclosed a CET1 requirement, including CBR, of 8.14%. This is higher than the corresponding requirement in 2017, largely due to the increase in the capital conservation buffer to 1.875% (from 1.25% in 2017) and the introduction of an O-SII buffer of 0.19% (which is set to rise to 0.75% through 2021), due to its status as a domestically systemically important institution. The new CET1 requirement for Intesa also includes a 0.07% countercyclical buffer and a Pillar 2 requirement of 1.5%.

Table 1: Distance to estimated capital requirements

	2017	Q1 2018	2019
Required CET1 associated with distribution restrictions	**7.3%**	**8.1%**	**9.0%**
Combined buffer (CBR)			
- Capital conservation	1.25%	1.88%	2.50%
- Systemic	0.00%	0.19%	0.38%
- Countercyclical	0.00%	0.07%	0.08%
Pillar 2 CET1 requirement	1.50%	1.50%	1.50%
Pillar 1 CET1 requirement	4.50%	4.50%	4.50%
Intesa SanPaolo Group CET1, transitional (%)	13.3%	13.3%	
Distance to CET1 requirement incl. CBR (%)	**6.0%**	**5.1%**	
Distance to CET1 requirement incl. CBR (EUR bn)	**17.3**	**14.5**	
Intesa SanPaolo Group Tier 1, transitional (%)	15.2%	15.2%	
Required Tier 1 incl. CBR (%)	8.8%	9.6%	
Distance to Tier 1 requirement incl. CBR (%)	**6.4%**	**5.6%**	
Intesa SanPaolo Group total capital, transitional (%)	17.9%	18.0%	
Required total capital, incl. CBR (%)	10.8%	11.6%	
Distance to total capital requirement incl. CBR (%)	**7.2%**	**6.3%**	
RWAs (EUR bn)	287	282	

Source: SNL, Company data, Scope Ratings

In terms of this requirement, Intesa's solvency position is very strong: its transitional CET1 ratio in March 2018 stood at 13.3%, giving Intesa ample distance to the CBR.

In Q1 2018, the distance to the CBR was 5.1%, down from 6% in 2017 as a result of the phasing-in of the buffers. Scope expects this distance to continue to decline in the coming years, although it also notes that Intesa's high profitability affords a strong capacity to build up capital if needed.

It is worth noting that, while investors have mostly focused on CET1 requirements in the past, banks must comply with all capital requirements at all times before CET1 capital can be allocated in accordance with CBR buffers. In other words, if a bank does not have sufficient AT1 or Tier 2 capital or MREL, CET1 instruments can be used to fill the shortfall instead, provided the same capital has not been used twice.

As a result, monitoring of coupon-cancellation risk has to take into account any weakness in the bank's capital structure, as this could lead to the CBR not being met and the MDA calculation being activated.

As shown in Table 1, all of Intesa's capital ratios are strong and the distance to the CBR is even larger for the total capital ratio than it is for the CET1 ratio.

B. Principal loss absorption

Key risk: principal loss absorption

The mechanism for loss absorption is temporary write-down.

The securities have a 5.125% CET1 trigger, where CET1 capital is based on transitional rules. The trigger applies both to the Intesa Sanpaolo group and Intesa as parent company.

We see no need for further notching for principal-loss-absorption risk due to the comfortable distance to triggers as well as the significant managerial flexibility to adjust dividend policy.

Distance to trigger

The distance to the trigger for the group stands at 8.2% in Q1 2018. We believe that this distance is set to decline slightly, both in the percentage of risk-weighted assets and in absolute terms. Intesa has targeted a CET1 ratio of 13.1% in 2021 and has, in the past few years, returned excess capital to shareholders through a generous dividend policy.

Table 2: Distance to trigger

	2017	Q1 2018	2019
Trigger level	5.125%	5.125%	5.125%
Intesa SanPaolo Group CET1, transitional (%)	13.3%	13.3%	
Distance to trigger (%)	**8.1%**	**8.2%**	
Distance to trigger (EUR bn)	**23.4**	**23.0**	

Source: SNL, Company data, Scope Ratings

The parent company had an even stronger CET1 ratio of 18.7% at the end of 2017 As Intesa's operations are almost entirely based in the EU, the risk of regulatory ringfencing of capital is very remote; we believe that the risk of the two reference entities diverging materially in terms of capital evolution is insignificant.

COÖPERATIEVE RABOBANK U.A. – AT1 RATING REPORT

Security ratings	
Outlook	Stable
5.5% EUR 1.5bn perpetual AT1 contingent temporary write down capital securities	BBB-
6.625% EUR 1.25bn perpetual AT1 contingent temporary write down capital securities	BBB-

The ratings were not solicited by the issuer; the analysis is based solely on public information.

Rating rationale

Scope assigns a rating of BBB-, with Stable Outlook, to the above referenced contingent temporary write down AT1 securities issued by Rabobank. The ratings are based on the following:

- Senior unsecured debt: A+, Stable Outlook
- Minimum notches down from the senior unsecured debt rating: 4
- Additional notches: 1

In accordance with our rating methodology, the starting point for notching down when rating capital instruments is the senior unsecured debt rating. The minimum four notches reflect the deeply subordinated status of AT1 capital instruments in the priority of claims, their going-concern loss-absorbing features and investors' exposure to coupon-cancellation risks.

The additional notch for these securities reflects the following:

- The existence of two write-down triggers based on CET1 transitional ratios: one to be met on a consolidated basis (Rabobank Group) at 7% and one on an unconsolidated basis at 5.125%.
- Two sets of minimum capital requirements relevant for distribution restrictions, on a consolidated and unconsolidated basis. Upon (any) breach of the Combined Buffer Requirement (CBR), the Maximum Distributable Amount (MDA) may have to be calculated at both levels, and uncertainty remains as to which amount would be the relevant one.
- The presence of requirements and a trigger at the issuer level reduces the benefits deriving from the diversification of activities and links the risk of these securities to Rabobank's earnings capacity in its domestic market.
- Please also refer to Scope's *Bank Capital Instruments Rating Methodology* published in May 2018 for more details.

The release of this rating report does not constitute a rating action. Last rating action was assigned on 15.06.2017. For further information on the last rating action and regulatory information please click here.

Issuer credit profile

The Issuer Rating of AA- for Rabobank reflects the group's position in the Netherlands as a leading and relatively low-risk cooperative bank as well as its prime positioning in the global food and agricultural business. The group enjoys a reputation for being prudently managed, and this is reflected in its robust capital position and resilient performance throughout the financial crisis. Scope has a positive view of management's efforts to adapt the group and its business to a changing operating and regulatory environment as demonstrated by the good progress made in balance sheet optimisation and the continuous focus on cost reduction.

Summary terms

Issuer	Coöperatieve Rabobank U.A.
Issue Date	**January 2015**
Amount	EUR 1.5bn
Coupon	• 5.50% fixed until first call date, reset every five years thereafter • After first call date, rate equal to 5Y mid-market EUR swap rate plus 5.25% • Payable semi-annually
Format	• Perpetual Additional Tier 1 contingent temporary write-down capital securities, callable on 20 June 2020 and every interest payment date thereafter
ISIN	XS1171914515

Issue Date	April 2016
Amount	EUR 1.25bn
Coupon	• 6.625% fixed until first call date, reset every five years thereafter • After first call date, rate equal to 5Y mid-market EUR swap rate plus 6.697% • Payable semi-annually
Format	• Perpetual Additional Tier 1 contingent temporary write-down capital securities, callable on 29 June 2021 and every interest payment date thereafter
ISIN	XS1400626690

Main Risks	
Coupon Cancellation	• Fully discretionary • Mandatory if coupon payments on all own funds instruments a) would exceed the Distributable Items of the issuer; or b) would cause the Maximum Distributable Amount (MDA) then applicable to the issuer to be exceeded. Cancellation is also subject to the competent supervisory authority's decision.
Principal Loss Absorption	• If Rabobank's CET1 ratio (on a consolidated basis) falls below the trigger level (7%) and/or the CET1 calculated on an unconsolidated basis falls below 5.125%, the issuer must reduce the current principal amount of each note by the relevant write-down amount, in a sufficient proportion to bring the CET1 ratios above the triggers or to reduce the principal amount to one cent • The issuer may, at its full discretion and subject to the MDA, increase the current principal amount of each note up to a maximum of the original principal amount on a pro-rata basis with the other notes • Resolution authorities may reduce the principal amount of the notes to zero on a permanent basis or convert the notes into CET1 capital at the point of non-viability (PONV) or in any case in the context of regulatory bail-in.
Trigger for Principal Loss Absorption	Rabobank Group CET1 ratio < 7% and/or Local Rabobank Group CET1 ratio < 5.125% on a transitional basis

Source: Prospectuses, Scope Ratings

Key risks

A. Coupon cancellation

Key risk: Coupon cancellation

Coupon payments on the securities are fully discretionary and are subject to distribution restrictions.

Coupon payments on the securities are fully discretionary and are subject to distribution restrictions. Furthermore, coupons are mandatorily cancelled if there are insufficient distributable items (based on issuer accounts on an unconsolidated basis) or if payments exceed the MDA. The MDA is calculated if the issuer does not meet its CBR.

Available Distributable Items (ADI)

Coupons are mandatorily cancelled if available distributable items are insufficient. On 31 December 2017 Rabobank's ADIs stood at EUR 25.4bn.

Combined Buffer Requirement (CBR)

Article 141 of CRD IV imposes certain restrictions on discretionary distributions (dividends, variable remuneration and payments on AT1 securities) if the CBR is not met. The CBR is composed of the capital conservation buffer, the countercyclical buffer and systemic risk buffers as applicable. The MDA needs to be calculated, if banks supervised by the ECB do not meet both Pillar 1 and Pillar 2 capital requirements as well as the CBR.

Rabobank is subject to a double requirement: at Rabobank Group level, including subsidiaries, and on an unconsolidated basis, hence excluding subsidiaries (the Local Rabobank Group).

Rabobank Group

By 2019 we estimate that Rabobank Group will need to maintain a CET1 ratio (relevant for distribution restrictions) of at least 11.75%, a Tier 1 capital ratio of 13.25% and a total capital ratio of 15.25%. This assumes an unchanged Pillar 2 requirement, the phasing in of the capital conservation and systemic risk buffer and no countercyclical buffer will be imposed.

As of YE2017 Rabobank Group's CET1 ratio stood at 15.8% on a transitional basis, 540 bps above the 2018 requirement, and 15.5% on a fully loaded basis (510 bps). The management has targeted a minimum CET1 ratio of above 14% by 2020 and a total capital ratio of above 25%.

To date, the distance to these requirements is at the top end of our rated banks, in particular the total capital ratio. This is consistent with Rabobank's success in building a sizeable buffer, at present mostly comprising CET1 capital and capital instruments, in order to protect senior unsecured bondholders.

Table 1: Distance to Combined Buffer Requirement

	2017	2018	2019
Required CET1 associated with distribution restrictions:	**9.0%**	**10.4%**	**11.8%**
Combined buffer (CBR)			
- Capital conservation	1.25%	1.88%	2.50%
- Systemic	1.50%	2.25%	3.00%
- Countercyclical	0.00%	0.00%	0.00%
Pillar 2 CET1 requirement	1.75%	1.75%	1.75%
Pillar 1 CET1 requirement	4.50%	4.50%	4.50%
Rabobank Group CET1, transitional (%)	15.8%	Target >14% by 2020	
Distance to CET1 requirement incl. CBR (%)	**6.8%**		
Distance to CET1 requirement incl. CBR (EUR bn)	**13.4**		
Rabobank Group Tier 1, transitional (%)	18.8%		
Required Tier 1 incl. CBR (%)	10.5%	11.9%	13.3%
Distance to Tier 1 requirement incl. CBR (%)	**8.3%**		
Rabobank Group total capital, transitional (%)	26.2%	Target >25% by 2020	
Required total capital, incl. CBR (%)	12.5%	13.9%	15.3%
Distance to total capital requirement incl. CBR (%)	**13.7%**		
RWAs (EUR bn)	198		

Source: Company data, Scope Ratings

Rabobank: unconsolidated basis

The Local Rabobank Group is subject to a minimum CET1 requirement, relevant for distribution restrictions, of 8.125% in 2018. This comprises a minimum Pillar 1 requirement of 4.5%, a Pillar 2 of 1.75% and a Capital Conservation Buffer (CCB) of 1.875%. Rabobank is not subject to a systemic buffer at the unconsolidated level. We estimate that, assuming Pillar 1 and Pillar 2 requirements stay the same, the phasing-in of the CCB will result in a 2019 fully loaded requirement of 8.75%.

In 2018, the minimum requirement for Tier 1 and total capital, including the CCB, is 9.625% and 11.625% respectively; ceteris paribus and with the phasing-in of the CCB, these requirements will increase to 10.25% and 12.25% in 2019.

As of year-end 2017 the issuer reported a transitional CET1 ratio of 15.5%, which allows Rabobank to also meet its 'unconsolidated' requirement. Uncertainties remain regarding the consequences of a breach of any of these requirements, especially which MDA (based on consolidated or unconsolidated accounts) should be considered.

B. Principal loss absorption

Key risk: Principal loss absorption

The mechanism for loss absorption is temporary write-down

The rated securities have two triggers:

- Rabobank Group CET1 ratio < 7% and/or Local Rabobank Group CET1 ratio < 5.125% on a transitional basis

At its discretion, the group may write-up the principal amount out of net profits, subject to the constraint of the MDA.

Distance to trigger

Both Rabobank Group's CET1 ratio and the CET1 ratio based on unconsolidated accounts were comfortably above the trigger as of YE 2017.

Table 2: Distance to trigger

	2017	2018	2019
Trigger level	7.0%	7.0%	7.0%
Rabobank Group CET1, transitional (%)	15.8%	FL Target >14% by 2020	
Distance to trigger (%)	**8.8%**		
Distance to trigger (EUR bn)	**18.5**		

Based on EUR 198bn of RWAs at YE2017.

	2017	2018	2019
Trigger level	5.125%	5.125%	5.125%
Rabobank (unconsolidated) CET1, transitional (%)	15.5%		
Distance to trigger (%)	**10.4%**		
Distance to trigger (EUR bn)	**NA**		

Source: Company data, Scope Ratings

ING GROUP N.V. – AT1 RATING REPORT

Security ratings	
Outlook	Stable
6.00% USD 1bn perpetual AT1 contingent convertible securities	BBB
6.50% USD 1.25bn perpetual AT1 contingent convertible securities	BBB
6.875% USD 1bn perpetual AT1 contingent convertible securities	BBB

The ratings were not solicited by the issuer; the analysis is based solely on public information.

Rating rationale

Scope assigns a rating of BBB, with Stable Outlook, to the above-referenced perpetual AT1 contingent convertible capital securities issued by ING Groep NV. The ratings are based on the following:

- Senior unsecured debt (eligible for TLAC): A+, Stable Outlook
- Minimum notches down from the senior unsecured debt rating: 4
- Additional notches: 0

In accordance with our rating methodology, the starting point for notching down when rating capital instruments is the senior unsecured debt rating. The minimum four notches reflect the deeply subordinated status of AT1 capital instruments in the priority of claims, their going-concern loss-absorbing features and investors' exposure to coupon-cancellation risks. We believe no other factors warrant additional notching at this time.

Please also refer to Scope's *Bank Capital Instruments Rating Methodology* published in May 2018 for more details.

Issuer credit profile

The Issuer Rating of AA- for ING Bank NV (ING) is driven by its strong, resilient retail and commercial banking franchise in the Benelux region. Furthermore, ING continues to be at the forefront of direct retail banking operations in several important markets, including Germany. Our view on management's ability to focus on customer experience, enhancing the omnichannel approach and automating back office processes, together with the successful delivery on other targets in the context of the 'Think Forward' strategy, also underpin the rating. Meanwhile, with management now focused on executing the second phase of its strategic plan, we remain cautious with respect to potential risks arising from the group's growth strategy in its non-core geographies.

The release of this rating report does not constitute a rating action. Last rating action was assigned on 15.06.2017. For further information on the last rating action and regulatory information please click here.

Summary terms

Issuer	ING Groep N.V.
Issue Date	**April 2015**
Amount	USD 1bn
Coupon	• 6.00% fixed until first call date, reset every five years thereafter • After first call date, rate equal to 5Y mid-market USD swap rate plus 4.445% • Payable semi-annually
Format	Perpetual Additional tier 1 contingent convertible capital securities, callable on 16 April 2020 and every five years thereafter
ISIN	US456837AE31

Issue Date	April 2015
Amount	USD 1.25bn
Coupon	• 6.50% fixed until first call date, reset every five years thereafter • After first call date, rate equal to 5Y mid-market USD swap rate plus 4.446% • Payable semi-annually
Format	Perpetual Additional Tier 1 contingent convertible capital securities, callable on 16 April 2025 and every five years thereafter
ISIN	US456837AF06

Issue Date	November 2016
Amount	USD 1bn
Coupon	• 6.875% fixed until first call date, reset every five years thereafter • After first call date, rate equal to 5Y mid-market USD swap rate plus 5.124% • Payable semi-annually
Format	Perpetual Additional Tier 1 contingent convertible capital securities, callable on 16 April 2022 and every five years thereafter
ISIN	XS1497755360

Main Risks	
Coupon Cancellation	• Fully discretionary • Mandatory if coupon payments on all own funds instruments a) would exceed the Distributable Items of the issuer; or b) would cause the Maximum Distributable Amount (MDA) then applicable to the issuer to be exceeded. Cancellation is also subject to the competent supervisory authority's decision.
Principal Loss Absorption	• If the Group CET1 ratio falls below the trigger level, the issuer must convert the securities into ordinary shares • Resolution authorities may reduce the principal amount of the notes to zero on a permanent basis or convert the notes into CET1 capital at the point of non-viability (PONV) or in any case in the context of regulatory bail-in.
Trigger for Principal Loss Absorption	Consolidated group CET1 < 7% on a transitional basis

Source: Prospectuses, Scope Ratings

Key risks

A. `Coupon cancellation

Key risk: Coupon cancellation

Coupon payments on the securities are fully discretionary and are subject to distribution restrictions.

In the event of coupon cancellation, ING might elect to pay interest or make distributions in relation to securities ranking pari passu with or junior to the instruments in question (i.e. distributing dividends on ordinary shares). However, the Terms & Conditions of the notes state the issuer's intention to consider the relative ranking of AT1s in the priority of claims when exercising this right. We also note that, during the inaugural AT1 roadshow in 2015, the management reminded that during the financial crisis, the issuer continued to pay coupons on Tier 1 securities while dividend payments were suspended.

Furthermore, coupons are mandatorily cancelled if there are insufficient distributable items (based on issuer accounts on an unconsolidated basis) or if payments exceed the MDA. The MDA is calculated if the issuer does not meet its combined buffer requirement.

Available Distributable Items

In 2017 ING's Available Distributable Items stood at ca. EUR 43bn.

Combined Buffer Requirement (CBR)

Article 141 of CRD IV imposes certain restrictions on discretionary distributions (dividends, variable remuneration and payments on AT1 securities) when the combined buffer requirement (CBR) is not met. The CBR comprises the capital conservation buffer, the countercyclical buffer and systemic risk buffers as applicable. The MDA needs to be calculated if banks supervised by the ECB do not meet both Pillar 1 and Pillar 2 capital requirements as well as the CBR.

By 2019, ING Group CET1 requirement relevant for distribution restrictions will be 11.8%, the Tier 1 requirement will be 13.3% and the total capital requirement will be 15.3%. This assumes that the Pillar 2 requirement of 1.75% does not change, the capital conservation buffer and the DNB systemic buffer are fully phased in and the countercyclical capital buffer increases to 0.06%, driven by the buffers on exposures in the UK and Hong Kong.

As of Q1 2018, ING Group's CET1 ratio stood at 14.3% both on a transitional and fully-loaded basis, 390 bps above the 2018 requirement.

The management intends to maintain a CET1 ratio above 13.5% (170 bps on prevailing requirement), which includes the Pillar II Guidance (undisclosed) and takes into account the impact of Basel IV and the targeted review of internal models.

Table 1: Distance to Combined Buffer Requirement

	2017	Q1 2018	2019
Required CET1 associated with distribution restrictions:	**9.0%**	**10.4%**	**11.8%**
Combined buffer (CBR)			
- Capital conservation	1.25%	1.88%	2.50%
- Systemic	1.50%	2.25%	3.00%
- Countercyclical	0.02%	0.05%	0.06%
Pillar 2 CET1 requirement	1.75%	1.75%	1.75%
Pillar 1 CET1 requirement	4.50%	4.50%	4.50%
ING Group N.V. CET1, transitional (%)	14.7%	14.3%	Target > 13.5%
Distance to CET1 requirement incl. CBR (%)	**5.7%**	**3.9%**	
Distance to CET1 requirement incl. CBR (EUR bn)	**17.6**	**12.0**	
ING Group NV Tier 1, transitional (%)	16.2%	15.9%	
Required Tier 1 incl. CBR (%)	10.5%	11.9%	13.3%
Distance to Tier 1 requirement incl. CBR (%)	**5.7%**	**4.0%**	
ING Group NV total capital, transitional (%)	18.5%	18.5%	
Required total capital, incl. CBR (%)	12.5%	13.9%	15.3%
Distance to total capital requirement incl. CBR (%)	**6.0%**	**4.6%**	
RWAs (EUR bn)	310	312	

Source: Company data, Scope Ratings

B. Principal loss absorption

Key risk: Principal loss absorption

The mechanism for loss absorption is equity conversion.

The rated securities have one trigger:

- Consolidated group CET1 < 7% on a transitional basis

Pursuant to the terms and conditions of the notes, full conversion into shares will take place if the trigger level is breached, i.e. if the consolidated group transitional CET1 ratio falls below the 7% threshold.

Distance to trigger

ING Group reported a CET1 ratio of 14.3% as of Q1 2018, both on a transitional and fully-loaded basis, EUR 22.7bn above the trigger level.

Table 2: Distance to trigger

	2017	Q1 2018	2019
Trigger level	7.0%	7.0%	7.0%
ING Group NV CET1, transitional (%)	14.7%	14.3%	Target > 13.5%
Distance to trigger (%)	**7.7%**	**7.3%**	
Distance to trigger (EUR bn)	**23.9**	**22.7**	

Based on EUR 310bn of RWAs at YE 2017 and EUR 312bn as of Q1 2018. Source: Company data, Scope Ratings

DNB BANK ASA – AT1 RATING REPORT

Security ratings

Outlook	Stable
5.75% USD 750m Fixed Rate Reset Perpetual Additional Tier 1 Capital Notes	BBB-
6.5% USD 750m Fixed Rate Reset Perpetual Additional Tier 1 Capital Notes	BBB-

The ratings have not been solicited by the issuer; the analysis is based solely on public information.

Rating rationale

Scope rates at BBB- with Stable Outlook the above referenced Fixed Rate Reset Perpetual Additional Tier 1 Capital Notes issued by DNB Bank ASA. The rating is based on the following considerations:

- Senior unsecured debt rating: A+, Stable Outlook
- Minimum notches down from senior unsecured debt rating: 4
- Additional notches: 1

In accordance with our rating methodology, the starting point for notching down when rating capital instruments is the senior unsecured debt rating. The minimum four notches reflect the deeply subordinated status of AT1 capital instruments in the priority of claims, their going concern loss absorbing features and investors' exposure to coupon-cancellation risks. Please refer to Scope's *Bank Capital Instruments Rating Methodology* published in May 2018 for more details.

The additional notch for these securities primarily reflects the relatively narrow gap to CET1 requirements when the Pillar 2 requirement is included. At the same time, we note DNB's proven track record in generating earnings and capital, the comparatively high regulatory requirements in Norway and the ongoing application of the Basel 1 transitional floor.

In Norway, Pillar 2 requirements are currently not part of the calculation for determining when automatic restrictions on distributions apply (i.e. MDA trigger level). However, this may no longer be the case in the future, as the Norwegian FSA has proposed that Pillar 2 requirements be included to fully implement CRR/CRD IV. If the FSA's proposal is adopted, Scope does not expect the ratings on DNB's AT1 securities to change as they already incorporate the effect of such an eventuality.

Issuer credit profile

The Issuer Rating of AA- on DNB Bank ASA is based on the strength of the group, DNB ASA. The group's rating is driven by its strong franchise as the leading financial services provider in Norway. The group has demonstrated the ability to generate resilient earnings capable of absorbing higher-than-average loan impairments stemming from the oil-related sector while strengthening its capital position. Importantly, management is clearly aware of the need to "own the customer relationship" due to increasing competition from non-bank players, more open infrastructure and lower switching costs. We see DNB proactively addressing these challenges.

Further, Scope expects the operating environment to remain supportive as Norway benefits from solid economic growth, low unemployment and high wealth levels. DNB's market funding profile has also improved with the greater use of covered bonds.

The government's 34% ownership stake in DNB is not a driver for the rating. The group is financially sound and in line with our rating methodology Scope does not notch up the Issuer Rating of AA- based on the expectation of state support. Further, a sale of the government's stake would not in and of itself lead to a rating change.

Summary terms

Issuer	DNB Bank ASA
Issue Date	**26 March 2015**
Amount	USD 750m (NOK 5.9bn)
Coupon	• 5.75% fixed annual coupon until first call date (26 March 2020) • Thereafter reset every five years at 5y Mid Swap rate + 407.5bps • Payable annually in arrear
Format	• Fixed Rate Reset Perpetual Additional Tier 1 Capital Notes • Redeemable by the issuer on first call date and on every Interest Payment Date thereafter, subject to regulatory approval
ISIN	XS1207306652

Issue Date	18 October 2016
Amount	USD 750m (NOK 6.1bn)
Coupon	• 6.5% fixed annual coupon until first call date (26 March 2022) • Thereafter reset every five years at 5y Mid Swap rate + 508 bps • Payable annually in arrear
Format	• Fixed Rate Reset Perpetual Additional Tier 1 Capital Notes • Redeemable by the issuer on first call date and on every Interest Payment Date thereafter, subject to regulatory approval
ISIN	XS1506066676

Main Risks	
Coupon Cancellation	• Fully discretionary. • Mandatory in case of: (i) trigger event (ii) insufficient distributable items (iii) if payment exceeds the Maximum Distributable Amount (MDA) upon a breach of the Combined Buffer Requirement • Norwegian FSA has discretion to cancel coupon payments
Principal Loss Absorption	• Upon trigger event, the principal amount of the Notes will be written down • At the issuer's discretion, the principal amount of the Notes may be written up subject to the Maximum Write-Up Amount and to the MDA, pro-rata with any written down AT1 instruments • Subject to write-down under the Norwegian Financial Enterprises Act • When the Bank Recovery and Resolution Directive (BRRD) is adopted in Norway then subject to general bail-in tool and write-down or conversion at the point of non-viability
Trigger for Principal Loss Absorption	• DNB Bank CET1 ratio < 5.125%, or • DNB Bank Group CET1 ratio < 5.125%, or • DNB Group CET1 ratio < 5.125%.

Source: Prospectuses, Scope Ratings

Key risks

A. Coupon cancellation

Key risk: Coupon cancellation

Coupon payments on the Notes are fully discretionary and are subject to distribution restrictions

Coupons are mandatorily cancelled if the issuer has insufficient distributable items, the combined buffer requirement (CBR) is not met and coupon payments would exceed the Maximum Distributable Amount (MDA) or the regulator requires that coupon payments be cancelled. In addition, if the trigger has been breached, all accrued interest will be cancelled.

We do not consider distributable items to be a limiting factor for DNB to pay coupons as we estimate that DNB Bank ASA had available distributable items of about NOK 150bn as of end-2017 (calculated as total equity of NOK 170bn minus share capital of NOK 18bn).

Combined buffer requirement (CBR)

Upon a breach of the CBR, the MDA would be determined and coupons on the Notes would be limited. The CBR for DNB is comprised of a 2.5% capital conservation buffer, a 3% systemic risk buffer, a 2% systemically important institution buffer and a 1.6% countercyclical buffer. Together with the minimum Pillar 1 CET1 capital requirement of 4.5%, this means that DNB must maintain a CET1 ratio of at least 13.6% in 2018 to avoid restrictions on paying coupons on the Notes (Table 1). Capital requirements must be met at group level (DNB ASA), bank group level (DNB Bank Group) and bank level (DNB Bank ASA).

DNB Bank ASA, the issuer of the Notes, is the operating bank in Norway, with DNB Bank Group also incorporating foreign banking subsidiaries and some investment holding companies. DNB ASA, the parent company, consolidates DNB Bank Group and the group's asset management and insurance activities. In accordance with Norwegian regulations, the banking, asset management and insurance activities are organised in separate limited companies under the group holding company, DNB ASA. DNB is highly integrated, and most of its assets are domestic. Scope therefore does not consider the Bank, the Bank Group and DNB Group to have significantly different credit profiles.

Status of Pillar 2 requirements subject to change

Under the supervisory review and evaluation process (SREP), DNB is subject to a total CET1 requirement of 15.2% for 2018 as SREP includes a Pillar 2 requirement of 1.6%. Currently, Pillar 2 requirements are not included in the MDA trigger level and a breach of SREP requirements does not lead to automatic distribution restrictions. However, the group would need to present a plan to the Norwegian FSA for restoring capital ratios.

In April 2018, the Norwegian FSA submitted a consultation paper to the Ministry of Finance with its proposals for the final implementation of CRR/CRD IV. In line with the EU, the FSA suggested that Pillar 2 requirements be included in the calculation of the MDA trigger level.

For some time, Scope has considered that AT1 investors and regulators would be more comfortable with DNB maintaining a CET1 capital ratio above the higher SREP requirement. Given the group's comparatively high capital requirements, the gap to SREP requirements is expected to remain relatively narrow. At the same time, we acknowledge DNB's track record in generating earnings and capital. The group currently targets a CET1 ratio of around 16.1%.

As the ratings on DNB's AT1 securities already incorporate these considerations, we do not expect the ratings to change if the FSA's proposal to include Pillar 2 requirements in the calculation of the MDA trigger level is adopted.

Table 5: Estimated capital requirements

	2016	2017	Q1 2018
Combined buffer (CBR):	8.7%	8.7%	9.1%
- Capital conservation	2.5%	2.5%	2.5%
- Systemic	3.0%	3.0%	3.0%
- SIFI	2.0%	2.0%	2.0%
- Countercyclical	1.2%	1.2%	1.6%
Pillar 1 CET1 requirement	4.5%	4.5%	4.5%
Required CET1 associated with distribution restrictions	**13.2%**	**13.2%**	**13.6%**
Pillar 2 CET1 requirement	1.5%	1.5%	1.6%
SREP requirement	14.7%	14.7%	15.2%
DNB Group CET1, transitional (%)	16.0%	16.4%	16.6%
Distance to CET1 requirement incl. CBR (%)	**2.8%**	**3.2%**	**3.0%**
Distance to SREP requirement (%)	1.3%	1.7%	1.4%
DNB Bank Group CET1, transitional (%)	15.7%	16.2%	16.3%
Distance to CET1 requirement incl. CBR (%)	**2.5%**	**3.0%**	**2.7%**
Distance to SREP requirement (%)	1.0%	1.5%	1.1%
RWAs (NOK m)	1,051,498	1,042,601	1,040,066

Source: Company data, Scope Ratings

B. Principal loss absorption

Key risk: Principal loss absorption

The mechanism for loss absorption is principal write-down

The securities have three triggers:

- DNB Bank CET1 ratio < 5.125%, or
- DNB Bank Group CET1 ratio < 5.125%, or
- DNB Group CET1 ratio < 5.125%.

If one of the CET1 capital triggers has been breached, the write-down amount will be the lower of (a) the amount necessary to restore the CET1 ratio of the Bank, the Bank Group and the Group to 5.125% considering the write-down or conversion into equity of any Prior Loss Absorbing Instruments and/or Parity Loss Absorbing Instruments and (b) the amount necessary to reduce the principal amount of the Notes to one cent. As of June 2018, there were no Prior Loss Absorbing Instruments outstanding while there were NOK 3.6bn in Parity Loss Absorbing Instruments outstanding; these are in addition to the securities referenced in this report.

At the full discretion of the issuer, the Notes may be written-up. Reinstatement may only occur if each of the Bank, the Bank Group and Group generates a profit in any given financial year and only a specified percentage of the lowest of any such profits will be available for reinstatement. Any discretionary reinstatement will be applied concurrently and pro-rata with the write-up of other written-down AT1 instruments.

In March 2018, legislation to fully implement BRRD in Norway was approved, with implementation from January 2019. Consequently, the Notes will be subject to the bail-in provisions of BRRD rather than current Norwegian rules regarding loss absorption under the Norwegian Financial Enterprises Act.

Distance to trigger

As of 1Q 2018, the distance to trigger for DNB Group was over 11%, or about NOK 120bn. The distance to trigger for the Bank and the Bank Group were at similar comfortable levels. As the group's regulatory capital requirements are expected to stay at relatively high levels, we do not expect this gap to materially decline. We further note that DNB's capital ratios are constrained by the Basel 1 transitional floor and do not benefit from low risk weights. We estimate that the asset risk intensity of the group was nearly 40% as of end-2017.

Table 6: CET1 ratios compared to trigger level

	2016	2017	Q1 2018
Trigger level	**5.125%**	**5.125%**	**5.125%**
DNB Group CET1, transitional (%)	16.0%	16.4%	16.6%
DNB Bank Group CET1, transitional (%)	15.7%	16.2%	16.3%
DNB Bank CET1, transitional (%)	19.1%	19.0%	17.8%

Source: Company data, Scope Ratings

BANCO SANTANDER S.A. – AT1 RATING REPORT

Security ratings

Outlook	Stable
6.375% USD 1.5bn perpetual AT1 notes (May 2014) equity conversion on 5.125% trigger	BBB-
6.25% EUR 1.5bn perpetual AT1 notes (March 2014) equity conversion on 5.125% trigger	BBB-
6.25% EUR 1.5bn perpetual AT1 notes (September 2014) equity conversion on 5.125% trigger	BBB-
6.75% EUR 750m perpetual AT1 notes (April (2017) equity conversion on 5.125% trigger	BBB-
5.25% EUR 1bn perpetual AT1 notes (September 2017) equity conversion on 5.125% trigger	BBB-
4.75% EUR 1.5bn perpetual AT1 notes (March 2018) equity conversion on 5.125% trigger	BBB-

The ratings were not solicited by the issuer; the analysis is based solely on public information.

Rating rationale

Scope rates the above securities issued by Santander at BBB-/Stable. The ratings are based on the following:

- Senior non preferred debt (eligible for MREL/TLAC): A+, Stable Outlook
- Minimum notches down from the senior non preferred debt rating: 4
- Additional notches: 1

In accordance with our rating methodology, the starting point for notching down when rating capital instruments is provided by the senior unsecured debt rating. The minimum four notches reflect the deeply subordinated status of AT1 capital instruments in the priority of claims, their going-concern loss-absorbing features and investors' exposure to coupon-cancellation risks. Please refer to Scope's *Bank Capital Instruments Rating Methodology* published in May 2018 for more details.

The additional notch for these securities reflects the double-trigger structure which limits the benefits of earnings diversification if the domestic profit outlook deteriorates, resulting in the bank no longer being able to upstream earnings from other parts of the group.

The release of this rating report does not constitute a rating action. The last rating action was assigned on 15 June 2017. For further information on the last rating action and regulatory information please click here.

Issuer credit profile

Santander has an Issuer Rating of AA-, with a Stable Outlook.

The ratings are driven by the bank's strong, seasoned business model in retail and commercial banking, which produces a reliable and well-diversified earnings stream and generates capital at group level. We believe this business model has proven its resilience to shocks, having withstood the global financial crisis, the Spanish real estate market collapse, the euro area sovereign crisis and a recent recession in its key market of Brazil without damage to the bank's capital. Going forward, Santander faces a more challenging outlook in the UK as a result of Brexit-related macro uncertainty, but the outlook for Spain and Brazil is more positive.

Due to the group's presence in several developed and emerging markets, we believe that Santander's key ongoing challenges will be the different regulatory requirements and priorities among the various authorities and ensuring that prudential and supervisory requirements are met not only at group level but also locally.

Summary terms

Issuer	**Banco Santander S.A.**
Issue date	**March 2014**
Amount	EUR 1.5bn
Coupon	• 6.25% from 12 Mar. 2014 to 12 Mar. 2019 (excluded), then switches to 5y mid-swap rate + 5.41% • Paid quarterly
Format	• Non-step-up, non-cumulative contingent convertible perpetual preferred Tier 1 • Redeemable at the option of the bank, subject to regulatory consent (only after first reset date) • Redeemable at the option of the bank, subject to regulatory consent, in case of change in capital treatment or tax treatment (after closing date)
ISIN	XS1043535092

Issue date	**May 2014**
Amount	USD1.5bn
Coupon	• 6.375% from 19 May 2014 to 19 May 2019 (excluded), then switches to 5y mid-swap rate + 4.788% • Paid quarterly
Format	• Non-step-up, non-cumulative contingent convertible perpetual preferred Tier 1 • Redeemable at the option of the bank, subject to regulatory consent (only after first reset date) • Redeemable at the option of the bank, subject to regulatory consent, in case of change in capital treatment or tax treatment (after closing date)
ISIN	XS1066553329

Issue date	September 2014
Amount	EUR 1.5bn
Coupon	• 6.25% from 11 Sep. 2014 to 11 Sep. 2021 (excluded), then switches to 5y mid-swap rate + 5.64% • Paid quarterly
Format	• Non-step-up, non-cumulative contingent convertible perpetual preferred Tier 1 • Redeemable at the option of the bank, subject to regulatory consent (only after first reset date) • Redeemable at the option of the bank, subject to regulatory consent, in case of change in capital treatment or tax treatment (after closing date)
ISIN	XS1107291541

Issue date	April 2017
Amount	EUR 750m
Coupon	• 6.75% from 25 April 2017 to 25 April 2022 (excluded), then switches to 5y mid-swap rate + 6.803% • Paid quarterly
Format	• Non-step-up, non-cumulative contingent convertible perpetual preferred Tier 1 • Redeemable at the option of the bank, subject to regulatory consent (only after first reset date) • Redeemable at the option of the bank, subject to regulatory consent, in case of change in capital treatment or tax treatment (after closing date)
ISIN	XS1602466424

Issue date	September 2017
Amount	EUR 1bn
Coupon	• 5.25% from 29 September 2017 to 29 September 2023 (excluded), then switches to 5y mid-swap rate + 4.999% • Paid quarterly
Format	• Non-step-up, non-cumulative contingent convertible perpetual preferred Tier 1 • Redeemable at the option of the bank, subject to regulatory consent (only after first reset date) • Redeemable at the option of the bank, subject to regulatory consent, in case of change in capital treatment or tax treatment (after closing date)
ISIN	X51692931121

Issue date	March 2018
Amount	EUR 1.5bn
Coupon	• 4.75% from 19 March 2018 to 19 March 2025 (excluded), then switches to 5y mid-swap rate + 4.097% • Paid quarterly
Format	• Non-step-up, non-cumulative contingent convertible perpetual preferred Tier 1 • Redeemable at the option of the bank, subject to regulatory consent (only after first reset date) • Redeemable at the option of the bank, subject to regulatory consent, in case of change in capital treatment or tax treatment (after closing date)
ISIN	XS1793250041

Main risks	
Coupon cancellation	• Fully discretionary if the bank deems it necessary or desirable • Mandatory in case of i) insufficient Available Distributable Items; ii) request from the regulator • Mandatory if distributions exceed the Minimum Distributable Amount
Principal loss absorption	• Upon trigger event conversion into equity • Conversion to equity at the point of non-viability
Triggers for principal loss absorption*	• CRD IV transitional CET1 ratio (group) < 5.125% • CRD IV transitional CET1 ratio (Santander SA) < 5.125%

Source: Prospectuses, Scope Ratings.

Key risks

A. Coupon cancellation

Key risk: coupon cancellation

Coupon payments are fully discretionary and are subject to distribution restrictions.

Available Distributable Items (ADIs)

The concept of ADI is defined in the Capital Requirements Regulation (CRR; art. 4.1-128) as "the amount of the profits at the end of the last financial year plus any profits brought forward and reserves available for that purpose before distributions to holders of own funds instruments less any losses brought forward, profits which are non-distributable pursuant to provisions in legislation or the institution's by-laws and sums placed to non-distributable reserves in accordance with applicable national law or the statuses of the institution, those losses and reserves being determined on the basis of the individual accounts of the institution and not on the basis of the consolidated accounts".

Santander reported ADIs of EUR 56.7bn at the parent company level as of December 2017

Combined Buffer Requirement (CBR)

The CRD4-CRR restrictions on discretionary distributions are based on transitional CET1 requirements.

Santander's total CET1 requirement for 2018, including both Pillar 2 and buffers, is 8.66%. This includes a CET 1 minimum requirement of 4.5%, a Pillar 2 requirement of 1.5% and a CBR of 2.66% (including a capital conservation buffer of 1.875%, a GSIB buffer of 0.75%, and a countercyclical buffer of 0.03%). This calculation does not include the Pillar 2 guidance, which is not binding.

We expect the CBR to increase over time as the capital conservation buffer and the systemic buffer are gradually further phased in (2.5% and 1% respectively in 2019).

As of Q1 2018, Santander's CET1 transitional (phase-in) ratio stood at 11.2%, 2.5% above the requirement. However, this distance is likely to decline over the coming years through the gradual phasing-in of CRD4 buffers.

Santander's fully loaded CET1 ratio at the end of March 2018 was 11%. Assuming Santander maintains a CET1 of over 11% (as targeted by management), the buffer to the MDA trigger should remain above 150bps (currently 250bps).

We also highlight that, while investors mostly focused on the distance to the CET1 requirement in the past, banks must comply with all capital requirements at all times before CET1 capital can be allocated to meet CBR. In other words, if a bank does not have sufficient Additional Tier 1 or Tier 2 capital (or MREL), CET1 instruments can be used to fill the shortfall instead, provided the same capital cannot be used twice.

Hence monitoring of coupon-cancellation risk must consider any weakness in the bank's capital structure, as this could lead to the CBR not being met and the MDA calculation to be activated.

Table 1 shows the calculation of the distance to the CBR for Santander based on CET1, Tier 1 and total capital ratios.

Table 1: Distance to estimated capital requirements

	2017	Q1 2018	2019
Required CET1 associated with distribution restrictions	**7.8%**	**8.7%**	**9.5%**
Combined buffer (CBR)			
- Capital conservation	1.25%	1.88%	2.50%
- Systemic	0.50%	0.75%	1.00%
- Countercyclical	0.02%	0.03%	0.03%
Pillar 2 CET1 requirement	1.50%	1.50%	1.50%
Pillar 1 CET1 requirement	4.50%	4.50%	4.50%
Santander Group CET1, transitional (%)	12.3%	11.2%	
Distance to CET1 requirement incl. CBR (%)	**4.5%**	**2.5%**	
Distance to CET1 requirement incl. CBR (EUR bn)	**27.2**	**15.2**	
Santander Group Tier 1, transitional (%)	12.8%	12.9%	
Required Tier 1, incl. CBR (%)	9.3%	10.2%	
Distance to Tier 1 requirement incl. CBR (%)	**3.5%**	**2.7%**	
Santander Group total capital, transitional (%)	15.0%	14.7%	
Required total capital, incl. CBR (%)	11.3%	12.2%	
Distance to total capital requirement incl. CBR (%)	**3.7%**	**2.5%**	
RWAs (EUR bn)	605	600	

Source: Scope Ratings

B. Principal loss absorption

Key risk: principal loss absorption

The mechanism for loss absorption is equity conversion.

All securities have a 5.125% CET1 trigger, where CET1 capital is based on transitional rules. The triggers apply to the Santander group and Santander SA (parent company).

Distance to trigger

The current distance to the trigger is a comfortable 6.1% for the group as of March 2018.

Management has targeted a CET1 ratio of over 11% at the end of 2018. Based on this target, the distance to the trigger will remain around 6%. Banco Santander SA's CET1 ratio was 19.45% as of December 2017, well above the respective trigger.

Table 2: Distance to trigger

	2017	Q1 2018	2019
Trigger level	5.125%	5.125%	5.125%
Santander Group CET1, transitional (%)	12.3%	11.2%	
Distance to trigger (%)	**7.1%**	**6.1%**	
Distance to trigger (EUR bn)	**43.2**	**36.4**	

Source: Scope Ratings

BBVA SA – AT1 RATING REPORT

Security ratings

Outlook	Stable
7% EUR 1.5bn perpetual AT1 notes (February 2014) equity conversion on 5.125% trigger	BB+
6.75% EUR 1.5bn perpetual AT1 notes (February 2015) equity conversion on 5.125% trigger	BB+
8.875% EUR 1bn perpetual AT1 notes (April 2016) equity conversion on 5.125% trigger	BB+
5.875% EUR 500mn perpetual AT1 notes (May 2017) equity conversion on 5.125% trigger	BB+
6.125% USD 1bn perpetual AT1 notes (November 2017) equity conversion on 5.125% trigger	BB+

The ratings were not solicited by the issuer; the analysis is based solely on public information.

Rating rationale

Scope rates the above securities issued by BBVA at BB+/Stable. The ratings are based on the following:

- Senior unsecured debt (eligible for MREL): A, Stable Outlook
- Minimum notches down from the senior unsecured debt rating: 4
- Additional notches: 1

In accordance with our rating methodology, the starting point for notching down when rating capital instruments is provided by the senior unsecured debt rating. The minimum four notches reflect the deeply subordinated status of AT1 capital instruments in the priority of claims, their going-concern loss-absorbing features and investors' exposure to coupon-cancellation risks. Please refer to Scope's *Bank Capital Instruments Rating Methodology* published in May 2018 for more details.

The additional notch for these securities reflects the double-trigger structure which limits the benefits of earnings diversification if the domestic profit outlook deteriorates, resulting in the bank no longer being able to upstream earnings from other parts of the group.

The release of this rating report does not constitute a rating action. The last rating action was assigned on 15 June 2017. For further information on the last rating action and regulatory information please click here.

Issuer credit profile

BBVA has an Issuer Rating of A+, with a Stable Outlook.

The ratings are largely based on the strength and reliability of BBVA's retail and commercial banking franchises in several countries and on its strong market positioning in its main countries of operation.

A high degree of diversification has helped BBVA deliver significant profits despite the stressed operating environment in Spain and enabled it to generate capital organically. The bank has withstood harsh conditions, culminating in a collapse in its domestic real estate market, significant stress on funding markets and sharply rising yields on domestic sovereign bonds in 2011 and 2012. Despite this, the bank's capital base has kept growing throughout.

With the domestic economic environment improving, the burden of Spanish legacy assets on the group's earnings capacity has lightened. The recovery, if sustained, should also have a positive impact on the sustainability of public debt, which remains a concern to us. However, it should be noted that we do not automatically link BBVA's rating with the credit standing of the Spanish sovereign.

Summary terms

Issuer	BBVA S.A.
Issue date	**February 2014**
Amount	EUR 1.5bn
Coupon	• 7% from February 2014 to February 2019, then switches to 5y mid-swap rate + 6.155% • Paid quarterly
Format	• Non-step-up, non-cumulative contingent convertible perpetual preferred Tier 1 • Redeemable at the option of the bank, subject to regulatory consent, in case of change in capital treatment or tax treatment • Redeemable at the option of the bank, subject to regulatory consent, from first reset date
ISIN	XS1033661866

Issue date	February 2015
Amount	EUR 1.5bn
Coupon	• 6.75% from February 2015 to February 2020, then switches to 5y mid-swap rate + 6.604% • Paid quarterly
Format	• Non-step-up, non-cumulative contingent convertible perpetual preferred Tier 1 • Redeemable at the option of the bank, subject to regulatory consent, in case of change in capital treatment or tax treatment • Redeemable at the option of the bank, subject to regulatory consent, from first reset date
ISIN	XS1190663952

Issue date	April 2016
Amount	EUR 1.0bn
Coupon	• 8.875% from April 2016 to April 2021, then switches to 5y mid-swap rate + 9.177% • Paid quarterly
Format	• Non-step-up, non-cumulative contingent convertible perpetual preferred Tier 1 • Redeemable at the option of the bank, subject to regulatory consent, in case of change in capital treatment or tax treatment; • Redeemable at the option of the bank, subject to regulatory consent, from first reset date
ISIN	XS1394911496

Issue date	May 2017
Amount	EUR 500m
Coupon	• 5.875% from May 2017 to May 2022, then switches to 5y mid-swap rate + 5.779% • Paid quarterly
Format	• Non-step-up, non-cumulative contingent convertible perpetual preferred Tier 1 • Redeemable at the option of the bank, subject to regulatory consent, in case of change in capital treatment or tax treatment; • Redeemable at the option of the bank, subject to regulatory consent, from first reset date
ISIN	XS1619422865

Issue date	November 2017
Amount	USD 1.0bn
Coupon	• 6.125% from November 2017 to November 2027, then switches to 5y mid-swap rate + 3.870% • Paid quarterly
Format	• Non-step-up, non-cumulative contingent convertible perpetual preferred Tier 1 • Redeemable at the option of the bank, subject to regulatory consent, in case of change in capital treatment or tax treatment; • Redeemable at the option of the bank, subject to regulatory consent, from first reset date
ISIN	US05946KAF84

Main risks	
Coupon cancellation	• Fully discretionary if the bank deems it necessary or desirable; • Mandatory in case of i) insufficient Available Distributable Items; ii) request from the regulator • Mandatory if distributions exceed the Minimum Distributable Amount • Mandatory if a distribution would cause a breach of regulatory restrictions
Principal loss absorption	• Upon trigger event conversion into equity • Conversion to equity at the point of non-viability
Triggers for principal loss absorption*	• CRD IV transitional CET1 ratio (group) < 5.125% • CRD IV transitional CET1 ratio (BBVA SA) < 5.125%

Source: Prospectuses, Scope Ratings

*Note: the original terms of the May 2013 securities included multiple triggers based on principal capital, EBA Core Tier 1 capital and the Tier 1 ratio. According to BBVA, these ceased to apply following Spanish implementation of CRD4.

Key risks

A. Coupon cancellation

Key risk: coupon cancellation

Coupon payments on the security are fully discretionary and subject to distribution restrictions.

Available Distributable Items (ADIs)

The concept of ADI is defined in the Capital Requirements Regulation (CRR; art. 4.1-128) as "the amount of the profits at the end of the last financial year plus any profits brought forward and reserves available for that purpose before distributions to holders of own funds instruments less any losses brought forward, profits which are non-distributable pursuant to provisions in legislation or the institution's by-laws and sums placed to non-distributable reserves in accordance with applicable national law or the statuses of the institution, those losses and reserves being determined on the basis of the individual accounts of the institution and not on the basis of the consolidated accounts".

BBVA reported ADIs of EUR 8.8bn at parent company level as of December 2017, which is approximately 30 times more than its 2017 AT1 coupons. ADIs are calculated as Net Income + Voluntary Reserves - 2017 dividend - AT1 coupons.

This is an ample buffer, in our view. Furthermore, we expect BBVA to increase its ADI over time through retained profits. At this stage we do not expect a lack of ADI to be a factor that would constrain distributions on the AT1 notes.

Combined Buffer Requirement (CBR)

The CRD4-CRR restrictions on discretionary distributions are based on transitional CET1 requirements.

BBVA's total CET1 requirement for 2018, including both Pillar 2 and buffers, is 8.44%. This includes a CET 1 minimum requirement of 4.5%, a Pillar 2 requirement of 1.5% and a CBR of 2.4% (including a capital conservation buffer of 1.875%, and an OSII buffer of 0.57%). This calculation does not include the Pillar 2 guidance, which is not binding.

We expect the CBR to increase over time as the capital conservation buffer and the systemic buffer are gradually further phased in (2.5% and 0.75% respectively in 2019).

In future, the bank may be subject to an institution-specific countercyclical buffer as well as to higher systemic buffers.

As of Q1 2018, BBVA's CET1 transitional (phase-in) ratio stood at 11.1%, 2.7% above the requirement. However, this distance is likely to decline over the coming years through the gradual phasing-in of CRD4 buffers.

We also note that, while investors have mostly focused on the distance to the CET1 requirement in the past, banks have to comply with all capital requirements at all times before CET1 capital can be allocated to meet CBR. In other words, if a bank does not have sufficient Additional Tier 1 or Tier 2 capital (or MREL), CET1 instruments can be used to fill the shortfall instead, provided the same capital cannot be used twice.

As a result, monitoring of coupon-cancellation risk must take into account any weakness in the bank's capital structure, as this could lead to the CBR not being met and the MDA calculation being activated.

Table 1 shows the calculation of distance to the CBR for BBVA based on CET1, Tier 1 and total capital ratios.

Table 1: Distance to estimated capital requirements

	2017	Q1 2018	2019
Required CET1 associated with distribution restrictions	**7.6%**	**8.4%**	**9.3%**
Combined buffer (CBR)			
- Capital conservation	1.25%	1.88%	2.50%
- Systemic	0.38%	0.57%	0.75%
- Countercyclical	0.00%	0.00%	0.00%
Pillar 2 CET1 requirement	1.50%	1.50%	1.50%
Pillar 1 CET1 requirement	4.50%	4.50%	4.50%
BBVA Group CET1, transitional (%)	11.7%	11.1%	
Distance to CET1 requirement incl. CBR (%)	**3.9%**	**2.7%**	
Distance to CET1 requirement incl. CBR (EUR bn)	**14.7**	**9.6**	
BBVA Group Tier 1, transitional (%)	12.9%	12.8%	
Required Tier 1 incl. CBR (%)	9.1%	9.9%	
Distance to Tier 1 requirement incl. CBR (%)	**3.8%**	**2.9%**	
BBVA Group total capital, transitional (%)	15.5%	15.4%	
Required total capital, incl. CBR (%)	11.1%	11.9%	
Distance to total capital requirement incl. CBR (%)	**4.4%**	**3.4%**	
RWAs (EUR bn)	363	357	

Source: Company data, SNL, Scope Ratings

B. Principal loss absorption

Key risk: principal loss absorption

The mechanism for loss absorption is equity conversion.

The securities have a 5.125% CET1 trigger, where CET1 capital is based on transitional rules. The triggers apply both to the BBVA group and BBVA as parent company.

Distance to trigger

The current distance to the trigger is 6.0% based on the group's capital position. The distance for the parent company is higher at 12.58% (as of December 2017). We believe that this is important as a large part of BBVA's earnings come from emerging markets, and the fungibility of capital among subsidiaries may decrease in times of stress. Hence, the strong capitalisation at parent company level offers protection should future profits from subsidiaries be ringfenced.

Table 2: Distance to trigger

	2017	Q1 2018	2019
Trigger level	5.125%	5.125%	5.125%
BBVA Group CET1, transitional (%)	11.7%	11.1%	
Distance to trigger (%)	**6.5%**	**6.0%**	
Distance to trigger (EUR bn)	**23.6**	**21.4**	

Source: Company data, SNL, Scope Ratings

NORDEA BANK AB – AT1 RATING REPORT

Security ratings

Outlook	Stable
6.125% USD 0.5bn perpetual AT1 notes (Sept 2014) temporary writedown	BBB-
5.5% USD 1bn perpetual AT1 notes (Sept 2014) temporary writedown	BBB-
Multicurrency perpetual AT1 notes (March 2015) temporary writedown	BBB-
3.5% EUR 750mn perpetual AT1 notes (Nov 2017) temporary writedown	BBB-

The ratings have not been solicited by the issuer; the analysis is based solely on public information.

Rating rationale

Scope rates Nordea's four above-referenced Additional Tier 1 notes at BBB-, with Stable Outlook. The ratings are based on the following considerations:

- Senior unsecured debt (eligible for MREL): A+, stable outlook
- Minimum notches down from the senior unsecured debt rating: 4
- Additional notches: 1

In line with our rating methodology, the starting point for notching down when rating capital instruments is the senior unsecured debt rating and not the Issuer Rating. Please refer to Scope's *Bank Capital Instruments Rating Methodology* (May 2018) for more details.

The minimum 4 notches reflect the deeply subordinated status of AT1 capital instruments in the priority of claims, their going concern loss absorbing features and investors' exposure to coupon-cancellation risks.

The additional notch for these securities reflects the following considerations:

- The presence of a double trigger, of which the one based on group CET1 is a high trigger of 8%
- The low asset risk intensity of Nordea's balance sheet, which may cause volatility in the capital ratios.

The release of this rating report does not constitute a rating action. Last rating action was assigned on 03 June 2015. For further information on the last rating action and regulatory information please click here.

Issuer credit profile

Nordea has an Issuer Rating of AA-, with a Stable Outlook.

The ratings are driven by Nordea's long track record of strong operating profitability, with low levels of non-performing assets and credit losses. The ratings also reflect the Group's geographic diversification, which partly cushions Nordea from localised macro downturns in the countries where it operates.

At the same time, our forward-looking ratings acknowledge the challenges Nordea faces in such a low-interest rate environment. Results have also been negatively affected by the front-loading of costs associated with Nordea's digital transformation programme, which is expected to run into 2021, although efficiency remains strong compared to many international peers. The asset management business is delivering strong results – which we expect to continue to support revenues.

We note that the reliance on wholesale funding, including in foreign currency, exposes the bank to sudden changes in the funding environment, which remains favourable at present. Partly mitigating these concerns, Nordea has a sizeable liquidity buffer to help manage short-term liquidity risk, and actively hedges its foreign currency exposures.

Summary terms

Issuer	Nordea Bank AB
Issue Date	23 September 2014
Amount	USD 500mn
Coupon	• Paid semi-annually (23/3 and 23/9) • 6.125% from 9/2014 to 9/2024 • then: 5 year US Mid-Swap Rate + Margin (3.388%)
Format	Perpetual Non-Call Additional Tier 1 Notes (issued under USD25bn GMTN Program) • Redeemable by the issuer on first reset date (2024) and every interest payment date thereafter, subject to regulatory approval. • Redeemable at any date, subject to regulator's approval, in case of change in capital or tax treatment
ISIN	US65557CAN39 (Rule 144A) / US65557DAL55 (Regulation S)

Issue Date	23 September 2014
Amount	USD 1bn
Coupon	• Paid semi-annually (23/3 and 23/9) • 5.50% from 9/2014 to 9/2019 • then: 5 year US Mid-Swap Rate + Margin (3.563%)
Format	Perpetual Non-Call Additional Tier 1 Notes (issued under USD25bn GMTN Program) • Redeemable by the issuer on first reset date (2019) and every interest payment date thereafter, subject to regulator's approval. • Redeemable at any date, subject to regulator's approval, in case of change in capital or tax treatment
ISIN	US65557CAM55 (Rule 144A) / US65557DAM39 (Regulation S)

Summary terms – Multicurrency, March 2015

Issue Date	12 March 2015
Amount	USD 550mn / NOK 1.25bn / SEK 2.25bn
Coupon	• USD 5.25% / NOK NIBOR + 310bps / STIBOR + 310 bps ' • SEK and NOK notes are paid quarterly (12/3, 12/6, 12/9 and 12/12) whilst USD notes are paid annually on 13/09 every year. • USD notes are initially set to pay 5.25% coupons from 3/2016 to 9/2021. Then: 5 year US Mid-Swap Rate + Margin (3.244%). SEK and NOK notes are set to pay the applicable 3-month NIBOR or STIBOR + 310bps .throughout the life of the instrument.
Format	Perpetual Non-Call Additional Tier 1 Notes (issued under USD25bn GMTN Program) • Redeemable by the issuer on first reset date (varies depending on tranche) and every interest payment date thereafter, subject to regulator's approval. • Redeemable at any date, subject to regulator's approval, in case of change in capital or tax treatment
ISIN	XS1202090947 / XS1202091671 / XS1202091325

Summary terms – 3.5% EUR 750mn, November 2017

Issue Date	12 November 2017
Amount	EUR 750 mn
Coupon	• Paid annually (12/3) • 3.50% from 3/18 to 3/25 • then: 5 year EURIBOR Mid-Swap Rate + Margin (3.003%)
Format	Perpetual Non-Call Additional Tier 1 Notes (issued under USD25bn GMTN Program) • Redeemable by the issuer on first reset date and every interest payment date thereafter, subject to regulator's approval. • Redeemable at any date, subject to regulator's approval, in case of change in capital or tax treatment
ISIN	XS1725580465

Main Risks	
Coupon Cancellation	• Fully discretionary • Mandatory in case of: (i) lack of available distributable items • (ii) payment causing the Maximum Distributable Amount (MDA) to be exceeded • (iii) request from the supervisory authority
Principal Loss Absorption	Temporary write-down: • upon occurrence of a trigger event, by an amount sufficient to restore the CET1 ratio(s) to the trigger level(s); • or, if insufficient, write down to USD1 by the supervisory authority at the Point of non-viability • Reinstatement, if a Positive net profit at Issuer and Group level is recorded
Trigger for Principal Loss Absorption	• 5.125% in relation to the CET1 Ratio of the Issuer on a solo basis and • 8% in relation to the CET1 Ratio of the Group on a consolidated basis.

Source: Prospectuses, Scope Ratings

Key risks

A. Coupon cancellation

Key risk: Coupon cancellation

Coupon payments on the security are fully discretionary and are subject to distribution restrictions

Available distributable Items

The concept of Available Distributable Items (ADI) is defined in the CRR (Art.4.1-128) as "the amount of the profits at the end of the last financial year plus any profits brought forward and reserves available for that purpose before distributions to holders of own funds instruments less any losses brought forward, profits which are non-distributable pursuant to provisions in legislation or the institution's by-laws and sums placed to non-distributable reserves in accordance with applicable national law or the statuses of the institution, those losses and reserves being determined on the basis of the individual accounts of the institution and not on the basis of the consolidated accounts".

As of YE17 Nordea disclosed its distributable amount (before dividends) at EUR 24.4 bn, including EUR 23.3.bn of retained earnings and EUR 1.1bn of share premium reserve. As of 1Q18 the available distributable amount was EUR 22.3 bn. It should be noted that due to the Group's reorganisation as of 1 Jan 2017, turning the subsidiaries in Finland, Norway and Denmark into branches, a materially larger portion of Nordea's assets and liabilities sit on the parent company balance sheet. The distributable items reported for the pre-restructured Nordea parent as of YE16 amounted to EUR15.8 bn. We do not expect lack of distributable items to be a limiting factor in the payment of coupons for Nordea.

B. Principal loss absorption

Key risk: Principal loss absorption

The mechanism for loss absorption is temporary write-down	The rated securities have two triggers: • 5.125% based on Nordea AB unconsolidated • 8% based on Nordea Group consolidated accounts

In our view, the existence of a double trigger represents a factor of risk, partly offsetting the benefits of Nordea's diversification, a key factor supporting the Issuer credit strength rating of the group.

Combined buffer requirement (CBR) and CET1 total requirement

Nordea will be redomiciling its lead bank to Finland from Sweden, which is expected to occur as of 1st October 2018. Therefore, while considering the current situation, under which the bank is supervised by the Swedish Finansinspektionen (FSA), we also need to consider the implications of a change of supervisor, as Nordea's lead supervisor in future will be the ECB, in conjunction with the Finnish regulator. The ECB will therefore be taking over responsibility for setting Nordea's capital requirements.

Taking the current situation first, we note that based on the FSA Capital Memoranda for both 4Q17 and 1Q18, the Capital requirement relevant for MDA calculation at Nordea stood at 10.7%:

- A minimum Pillar 1 CET1 requirement of 4.5%
- A capital conservation buffer of 2.5%
- A Pillar 1 systemic risk buffer of 3%
- A countercyclical buffer of 0.7%

On top of the Pillar 1 buffers, Nordea is subject to additional CET1 requirement guidance under Pillar 2, which we calculate at 6.9%. This is based on the 1Q18 FSA memorandum, and includes 3.3% own fund requirement, 2% systemic buffer, and 1.6% for Swedish and Norwegian Mortgages).

Including the Pillar 2 add-on, which is not relevant to the MDA trigger level calculation. Nordea's CET1 minimum capital requirement guidance stood at 17.6% at the end of March 2018. We note that in Sweden, the Pillar 2 add-on is not considered a hard requirement until a formal decision is taken and is rather a "strict guidance". As such, it does not affect MDA calculations for Nordea. The FSA has further indicated that it does not intend, in normal circumstances, to take a formal decision.

Table 7: Combined buffer requirements

	2016	2017	Q4 2017 Estimate under Article 458	Q1 2018
Required CET1 associated with distribution restrictions under Pilar 1:	**10.6%**	**10.7%**	**10.7%**	**10.7%**
Combined buffer (CBR)				
- Capital conservation	2.5%	2.5%	2.5%	2.5%
- Systemic	3.0%	3.0%	3.0%	3.0%
- Countercyclical	0.6%	0.7%	0.7%	0.7%
Pillar 1 CET1 requirement	4.5%	4.5%	4.5%	4.5%
Pillar 2 CET1 guidance including systemic risk buffer (not included in MDA calculation)	6.9%	6.9%	6.1%	6.9%
CET1 Capital Requirement and hard guidance (incl. Pillar 2)	17.4%	17.6%	16.8%	17.6%
Nordea Group CET1, transitional (EUR bn)	24.5	24.5	24.5	24.3
Nordea Group CET1, transitional (%)	18.4%	19.5%	18.0%	19.8%
Distance to CET1 requirement incl. CBR (%)	**7.8%**	**8.8%**	**7.3%**	**9.1%**
Distance to CET1 requirement incl. CBR (EUR bn)	**10.4**	**11.1**	**9.9**	**11.2**
RWAs (EUR bn)	133	126	136	123

Source: Company data, Scope Ratings estimates

As of 1Q18, Nordea's CET1 ratio stood at 19.8%. This offers ample distance to the Pillar 1 Combined Buffer Requirement. There is a more modest buffer of 220 bps to its total CET1 requirement. Nordea has indicated it will maintain a buffer of 50-150bps over the CET1 requirement, which is more comfortably exceeded than in any previous period.

Going forward, considering the situation after the bank has redomiciled, Nordea has indicated its expectation that its formal capital requirements will be addressed as part of the formal Supervisory Review and Evaluation Process (SREP) for 2018, and that the requirements imposed during the 2017 SREP will apply until then.

In addition to undergoing an asset quality review (AQR), Nordea anticipates being the subject of a targeted review of internal models (TRIM) once under the ECB's aegis. This is likely to be a detailed process. The Swedish FSA to date has taken a different approach to assessing internal models compared to other banking supervisors, and one consequence has been that risk weights applied to Swedish banks' loan portfolios are on average lower than for many international peers. Hence despite high headline capital ratios Swedish banks' leverage is slightly below European bank and their risk asset intensity is also lower than average.

Scope believes that the transition to an ECB-approved internal model will affect Nordea's risk weighting process, and Nordea confirms that it expects some effect on its measured risk exposure amount (REA). It is too early to say what the impact may be. Importantly, the bank has affirmed that it does not intend to make changes to its current capital and dividend policies, and that maintaining issuer credit ratings in the AA range continue to be part of management's strategy.

Aside from any changes resulting from the TRIM process, the bank also notes that REA is expected to increase for more generic reasons, due to upcoming regulatory changes covered by CRR2/CRD V and the output floors specified under Basel IV, and as a result of this Pillar 2 requirements are likely to be lower.

We also note that the Swedish regulator (FSA) is proposing, as of 31 December 2018, to apply a hard Pillar 1 requirement for Swedish residential mortgages under the provisions of Article 458 of the Capital Requirements Regulation (CRR). This allows a competent home supervisory authority to apply risk-weight measures relating to assessed systemic or macro-prudential risks.

In this context, Nordea will no longer fall under the FSA's supervision. However, the FSA expects that the new requirements may affect branches of non-Swedish banks with exposures to Swedish mortgages. The FSA has made it clear that the proposal is largely designed to help to achieve a level risk-weighting playing field for banks within the Swedish mortgage market as a direct result of Nordea's redomiciliation.

With regard to the possible impact on branches, we believe the FSA is referring to the Memorandum of Understanding (MOU) between supervisors in Sweden, Norway, Denmark and Finland, which relates to prudential supervision of significant branches. This was enacted on 2 December 2016. Reciprocal measures could occur with respect to the capital requirements imposed on Nordea in Finland, assuming Sweden's proposal is adopted reciprocally by Finnish regulators/the ECB.

Scope expects the proposal to go ahead as specified in Sweden, although it is not clear when (or whether) it will encompass what will be Nordea's branch there, as this depends on other regulators acting in line with the FSA's proposal.

For Swedish banks (and any affected branches), the Pillar 1 requirement will replace the current arrangement. At present the FSA imposes, through Pillar 2 guidance, a risk-weight floor of 25% for Swedish mortgages. This applies on a consolidated basis to Swedish banks which use the IRB approach to calculate residential mortgage exposures.

For Swedish banks the metrics that most investors in AT1 instruments focus on – the distance to the CBR and CET1 capital requirements and the distance to trigger – will decrease, both as a percentage of risk-weighted assets (RWAs) and in nominal terms. This is because the denominator in the capital ratio -- i.e. the risk exposure amount (REA) – will rise as a result of an effective increase in risk weights on Swedish residential mortgages. As noted above, historically this has been captured via Pillar 2, but in future a more onerous risk weight floor will be applied through Pillar 1 instead.

The Swedish FSA has provided some estimates of the impact of the new measures on banks' total reported capital ratios, and has included Nordea in its calculations. Based on these, which rely on 4Q17 numbers, we estimate that Nordea''s headline CET1 ratio could fall by around 150 bps (see Figure 1), which appears manageable, and is considerably less than for those banks which conduct the majority of their business in Sweden. The distance to the CET1 requirement would fall to a still comfortable 7.3%.

Distance to trigger

The low 5.125% trigger is so distant from Nordea AB's current CET1 level (18.6% as of YE17) as to be almost irrelevant – less so now than in the past, given that the Group's unification of its balance sheet within a single large Nordic bank means a much reduced ability on the part of host country regulators of local branches to restrict capital flows within the Group.

On the other hand, the 8% trigger at the group level is considered a high trigger – even in the context of Swedish high capital requirements.

Table 8: Distance to trigger

	2016	2017	Q4 2017 Estimate under Article 458	Q1 2018
Trigger level	8.0%	8.0%	8.0%	8.0%
Nordea Group CET1, transitional (EUR bn)	24.5	24.5	24.5	24.3
Nordea Group, CET1, transitional (%)	18.4%	19.5%	18.0%	19.8%
Distance to trigger (%)	**10.4%**	**11.5%**	**10.0%**	**11.8%**
Distance to trigger (EUR bn)	**13.8**	**14.5**	**13.6**	**14.5**

Source: Company data, Scope Ratings estimates

Based on 1Q18 data, Nordea's CET1 ratio is 11.8% higher than the trigger point. The management target of 50-150bps ahead of the total CET1 requirement (17.6% currently) would imply a c.10.6% distance-to-trigger target. We therefore view this as ample, although noting the high sensitivity of Nordea's capital ratios to changes in RWA calculation inputs. This is explicitly identified in the terms and conditions of the notes.

Specifically referring to the proposals of the Swedish FSA to impose higher risk weights on Swedish mortgages via Pillar 1, we estimate that the distance to the high 8.0% trigger could fall by a manageable 150bps, to 10.0%, based on 4Q17 data. We would still consider this as ample.

SVENSKA HANDELSBANKEN AB – AT1 RATING REPORT

Security ratings

Outlook	Stable
5.25% USD 1.2bn perpetual AT1 notes (Feb 2015) temporary write-down	BB+

The ratings have not been solicited by the issuer. The analysis is based solely on public information.

Rating rationale

Scope rates Handelsbanken's Additional Tier 1 notes issued in February 2015 at BB+, with a Stable Outlook. The rating is based on the following considerations:

- Senior unsecured debt (eligible for MREL): A, Stable Outlook
- Minimum notches down from senior unsecured debt rating: 4
- Additional notches: 1

Please refer to Scope's *Bank Capital Instruments Rating Methodology* published in May 2018 for more details. In accordance with our rating methodology, the starting point for notching down when rating capital instruments is the senior unsecured debt rating rather than the Issuer Rating. The minimum 4 notches reflect the deeply subordinated status of AT1 capital instruments in the priority of claims, their going concern loss absorbing features and investors' exposure to coupon-cancellation risks.

The additional notch for these securities reflects the following considerations:

- The presence of a double trigger, of which the one based on group CET1 is a high trigger of 8%.
- The low average risk intensity of Handelsbanken's balance sheet, which may cause volatility in the bank's capital ratios.

Issuer credit profile

Handelsbanken's Issuer Rating of AA- reflects reassuring financial fundamentals, to some extent supported by a positive macroeconomic cycle but also by company-specific factors, such as a well-tested risk culture and incentive structure.

In addition to its strong domestic franchise, Handelsbanken's degree of international diversification offers some additional protection against potential domestic asset quality shocks, as Sweden's housing market has undergone a degree of correction since late 2017. We note that international revenues have grown strongly in recent years, with the UK and Dutch franchises driving the growth.

The ratings also reflect the concentrated exposure to the real estate sector in Sweden, an economy with very high levels of household borrowing. We also note that the Swedish banking sector is vulnerable to shocks due to its size, interconnectedness and reliance on wholesale funding. In Handelsbanken's case this is somewhat mitigated by a large portfolio of liquid assets and the substantial level of unencumbered mortgage assets together with overcollateralization of its covered bond issuance.

The release of this rating report does not constitute a rating action. Last rating action was assigned on 17 May 2018. For further information on the last rating action and regulatory information please click here.

Summary terms

Issuer	Svenska Handelsbanken AB
Issue Date	**25 February 2015**
Amount	USD 1.2bn
• Coupon	• Paid annually in arrears on March 1 • 5.25% from 3/2016 to 3/2021 • then: 5 year US Mid-Swap Rate + Margin (3.335%)
• Format	• Perpetual Non-Call Additional Tier 1 Notes (issued under USD50bn EMTN Program) • Redeemable by the issuer on first reset date (2021) and every subsequent reset date thereafter, subject to regulatory approval. • Redeemable at any date, subject to regulator's approval, in case of change in capital or tax treatment
ISIN	XS1194054166

Main Risks	
Coupon Cancellation	• Fully discretionary • Mandatory in case of: (i) lack of available distributable items • (ii) payment causing the Maximum Distributable Amount (MDA) to be exceeded • (iii) request from the supervisory authority
Principal Loss Absorption	Temporary write-down: • Upon occurrence of a trigger event, by an amount sufficient to restore the CET1 ratio(s) to the trigger level(s), or, if insufficient, write down to USD0.01 • by the supervisory authority at the Point of non-viability Reinstatement, if a Positive net profit at Issuer and Group level is recorded
Trigger for Principal Loss Absorption	• 5.125% in relation to the CET1 Ratio of the Issuer on a solo basis and • 8% in relation to the CET1 Ratio of the Group on a consolidated basis.

Source: Prospectuses, Scope Ratings

Key risks

A. Coupon cancellation

Key risk: Coupon cancellation

Coupon payments on the securities are fully discretionary and are subject to distribution restrictions

Available distributable Items

The concept of Available Distributable Items (ADI) is defined in the CRR (Art.4.1-128) as "the amount of the profits at the end of the last financial year plus any profits brought forward and reserves available for that purpose before distributions to holders of own funds instruments less any losses brought forward, profits which are non-distributable pursuant to provisions in legislation or the institution's by-laws and sums placed to non-distributable reserves in accordance with applicable national law or the statuses of the institution, those losses and reserves being determined on the basis of the individual accounts of the institution and not on the basis of the consolidated accounts".

We do not expect lack of distributable items to be a limiting factor in the payment of coupons for Handelsbanken.

We estimate the available distributable reserves of Handelsbanken based on Handelsbanken AB unconsolidated accounts at YE17. Calculations assume the item "Other funds" does not include any reserve which is deemed "non-distributable". Our calculations point to the availability of SEK 112bn in distributable items, including SEK 104bn in the form of retained and current earnings, which give ample comfort that AT1 coupon payments would not be restricted by the lack of available ADIs.

Combined buffer requirement (CBR) and CET1 total requirement

For Swedish banks we need to consider both the current position with regard to capital requirements and the capital calculation, and the likely position going forward, given that he Swedish regulator (FSA) is proposing, as of 31 December 2018, to apply a hard Pillar 1 requirement for Swedish residential mortgages under the provisions of Article 458 of the Capital Requirements Regulation (CRR). This allows a competent home supervisory authority to apply risk-weighting measures relating to assessed systemic or macro-prudential risks.

Scope expects the proposal to go ahead as specified. The Pillar 1 requirement will replace the current arrangement. At present the FSA imposes, through Pillar 2 guidance, a risk-weight floor of 25% for Swedish mortgages. This applies on a consolidated basis to Swedish banks which use the IRB approach to calculate residential mortgage exposures.

In Sweden the Pillar 2 add-on is not considered a hard requirement until a formal decision is taken and is rather "strict guidance". As such, it does not currently affect MDA calculations for Swedbank. The FSA has in the past indicated that it does not intend, in normal circumstances, to take such a formal decision.

The new proposal – which materially reduces the Pillar 2 'hard guidance' for Handelsbanken – is calibrated such that total capital requirements will remain neutral in absolute terms. Thus, Swedish banks will not be asked to hold additional capital but will also not be expected to reduce current nominal capital. However, reported capital ratios will decrease. In effect the measure is expected to make Swedish banks' capital calculations more closely comparable to those of most European peers.

It follows that the metrics that most investors in AT1 instruments focus on – the distance to the CBR and CET1 capital requirements and the distance to trigger – will also decrease, both as a percentage of risk-weighted assets (RWAs) and in nominal terms. This is because the denominator in the capital ratio -- i.e. the risk exposure amount (REA) – will rise as a result of an effective increase in risk weights on Swedish residential mortgages. As noted above, historically this has been captured via Pillar 2, but in future a more onerous risk weight floor will be applied through Pillar 1 instead.

In reality, the anticipated fall in reported total capital ratios is a technical effect and does not imply an overall weakening of Swedish banks' solvency positions. Risk asset intensity ratios, which are currently considered low compared to many international peers (Handelsbanken's was 18.4% at YE17), will increase.

The Swedish FSA has provided some estimates of the impact of the new measures on banks' total reported capital ratios. Based on these, which rely on 4Q17 numbers, we estimate that Handelsbanken's headline CET1 ratio will fall by around 620 bps.

In relation to Handelsbanken's current position, based on the FSA's Capital Memorandum for 1Q18, the capital requirement relevant for MDA calculation at Handelsbanken stood at 11.2%:

- A minimum Pillar 1 CET1 requirement of 4.5%
- A capital conservation buffer of 2.5%
- A Pillar 1 systemic risk buffer of 3%
- A countercyclical buffer of 1.2%

These requirements are not expected to change.

On top of the Pillar 1 buffers, Handelsbanken is subject to additional CET1 requirement guidance under Pillar 2, which we calculate at 8.4% (based on 1Q18 FSA memorandum - this includes 2% own fund requirement, 2% systemic risk buffer, 4.4% for Swedish and Norwegian Mortgages). Under the new proposal the FSA's estimates assume that both will disappear.

Including the Pillar 2 add-on, we estimate Handelsbanken's CET1 minimum capital requirement guidance to stand at 19.6% at the end of March 2018.

Table 1: Combined buffer requirements

	2016	2017	Q4 2017 Estimate under Article 458	Q1 2018
Required CET1 associated with distribution restrictions under Pilar 1:	**10.9%**	**11.2%**	**11.2%**	**11.2%**
Combined buffer (CBR)				
- Capital conservation	2.5%	2.5%	2.5%	2.5%
- Systemic	3.0%	3.0%	3.0%	3.0%
- Countercyclical	0.9%	1.2%	1.2%	1.2%
Pillar 1 CET1 requirement	4.5%	4.5%	4.5%	4.5%
Pillar 2 CET1 guidance including systemic risk buffer (not included in MDA calculation)	10.5%	9.0%	4.5%	8.4%
CET1 Capital Requirement and hard guidance (incl. Pillar 2)	21.4%	20.2%	15.7%	19.6%
Svenska Handelsbanken Group CET1, fully loaded (SEK bn)	115.2	115.8	115.8	117.7
Svenska Handelsbanken Group CET1, fully loaded (%)	25.1%	22.7%	16.5%	21.6%
Distance to CET1 requirement incl. CBR (%)	**14.2%**	**11.5%**	**5.3%**	**10.4%**
Distance to CET1 requirement incl. CBR (SEK bn)	**65.1**	**58.5**	**33.4**	**56.8**
RWAs (SEK bn)	459	509	630	546

Source: Company data, Scope Ratings

Handelsbanken's CET1 ratio was 22.7% at the end of 2017. This offers ample distance to the Pillar 1 Combined Buffer Requirement, with a buffer of 11.5%. It also comfortably covers the total CET1 requirement, including Pillar 2 elements, which are not relevant to the MDA calculation. We note that in Sweden, the current Pillar 2 add-on is not considered a hard requirement until a formal decision is taken, and is rather a "strict guidance".

Under the expected new measures, we estimate Handelsbanken's CET1 ratio as of 31 December 2017 would be 16.5%. CET1 requirement including the Combined Buffer Requirement to 5.3%, which is materially lower, but still well in line with many European peers. The estimated increase in RWA is by almost one quarter reflecting Handelsbanken's position as one of Sweden's largest mortgage lenders (see Table 1).

Handelbanken's Board has set a target for the bank to maintain a management buffer of 100-300bps over the CET1 requirement, which was therefore comfortably met at YE17. Handelsbanken has not indicated any intention to change the level of the management buffer.

As an additional consideration, we highlight that, as for all international banks, Swedish banks will become subject to the 72.5 % capital 'input floor' agreed by the BIS, limiting the differences between risk weights used under internal models and those imposed under the standardized approach. In the near term we expect the negative impact on the banks' capital ratios will be limited, as the measure will not be fully implemented until 2027. Ultimately although average risk weights are likely to rise, we also expect the related Pillar 2 capital requirements to be dropped as a result.

B. Principal loss absorption

Key risk: Principal loss absorption

The mechanism for loss absorption is temporary write-down	The rated securities have double triggers: • 5.125% 5.125% based on Svenska Handelsbanken AB unconsolidated • 8% based on Handelsbanken Group consolidated accounts

In our view, the existence of a double trigger generally represents a factor of risk, partly offsetting the benefits of Handelsbanken's diversification, a key factor supporting the Issuer Rating of the group. The difference between the two capital ratios trigger reference entities relates to Handelsbanken subsidiaries, including the covered bond issuer (Stadshypotek), the life insurance subsidiary (Liv), the fund management company (Fonder) and the public finance unit (Finans). As of year-end 2017, Svenska Handelsbanken AB's CET1 ratio stood at 21.4%, a reassuring gap to trigger of over 13%.

For the parent company reference trigger to become relevant, one has to assume a marked divergence between the performances of the subsidiaries businesses and the parent as well as a regulatory ring-fencing of the former with respect to capital. While this is a possibility, we deem it unlikely.

Distance to trigger

At the end of 2017, the gap to trigger at group level was 14.7%, or SEK 74.8bn. As of 1Q18, after dividend payments, the gap was 13.6%, or SEK 74.2 bn. We view this as ample, although we note that the 8% trigger at the group level is considered a high trigger – even in the context of current Swedish high capital requirements and low asset risk intensity.

The distance to trigger under the FSA's new proposals would decline in both percentage and nominal terms (see Table 2), to around 8.5% of RWAs, based on 4Q17 numbers. While the amount involved is sizeable, we continue to view the distance to trigger as being ample, especially when comparing Handelsbanken to other European bank peers.

Table 2: Distance to trigger

	2016	2017	Q4 2017 Estimate under Article 458	Q1 2018
Trigger level	8.0%	8.0%	8.0%	8.0%
Svenska Handelsbanken Group CET1, fully loaded (SEK bn)	115.2	115.8	115.8	117.7
Svenska Handelsbanken Group, CET1, Fully loaded (%)	25.1%	22.7%	16.5%	21.6%
Distance to trigger (%)	**17.1%**	**14.7%**	**8.5%**	**13.6%**
Distance to trigger (SEK bn)	**78.5**	**74.8**	**53.6**	**74.2**

Source: Company data, Scope Ratings

SWEDBANK AB – AT1 RATING REPORT

Security ratings

Outlook	Stable
5.5% USD 750m perpetual fixed rate reset AT1 convertible notes (Feb-2015)	BB+
6.0% USD 500m perpetual fixed rate reset AT1 convertible notes (Dec-2016)	BB+

The ratings have not been solicited by the issuer; the analysis is based solely on public information.

Rating rationale

Scope rates Swedbank's above-referenced Additional Tier 1 securities BB+, with Stable Outlook.

The ratings are based on the following considerations:

- Senior unsecured debt rating: A, Stable Outlook
- Minimum notches down from senior unsecured debt rating: 4
- Additional notches: 1

In accordance with our rating methodology, the starting point for notching down when rating capital instruments is the senior unsecured debt rating rather than the Issuer Rating. Please refer to Scope's *Bank Capital Instruments Rating Methodology* published in May 2018 for more details.

The minimum 4 notches reflect the deeply subordinated status of AT1 capital instruments in the priority of claims, their going concern loss absorbing features and investors' exposure to coupon-cancellation risks.

The additional notch for these securities reflects the following considerations:

- The presence of a double trigger, of which the one based on group CET1 is a high trigger of 8%
- The very low asset risk intensity of Swedbank's balance sheet, which could add volatility to the capital ratios.

The release of this rating report does not constitute a rating action. Last rating action was assigned on 24 May 2018. For further information on the last rating action and regulatory information please click here.

Issuer credit profile

Swedbank has an Issuer Rating of A+, with a Stable Outlook. Swedbank's ratings reflect the bank's strong and low-risk franchise in Sweden, enjoying a low level of both impaired loans and credit impairment charges.

Swedbank is Sweden's largest mortgage lender, with a 23% market share, and one of the country's leading banks. It is also the market leader in the Baltic states. It has a very strong capital position and minimal problem assets, as well as a high level of profitability, supported by strong cost efficiency. The long-term ratings also reflect a degree of caution about Swedbank's reliance on the real estate sector in Sweden for revenue and balance-sheet growth.

Like other Swedish banks, Swedbank depends on wholesale markets and corporate deposits for a considerable proportion of its funding. This is mitigated by access to the stable and well-tested covered bond market in Sweden, accounting for nearly one third of Swedbank's funding.

Summary terms

Issuer	Swedbank AB
Issue Date	**19 February 2015**
Amount	USD 750m
Coupon	• Paid semi-annually (17/9 and 17/3) • 5.5% from 09/2015 to 03/2020 • then: 5 year US Mid-Swap Rate + Margin (3.767%)
Format	• Perpetual Non-Call Additional Tier 1 Notes • Redeemable by the issuer on first reset date (17 March 2020) and every five years thereafter, subject to regulator's approval. • Redeemable upon occurrence of Tax Event or Capital Event, subject to regulator's approval
ISIN	XS1190655776

Issuer	Swedbank AB
Issue Date	**16 December 2016**
Amount	USD 500m
Coupon	• Paid semi-annually (17/3 and 17/9) • 6.0% from 03/2017 to 03/2022 • then: 5 year US Mid-Swap Rate + Margin (4.106%)
Format	• Perpetual Non-Call Additional Tier 1 Notes • Redeemable by the issuer on first reset date (17 March 2022) and every five years thereafter, subject to regulator's approval. • Redeemable upon occurrence of Tax Event or Capital Event, subject to regulator's approval
ISIN	XS1535953134

Main Risks	
Coupon Cancellation	• Fully discretionary • Mandatory in case of: (i) lack of available distributable items (ADI) (ii) subject to Maximum Distributable Amount (MDA) upon Combined Buffer Requirement breach (iii) request from the supervisory authority
Principal Loss Absorption	Conversion to Equity: • Upon occurrence of a trigger event, due to a CET1 breach, in the case of the Issuer of 5.125% or in the case of the Group 8.00%. • By the supervisory authority at the point of non-viability
Trigger for Principal Loss Absorption	• 5.125% in relation to the CET1 Ratio of the Issuer on a solo basis and • 8% in relation to the CET1 Ratio of the Group on a consolidated basis.

Source: Prospectuses, Scope Ratings

Key risks

A. Coupon cancellation

Key risk: Coupon cancellation

Coupon payments on the security are fully discretionary and are subject to distribution restrictions

Available distributable Items

The concept of Available Distributable Items (ADI) is defined in the CRR (Art.4.1-128) as "the amount of the profits at the end of the last financial year plus any profits brought forward and reserves available for that purpose before distributions to holders of own funds instruments less any losses brought forward, profits which are non-distributable pursuant to provisions in legislation or the institution's by-laws and sums placed to non-distributable reserves in accordance with applicable national law or the statuses of the institution, those losses and reserves being determined on the basis of the individual accounts of the institution and not on the basis of the consolidated accounts".

We do not expect lack of distributable items to be a limiting factor in the payment of coupons for Swedbank. Swedbank's position is very comfortable regarding payment of annual coupons on the AT1 notes. As of 1Q18 the bank disclosed ADI of SEK 46.9bn (YE17: SEK 56.3bn, before dividends). ADI comprise retained earnings (72% of the total), plus the share premium reserve.

Combined buffer requirement (CBR) and CET1 total requirement

For Swedish banks we need to consider both the current position with regard to capital requirements and the capital calculation, and the likely position going forward, given that the Swedish regulator (FSA) is proposing, as of 31 December 2018, to apply a hard Pillar 1 requirement for Swedish residential mortgages under the provisions of Article 458 of the Capital Requirements Regulation (CRR). This allows a competent home supervisory authority to apply risk-weight measures relating to assessed systemic or macro-prudential risks.

Scope expects the proposal to go ahead as specified. The Pillar 1 requirement will replace the current arrangement. At present the FSA imposes, through Pillar 2 guidance, a risk-weight floor of 25% for Swedish mortgages. This applies on a consolidated basis to Swedish banks which use the IRB approach to calculate residential mortgage exposures.

In Sweden the Pillar 2 add-on is not considered a hard requirement until a formal decision is taken and is rather “strict guidance”. As such, it does not currently affect MDA calculations for Swedbank. The FSA has in the past indicated that it does not intend, in normal circumstances, to take such a formal decision.

The new proposal – which materially reduces the Pillar 2 ‘hard guidance’ for Swedbank – is calibrated such that total capital requirements will remain neutral in absolute terms. Thus, Swedish banks will not be asked to hold additional capital but will also not be expected to reduce current nominal capital. However, reported capital ratios will decrease. In effect the measure is expected to make Swedish banks’ capital calculations more closely comparable to those of most European peers.

It follows that the metrics that most investors in AT1 instruments focus on – the distance to the CBR and CET1 capital requirements and the distance to trigger – will also decrease, both as a percentage of risk-weighted assets (RWAs) and in nominal terms. This is because the denominator in the capital ratio -- i.e. the risk exposure amount (REA) – will rise as a result of an effective increase in risk weights on Swedish residential mortgages. As noted above, historically this has been captured via Pillar 2, but in future a more onerous risk weight floor will be applied through Pillar 1 instead.

In reality, the anticipated fall in reported total capital ratios is a technical effect and does not imply an overall weakening of Swedish banks’ solvency positions. Risk asset intensity ratios, which are currently considered low compared to many international peers (Swedbank’s was 18.5% at YE17), will increase.

The Swedish FSA has provided some estimates of the impact of the new measures on banks’ total reported capital ratios. Based on these, which rely on 4Q17 numbers, we estimate that Swedbank’s headline CET1 ratio will fall by around 790 bps.

Currently, based on the FSA’s quarterly Capital Requirements Memorandum, the capital requirement relevant for Swedbank’s MDA calculation stood at 11.3% at YE17 and 1Q18. This encompassed:

- A minimum Pillar 1 CET1 requirement of 4.5%,
- A capital conservation buffer of 2.5%,
- A Pillar 1 systemic risk buffer of 3%, and
- A countercyclical buffer for Swedish exposures of 1.3%.

These requirements are not expected to change.

On top of the Pillar 1 combined buffer requirement, we calculate Swedbank’s additional CET1 requirement guidance under Pillar 2 at 10.6% based on the 1Q18 FSA Capital Requirements Memorandum. This includes a 1.7% individual requirement, 2% systemic risk buffer, and 6.9% for the 25% risk weight floor imposed for Swedish mortgages. Under the new proposal the latter is expected to disappear.

Including the Pillar 2 add-on, Swedbank’s CET1 minimum capital requirement guidance stood at 22.0% based on the FSA memorandum at the end of March 2018. Under the new proposal (as of YE17) we estimate that this would fall to around 15.3%.

Table 9: Combined buffer requirements

	2016	2017	Q4 2017 Estimate under Article 458	Q1 2018
Required CET1 associated with distribution restrictions under Pillar 1:	**11.0%**	**11.3%**	**11.3%**	**11.3%**
Combined buffer (CBR)				
- Capital conservation	2.5%	2.5%	2.5%	2.5%
- Systemic	3.0%	3.0%	3.0%	3.0%
- Countercyclical	1.0%	1.3%	1.3%	1.3%
Pillar 1 CET1 requirement	4.5%	4.5%	4.5%	4.5%
Pillar 2 CET1 guidance including systemic risk buffer (not included in MDA calculation)	10.3%	10.6%	4.0%	10.6%
CET1 Capital Requirement and hard guidance (incl. Pillar 2)	21.3%	21.9%	15.3%	21.9%
Swedbank Group CET1, fully loaded (SEK bn)	98.7	100.5	100.5	101.9
Swedbank Group CET1, fully loaded (%)	25.0%	24.6%	16.7%	24.8%
Distance to CET1 requirement incl. CBR (%)	**14.0%**	**13.3%**	**5.4%**	**13.5%**
Distance to CET1 requirement incl. CBR (SEK bn)	**55.2**	**54.3**	**29.3**	**55.5**
RWAs (SEK bn)	394	408	542	411

Source: Company data, Scope Ratings

Swedbank's CET1 ratio as of 1Q18 was 24.8%. This offers ample distance both to the Pillar 1 Combined Buffer Requirement and also to the total CET1 requirement, including Pillar 2 elements, which are not relevant to the MDA trigger level calculation. We note that in Sweden, the current Pillar 2 add-on is not considered a hard requirement until a formal decision is taken, and is rather a "strict guidance".

Under the expected new measures, we estimate Swedbank's CET1 ratio as of 31 December 2017 would be 16.7%. This reduces the distance to the CET1 requirement including the Combined Buffer Requirement to 5.4%, which is materially lower, but still well in line with many European peers. The estimated increase in RWA is by almost one third, reflecting Swedbank's position as Sweden's largest mortgage lender (see Table 1).

Swedbank has indicated it will maintain a management buffer over the CET1 requirement in order to have operational flexibility. This has been increasing in recent quarters and stood at 280 bps at 1Q18 (1Q17: 250 bps). Swedbank has not indicated any intention to change the level of the management buffer.

As an additional consideration, we highlight that, as for all international banks, Swedish banks will become subject to the 72.5 % capital 'input floor' agreed by the BIS, limiting the differences between risk weights used under internal models and those imposed under the standardized approach. In the near term we expect the negative impact on the banks' capital ratios will be limited, as the measure will not be fully implemented until 2027. Ultimately although average risk weights are likely to rise, we also expect the related Pillar 2 capital requirements to be dropped as a result.

B. Principal loss absorption

Key risk: Principal loss absorption

The mechanism for loss absorption is equity conversion.

The rated securities have two triggers:

- 5.125% based on Swedbank AB parent company accounts
- 8% based on Swedbank's group consolidated accounts

In our view, the consolidated 8% trigger is the main loss-absorption feature of the rated securities. In order for the 5.125% trigger to gain relevance, the following scenarios would need to materialise at the same time:

- A material divergence in the profitability trends of Swedbank AB and its main subsidiaries (Swedbank Mortgage, Baltics, and Asset Management companies)
- Ring-fencing of capital in the main subsidiaries of Swedbank, so that dividends cannot be upstreamed.

We deem the above unlikely: First, we note that most of the operations of the Swedbank group are in Sweden, and that the framework for cooperation in crisis situations between authorities in the Nordic region, including the Baltics, is quite strong, with an established Cross Border Stability Group. Within Sweden, BRRD already shelters covered bonds from resolution, which reduces the risk of Swedbank Hypotek being prohibited from upstreaming dividends. As such, we base our analysis of principal loss absorption on our consolidated estimates for capital and on the group-based trigger. At YE17 the CET1 ratio of Swedbank AB (parent company) stood at 25.2%.

Distance to trigger

The distance-to-trigger for the rated securities stood at 16.6% at YE17 and 16.8% at 1Q18. We view this as ample, although we note that 8.0% is to be considered a high trigger – even in the context of current high Swedish capital requirements and low asset risk intensity.

The distance to trigger under the FSA's new proposals would decline in both percentage and nominal terms (see Table 2), to around 8.7% of RWAs, based on 4Q17 numbers. While the amount involved is sizeable, we continue to view the distance to trigger as being ample, especially when comparing Swedbank to other European bank peers.

Table 10: Distance to trigger

	2016	2017	Q4 2017 Estimate under Article 458	Q1 2018
Trigger level	8.0%	8.0%	8.0%	8.0%
Swedbank Group CET1, fully loaded (SEK bn)	98.7	100.5	100.5	101.9
Swedbank Group, CET1, Fully loaded (%)	25.0%	24.6%	16.7%	24.8%
Distance to trigger (%)	**17.0%**	**16.6%**	**8.7%**	**16.8%**
Distance to trigger (SEK bn)	**67.0**	**67.8**	**47.2**	**69.0**

Source: Company data, Scope Ratings

CREDIT SUISSE GROUP AG – AT1 RATING REPORT (HIGH-TRIGGER)

Security ratings	
Outlook	Stable
9.5% USD 1.725bn Tier 1 Buffer Capital Notes, with 7% trigger	BB+
7.125% USD 1.5bn Perpetual Tier 1 Contingent Convertible Capital Notes, with 7% trigger	BB+
3.875% CHF 200m Perpetual Tier 1 Contingent Write-down Capital Notes, with 7% trigger	BB+

The ratings have not been solicited by the issuer; the analysis is based solely on public information.

Rating rationale

Scope Ratings assigns a rating of BB+ with Stable Outlook to the above referenced high-trigger AT1 securities. The 9.5% USD 1.725bn Notes have been issued by Credit Suisse Group (Guernsey) II Limited but are irrevocably guaranteed on a subordinated basis by Credit Suisse Group AG (CSG). The other two securities were issued by CSG directly. The ratings are based on the following considerations:

- Senior unsecured debt rating (eligible for TLAC): A, Stable Outlook
- Minimum notches down from senior unsecured debt rating: 4
- Additional notches: 1

In accordance with our rating methodology, the starting point for notching down when rating capital instruments is the senior unsecured debt rating. The minimum four notches reflect the deeply subordinated status of AT1 capital instruments in the priority of claims, their going concern loss absorbing features and investors' exposure to coupon-cancellation risks. Please refer to Scope's *Bank Capital Instruments Rating Methodology* published in May 2018 for more details.

The additional notch reflects the positioning of the Notes in the group's capital structure. They are meant to be first in line to absorb losses, before all of Credit Suisse's other regulatory capital instruments. The trigger is relatively high at 7% and is based on the group's CET1 ratio. Meanwhile, the group's other regulatory capital instruments have lower triggers of 5.125% or 5% and as well are measured against the sum of CSG's CET1 and Higher-Trigger capital ratios.

The release of this rating report does not constitute a rating action. Last rating action was assigned on 15 June 2017. For further information on the last rating action and regulatory information please click here.

Issuer credit profile

The Issuer Rating of A+ for Credit Suisse is driven by the group's robust and resilient wealth management franchise as well as its position as a leading universal bank in Switzerland. Credit Suisse has defined its ambition to be a leading wealth manager with strong investment banking capabilities. Management believes strong investment banking capabilities are needed to successfully serve its target wealth management clients.

Scope views positively the material progress that has been made two years into the group's three-year restructuring plan. The business has been refocused, with more resources being allocated towards wealth management while the exposure to markets-related businesses has been reduced and de-risked, although still significant.

Further, the group's solvency position has been materially strengthened via capital increases, retained earnings and asset reductions. Management remains committed to generating profitable growth to build capital organically. There continues to be execution risks associated with the restructuring. If done well, the group will improve the quality and resilience of earnings and be better positioned for an evolving competitive landscape.

Summary terms

Issuer	Credit Suisse Group (Guernsey) II Limited
Guarantor	Irrevocably guaranteed on a subordinated basis by Credit Suisse Group AG
Issue Date	31 July 2012
Amount	USD 1.725bn
Coupon	• 9.5% fixed until first interest payment date after the first call date; payable annually in arrear • From first interest payment date after the first call date at a rate equal to the 6-month USD LIBOR rate plus 6.64%; payable semi-annually in arrear
Format	Perpetual Tier 1 contingent convertible securities, callable 23 October 2018 and every six months thereafter
ISIN	XS0810846617

Issue Date	26 January 2017
Amount	USD 1.5bn
Coupon	• 7.125% fixed until first call date; reset every 5 years thereafter • From first call date at a rate equal to the Mid Market Swap rate plus 5.108% • Payable semi-annually in arrear
Format	Perpetual Tier 1 contingent convertible securities, callable 29 July 2022 and every five years thereafter
ISIN	CH0352765157

Issue Date	**22 March 2017**
Amount	CHF 200m
Coupon	• 3.875% fixed until first call date; reset every five years thereafter • From first call date at a rate equal to the Mid Market Swap rate plus 3.993% • Payable annually in arrear
Format	Perpetual Tier 1 contingent write-down securities, callable 22 September 2023 and every five years thereafter
ISIN	CH0360172719

Main Risks	
Coupon Cancellation	• Fully discretionary • Mandatory if there are insufficient distributable profits; if all applicable minimum Swiss capital requirements are not met; or if the regulator requires the issuer not to make such an interest payment
Principal Loss Absorption	• For the 9.5% USD 1.725bn and 7.125% USD 1.5bn Notes: upon a Contingency Event or a Viability Event, the Notes are mandatorily converted into ordinary shares; • For the 3.875% CHF 200m Notes: upon a Contingency Event or Viability Event, the Notes are automatically and permanently written down to zero; • A Contingency Event refers to the CET1 ratio of CSG being below 7%; • A Viability Event refers to (1) the regulator determining that the conversion or write-down of all other capital instruments is an essential requirement to prevent CSG from becoming insolvent, bankrupt, unable to pay a material part of its debt or ceasing to carry on its business; or (2) CSG has received an irrevocable commitment of extraordinary support from the public sector without which CSG would have become insolvent, bankrupt, unable to pay a material part of its debts as they fall due or unable to carry on its business.
Trigger for Principal Loss Absorption	Consolidated group CET1 < 7%, transitional basis

Source: Prospectuses, Scope Ratings

Key risks

A. Coupon cancellation

Key risk: Coupon cancellation

Coupon payments on the Notes are fully discretionary and non-cumulative.

Coupon payments on the Notes are fully discretionary and non-cumulative. In addition, they are subject to distribution restrictions. Swiss banks, however, are not bound by CRD IV and therefore the concepts of the combined buffer requirement and the maximum distributable amount do not apply.

Further, unlike with AT1 securities issued by other European banks, the Notes contain a dividend stopper – i.e. if Credit Suisse does not pay a coupon, the group shall not recommend to ordinary shareholders any dividend or other distribution in cash or in kind be paid or made on any ordinary shares. Capital returns (such as share buy-backs) are also not permitted.

At the same time, if Credit Suisse elects to pay dividends on ordinary shares corresponding to a period when there is unpaid interest on the Notes, then CSG should pay Notes holders the aggregate amount of all unpaid interest which has arisen during the period.

Conditions under which coupon payments are prohibited

CSG is prohibited from making coupon payments on the Notes in the following circumstances:

- Distributable profits are less than the sum of (i) the aggregate amount of such interest payments and (ii) all other payments (except redemptions) made by CSG since the last financial year on the Notes and any other Tier 1 instruments or shares – excluding any portion of such payment already accounted for in determining distributable profits;
- CSG is not in compliance with all applicable minimum Swiss capital adequacy requirements after paying interest on the Notes;
- FINMA, the Swiss regulator, has required CSG not to make such an interest payment.

We do not consider distributable profits to be constraining factor for the group to pay coupons. As of end-2017, CSG had CHF 15.7bn in distributable profits (CHF 10.5bn in statutory and discretionary reserves plus CHF 5.2bn in retained earnings brought forward and no net loss). Distributable profits are defined as the aggregate of net profits carried forward and freely distributable reserves (other than reserves for own shares).

Applicable requirements

The revised Swiss SRB (systemically relevant bank) framework came into effect in July 2016 and is being phased-in until the end of 2019. Under the framework, the fully applied minimum going concern capital requirement is 14.3% of RWAs, of which at least 10% must be met with CET1 capital and the remainder with high-trigger AT1 securities. In addition, there is a minimum going concern leverage ratio of 5%, of which at least 3.5% must be with CET1 capital and the remainder with high-trigger AT1 instruments.

Gone concern requirements mirror going concern requirements, i.e. 14.3% of RWAs and 5% leverage ratio and can be met with bail-in debt instruments, CET1 capital, AT1 and Tier 2 securities. At its discretion, FINMA, may reduce gone concern requirements if CSG takes additional steps to improve its resolvability. The combination of going concern and gone concern requirements equates to total loss absorbing capacity (TLAC).

As of 1Q 2018, the group had low-trigger AT1 (the Notes) and Tier 2 securities that benefit from grandfathering provisions. Low-trigger AT1 securities qualify as going concern capital until their first call date and thereafter may be used to meet gone concern requirements. The group's two low-trigger Tier 2 securities qualify as going concern capital until end-2019 and thereafter may be used for gone concern requirements.

As of 1Q 2018, the group's look-through total loss absorbing capacity was 30.6% on an RWA basis and 8.9% on a leverage basis. The look-through RWA requirements have already been met and the group is on its way to meeting look-through leverage requirements.

Through 2019, the group intends to continue replacing a portion of maturing operating company debt with TLAC-eligible holding company debt and replacing outstanding callable capital instruments with fully compliant high-trigger AT1 securities.

Figure 11: Total loss-absorbing capacity

	1Q 2018 actual phase-in	2018 requirement	1Q 2018 actual look-through	Jan 2020 requirement
RWAs (CHF bn)	272		272	
Going concern capital	18.8%	13.1%	17.3%	14.5%
of which CET1	*12.9%*	*9.7%*	*12.9%*	*10.2%*
Gone concern loss-absorbing capacity	13.3%	7.7%	13.2%	12.3%
Total loss-absorbing capacity	**32.2%**	**20.7%**	**30.6%**	**26.8%**
Leverage ratio denominator (CHF bn)	932		932	
Going concern capital	5.5%	4.0%	5.1%	5.0%
of which CET1	*3.7%*	*2.9%*	*3.7%*	*3.5%*
Gone concern loss-absorbing capacity	3.9%	2.6%	3.9%	4.3%
Total loss-absorbing capacity	**9.4%**	**6.6%**	**8.9%**	**9.3%**

Notes: Gone concern requirements include the impact of rebates – 2% for RWAs and 0.7% for the leverage ratio denominator – which are being phased-in until January 2020. Going concern RWA requirements include a countercyclical buffer of 0.2%. Gone concern RWA requirements do not incorporate any countercyclical buffers.
Source: Company data, Scope Ratings

B. Principal loss absorption

Key risk: Principal loss absorption

- For the 9.5% USD 1.725bn and 7.125% USD 1.5bn Notes, the mechanism for loss absorption is equity conversion.
- For the 3.875% Notes, the mechanism for loss absorption is permanent write down.

The rated securities have one trigger:

- Consolidated group CET1 < 7%, transitional basis

Within the group's capital structure, these high-trigger Notes are first in line to absorb losses, ahead of Credit Suisse's other regulatory capital instruments. The trigger is relatively high at 7% and is based on CSG's CET1 ratio. Meanwhile, the group's other regulatory capital instruments have lower triggers of 5.125% and 5% and as well are measured against the sum of the group's CET1 and Higher-Trigger capital ratios. For these reasons, there is a one notch rating differential between these Notes and the group's other AT1 securities.

Meanwhile, we note that the 7% trigger is well below the group's minimum capital requirements under Swiss regulations. Under the Swiss Capital Adequacy Ordinance both high and low-trigger contingent convertible securities (including the Notes) may be triggered before the point of non-viability. Further, FINMA retains a fair degree of discretion in determining the point of non-viability.

Distance to trigger

We expect the group's CET1 capital ratio to remain solidly above the 7% trigger level as the group targets a pre-Basel III reforms CET1 ratio above 12.5%.

Figure 2: Distance to trigger – Credit Suisse Group AG

	2017	Q1 2018	2019
Trigger level	7.0%	7.0%	7.0%
CET1 capital ratio, phase-in	13.4%	12.9%	>12.5% target
Gap (%)	**6.4%**	**5.9%**	
Gap (CHF bn)	**17.4**	**15.9**	

Source: Company data, Scope Ratings

CRÉDIT SUISSE GROUP AG – AT1 RATING REPORT (LOW-TRIGGER)

Security ratings

Outlook	Stable
6% CHF 0.29bn Tier 1 Capital Notes, with 5.125% trigger	BBB-
7.5% USD 2.25bn Tier 1 Capital Notes, with 5.125% trigger	BBB-
6.25% USD 2.5bn Tier 1 Capital Notes, with 5.125% trigger	BBB-

The ratings have not been solicited by the issuer; the analysis is based solely on public information.

Rating rationale

Scope Ratings assigns a rating of BBB- with Stable Outlook to the above referenced low-trigger Tier 1 Capital Notes issued by Credit Suisse Group AG. The rating is based on the following considerations:

- Senior unsecured debt rating (TLAC eligible): A, Stable Outlook
- Minimum notches down from senior unsecured debt rating: 4
- Additional notches: 0

In accordance with our rating methodology, the starting point for notching down when rating capital instruments is the senior unsecured debt rating. The minimum four notches reflect the deeply subordinated status of AT1 capital instruments in the priority of claims, their going concern loss absorbing features and investors' exposure to coupon-cancellation risks. At this time, we have not identified other factors which would warrant additional notching. Please refer to Scope's *Bank Capital Instruments Rating Methodology* published in May 2018 for more details.

We highlight that the securities contain a dividend stopper which is a feature not usually found in CRD IV compliant AT1 securities issued by European banks. The concepts of the combined buffer requirement and the maximum distributable amount also do not apply. Further, the calculation of the capital trigger level is based on CET1 capital as well as Higher-Trigger capital (further details below). Scope considers these features to be beneficial for investors.

The release of this rating report does not constitute a rating action. Last rating action was assigned on 10 April 201510 April 2015. For further information on the last rating action and regulatory information please click here.

Issuer credit profile

The Issuer Rating of A+ for Credit Suisse is driven by the group's robust and resilient wealth management franchise as well as its position as a leading universal bank in Switzerland. Credit Suisse has defined its ambition to be a leading wealth manager with strong investment banking capabilities. Management believes strong investment banking capabilities are needed to successfully serve its target wealth management clients.

Scope views positively the material progress that has been made two years into the group's three-year restructuring plan. The business has been refocused, with more resources being allocated towards wealth management while the exposure to markets-related businesses has been reduced and de-risked, although still significant.

Further, the group's solvency position has been materially strengthened via capital increases, retained earnings and asset reductions. Management remains committed to generating profitable growth to build capital organically. There continues to be execution risks associated with the restructuring. If done well, the group will improve the quality and resilience of earnings and be better positioned for an evolving competitive landscape.

Summary terms

Issuer	Credit Suisse Group AG
Issue Date	**4 September 2013**
Amount	CHF 0.29bn
Coupon	• 6% fixed until first call date; reset every five years thereafter • From first call date at a rate equal to the Mid Market Swap rate plus 5.203% • Payable annually in arrear
Format	Perpetual Tier 1 contingent convertible securities, callable 4 September 2018 and every year thereafter
ISIN	CH0221803791

Issue Date	**11 December 2013**
Amount	USD 2.25bn
Coupon	• 7.5% fixed until first call date; reset every five years thereafter • From first call date at a rate equal to the Mid Market Swap rate plus 4.598% • Payable semi-annually in arrear
Format	Perpetual Tier 1 contingent convertible securities, callable 11 December 2023 and every five years thereafter
ISIN	XS0989394589 / US22546DAB29

Issue Date	**18 June 2014**
Amount	USD 2.5bn
Coupon	• 6.25% fixed until first call date; reset every five years thereafter • From first call date at a rate equal to the Mid Market Swap rate plus 3.455% • Payable semi-annually in arrear
Format	Perpetual Tier 1 contingent convertible securities, callable 18 December 2024 and every five years thereafter
ISIN	XS1076957700 / US225436AA21

Main Risks	
Coupon Cancellation	• Fully discretionary • Mandatory if there are insufficient distributable profits; if all applicable minimum Swiss capital requirements are not met; or if the regulator requires the issuer not to make such an interest payment
Principal Loss Absorption	• Following the occurrence of a Contingency Event or a Viability Event, a write-down will occur, and the full principal amount of the Notes will be automatically and permanently written down to zero • A Contingency Event refers to the sum of the CET1 capital ratio and the Higher-Trigger capital ratio of Credit Suisse Group AG (CSG) being below 5.125% • A Viability Event refers to (1) the regulator determining that the conversion or write-down of all other capital instruments is an essential requirement to prevent CSG from becoming insolvent, bankrupt, unable to pay a material part of its debt or ceasing to carry on its business; or (2) CSG has received an irrevocable commitment of extraordinary support from the public sector without which CSG would have become insolvent, bankrupt, unable to pay a material part of its debts as they fall due or unable to carry on its business
Trigger for Principal Loss Absorption	Sum of the CET1 ratio and the Higher-Trigger capital ratio of Credit Suisse Group AG < 5.125%, transitional basis

Source: Prospectuses, Scope Ratings

Key risks

A. Coupon cancellation

Key risk: Coupon cancellation

Coupon payments on the Notes are fully discretionary and non-cumulative.

Coupon payments on the Notes are fully discretionary and non-cumulative. In addition, they are subject to distribution restrictions. Swiss banks, however, are not bound by CRD IV and therefore the concepts of the combined buffer requirement and the maximum distributable amount do not apply.

Further, unlike with AT1 securities issued by other European banks, the Notes contain a dividend stopper – i.e. if Credit Suisse does not pay a coupon, the group shall not recommend to ordinary shareholders any dividend or other distribution in cash or in kind be paid or made on any ordinary shares. Capital returns (such as share buy-backs) are also not permitted.

At the same time, if Credit Suisse elects to pay dividends on ordinary shares corresponding to a period when there is unpaid interest on the Notes, then CSG should pay Notes holders the aggregate amount of all unpaid interest which has arisen during the period.

Conditions under which coupon payments are prohibited

CSG is prohibited from making coupon payments on the Notes in the following circumstances:

- Distributable profits are less than the sum of (i) the aggregate amount of such interest payments and (ii) all other payments (except redemptions) made by CSG since the last financial year on the Notes and any other Tier 1 instruments or shares – excluding any portion of such payment already accounted for in determining distributable profits;
- CSG is not in compliance with all applicable minimum Swiss capital adequacy requirements after paying interest on the Notes;
- FINMA, the Swiss regulator, has required CSG not to make such an interest payment.

We do not consider distributable profits to be a constraining factor for the group to pay coupons. As of end-2017, CSG had CHF 15.7bn in distributable profits (CHF 10.5bn in statutory and discretionary reserves plus CHF 5.2bn in retained earnings brought forward and no net losses). Distributable profits are defined as the aggregate of net profits carried forward and freely distributable reserves (other than reserves for own shares).

Applicable requirements

The revised Swiss SRB (systemically relevant bank) framework came into effect in July 2016 and is being phased-in until the end of 2019. Under the framework, the fully applied minimum going concern capital requirement is 14.3% of RWAs, of which at least 10% must be met with CET1 capital and the remainder with high-trigger AT1 securities. In addition, there is a minimum going concern leverage ratio of 5%, of which at least 3.5% must be with CET1 capital and the remainder with high-trigger AT1 instruments.

Gone concern requirements mirror going concern requirements, i.e. 14.3% of RWAs and 5% leverage ratio and can be met with bail-in debt instruments, CET1 capital, AT1 and Tier 2 securities. At its discretion, FINMA, may reduce gone concern requirements if CSG takes additional steps to improve its resolvability. The combination of going concern and gone concern requirements equates to total loss absorbing capacity (TLAC).

As of 1Q 2018, the group had low-trigger AT1 (the Notes) and Tier 2 securities that benefit from grandfathering provisions. Low-trigger AT1 securities qualify as going concern capital until their first call date and thereafter may be used to meet gone concern requirements. The group's two low-trigger Tier 2 securities qualify as going concern capital until end-2019 and thereafter may be used for gone concern requirements.

As of 1Q 2018, the group's look-through total loss absorbing capacity was 30.6% on an RWA basis and 8.9% on a leverage basis. The look-through RWA requirements have already been met and the group is well on its way to meeting look-through leverage requirements.

Through 2019, the group intends to continue replacing a portion of maturing operating company debt with TLAC-eligible holding company debt and replacing outstanding callable capital instruments with fully compliant high-trigger AT1 securities.

Figure 12: Total loss absorbing capacity

	1Q 2018 actual phase-in	2018 requirement	1Q 2018 actual look-through	Jan 2020 requirement
RWAs (CHF bn)	272		272	
Going concern capital	18.8%	13.1%	17.3%	14.5%
of which CET1	*12.9%*	*9.7%*	*12.9%*	*10.2%*
Gone concern loss-absorbing capacity	13.3%	7.7%	13.2%	12.3%
Total loss-absorbing capacity	**32.2%**	**20.7%**	**30.6%**	**26.8%**
Leverage ratio denominator (CHF bn)	932		932	
Going concern capital	5.5%	4.0%	5.1%	5.0%
of which CET1	*3.7%*	*2.9%*	*3.7%*	*3.5%*
Gone concern loss-absorbing capacity	3.9%	2.6%	3.9%	4.3%
Total loss-absorbing capacity	**9.4%**	**6.6%**	**8.9%**	**9.3%**

Notes: Gone concern requirements include the impact of rebates – 2% for RWAs and 0.7% for the leverage ratio denominator – which are being phased-in until January 2020. Going concern RWA requirements include a countercyclical buffer of 0.2%. Gone concern RWA requirements do not incorporate any countercyclical buffers.
Source: Company data, Scope Ratings

B. Principal loss absorption

Key risk: Principal loss absorption

The mechanism for loss absorption is permanent write down

The rated securities have one trigger:

- Sum of the CET1 ratio and the Higher-Trigger capital ratio of Credit Suisse Group AG < 5.125%, transitional basis

We consider the write-down risk for these Notes to be quite low (outside of a resolution scenario) considering the group's minimum solvency requirements under Swiss regulations and the way the trigger metric is determined (sum of CET1 ratio and Higher-Trigger capital ratios). As of 1Q 2018, the group had a phase-in CET1 ratio of 12.9%. In addition, there were another CHF 7.5bn in Higher-Trigger loss absorbing capital instruments outstanding (equivalent to 2.8% of RWAs).

As these Notes have a 5.125% trigger, the above-mentioned CHF 7.5bn in Higher-Trigger loss absorbing capital instruments provide some protection for Notes holders as they would be converted or written down first.

Under the Swiss Capital Adequacy Ordinance, both high-and-low-trigger contingent convertible securities (including the Notes) may be written down or converted before the point of non-viability. Further, FINMA retains a fair degree of discretion in determining the point of non-viability.

Distance to trigger

Considering the undemanding trigger of the Notes, we expect the sum of CSG's CET1 and Higher-Trigger capital ratios to remain largely above the 5.125% trigger level. The group targets a pre-Basel III reforms CET1 capital ratio above 12.5%.

Figure 2: Distance to trigger – Credit Suisse Group AG

	2017	Q1 2018	2019
Trigger level	5.1%	5.1%	5.1%
Sum of CET1 + Higher-Trigger capital ratios, phase-in	16.1%	15.6%	>12.5% target
Gap (%)	**11.0%**	**10.5%**	
Gap (CHF bn)	**30.1**	**28.5**	

Source: Company data, Scope Ratings

UBS GROUP AG – AT1 RATING REPORT

Security ratings

Outlook	Stable
5.75% EUR 1bn Tier 1 Capital Notes, with 5.125% trigger	BBB
7% USD 1.25bn Tier 1 Capital Notes, with 5.125% trigger	BBB
7.125% USD 1.25bn Tier 1 Capital Notes, with 7% trigger	BBB
6.875% USD 1.575bn Tier 1 Capital Notes, with 7% trigger	BBB
6.875% USD 1.5bn Tier 1 Capital Notes, with 7% trigger	BBB
7.125% USD 1.1bn Tier 1 Capital Notes, with 7% trigger	BBB
5% USD 2bn Tier 1 Capital Notes, with 7% trigger	BBB

Rating rationale

Scope rates at BBB with Stable Outlook the above referenced Tier 1 Capital Notes issued by UBS Group AG. While two of the Notes have a 5.125% trigger for permanent write down and five have a 7% trigger, we do not view the risks as being materially different and have not assigned different ratings. The rating is based on the following considerations:

- Senior unsecured debt rating (eligible for TLAC): A+, Stable
- Minimum notches down from senior unsecured debt rating: 4
- Additional notches: 0

In accordance with our rating methodology, the starting point for notching down when rating capital instruments is the senior unsecured debt rating. The minimum four notches reflect the deeply subordinated status of AT1 capital instruments in the priority of claims, their going concern loss absorbing features and investors' exposure to coupon-cancellation risks. At this time, we have not identified any factors which would justify additional notching beyond the minimum four. Please refer to Scope's *Bank Capital Instruments Rating Methodology* published in May 2018 for more details.

We highlight that the securities contain a dividend stopper which is a feature not usually found in CRD IV compliant AT1 securities issued by European banks. The concepts of the combined buffer requirement and the maximum distributable amount also do not apply. Further, the calculation of the capital trigger level is based on CET1 capital as well as Higher-Trigger capital (further details below). Scope considers these features to be beneficial for investors.

The release of this rating report does not constitute a rating action. Last rating action was assigned on 25.09.2017 For further information on the last rating action and regulatory information please click here.

Issuer credit profile

The Issuer Rating of AA- for UBS reflects the group's resilient business model, which is centred on its market-leading global wealth management franchise and its position as a leading universal bank in its home market of Switzerland. Asset management and investment banking activities further support and complement the overall business franchise. Under various operating conditions, the group's businesses have demonstrated their ability to generate solid earnings.

While the wealth management industry faces challenges such as margin compression, changing customer needs and increasing regulation, the group's strong franchise and long-term focus means that the business continues to grow profitably. The attention to enhancing the client experience and improving efficiency should help UBS mitigate industry headwinds.

Management remains committed to maintaining the group's balance sheet strength. This also means that UBS is well-positioned against relatively demanding Swiss too-big-to-fail requirements which must be met by 1 January 2020. Potential litigation and regulatory costs remain a risk, not only in terms of financial impact but also in terms of reputational damage

Summary terms

Issuer	UBS Group AG
Issue Date	**19 February 2015**
Amount	EUR 1.0bn
Coupon	• 5.75% until first call date, and thereafter at a rate equal to the Mid Market Swap Rate plus 5.287% • Payable annually in arrears on 19 February of each year
Format	Perpetual Tier 1 capital notes, callable 19 February 2022 and every year thereafter
Trigger for Principal Loss Absorption	Consolidated group CET1 capital ratio + Higher-Trigger capital ratio <5.125%, transitional basis
ISIN	CH0271428309

Issue Date	19 February 2015
Amount	USD 1.25bn
Coupon	• 7.00% fixed until first call date, and thereafter at a rate equal to the Mid Market Swap Rate plus 4.866% • Payable annually in arrears on 19 February of each year
Format	Perpetual Tier 1 capital notes, callable 19 February 2025 and every year thereafter
Trigger for Principal Loss Absorption	Consolidated group CET1 capital ratio + Higher-Trigger capital ratio <5.125%, transitional basis
ISIN	CH0271428333

Issue Date	19 February 2015
Amount	USD 1.25bn
Coupon	• 7.125% fixed until first call date, and thereafter at a rate equal to the Mid Market Swap Rate plus 5.464% • Payable annually in arrears on 19 February of each year
Format	Perpetual Tier 1 capital notes, callable 19 February 2020 and every year thereafter
Trigger for Principal Loss Absorption	Consolidated group CET1 capital ratio + Higher-Trigger capital ratio <7%, transitional basis
ISIN	CH0271428317

Issue Date	7 August 2015
Amount	USD 1.575bn
Coupon	• 6.875% fixed until first call date, and thereafter at a rate equal to the Mid Market Swap Rate plus 4.59% • Payable annually in arrears on 7 August of each year
Format	Perpetual Tier 1 capital notes, callable 7 August 2025 and every year thereafter
Trigger for Principal Loss Absorption	Consolidated group CET1 capital ratio + Higher-Trigger capital ratio <7%, transitional basis
ISIN	CH0286864027

Issue Date	21 March 2016
Amount	USD 1.5bn
Coupon	• 6.875% fixed until first call date, and thereafter at a rate equal to the Mid Market Swap Rate plus 5.4965% • Payable annually in arrears on 22 March of each year
Format	Perpetual subordinated contingent permanent write down securities, callable 22 March 2021 and every year thereafter
Trigger for Principal Loss Absorption	Consolidated group CET1 capital ratio + Higher-Trigger capital ratio <7%, transitional basis
ISIN	CH0317921697

Issue Date	3 August 2016
Amount	USD 1bn
Coupon	• 7.125% fixed until first call date, and thereafter at a rate equal to the Mid Market Swap Rate plus 5.883% • Payable annually in arrears on 10 August of each year
Format	Perpetual subordinated contingent permanent write down securities, callable 10 August 2021 and every year thereafter.
Trigger for Principal Loss Absorption	Consolidated group CET1 capital ratio + Higher-Trigger capital ratio <7%, transitional basis
ISIN	CH0331455318

Issue Date	31 January 2018
Amount	USD 2bn
Coupon	• 5% fixed until first call date, and thereafter at a rate equal to the Mid Swap Rate plus 2.432% which resets every 5 years thereafter • Payable annually in arrears on 31 January of each year
Format	Perpetual subordinated contingent permanent write down securities, callable 31 January 2023 and every year thereafter.
Trigger for Principal Loss Absorption	Consolidated group CET1 capital ratio + Higher-Trigger capital ratio <7%, transitional basis
ISIN	CH0400441280

Main Risks	
Coupon Cancellation	• Fully discretionary • Mandatory if (1) there are insufficient distributable items or (2) if UBS Group AG is not in compliance with all applicable Swiss minimum capital adequacy requirements on a consolidated basis and/or (3) the regulator has requested the issuer not to make such interest payment.
Principal Loss Absorption	• Following the occurrence of a Trigger Event or a Viability Event, a contingent write-down will occur, and the full principal amount of the Notes will automatically and permanently be written down to zero. • A Trigger Event refers to the sum of the CET1 capital ratio and the Higher-Trigger capital ratio of UBS Group AG being less than 5.125% or 7% as applicable. • A Viability Event refers to (1) the regulator determining that the conversion or write-off of all other capital instruments is an essential requirement to prevent UBS Group AG from becoming insolvent, bankrupt, unable to pay a material part of its debt or ceasing to carry on its business; or (2) UBS Group AG has received an irrevocable commitment of extraordinary support from the public sector without which the group would have become insolvent, bankrupt, unable to pay a material part of its debts as they fall due or unable to carry on its business.

Source: Prospectuses, Scope Ratings

Key risks

A. Coupon cancellation

Key risk: Coupon cancellation

Coupon payments on the Notes are fully discretionary and non-cumulative

Coupon payments on the Notes are fully discretionary and non-cumulative. In addition, they are subject to distribution restrictions. Swiss banks, however, are not bound by CRD IV and therefore the concepts of the combined buffer requirement and the maximum distributable amount do not apply.

Further, unlike with AT1 securities issued by other European banks, the Notes contain a dividend stopper – i.e. if UBS does not pay a coupon, the group shall not recommend to ordinary shareholders any dividend or other distribution in cash or in kind be paid or made on any ordinary shares. Capital returns (such as share buy-backs) are also not permitted.

Conditions under which coupon payments are prohibited

UBS is prohibited from making coupon payments on the Notes in the following circumstances:

- The amount of distributable items is less than the sum of (i) the amount of such interest payment plus (ii) all other payments (except redemptions) made by UBS Group AG on the Notes and on any parity obligations or junior obligations, plus (iii) all payments payable by UBS Group AG on any parity obligations or junior obligations, excluding any portion of such payments already accounted for in determining the amount of such distributable items;
- UBS Group AG is not in compliance with all applicable minimum capital adequacy requirements after paying interest on the Notes;
- FINMA, the regulator, has required UBS not to make such an interest payment.

As UBS Group AG had CHF 37.8bn in distributable items as of end-2017, we do not see this as a constraint for paying coupons. Distributable items are defined as the aggregate of net profits carried forward and freely distributable reserves less any amounts that must be contributed to legal reserves under applicable law. Under Swiss corporate law, share premium is included in general capital reserves.

Applicable requirements

The revised Swiss SRB (systemically relevant bank) framework came into effect in July 2016 and is being phased-in until the end of 2019. Under the framework, the fully applied minimum going concern capital requirement is 14.3% of RWAs, of which at least 10% must be met with CET1 capital and the remainder with high-trigger AT1 securities. In addition, there is a minimum going concern leverage ratio of 5%, of which at least 3.5% must be with CET1 capital and the remainder with high-trigger AT1 instruments.

Gone concern requirements mirror going concern requirements, i.e. 14.3% of RWAs and 5% leverage ratio, and can be met with bail-in debt instruments, CET1 capital, AT1 and Tier 2 securities. At its discretion, FINMA, may reduce gone concern requirements if UBS takes additional steps to improve its resolvability. The combination of going concern and gone concern requirements equates to total loss absorbing capacity (TLAC).

The revised Swiss SRB framework provides for the grandfathering of outstanding low-trigger AT1 securities (including the two Notes with a 5.125% trigger) and low- and high-trigger Tier 2 capital securities. Low-trigger AT1 securities qualify as going concern capital until their first call date and thereafter may be used to meet gone concern requirements. Low- and high-trigger Tier 2 capital securities can be used to meet going concern requirements until the earlier of (i) their maturity or first call date or (ii) 31 December 2019. From 1 January 2020, these instruments may be used to meet gone concern requirements.

As of 1Q 2018, the group had already met the fully applied TLAC RWA requirement of 26.6%; this figure includes a 0.2% countercyclical buffer as well as the impact of a 2% rebate for the gone concern RWA requirement.

UBS is also well positioned against fully applied TLAC leverage ratio requirements (Table 1). By taking further steps to improve its resolvability, UBS seeks to merit further rebates for its gone concern requirements. When the Swiss SRB framework becomes fully phased-in from 2020, UBS aims to operate with a less than 4% gone concern leverage ratio.

Table 13: Total loss absorbing capacity

	Actual 1Q 2018 phase-in	2018 requirement	Actual 1Q 2018 fully-applied	Jan 2020 requirement
RWAs (CHF bn)	254		254	
Going concern capital	20.6%	13.1%	17.3%	14.5%
of which CET1	*13.1%*	*9.7%*	*13.1%*	*10.2%*
Gone concern loss-absorbing capacity	10.8%	7.7%	13.9%	12.3%
Total loss-absorbing capacity	**31.4%**	**20.7%**	**31.2%**	**26.8%**
Leverage ratio denominator (CHF bn)	882		882	
Going concern capital	5.9%	4.0%	5.0%	5.0%
of which CET1	*3.8%*	*2.9%*	*3.8%*	*3.5%*
Gone concern loss-absorbing capacity	3.1%	2.6%	4.0%	4.3%
Total loss-absorbing capacity	**9.0%**	**6.6%**	**9.0%**	**9.3%**

Notes: Gone concern requirements include the impact of rebates – 2% for RWAs and 0.7% for the leverage ratio denominator – which are being phased-in until January 2020. Gone concern requirements do not incorporate any countercyclical buffers.
Source: Company data, Scope Ratings

B. Principal loss absorption

Key risk: Principal loss absorption

The mechanism for loss absorption is permanent write down

The rated securities have one trigger:

- Consolidated group CET1 capital ratio + Higher-Trigger capital ratio <5.125% or <7% on transitional basis, as applicable

We consider the write down risk for the Notes as being quite low (outside of a resolution scenario) considering the sound capital position of the group and the way the trigger metric is determined (sum of CET1 capital ratio and Higher-Trigger capital ratio). As of 1Q 2018, UBS Group AG had a phase-in CET1 ratio of 13.1%.

Included in the calculation of the Higher-Trigger capital ratio are high-trigger AT1 securities. As part of the group's employee compensation program (DCCP), UBS has issued CHF 1.6bn in AT1 securities with a trigger for permanent write down if the phase-in CET1 ratio of the group falls below 10% for grants awarded to the group's executive board members and below 7% for other employees. As the 10% trigger on the DCCP securities is above the triggers on the Notes, they provide some additional protection for investors.

As well, for investors in the two Notes with 5.125% triggers, there is an additional cushion of CHF 8.5bn in high-trigger AT1 securities (equivalent to 3.4% of RWAs).

Nevertheless, under the Swiss Capital Adequacy Ordinance, both high-and-low trigger contingent convertible securities (including the Notes) may be written down or converted before the point of non-viability. Further, FINMA retains a fair degree of discretion in determining the point of non-viability.

Distance to trigger

We expect the sum of UBS Group AG's CET1 capital and Higher-Trigger capital ratio to remain largely above the 5.125% and 7% trigger levels. The group guides to a fully applied CET1 ratio around 13%.

Table 2: Distance to 7% trigger

	2017	Q1 2018	2019
Trigger level	7.0%	7.0%	7.0%
CET1 capital ratio, phase-in	14.9%	13.1%	~13% FL guidance
Gap (%)	**7.9%**	**6.1%**	
Gap (CHF bn)	**18.8**	**15.4**	

Source: Company data, Scope Ratings

Table 3: Distance to 5.125% trigger

	2017	Q1 2018	2019
Trigger level	5.125%	5.125%	5.125%
CET1 capital ratio, phase-in	14.9%	13.1%	~13% FL guidance
Gap (%)	**9.8%**	**7.9%**	
Gap (CHF bn)	**23.3**	**20.1**	

Source: Company data, Scope Ratings

BARCLAYS PLC – AT1 RATING REPORT

Security ratings

Outlook	Stable
8.25% USD 2bn perpetual subordinated contingent convertible securities	BB+
8% EUR 1bn perpetual subordinated contingent convertible securities	BB+
7% GBP 698m fixed rate resetting perpetual subordinated contingent convertible securities	BB+
6.5% EUR 1.1bn fixed rate resetting perpetual subordinated contingent convertible securities	BB+
6.625% USD 1.2bn fixed rate resetting perpetual subordinated contingent convertible securities	BB+
7.875% GBP 1bn fixed rate resetting perpetual subordinated contingent convertible securities	BB+
7.875% USD 1.5bn fixed rate resetting perpetual subordinated contingent convertible securities	BB+
7.25% GBP 1.25bn fixed rate resetting perpetual subordinated contingent convertible securities	BB+
5.875% GBP 1.25bn fixed rate resetting perpetual subordinated contingent convertible securities	BB+

The ratings have not been solicited by the issuer; the analysis is based solely on public information.

Rating rationale

Scope rates at BB+ with Stable Outlook the above referenced perpetual subordinated contingent convertible securities issued by Barclays PLC. The ratings are based on the following considerations:

- Senior unsecured debt rating (eligible for MREL/TLAC): A, Stable Outlook
- Minimum notches down from senior unsecured debt rating: 4
- Additional notches: 1

In accordance with our rating methodology, the starting point for notching down when rating capital instruments is the senior unsecured debt rating. The minimum four notches reflect the deeply subordinated status of AT1 capital instruments in the priority of claims, their going concern loss absorbing features and coupon-cancellation risks. Please refer to Scope's *Bank Capital Instruments Rating Methodology* published in May 2018 for more details.

The additional notch stems from two factors: (1) the relatively demanding stance of the UK regulator; e.g. requesting 7% CET1 fully loaded triggers on AT1 securities and comparatively high Pillar 2 requirements, and (2) compared to peers, Barclays has room to further increase the headroom to growing capital requirements.

The release of this rating report does not constitute a rating action. Last rating action was assigned on 8 May 2018. For further information on the last rating action and regulatory information please click here.

Issuer credit profile

The Issuer Rating of A+ for Barclays is driven by the group's progress in adapting its business model to a changing operating environment. After the sell down of Barclays Africa, nearly half of the group's revenues stem from consumer businesses with strong franchises (UK retail and business banking, credit cards). Meanwhile, the investment banking business has been reduced and refocused.

On 1 July 2017, the Non-Core unit was closed six months early and on 1 April 2018, the UK ring-fenced bank was successfully set-up. The various businesses have demonstrated encouraging resilience although profitability could be improved.

We take comfort in management's track record of strengthening the group's capital and liquidity and funding positions. Certain material legal and conduct issues have been recently resolved but further potential reputational and litigation costs remain a risk.

Summary terms

Issuer	Barclays PLC
Issue Date	**November 2013**
Amount	USD 2bn
Coupon	• 8.25% fixed until first call date, reset every 5 years thereafter • From first call date at Mid Market Swap rate plus 6.705% • Payable quarterly in arrears
Format	Perpetual subordinated contingent convertible securities, callable December 2018 and every five years thereafter
Conversion price	USD 2.64 per conversion share
ISIN	US06738EAA38

Issue Date	December 2013
Amount	EUR 1bn
Coupon	• 8% fixed until first call date, reset every 5 years thereafter • From first call date at Mid Market Swap rate plus 6.75% • Payable quarterly in arrears
Format	Perpetual subordinated contingent convertible securities, callable December 2020 and every five years thereafter
Conversion price	EUR 1.99 per conversion share
ISIN	XS1002801758

Issue Date	June 2014
Amount	GBP 698m
Coupon	• 7% fixed until first call date, reset every 5 years thereafter • From first call date at Mid Market Swap rate plus 5.084% • Payable quarterly in arrears
Format	Perpetual subordinated contingent convertible securities, callable 2019 and every five years thereafter
Conversion price	GBP 1.65 per conversion share
ISIN	XS1068561098

Issue Date	June 2014
Amount	EUR 1.1bn
Coupon	• 6.5% fixed until first call date, reset every 5 years thereafter • From first call date at Mid Market Swap Rate plus 5.875% • Payable quarterly in arrears
Format	Perpetual subordinated contingent convertible securities, callable 2019 and every five years thereafter
Conversion price	EUR 2.02 per conversion share
ISIN	XS1068574828

Issue Date	June 2014
Amount	USD 1.2bn
Coupon	• 6.625% fixed until first call date, reset every 5 years thereafter • From first call date at Mid-Market Swap Rate plus 5.022% • Payable quarterly in arrears
Format	Perpetual subordinated contingent convertible securities, callable 2019 and every five years thereafter
Conversion price	USD 2.77 per conversion share
ISIN	US06738EAB11

Issue Date	August 2015
Amount	GBP 1.0bn
Coupon	• 7.875% fixed until first call date, reset every 5 years thereafter • From first call date at Mid-Market Swap Rate plus 6.099% • Payable quarterly in arrears
Format	Perpetual subordinated contingent convertible securities, callable 2022 and every five years thereafter
Conversion price	GBP 1.65 per conversion share
ISIN	XS1274156097

Issue Date	August 2016
Amount	USD 1.5bn
Coupon	• 7.875% fixed until first call date, reset every 5 years thereafter • From first call date at Mid-Market Swap Rate plus 6.772% • Payable quarterly in arrears
Format	Perpetual subordinated contingent convertible securities, callable 2022 and every five years thereafter
Conversion price	USD 1.99 per conversion share
ISIN	XS1481041587

Issue Date	March 2017
Amount	GBP 1.25bn
Coupon	• 7.25% fixed until first call date, reset every 5 years thereafter • From first call date at Mid-Market Swap Rate plus 6.462% • Payable quarterly in arrears
Format	Perpetual subordinated contingent convertible securities, callable 2023 and every five years thereafter
Conversion price	GBP 1.65 per conversion share
ISIN	XS1571333811

Issue Date	**August 2017**
Amount	GBP 1.25bn
Coupon	• 5.875% fixed until first call date, reset every 5 years thereafter • From first call date at Mid-Market Swap Rate plus 4.91% • Payable quarterly in arrears
Format	Perpetual subordinated contingent convertible securities, callable 2024 and every five years thereafter
Conversion price	GBP 1.65 per conversion share
ISIN	XS1658012023

Main Risks	
Coupon Cancellation	• Fully discretionary • Agreement to potential interest cancellation • Mandatory if there are insufficient distributable items to pay full or partial coupons on these securities after taking in to account any other planned or previously made payments affecting distributable items or the solvency condition is not satisfied in respect of such coupon payment
Principal Loss Absorption	• Full and automatic conversion into ordinary shares upon trigger breach at conversion price subject to conversion shares offer • Regulatory action, including at the point of non-viability or in the event a bank or investment firm of the group is failing or likely to fail
Trigger for Principal Loss Absorption	Consolidated group CET1 < 7% on fully loaded basis

Source: Prospectuses, Scope Ratings

Key risks

A. Coupon cancellation

Key risk: Coupon cancellation

Coupon payments on the security are fully discretionary and are subject to distribution restrictions

Coupons are mandatorily cancelled if there are insufficient distributable items (based on issuer accounts on an unconsolidated basis) to pay full or partial coupons on these securities, after taking in to account any other planned or previously made payments affecting distributable items. We, however, do not consider distributable items to be a limiting factor for Barclays to pay coupons. At end-2017, Barclays PLC had GBP 6.7bn in distributable reserves.

In addition, the issuer must be solvent immediately after making payments related to the AT1 securities. The issuer is considered solvent if it can pay debts owed to senior creditors as they fall due and if the value of its assets is at least equal to the value of its liabilities.

Combined buffer requirement (CBR)

Article 141 of CRD IV imposes certain restrictions on discretionary distributions (dividends, variable remuneration and payments on AT1 securities) when the combined buffer requirement (CBR) is not met. The CBR is comprised of the capital conservation buffer, the countercyclical buffer and systemic risk buffers as applicable.

To determine whether the maximum distributable amount (MDA) needs to be calculated, a bank should meet both Pillar 1 and Pillar 2 capital requirements as well as the CBR. For UK banks, Pillar 2 capital requirements are referred to as Pillar 2A requirements. At least 56% of the requirement must be met with CET1 capital and no more than 25% with Tier 2 capital. We note that the Pillar 2 requirements of UK banks are often higher than those for ECB-supervised banks, even when comparing only the CET1 component.

Barclays' Pillar 2A requirement for 2018 is 4.3%, of which 2.4% should be met with CET1 capital. Meanwhile, the group's combined buffer is comprised of the 2.5% capital conservation buffer and a 1.5% G-SIB buffer, both of which are being phased-in between 2016 and 2019. From June 2018, Barclays has also been subject to a countercyclical buffer requirement for its UK exposures. We assume this will result in a 0.5% countercyclical buffer requirement for Barclays as the UK countercyclical buffer rate is expected to increase to 1% from November 2018.

When assessing the headroom to requirements, capital ratios which incorporate the transitional arrangements of IFRS 9 and the grandfathering of CRR non-compliant capital instruments have been used.

Table 14: Estimated capital requirements

	2017	Q1 2018	2019
Required CET1 associated with distribution restrictions:	**7.8%**	**10.4%**	**11.4%**
Combined buffer (CBR)			
- Capital conservation	1.25%	1.88%	2.50%
- Systemic	1.00%	1.10%	1.50%
- Countercyclical [1]	0.00%	0.50%	0.50%
Pillar 2 CET1 requirement	2.30%	2.40%	2.40%
Pillar 1 CET1 requirement	4.50%	4.50%	4.50%
Barclays PLC CET1, transitional (%) [2]	13.3%	12.7%	
Distance to CET1 requirement incl. CBR (%)	**5.5%**	**2.3%**	
Distance to CET1 requirement incl. CBR (GBP bn)	**17.1**	**7.2**	
Barclays PLC Tier 1, transitional (%) [3]	16.1%	16.4%	
Required Tier 1 incl. CBR (%)	11.3%	12.7%	13.7%
Distance to Tier 1 requirement incl. CBR (%)	**4.8%**	**3.7%**	
Barclays PLC total capital, transitional (%) [3]	20.7%	20.3%	
Required total capital, incl. CBR (%)	14.3%	15.8%	16.8%
Distance to total capital requirement incl. CBR (%)	**6.3%**	**4.5%**	
RWAs (GBP bn)	313	318	

Notes: 1. Countercyclical buffer requirement has been in place since June 2018 and is assumed to be 0,5% based on a 1% UK countercyclical buffer rate and 50% of group exposure to the UK. 2. Includes IFRS 9 transitional arrangements. 3. Includes IFRS 9 transitional arrangements and the grandfathering of CRR non-compliant capital instruments. Source: Company data, Scope Ratings

By 2019, we estimate that Barclays will need to maintain a CET1 ratio above 11%, a Tier 1 capital ratio of nearly 14%, and a total capital ratio of nearly 17% to avoid distribution restrictions on its AT1 securities (Table 1). This assumes that various components of the combined buffer as well as the Pillar 2A requirement remain unchanged.

Following the 2016 BoE stress test, where the group suffered 450bps of stress losses after management actions, Barclays communicated that its future CET1 ratio position would take into consideration future minimum requirements and CRD IV buffers plus a management buffer of 150 to 200bps (previously 100-150bps), rather than a fixed target. The ability to successfully pass Bank of England (BoE) stress tests is a key part of the group's capital planning.

Consequently, the group targets a CET1 ratio of about 13%, 150-200 bps above the regulatory minimum.

As of 1Q 2018, the group's CET1 capital ratio was 12.7%[3], compared to 13.3% as of end-2017. During the quarter, litigation and conduct charges related to a USD 2bn RMBS settlement with the US Department of Justice and PPI (61 bps) offset to a large degree organic capital generation from earnings (42 bps).

Barclays' remaining stake in Barclays Africa Group Limited (BAGL) is currently reported as a financial asset and for regulatory purposes is treated on a proportional consolidated basis. Management expects full regulatory deconsolidation by end-2018 which is expected to add an additional 10bps to the group's CET1 capital ratio.

B. Principal loss absorption

Key risk: Principal loss absorption

The mechanism for loss absorption is full conversion into shares.	The securities have one trigger: • Consolidated group CET1 ratio < 7% on fully loaded basis.

Under the terms of the securities, there is full and automatic conversion into shares when the trigger level is breached. The trigger level is breached when Barclays' consolidated CET1 ratio is less than 7% on a fully loaded basis. We note that AT1 capital instruments issued by UK banks generally have fully loaded CET1 triggers while non-UK banks have transitional CET1 triggers.

For AT1 securities issued prior to 2015, investors in these securities agree and consent to the exercise of any UK bail-in power by the relevant UK relevant resolution authority that may result in the cancellation of all, or a portion, of the principal amount of and/or conversion of all or a portion of the principal amount of the securities into shares or other securities. The UK introduced bail-in provisions in January 2015, ahead of the January 2016 deadline contained in the Bank Recovery and Resolution Directive. From 2015, the offering documents for the AT1 securities issued by Barclays include explicit reference to the bail-in tool and the point of non-viability as well as the PRA's broad powers.

[3] The 12.7% CET1 ratio excludes the impact of IFRS 9 transitional arrangements; otherwise the CET1 ratio would be 12.2%.

Distance to trigger

We expect the group's fully loaded CET1 ratio to remain solidly above the 7% trigger level on the securities as management intends to maintain a 150-200bp buffer above minimum CET1 capital requirements – estimated to be more than 11% in 2019.

Table 15: Distance to trigger

	2017	Q1 2018	2019
Trigger level	7.0%	7.0%	7.0%
Barclays PLC CET1, fully loaded (%) [1]	13.3%	12.2%	
Distance to trigger (%)	**6.3%**	**5.2%**	
Distance to trigger (GBP bn)	**19.7**	**16.7**	

Note: 1. Fully loaded CET1 ratio excludes IFRS 9 transitional arrangements.
Source: Company data, Scope Ratings

HSBC HOLDINGS PLC – AT1 RATING REPORT

Security ratings

Outlook	Stable
5.625% USD 1.5bn perpetual subordinated contingent convertible securities	BBB
6.375% USD 2.25bn perpetual subordinated contingent convertible securities	BBB
5.25% EUR 1.5bn perpetual subordinated contingent convertible securities	BBB
6.375% USD 2.45bn perpetual subordinated contingent convertible securities	BBB
6% EUR 1bn perpetual subordinated contingent convertible securities	BBB
6.875% USD 2bn perpetual subordinated contingent convertible securities	BBB
6% USD 3bn perpetual subordinated contingent convertible securities	BBB
4.7% SGD 1bn perpetual subordinated contingent convertible securities	BBB
4.75% EUR 1.25bn perpetual subordinated contingent convertible securities	BBB
6.25% USD 2.25bn perpetual subordinated contingent convertible securities	BBB
6.5% USD 1.75bn perpetual subordinated contingent convertible securities	BBB

The ratings have not been solicited by the issuer; the analysis is based solely on public information

Rating rationale

Scope rates at BBB, Stable the above referenced issues of perpetual subordinated contingent convertible securities issued by HSBC Holdings PLC. The ratings are based on the following considerations:

- Senior unsecured debt rating (MREL/TLAC eligible): AA-, Stable Outlook
- Minimum notches down from senior unsecured debt rating: 4
- Additional notches: 1

In accordance with our rating methodology, the starting point for notching down when rating capital instruments is the senior unsecured debt rating. The minimum four notches reflect the deeply subordinated status of AT1 capital instruments in the priority of claims, their going concern loss absorbing features and investors' exposure to coupon-cancellation risks. Please refer to Scope's *Bank Capital Instruments Rating Methodology* published in May 2018 for more details.

The additional notch for these securities reflects the relatively demanding stance of the UK regulator; e.g. requesting 7% CET1 fully loaded triggers on AT1 securities, the presumed conversion of AT1 securities when CET1 triggers are breached (as illustrated in bank stress test scenarios), and comparatively high Pillar 2 requirements.

The release of this rating report does not constitute a rating action. Last rating action was assigned on 15 June 2017. For further information on the last rating action and regulatory information please click here.

Issuer credit profile

The Issuer Rating of AA for HSBC Holdings is based on the group's very diverse and unique business franchise as well as management's conservative risk appetite. While not immune to challenging market conditions, these characteristics enable HSBC to generate solid earnings across credit cycles. As well, the group maintains consistently reassuring liquidity, funding and capital positions.

In June 2018, management presented a strategy update with the theme being "Return to Growth and Value Creation". We note positively the continuity in the strategy, with the group focusing on strengths in Asia, the UK and its international network. Further, management assured that higher returns will not come from a change in the group's risk appetite. Investments of USD 15-17bn are planned, with a significant portion to be used for enhancing the customer experience, technology, regulatory programs and cyber security. By 2020, the group targets a ROTE above 11% and during 2018-2020, expects to maintain a CET1 ratio above 14%.

The ratings also recognize that the group's size and complexity mean that HSBC is more vulnerable to operational, governance, and internal control risks. With its broad-based focus on emerging markets and the ambition to facilitate international trade and capital flows, HSBC is also more exposed to the potential volatility inherent in these markets and to growing protectionist policies that may reduce global and regional trade flows.

Summary terms

Issuer	HSBC Holdings plc
Issue Date	**17 September 2014**
Amount	USD 1.5bn
Coupon	• 5.625% fixed until first call date, reset every 5 years thereafter • From first call date at mid-swap rate + 3.625% • Payable in arrear semi-annually
Format	Perpetual subordinated contingent convertible securities, callable January 2020 and every five years thereafter
Conversion rate	USD 4.35578 per ordinary share
ISIN	US404280AR04

Issue Date	**17 September 2014**
Amount	USD 2.25bn
Coupon	• 6.375% fixed until first call date, reset every 5 years thereafter • From first call date at mid-swap rate + 3.705% • Payable in arrear semi-annually
Format	Perpetual subordinated contingent convertible securities, callable September 2024 and every five years thereafter
Conversion rate	USD 4.33578 per ordinary share
ISIN	US404280AS86

Issue Date	17 September 2014
Amount	EUR 1.5bn
Coupon	• 5.25% fixed until first call date, reset every 5 years thereafter • From first call date at mid-swap rate + 4.383% • Payable in arrear semi-annually
Format	Perpetual subordinated contingent convertible securities, callable September 2022 and every five years thereafter
Conversion rate	EUR 3.37514 per ordinary share
ISIN	XS1111123987

Issue Date	30 March 2015
Amount	USD 2.45bn
Coupon	• 6.375% fixed until first call date, reset every 5 years thereafter • From first call date at mid-swap rate + 4.3675% • Payable in arrear semi-annually
Format	Perpetual subordinated contingent convertible securities, callable March 2025 and every five years thereafter
Conversion rate	USD 4.03488 per ordinary share
ISIN	US404280AT69

Issue Date	29 September 2015
Amount	EUR 1bn
Coupon	• 6% fixed until first call date, reset every 5 years thereafter • From first call date at 5-year EUR mid-swap + 5.338% • Payable in arrear semi-annually
Format	Perpetual subordinated contingent convertible securities, callable September 2023 and every five years thereafter
Conversion rate	EUR 3.73559 per ordinary share
ISIN	XS1298431104

Issue Date	1 June 2016
Amount	USD 2bn
Coupon	• 6.875% fixed until first call date, reset every 5 years thereafter • From first call date at 5-year USD mid-swap rate + 5.514% • Payable in arrear semi-annually
Format	Perpetual subordinated contingent convertible securities, callable June 2021 and every five years thereafter
Conversion rate	USD 3.9474 per ordinary share
ISIN	US404280BC26

Issue Date	22 May 2017
Amount	USD 3bn
Coupon	• 6% fixed until first call date, reset every 5 years thereafter • From first call date at 5-year USD mid-swap rate + 3.746% • Payable in arrear semi-annually
Format	Perpetual subordinated contingent convertible securities, callable May 2027 and every five years thereafter
Conversion rate	USD 3.4799 per ordinary share
ISIN	US404280BL25

Issue Date	8 June 2017
Amount	SGD 1bn
Coupon	• 4.7% fixed until first call date, reset every 5 years thereafter • From first call date at 5-year SGD swap rate + 2.87% • Payable in arrear semi-annually
Format	Perpetual subordinated contingent convertible securities, callable June 2022 and every five years thereafter
Conversion rate	SGD 4.80694 per ordinary share
ISIN	XS1624509300

Issue Date	4 July 2017
Amount	EUR 1.25bn
Coupon	• 4.75% fixed until first call date, reset every 5 years thereafter • From first call date at 5-year EUR mid-swap rate + 3.844% • Payable in arrear semi-annually
Format	Perpetual subordinated contingent convertible securities, callable July 2029 and every five years thereafter
Conversion rate	EUR 3.05451 per ordinary share
ISIN	XS1640903701

Issue Date	18 March 2018
Amount	USD 2.25bn
Coupon	• 6.25% fixed until first call date, reset every 5 years thereafter • From first call date at 5-year USD mid-swap rate + 3.453% • Payable in arrear semi-annually
Format	Perpetual subordinated contingent convertible securities, callable March 2023 and every five years thereafter
Conversion rate	USD 3.7881 per ordinary share
ISIN	US404280BN80

Issue Date	**18 March 2018**
Amount	USD 1.75bn
Coupon	• 6.5% fixed until first call date, reset every 5 years thereafter • From first call date at 5-year USD mid-swap rate + 3.606% • Payable in arrear semi-annually
Format	Perpetual subordinated contingent convertible securities, callable March 2028 and every five years thereafter
Conversion rate	USD 3.7881 per ordinary share
ISIN	US404280BP39

Main Risks	
Coupon Cancellation	• Fully discretionary • Mandatory if there are insufficient distributable items to pay coupons on these securities, parity securities and any junior securities; or coupons on these securities plus other distributions referred to in Article 141(2) of CRD IV exceed the maximum distributable amount; or the solvency condition is not satisfied in respect of such coupon payment • Upon order of regulator
Principal Loss Absorption	• Full and automatic conversion into ordinary shares upon trigger breach at conversion price subject to conversion share offer • Regulatory action, including the exercise of UK bail-in power
Trigger for Principal Loss Absorption	Consolidated group CET1 ratio < 7% on fully loaded basis

Source: Prospectuses, Scope Ratings

Key risks

A. Coupon cancellation

Key risk: Coupon cancellation

Coupon payments are fully discretionary and are subject to distribution restrictions.

Coupon payments are fully discretionary and are subject to distribution restrictions. As well, coupons are mandatorily cancelled if there are insufficient distributable items (based on issuer accounts on an unconsolidated basis) to pay coupons on these securities, parity securities and any junior securities or if the sum of coupons on these securities plus other distributions referred to in Article 141(2) of CRD IV (i.e. dividends and variable compensation) exceed the maximum distributable amount (MDA).

We do not consider distributable items to be a limiting factor for HSBC to make coupon payments. As of end-2017, HSBC Holdings PLC, had USD 38bn in reserves available for distribution.

In addition, the issuer must be solvent immediately after making payments related to the AT1 securities. The issuer is considered solvent if it can pay debts owed to senior creditors as they fall due and if the value of its unconsolidated gross assets is at least equal to the value of its unconsolidated gross liabilities.

Combined buffer requirement (CBR)

Article 141 of CRD IV imposes certain restrictions on discretionary distributions (dividends, variable remuneration and payments on AT1 securities) when the combined buffer requirement (CBR) is not met. The CBR is comprised of the capital conservation buffer, the countercyclical buffer and systemic risk buffers as applicable.

To determine whether the MDA needs to be calculated, a bank should meet both Pillar 1 and Pillar 2 capital requirements as well as the CBR. For UK banks, Pillar 2 capital requirements are referred to as Pillar 2A requirements. At least 56% of the requirement must be met with CET1 capital and no more than 25% with Tier 2 capital. We note that the Pillar 2 requirements of UK banks are often higher than those for ECB-supervised banks, even when comparing only the CET1 component.

By 2019, we estimate that HSBC will need to maintain a CET1 ratio of about 12%, a Tier 1 capital ratio above 14%, and a total capital ratio of 17% to avoid distribution restrictions on its AT1 securities (Table 1). This assumes that the Pillar 2A requirement does not change. As of 1Q 2018, HSBC's Pillar 2A requirement was 3.5%, of which at least 2% should be met with CET1 capital.

Table 16: Estimated capital requirements

	2017	Q1 2018	2019
Required CET1 associated with distribution restrictions:	**8.6%**	**10.6%**	**11.9%**
Combined buffer (CBR)			
- Capital conservation	1.25%	1.88%	2.50%
- Systemic	1.00%	1.50%	2.00%
- Countercyclical	0.20%	0.77%	0.93%
Pillar 2A CET1 requirement	1.60%	2.00%	2.00%
Pillar 1 CET1 requirement	4.50%	4.50%	4.50%
HSBC Holdings PLC CET1, fully loaded (%)	14.5%	14.5%	
Distance to CET1 requirement incl. CBR (%)	**5.9%**	**3.9%**	
Distance to CET1 requirement incl. CBR (USD bn)	**51.6**	**34.4**	
HSBC Holdings PLC Tier 1, fully loaded (%)	16.4%	17.6% transitional	
Required Tier 1, incl. CBR (%)	10.6%	12.8%	14.1%
Distance to Tier 1 requirement incl. CBR (%)	**5.8%**	**4.8%**	
HSBC Holdings PLC total capital, fully loaded (%)	18.3%	20.7% transitional	
Required total capital, incl. CBR (%)	13.3%	15.7%	17.0%
Distance to total capital requirement incl. CBR (%)	**4.9%**	**5.0%**	
RWAs (USD bn)	871	894	

Note: Countercyclical buffer is estimated to increase to 0.9% in 2019 based on the assumption that the CCyB rate for Hong Kong will increase to 2.5% and that Hong Kong accounts for about 25% of the group's exposure.
Source: Company data, Scope Ratings

Both the capital conservation and G-SIB buffers are being phased-in until 2019. Scope expects the countercyclical buffer to increase due to the group's exposures in the UK and Hong Kong. The current UK countercyclical buffer (CCyB) rate is 0.5% but will increase to

1% in November 2018. This is in line with the UK authorities' policy to set a UK CCyB rate of around 1% in a "standard risk environment". Meanwhile, the current CCyB rate in Hong Kong is 1.875% but with continuing strong credit growth, Scope expects this to increase to 2.5% in January 2019.

B. Principal loss absorption

Key risk: Principal loss absorption

The mechanism for loss absorption is full conversion into shares.

The securities have one trigger:

- Consolidated group CET1 ratio < 7% on fully loaded basis

Under the terms of the securities, there is full conversion into shares when the trigger level is breached. The trigger level is breached when HSBC's consolidated CET1 ratio is less than 7% on a fully loaded basis. AT1 capital instruments issued by UK banks generally have fully loaded CET1 triggers while non-UK banks have transitional CET1 triggers.

By acquiring the securities, investors "acknowledge, accept, consent and agree to be bound by the exercise of any UK bail-in power". These include the power to write-down and convert capital instruments when an institution is no longer considered viable and the use of the bail-in tool to cancel all or a portion of the principal amount of, or interest on, certain unsecured liabilities of a failing institution and/or convert certain debt claims into another security, including ordinary shares.

Distance to trigger

As of 31 March 2018, HSBC's fully loaded CET1 ratio was 14.5%, compared to the 7% trigger level in the securities. Scope expects the group's CET1 capital position to remain comfortably above the trigger level.

Table 17: Distance to trigger

	2017	Q1 2018	2019
Trigger level	7.0%	7.0%	7.0%
HSBC Holdings PLC CET1, fully loaded (%)	14.5%	14.5%	
Distance to trigger (%)	**7.5%**	**7.5%**	
Distance to trigger (USD bn)	**65.2**	**67.0**	

Source: Company data, Scope Ratings

LLOYDS BANKING GROUP PLC – AT1 RATING REPORT

Security ratings

Outlook	Stable
7% GBP 1.48bn fixed rate reset AT1 perpetual subordinated contingent convertible securities	BB+
7.625% GBP 1.49bn fixed rate reset AT1 perpetual subordinated contingent convertible securities	BB+
7.875% GBP 750m fixed rate reset AT1 perpetual subordinated contingent convertible securities	BB+
6.375% EUR 750m fixed rate reset AT1 perpetual subordinated contingent convertible securities	BB+
7.5% USD 1.68bn fixed rate reset AT1 perpetual subordinated contingent convertible securities	BB+

The ratings have not been solicited by the issuer; the analysis is based solely on public information.

Rating rationale

Scope rates at BB+, Stable the above referenced Additional Tier 1 securities issued by Lloyds Banking Group PLC. The ratings are based on the following considerations:

- Senior unsecured debt (MREL eligible): A, Stable Outlook
- Minimum notches down from the senior unsecured debt rating: 4
- Additional notches: 1

In accordance with our rating methodology, the starting point for notching down when rating capital instruments is the senior unsecured debt rating. The minimum four notches reflect the deeply subordinated status of AT1 capital instruments in the priority of claims, their going concern loss absorbing features and investors' exposure to coupon-cancellation risks. Please refer to Scope's *Bank Capital Instruments Rating Methodology* published in May 2018 for more details.

The additional notch for these securities primarily reflects the relatively demanding stance of the UK regulator, e.g. requesting 7% fully loaded triggers on AT1 securities, the presumed conversion of AT1 securities when CET1 triggers are breached (as illustrated in bank stress test scenarios), and comparatively higher Pillar 2 requirements.

The release of this rating report does not constitute a rating action. Last rating action was assigned on 9 October 2014. For further information on the last rating action and regulatory information please click here.

Issuer credit profile

Lloyds Bank PLC is the primary operating company of Lloyds Banking Group PLC. The Issuer Rating of A+ for Lloyds Bank PLC reflects the group's leading domestic retail and commercial banking franchise, particularly in current accounts, retail deposits and mortgages. Over the last several years, management has successfully reduced the risks (asset quality, funding) stemming from the acquisition of HBOS at the peak of the financial crisis. Lloyds is now a lower-risk UK-focused retail and commercial bank.

Legacy issues, primarily PPI and conduct matters, have significantly diminished but continue to affect earnings. We expect these costs to decline further, allowing the group to generate higher and more stable bottom-line earnings.

Given the domestic nature of its business, the uncertainty around Brexit poses risks to Lloyds' asset quality and earnings. The group's strong franchise and prudential metrics, however, position Lloyds well to weather these potential headwinds.

Summary terms

Issuer	Lloyds Banking Group PLC
Issue Date	**April 2014**
Amount	GBP 1.48bn
Coupon	• 7% fixed until first call date, reset every 5 years thereafter • From first call date at a rate equal to the 5-year mid-swap rate + 5.06% • Payable quarterly in arrear
Format	Perpetual subordinated contingent convertible securities, callable 2019 and every five years thereafter
ISIN	XS1043550307

Issue Date	April 2014
Amount	GBP 1.49bn
Coupon	• 7.625% fixed until first call date, reset every 5 years thereafter • From first call date at a rate equal to the 5-year mid-swap + 5.01% • Payable quarterly in arrear
Format	Perpetual subordinated contingent convertible securities, callable 2023 and every five years thereafter
ISIN	XS1043552188

Issue Date	**April 2014**
Amount	GBP 750m
Coupon	• 7.875% fixed until first call date, reset every 5 years thereafter • From the first call date at a rate equal to the 5-year mid-swap rate + 4.83% • Payable quarterly in arrear
Format	Perpetual subordinated contingent convertible securities, callable 2029 and every five years thereafter
ISIN	XS1043552261

Issue Date	**April 2014**
Amount	EUR 750m
Coupon	• 6.375% fixed until first call date, reset every 5 years thereafter • From first call date at a rate equal to the 5-year mid-swap rate + 5.29% • Payable quarterly in arrear
Format	Perpetual subordinated contingent convertible securities, callable 2020 and every five years thereafter
ISIN	XS1043545059

Issue Date	**April 2014**
Amount	USD 1.68bn
Coupon	• 7.5% fixed until first call date, reset every 5 years thereafter • From first call date at a rate equal to the 5-year mid-swap rate + 4.76% • Payable quarterly in arrear
Format	Perpetual subordinated contingent convertible securities, callable 2024 and every five years thereafter
ISIN	US539439AG42

Main Risks	
Coupon Cancellation	• Fully discretionary • Mandatory if there are insufficient distributable items to pay coupons on these securities, parity securities and any junior securities • Mandatory if payments on common equity, AT1 securities and variable compensation exceed the Maximum Distributable Amount • For the USD 1.68bn issue, also subject to Solvency Condition
Principal Loss Absorption	• Full and automatic conversion into ordinary shares upon trigger breach at conversion price subject to conversion shares offer • Subject to write off or conversion on the occurrence of a bail-in or if issuer becomes subject to resolution
Trigger for Principal Loss Absorption	Consolidated group CET1 < 7% on fully loaded basis

Source: Prospectuses, Scope Ratings

Key risks

A. Coupon cancellation

Key risk: Coupon cancellation

Coupon payments on the AT1 securities are fully discretionary and are subject to distribution restrictions

Coupons are mandatorily cancelled if there are insufficient distributable items (based on issuer accounts on an unconsolidated basis) to pay coupons on these securities, parity securities and any junior securities. We do not see distributable items as a limiting factor for Lloyds to pay coupons. At 31 December 2017, Lloyds Banking Group PLC had available distributable reserves of approximately GBP 8.5bn.

Combined buffer requirement (CBR)

Article 141 of CRD IV imposes certain restrictions on discretionary distributions (dividends, variable remuneration and payments on AT1 securities) when the combined buffer requirement (CBR) is not met. The CBR is comprised of the capital conservation buffer, the countercyclical buffer and systemic risk buffers as applicable.

To determine whether the maximum distributable amount (MDA) needs to be calculated a bank should meet both Pillar 1 and Pillar 2 capital requirements as well as the CBR. For UK banks, Pillar 2 requirements are referred to as Pillar 2A requirements. At least 56% of the requirement must be met with CET1 capital and no more than 25% with Tier 2 capital. We note that the Pillar 2 requirements of UK banks are often higher than those of ECB-supervised banks, even when comparing only the CET1 component.

As of Q1 2018, Lloyds's Pillar 2A requirement was 5.4%, of which at least 3% should be met with CET1 capital.

Lloyds' combined buffer is comprised of the 2.5% capital conservation buffer and since June 2018 a countercyclical capital buffer for UK exposures. The UK countercyclical capital buffer rate is expected to increase to 1% (November 2018) from the current 0.5%.

From 2019, Lloyds will also be subject to a systemic risk buffer as it is a domestic systemically important bank. The buffer will be calculated at the level of the ring-fenced bank and while not finalised may be as high as 2.5%.

By 2019, we estimate that Lloyds may need to maintain a CET1 ratio of 13.5%, a Tier 1 capital ratio above 16%, and a total capital ratio greater than 19% to avoid distribution restrictions on its AT1 securities (Table 1). Our estimates include a systemic risk buffer of 2.5%, a 1% countercyclical buffer and assumes that the Pillar 2A requirement does not change.

At this time, Lloyds targets a CET1 ratio of around 14%, based on the view that the level of required CET1 capital is currently around 13% plus a management buffer of around 1%. Considering the group's earnings capabilities, Scope believes that management would be able to adjust capital levels as needed to meet potentially higher requirements. Management guides to ongoing capital generation of 170-200 bps per annum.

Table 18: Estimated capital requirements

	2017	Q1 2018	2019
Required CET1 associated with distribution restrictions:	**8.3%**	**10.4%**	**13.5%**
Combined buffer (CBR)			
- Capital conservation	1.25%	1.88%	2.50%
- Systemic	0.00%	0.00%	2.50%
- Countercyclical	0.00%	1.00%	1.00%
Pillar 2A CET1 requirement	2.50%	3.00%	3.00%
Pillar 1 CET1 requirement	4.50%	4.50%	4.50%
Lloyds Banking Group PLC CET1, fully loaded (%)	14.1%	14.1%	~14% target
Distance to CET1 requirement incl. CBR (%)	**5.8%**	**3.7%**	
Distance to CET1 requirement incl. CBR (GBP bn)	**12.2**	**7.8**	
Lloyds Banking Group PLC Tier 1, fully loaded (%)	16.6%	16.6%	
Required Tier 1 incl. CBR (%)	10.6%	12.9%	16.0%
Distance to Tier 1 requirement incl. CBR (%)	**6.0%**	**3.7%**	
Lloyds Banking Group PLC total capital, fully loaded (%)	18.5%	19.1%	
Required total capital, incl. CBR (%)	13.7%	16.3%	19.4%
Distance to total capital requirement incl. CBR (%)	**4.8%**	**2.8%**	
RWAs (GBP bn)	211	211	

Notes: Estimated systemic risk buffer of 2.5%. Estimated countercyclical buffer is based on 1% countercyclical buffer rate for the UK.
Source: Company data, Scope Ratings

B. Principal loss absorption

Key risk: Principal loss absorption

The mechanism for loss absorption is full conversion into shares.

The securities have one trigger:
- Consolidated group CET1 ratio < 7% on fully loaded basis.

There is full conversion into shares when the trigger level is breached. The trigger level is breached when Lloyds' consolidated group CET1 ratio is less than 7% on a fully loaded basis. We note that AT1 capital instruments issued by UK banks generally have fully loaded CET1 triggers while non-UK banks have transitional CET1 triggers. In addition, investors in the securities are subject to write-down or conversion risks if Lloyds becomes subject to resolution or the regulator exercises its bail-in powers.

Distance to trigger

As of Q1 2018, Lloyds' fully loaded CET1 ratio was 14.1%, well above the 7% trigger level in the securities. Considering the group's CET1 ratio target of around 14%, we expect the gap to trigger level to remain solid.

Table 19: Distance to trigger

	2017	Q1 2018	2019
Trigger level	7.0%	7.0%	7.0%
Lloyds Banking Group PLC CET1, fully loaded (%)	14.1%	14.1%	~14% target
Distance to trigger (%)	**7.1%**	**7.1%**	
Distance to trigger (GBP bn)	**14.9**	**14.9**	

Source: Company data, Scope Rating

ROYAL BANK OF SCOTLAND GROUP PLC – AT1 RATING REPORT

Security ratings

Outlook	Review Positive
7.5% USD 2bn perpetual subordinated contingent convertible AT1 capital notes	B+
8% USD 1.15bn perpetual subordinated contingent convertible AT1 capital notes	B+
8.625% USD 2.65bn perpetual subordinated contingent convertible AT1 capital notes	B+

The ratings have not been solicited by the issuer; the analysis is based solely on public information.

Rating rationale

Scope Ratings assigns a rating of B+ (under review for possible upgrade) to the above referenced perpetual subordinated contingent convertible AT1 capital notes issued by The Royal Bank of Scotland Group PLC. The ratings are based on the following considerations:

- Senior unsecured debt rating (MREL/TLAC eligible): BBB+, Review Positive
- Minimum notches down from senior unsecured debt rating: 4
- Additional notches: 2

In accordance with our rating methodology, the starting point for notching down when rating capital instruments is the senior unsecured debt rating. The minimum four notches reflect the deeply subordinated status of AT1 capital instruments in the priority of claims, their going concern loss absorbing features and coupon-cancellation risks. Please refer to Scope's *Bank Capital Instruments Rating Methodology* published in May 2018 for more details.

The two additional notches for these securities reflect several factors, including important conduct and litigation costs, the inclusion of a notch of support in the senior unsecured debt rating due to the UK government's majority ownership and the relatively demanding stance of the UK regulator. The rating on the AT1 securities as well as the long-term ratings of various RBS group entities are currently under review for possible upgrade. As part of the review, Scope will assess whether the two additional notches are still warranted.

The release of this rating report does not constitute a rating action. Last rating action was assigned on 24 May 2018. For further information on the last rating action and regulatory information please click here.

Issuer credit profile

On 24 May 2018, Scope placed on review for possible upgrade the long-term ratings of various RBS group entities. The Issuer Rating of A- reflects the group's strong and resilient UK retail and corporate franchise as well as the progress in restructuring which has yet to translate into reliable and sustainable earnings. Potential conduct-related costs and resolving state-aid obligations were also important issues for the group's financial soundness.

There has now been a visible and reassuring improvement in prudential and conduct risk fundamentals, as well as a return to profitability. The review will focus on the sustainability and further upward trajectory of these fundamental improvements.

The Issuer Rating of A- and senior debt ratings (but not the rating for AT1 securities) incorporate a one-notch uplift due to majority ownership by the UK government. As part of the review, Scope will assess whether this rating uplift is still warranted, given the UK government's medium-term plan to gradually exit its ownership in RBS.

Summary terms

Issuer	The Royal Bank of Scotland Group PLC
Issue Date	**August 2015**
Amount	USD 2bn
Coupon	• 7.50% fixed until first call date, reset every 5 years thereafter • From first call date at Mid-Market Swap rate plus 5.8% • Payable quarterly in arrear
Format	• Perpetual subordinated contingent convertible AT1 capital notes, callable August 2020 and every five years thereafter
ISIN	US780099CJ48

Issue Date	August 2015
Amount	USD 1.15bn
Coupon	• 8.0% fixed until first call date, reset every 5 years thereafter • From first call date at Mid-Market Swap rate plus 5.72% • Payable quarterly in arrear
Format	• Perpetual subordinated contingent convertible AT1 capital notes, callable August 2025 and every five years thereafter
ISIN	US780099CK11

Issue Date	August 2016
Amount	USD 2.65bn
Coupon	• 8.625% fixed until first call date, reset every 5 years thereafter • From first call date at Mid-Market Swap rate plus 7.598% • Payable quarterly in arrear
Format	Perpetual subordinated contingent convertible AT1 capital notes, callable August 2021 and every five years thereafter
ISIN	US780097BB64

Main Risks	
Coupon Cancellation	• Fully discretionary • Agreement with interest cancellation • Mandatory if there are insufficient distributable items to pay coupons on these securities, parity securities and any junior securities or the solvency condition is not satisfied in respect of such coupon payment
Principal Loss Absorption	• Automatic and full conversion into ordinary shares upon trigger breach at conversion price • Agreement with automatic conversion and exercise of UK bail-in power • Write-down, cancellation or conversion stemming from the UK regulatory authority's power to bail-in or write-down and convert capital instruments
Trigger for Principal Loss Absorption	• Consolidated group CET1 ratio < 7% on fully loaded basis

Source: Prospectuses, Scope Ratings

Key risks

A. Coupon cancellation

Key risk: Coupon cancellation

Coupon payments are fully discretionary and are subject to distribution restrictions

Coupons are mandatorily cancelled if there are insufficient distributable items (based on issuer accounts on an unconsolidated basis) to pay coupons on these securities, parity securities and any junior securities. In June 2017, the group completed a capital re-organisation (transfer of amounts in the share premium account and capital redemption reserve to retained earnings) which increased distributable reserves by over GBP 30bn. As of end-2017, RBS Group PLC had a reassuring GBP 38bn in distributable reserves.

The issuer must also remain solvent immediately after making payments related to the AT1 securities. The issuer is considered solvent if it can pay debts owed to senior creditors as they fall due and if the value of its assets is at least equal to the value of its liabilities.

Combined buffer requirement (CBR)

Article 141 of CRD IV imposes certain restrictions on discretionary distributions (dividends, variable remuneration and payments on AT1 securities) when the combined buffer requirement (CBR) is not met. The CBR is comprised of the capital conservation buffer, the countercyclical buffer and systemic risk buffers as applicable.

To determine whether the maximum distributable amount (MDA) needs to be calculated a bank should meet both Pillar and Pillar 2 requirements as well as the CBR. For UK banks, Pillar 2 requirements are referred to as Pillar 2A requirements. At least 56% of the requirement must be met with CET1 capital and no more than 25% with Tier 2 capital. We note that the Pillar 2 requirements of UK banks are often higher than those of ECB-supervised banks, even when comparing only the CET1 component.

For 2018, RBS's Pillar 2A requirement is 3.8%, of which at least 2.1% should be met with CET1 capital.

RBS's combined buffer is comprised of the 2.5% capital conservation buffer and a 1% global systemically important bank (G-SIB) buffer, both of which are being phased-in between 2016 and 2019. In addition, since June 2018, RBS has been subject to a countercyclical buffer for UK exposures. From November 2018, the UK countercyclical buffer rate is expected to increase to 1% from 0.5%.

By 2019, we estimate that RBS will need to maintain a CET1 ratio above 11%, a Tier 1 capital ratio greater than 13% and a total capital ratio of more than 16% to avoid distribution restrictions on its AT1 securities (Table 1). This assumes that various components of the combined buffer as well as the Pillar 2A requirement do not change.

Table 20: Estimated capital requirements

	2017	Q1 2018	2019
Required CET1 associated with distribution restrictions:	**8.4%**	**10.2%**	**11.1%**
Combined buffer (CBR)			
- Capital conservation	1.25%	1.88%	2.50%
- Systemic	0.50%	0.75%	1.00%
- Countercyclical	0.00%	1.00%	1.00%
Pillar 2A CET1 requirement	2.10%	2.10%	2.10%
Pillar 1 CET1 requirement	4.50%	4.50%	4.50%
RBS Group CET1, fully loaded (%)	15.9%	15.1%	>13% target
Distance to CET1 requirement incl. CBR (%)	**7.6%**	**6.2%**	
Distance to CET1 requirement incl. CBR (EUR bn)	**15.2**	**12.6**	
RBS Group Tier 1, fully loaded (%)	17.9%	18.4%	
Required Tier 1 incl. CBR (%)	10.6%	12.5%	13.4%
Distance to Tier 1 requirement incl. CBR (%)	**7.3%**	**6.0%**	
RBS Group total capital, fully loaded (%)	21.3%	21.6%	
Required total capital, incl. CBR (%)	13.6%	15.5%	16.4%
Distance to total capital requirement incl. CBR (%)	**7.7%**	**6.1%**	
RWAs (GBP bn)	201	203	

Notes: Estimated countercyclical buffer is based on 1% countercyclical buffer rate for the UK. RBS Group's capital figures for Q1 2018 are proforma the RMBS settlement and the accelerated pension deficit payments (~130 bps impact on CET1).
Source: Company data, Scope Ratings

Under the Bank of England 2016 stress test (based on end-2015 balance sheet), RBS met its CET1 ratio hurdle rate of 6.6% only after management actions and the conversion of GBP 2bn in AT1 securities which were outstanding in 2015. The group has since taken steps to significantly reduce uncertainty around its capital position – in particular, resolving state aid obligations, settling legacy conduct issues and addressing a pension deficit.

As of Q1 2018, RBS' fully loaded CET1 ratio was 16.4%. Proforma the impact of the USD 4.9bn US RMBS settlement and a GBP 2bn accelerated pension deficit payment, the group's CET1 ratio would be 15.1%. The resolution of several major legacy issues combined with the strengthening of the group's earnings should support the headroom to requirements going forward. RBS continues to target a CET1 ratio above 13%.

During the years 2016-2018, RBS raised approximately GBP 300m of new ordinary shares to partially offset the impact coupon and dividend payments on CET1 capital. It is our understanding that the group will continue to do so until the PRA gives approval to discontinue.

B. Principal loss absorption

Key risk: Principal loss absorption

The mechanism for loss absorption is full conversion into shares.

The securities have one trigger:

- Consolidated group CET1 ratio < 7% on fully loaded basis.

Under the terms of the securities, investors acknowledge and agree to automatic conversion and to any exercise of UK bail-in power. The UK regulatory authority has broad powers and can write-down or convert the securities when the group is considered no longer viable. The bail-in tool can also be used when the group is under resolution.

Distance to trigger

As of 31 March 2018, RBS' fully loaded CET1 ratio was 16.4% or 15.1% proforma the US RMBS settlement and the pension deficit payment, well above the 7% trigger level in the securities. We expect the headroom to the trigger level to remain solid considering the greater than 13% CET1 target and the improved clarity regarding the group's capital position.

Table 21: Distance to trigger

	2017	Q1 2018	2019
Trigger level	7.0%	7.0%	7.0%
RBS Group CET1, fully loaded (%)	15.9%	16.4%	>13% target
Distance to trigger (%)	**8.9%**	**9.4%**	
Distance to trigger (GBP bn)	**17.9**	**19.1**	

Source: Company data, Scope Ratings

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