Adding clarity to capital requirements and AT1 coupon risk: recent research from Scope

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EBA Opinion 24/2015: Clarity added to the MDA debate

On 18 December 2015 the EBA issued Opinion 24/2015, which clarifies the interaction among Pillar 1, Pillar 2 and combined buffer requirements (CBR). The opinion adds significant clarity to the capital debate for EU banks, as it is now clear that Pillar 2 requirements have to be complied with at all times and that the Maximum distributable amount (MDA) has to be calculated with respect to the total (Pillar 1 and Pillar 2) requirement, including the CBR.

While the need to comply with CBR is quite clear from CRD IV, there has been some uncertainty in the past as to where Pillar 2 requirements would stack, i.e. whether a breach of Pillar 2 requirements would or would not affect distributions of dividends, bonuses and coupons on Additional Tier 1 (AT1) securities.

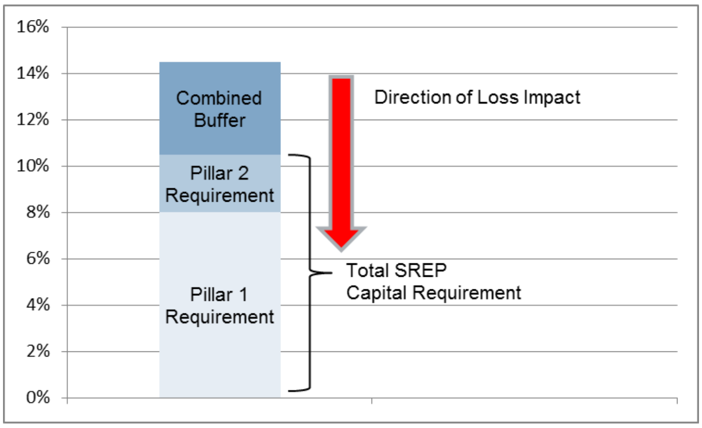
The EBA's opinion states that "Pillar 1 and Pillar 2 capital requirements should be a minimum to be preserved at all times based on an institution-specific assessment of the risks not covered, or fully covered, by Pillar 1 capital requirements." Furthermore, according to the EBA, the MDA should be calculated using CET1 capital held in excess of Pillar 1 and 2 required levels. The opinion also addresses the effects of non-compliance. In the case of a breach of the CET1 requirement (or likelihood of a breach within 12 months), including CBR, the supervisory authority must take early-stage measures.

According to the EBA's opinion, "the failure of an institution to meet its combined buffer requirement has at least the consequence of triggering the mandatory application of the capital conservation measures in Section III of Title VII of the CRD. Competent authorities can take additional supervisory measures where necessary, including before breaching the combined buffers."

Section III of the Title VII includes article 141 (**restrictions on distributions).** Specifically, failure to comply with the requirements can lead to a wide range of actions, from the suspension of dividends, share buybacks, or bonuses to the non-payment of AT1 coupons.

The ECB has confirmed[1] that its approach will follow the EBA opinion.

Figure 1: Stacking order of own funds



Source: EBA, Scope Ratings

[1] See https://www.bankingsupervision.europa.eu/banking/html/srep.en.html

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Related Research

Swedish Capital Requirements: Tough for a reason – September 2015

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The EBA's remarks on Pillar 2 requirement disclosure needs

Further to the clarification on the stacking order of Pillar 2, the EBA opinion comments on the disclosure requirements. Keeping in mind that institutions may be required by the competent authority to disclose SREP capital requirements, the EBA insists that, given its implication with respect to restrictions on distributions, "it is imperative that the appropriate degree of disclosure of the institutions' own funds requirements is achieved".

In particular, the EBA sees the consistency of disclosure of Pillar 2 requirements as a key factor for bank funding and financial stability, on top of market transparency.

We find this statement especially relevant if we contrast it with the historical practice of not disclosing the Pillar 2 requirements.

In fact, regarding the disclosure of the capital requirements, we believe there is a trade-off between investors' need for market transparency and supervisors' concerns with regards to banks' funding and financial stability. Given the intrinsically volatile nature of bank market funds, a supervisor demanding a sharply increased Pillar 2 requirement could flag serious problems for the respective bank, potentially hindering its market funding ability and even triggering unintended contagion effects. On the other hand, for banks with publicly traded financial instruments, such disclosure is of great importance when market participants make their investment decisions.

Historically, financial stability concerns have prevailed, in our view. However, we believe the balance between these two needs may have shifted for several reasons:

1. The financial crisis has shown that a lack of transparency can have great costs because it increases contagion to healthy institutions when investors feel they are in the dark with regards the true state of banks' solvency.
2. As the market for bank capital securities widens, so do the needs for investor protection. In other words, while non-compliance with Pillar 2 requirements used to be primarily a risk for equity holders facing potential dilution or dividend cuts, supervisory actions can now impact coupon payments on AT1 bonds and, in more extreme circumstances, lead to principal write-downs or conversions.
3. As the regulatory framework evolved to reduce leverage, introduce resolution, and generally strengthen systemic resilience, individual casualties among banks have, in our view, become more acceptable to supervisors. In fact, they may even serve the greater good of disciplining bank managers towards more sustainable business models and risk profiles.

We would expect therefore total SREP capital requirements to eventually enter the public domain for all other banking systems as well, and for market participants to focus less on a headline-ratio comparison and increasingly on the comparison of the buffer over SREP capital requirement.

The table below offers an overview of euro area (EA) banks' SREP capital disclosures so far. Outside the EA, Pillar 2 requirements are disclosed in the UK, Sweden[2], Denmark and Norway.

[2] In Sweden the supervisory authority has stated that he capital requirement under Pillar 2 does not affect the level at which the automatic restrictions on distributions linked to the combined buffer requirement come into effect, as long as the supervisory authority does not make a "formal decision" on the requirement.

Figure 2: SREP CET1 requirements in the euro area are clustered around the 10% mark

Spain	Santander	BBVA	Caixabank	Bankia	Sabadell	Popular	Bankinter	Liberbank	Kutxabank
SREP Requirement	9.50%	9.50%	9.25%	10.25%	9.25%	10.25%	8.75%	10.25%	9.05%
ow Pillar 1	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
ow frontloading of CCB in Pillar 2	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
ow Other Pillar 2	***2.50%***	***2.50%***	***2.25%***	***3.25%***	***2.25%***	***3.25%***	***1.75%***	***3.25%***	***2.05%***
Buffers	0.25%	0.25%	0.06%	0.06%	0.00%	0.00%	0.00%	0.00%	0.00%
Countercyclical									
Systemic	0.25%	0.25%	0.06%	0.06%	0.00%	0.00%	0.00%	0.00%	0.00%
Total CET1 Requirement	***9.75%***	***9.75%***	***9.31%***	***10.31%***	***9.25%***	***10.25%***	***8.75%***	***10.25%***	***9.05%***

France/Belgium	BNP	Socgen	CASA (Group)	CASA (Parent)	BPCE	Natixis	KBC
SREP CET1 Requirement	9.50%	9.50%	9.50%	9.50%	9.50%	8.75%	9.75%
ow Pillar 1	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
ow frontloading of CCB in Pillar 2	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
ow Other Pillar 2	***2.50%***	***2.50%***	***2.50%***	***2.50%***	***2.50%***	***1.75%***	***2.75%***
Buffers	0.50%	0.25%	0.25%	0.00%	0.25%	0.00%	0.50%
Countercyclical	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Systemic	0.50%	0.25%	0.25%	0.00%	0.25%	0.00%	0.50%
Total CET1 Requirement	***10.00%***	***9.75%***	***9.75%***	***9.50%***	***9.75%***	***8.75%***	***10.25%***

Italy	Intesa	Unicredit	UBI	Mediobanca	BP	BP Milano	MPS
SREP CET1 Requirement	9.50%	9.75%	9.25%	8.75%	9.55%	9.00%	10.20%
ow Pillar 1	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
ow frontloading of CCB in Pillar 2	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
ow Other Pillar 2	***2.50%***	***2.75%***	***2.25%***	***1.75%***	***2.55%***	***2.00%***	***3.20%***
Buffers	0.00%	0.25%	0.00%	0.00%	0.00%	0.00%	0.00%
Countercyclical	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Systemic	0.00%	0.25%	0.00%	0.00%	0.00%	0.00%	0.00%
Total CET1 Requirement	***9.50%***	***10.00%***	***9.25%***	***8.75%***	***9.55%***	***9.00%***	***10.20%***

Italy	BP Sondrio	Carige	Pop Vicenza	Veneto banca	BPER	Credem
SREP CET1 Requirement	9.25%	11.25%	10.25%	10.00%	9.25%	7.00%
ow Pillar 1	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
ow frontloading of CCB in Pillar 2	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
ow Other Pillar 2	***2.25%***	***4.25%***	***3.25%***	***3.00%***	***2.25%***	***0.00%***
Buffers	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Countercyclical	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Systemic	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total CET1 Requirement	***9.25%***	***11.25%***	***10.25%***	***10.00%***	***9.25%***	***7.00%***

Source: Banks disclosures, Scope Ratings

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Spanish Banks' Capital Regime: More Clarity Entering 2016

Following the Bank of Spain's latest communication on systemic buffers, the EBA's December clarification on the positioning of Pillar 2, and Spanish banks' own disclosures of the total SREP capital requirements, we now enter 2016 with improved visibility over solvency levels. The major Spanish banks are well ahead of their 2016 CET1 requirement and hold excess capital buffers of 200-350 bps of risk-weighted assets (RWAs).

The EBA opinion 24/2015 published on December 18 also clarifies that Pillar 2 requirements stack below the combined buffer requirement (CBR) and have to be complied with at all times, hence reinforcing Scope's view that they need to be considered when assessing the risk of coupon non-payment in the analysis and rating of AT1 securities. They are also relevant to other restrictions on distributions detailed in article 141 of CRD IV, such as on dividends, buybacks and bonuses.

Since 1 January, the new CRD IV capital buffer regime has been operational. On 29 December, the Bank of Spain clarified the requirements for systemic and countercyclical buffers in Spain, adding significant clarity to the capital requirement framework in the country. This comes on top of the earlier disclosure on 24 December, by major Spanish banks themselves, of their total SREP requirements.

The countercyclical buffer was set at 0% (to be reviewed quarterly, citing the negative credit/GDP gap of 58% as of June 2015).

The systemic buffers in Spain were set as follows for 2016:

- Santander 0.25 %
- BBVA 0.25 %
- Caixabank 0.0625 %
- Bankia 0.0625 %
- Popular 0 %
- Sabadell 0 %

As the systemic buffers are subject to phased-in implementation over four years, the disclosed 2016 requirements imply 2019 buffers of 1% for BBVA and Santander, and 0.25% for Bankia and Caixabank.

However, we note that the list presented by the Bank of Spain refers to buffers for both global systemically important institutions (G-SII) and other systemically important institutions (O-SII).

BBVA will in effect be subject to a lower charge going forward as it was recently dropped from the list of global systemically important banks (G-SIB), and the G-SII requirement will cease to apply from 2017. At that point, it will still be subject to a domestic systemic requirement (O-SII), which the bank disclosed at 0.5%, to be phased-in over 4 years.

The following table summarises the total requirement for the main Spanish institutions for 2016 as well as their latest reported CET1 ratio.

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EBA Opinion 24/2015: Clarity added to the MDA debate – January 2016

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The state of bank capital in Europe: a guide to requirements by country – June 2015

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Figure 1: Spanish banks' CET1 requirements

	Santander	BBVA	Caixabank	Bankia	Sabadell	Popular	Bankinter	Liberbank	Kutxabank
	2016	2016	2016	2016	2016	2016	2016	2016	2016
Pillar 1 minimum requirement	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
Pillar 2 including CCB	5.00%	5.00%	4.75%	5.75%	4.75%	5.75%	4.25%	5.75%	4.55%
Countercyclical buffer	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Systemic buffer	*0.25%*	*0.25%*	*0.063%*	*0.063%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*
Total CET1 requirement	***9.75%***	***9.75%***	***9.31%***	***10.31%***	***9.25%***	***10.25%***	***8.75%***	***10.25%***	***9.05%***
CET1 ratio (Sept 2015)	12.39%	11.70%	12.80%	13.20%	11.60%	12.65%	11.85%	13.70%	14.13%
Buffer over CBR requirement	**2.64%**	**1.95%**	**3.49%**	**2.89%**	**2.35%**	**2.40%**	**3.10%**	**3.45%**	**5.08%**

Source: Scope Ratings, Banks

All of the banks are ahead of their requirements, with excess buffers ranging from 1.95% at BBVA to 5.08% at Kutxa.

It is important to note that the Pillar 2 requirements set out in the 2015 SREP decisions on capital already took full account of the fully loaded capital conservation buffer requirements, as specified both by the ECB and by some of the banks' own disclosure[1].

Based on the above we can identify the residual Pillar 2 requirements which reflects specific risks not covered in Pillar 1. These range from 1.75% at Bankinter to 3.25% at Bankia, Popular and Liberbank.

Figure 2: Isolating bank specific Pillar 2 requirements

	Santander	BBVA	Caixabank	Bankia	Sabadell	Popular	Bankinter	Liberbank	Kutxabank
SREP Requirement	9.50%	9.50%	9.25%	10.25%	9.25%	10.25%	8.75%	10.25%	9.05%
ow Pillar 1	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
ow frontloading of CCB in Pillar 2	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
ow Other Pillar 2	***2.50%***	***2.50%***	***2.25%***	***3.25%***	***2.25%***	***3.25%***	***1.75%***	***3.25%***	***2.05%***

Source: Scope Ratings, Banks

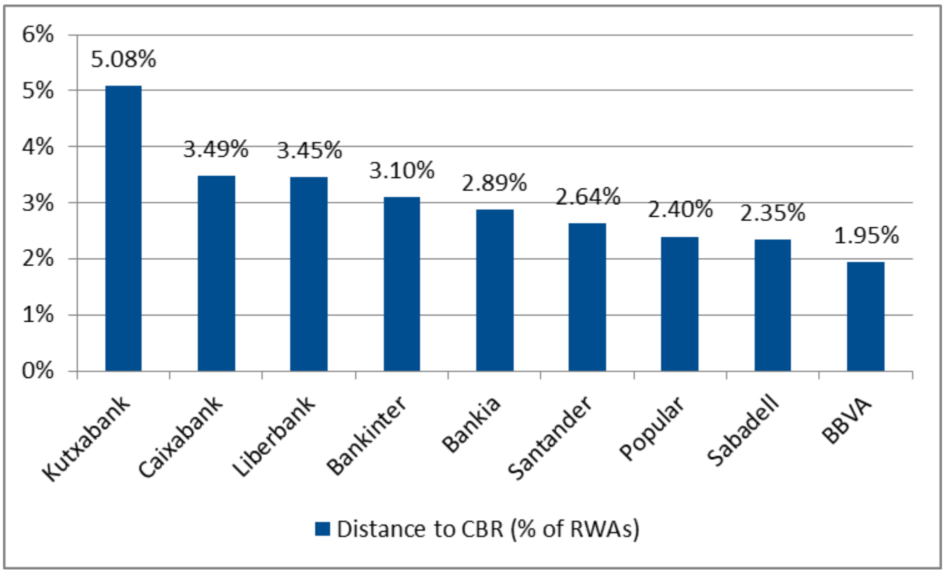
Although Pillar 2 requirements were historically not publicly disclosed, a trend has recently been established towards more disclosure. Swedish banks, for example, have disclosed their total capital requirements, including Pillar 2 buffers, and more recently Italian and French banks have also moved to disclose their total SREP capital requirements -- from which we can infer the Pillar 2 requirements. Spanish banks' disclosure follows what we believe is an emerging standard for transparency – one which Scope welcomes.

Going forward, we believe that the level of excess capital over SREP capital requirements may develop as a new key indicator for solvency. In time, as regulatory disclosure improves, we would expect investors and other market participants to increasingly focus on this metric when assessing banks' fundamentals.

At present, the total requirement, including Pillar 1 and Pillar 2 as well as the buffers, is relevant to the distribution risk of AT1 securities. The calculation of distance-to-CBR is an important measure in the assessment of coupon non-payment risk. For Spanish banks, our calculation of such distance is reported in Figure 3 overleaf.

[1] https://www.bankingsupervision.europa.eu/banking/html/srep.en.html

Figure 3: Distance to CBR (% of RWAs)



Source: Scope Ratings Estimates

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Identifying and Calculating Available Distributable Items (ADI) The Example of Italian Banks

As the Italian Additional Tier 1 market is set to grow in size, we take a closer look at an area which is often inadequately disclosed and at times insufficiently understood. The calculation of Available Distributable Items (ADI) – an important element in analysing the coupon payment risk of AT1 notes – involves a deep dive into parent company accounts and national legislation. This report tries to shed some light into the ADI of Italian banks. At this time, Scope does not rate AT1 securities issued by Italian banks.

The assessment of coupon risk forms a core part of our rating methodology for Additional Tier 1 (AT1) securities. The assessment is two-pronged: on the one hand, we look at the distance between banks' CET1 levels and their requirement, including buffers, which may cause banks to be limited, in their distributions, by the maximum distributable amount (MDA). On the other end, we look at the availability of distributable items to make the coupon payments.

While disclosure around capital and capital requirements is abundant, disclosure around distributable items is patchier. This is partly due to the fact that estimation of ADI involves an ad hoc analysis of national legislation to correctly identify and separate distributable from non-distributable reserves, a process that may require specific language or legal skills.

In Italy, for example, the task is somewhat facilitated by accounting principle OIC 28, which drives a good level of disclosure by the banks and allows investors to estimate the amount of reserves available for distribution, as well as evaluate their quality. Based on such disclosure, we estimate ADI for the rated Italian banks, Unicredit and Intesa, as well as for the other major Italian banks.

In general, we find that the availability of ADI should not be a factor that affects distributions, with few exceptions. Intesa (A-, Stable) and Unicredit (BBB+, Stable), which have already issued AT1 securities, have several billion euros each in Available Distributable Items.

Among other reserves, one important item considered available for distribution is the share premium reserve, albeit with some limitations. For example, the share premium reserve arising from business combinations is only distributable for the amount exceeding goodwill.

So far, only Intesa and Unicredit have issued CRD IV compliant AT1 securities. However, we would expect other banks to follow suit: filling the AT1 bucket (up to 1.5% of RWA recognised for prudential purposes) will become a more pressing need going forward as a way to help fulfill MREL levels.

In addition, we expect that the sale of bank bonds to retail customers will face increasing challenges, both from a regulatory and a reputational standpoint. This means institutional markets would have to absorb future supply. Given the bail-in-able status of senior bonds, this could lead to higher funding costs, especially for weaker credits, for which the possibility of senior bail-in is less remote. Building a regulatory bail-in-able buffer through subordinated securities would offer further protection to senior bondholders.

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Related Research

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Available Distributable Items: regulatory definition

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 statutes 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”.

The definition therefore includes:

- Profit for the year (grossed up for any dividend payment)
- Profits carried over from previous years (net of losses carried over)
- Other distributable reserves

It is important to note that the calculation has to reference the issuing legal entity’s unconsolidated accounts and not be based on group consolidated accounts.

Country-level specificities

While the accounting definition of profits and dividends is fairly straightforward, identifying what constitutes “distributable reserves” involves a deep dive into national legislation and, sometimes, company by-laws.

In Italy, limits to reserves distribution are established by the Civil Code. The following provisions cover the most common reserves and significant amounts in banks’ net equity:

- **Legal reserve.** The legal reserve constitutes a prime example of a non-distributable reserve. According to Art. 2430 of the Italian Civil Code, banks have to maintain a legal reserve of at least 20%[1] of capital;
- **Share premium account** (Art. 2431). The share premium account is distributable as long as the restriction on the legal reserve is fulfilled.
- **Own shares reserve.** Art. 2357-*ter* prescribes the creation and maintenance of a non-distributable reserve matching the value of own shares;
- The **revaluation reserve for stakes carried at equity** (Art. 2426.4) is also considered, in our view, to be non distributable;
- The **reserve for unrealised currency gains** (Art. 2426.8-*bis*) is explicitly characterised as non-distributable.
- In addition, whenever, for exceptional reasons, the accounts derogate from the provisions of the Civil Code (Art. 2423.4), any profits arising from the exception must be registered in a non-distributable reserve for such derogations.

The above list is not exhaustive and, as a matter of fact, there remains significant uncertainty with respect to the treatment of some reserves. One example is the treatment of the share premium account arising from business combinations. This is a significant amount for the large Italian banks, often arising from the mergers which led to groups like Unicredit/Capitalia or Intesa/Sanpaolo. At least for the part corresponding to acquired goodwill in share transactions, the distributability of the share premium account is questionable. Some banks’ disclosures explicitly point to such uncertainty and our

[1] For Popolari banks, the mandatory attribution to Legal reserve is 10%, according to art. 32 of legislative decree 385/1993. For cooperative banks, it is 70% (art. 37).

understanding is that they exclude from the calculation of ADI the part of the share premium related to goodwill arising from business combinations.

Another area of uncertainty relates to the treatment of negative items in shareholders' equity, for example, valuation reserves related to the defined-benefit-plan actuarial valuation. While it is clear that valuation reserves, when positive, are not available for distribution, some banks deduct the defined benefit reserve from their calculation of ADI when negative – given that it reduces total equity.

Some other reserves arising from specific laws in Italy (e.g. Law 72/1983 or Law 413/1991 on asset revaluation) are considered distributable, but only in the context of a capital reduction ex art 2445 of the Civil Code, which would have to be deliberated upon from an extraordinary shareholder meeting.

Disclosure requirements: the "ABC disclosure"

Accounting principle OIC 28 requires banks to clearly state, in the notes to the net equity, the possible destination of reserves, including restrictions to distributions. Such a disclosure is an invaluable source of information to calculate banks' Available Distributable Items and evaluate their quality, and is compulsory in Italy due to art. 2427.7*bis* of the Civil Code.

It is important to stress the need to look at this disclosure for the legal entity issuing the capital securities, rather than the consolidated accounts at group level. For illustrative purposes, we have reproduced the ABC disclosure for Intesa and Unicredit in the Appendix.

The table clearly identifies and classifies reserves based on their availability for distribution, also providing useful footnotes explaining the assumptions and uncertainties related to particular items. The Appendix also shows how the table allows to estimate Available Distributable Items and to evaluate their quality.

Available Distributable Items at Italian banks

Based on the above-mentioned disclosure tables, we have estimated distributable items for Intesa and Unicredit, as well as for other major Italian banks.

Figure 1: Summary estimates of Available Distributable Items for Italian banks

ADI estimates	Intesa	Unicredit	UBI	Mediobanca	BPM	BP
Distributable Reserves (parent)	24,597	18,820	5,964	3,935	125	1,498
Profit for the year (parent)	1,212	80	- 918	333	225	- 2,074
Total ADI	25,809	18,900	5,046	4,268	350	- 576

Source: Scope Ratings estimates, Annual Reports

The estimates are based on 2014 annual reports and, given the banks' profitability has generally improved in 2015, should be on the conservative side when looking at future distributions. For our detailed assumptions on the distributability of the various items, see Appendix on page 4

For Intesa, we note that in the AT1 offering document, the bank discloses ADI at around EUR 24bn, which is lower than Scope's calculation of EUR 26bn. Our understanding is the bank must have made some more conservative assumptions with respect to some of the reserves. It is worth highlighting that our calculation excludes part of the share premium account (EUR 2.34bn) related to the merger reserve. For Unicredit, we calculate ADI at EUR 18.9bn.

Appendix: Rated banks' ABC disclosure and Scope's ADI estimate

Intesa: we estimate ADI of EUR 26bn, higher than the figure the bank has announced

In its September 2015 AT1 offering circular, Intesa discloses ADI at around EUR 23bn.

From the below table, it discloses the non-distributable portion of reserves at EUR 5.6bn, including a portion of the share premium account related to merger reserve, revaluation reserves and valuation reserves, among others.

Figure 2: Net equity disclosure for Intesa Sanpaolo

(millions of euro)

	Amount as at 31.12.2014	Principal	Portion of net income	Portion of net income subject to a suspended tax regime (a)	Portion available (b)	Uses in the past three years
Shareholders' equity						
– Share capital	8,725	6,386	1,336	1,003	-	
– Share premium reserve (c)	27,508	11,689	15,372	447	A, B, C	9,123
– Legal reserve	1,710	465	1,245	-	A(1), B	
– Extraordinary reserve	774	45	729	-	A, B, C	4,494
– Concentration reserve (Law 218 of 30/7/1990, art. 7, par. 3)	232	-	-	232	A, B(2), C(3)	
– Concentration reserve (Law 218 of 30/7/1990, art. 7)	302	-	-	302	A, B(2), C(3)	
– Legal Reserve Branches abroad	14	-	14	-	A, B, C	
– Reserve for stock option plans	13	-	13	-	A	
– Oper. reserve under common control	61	-	61	-	A, B, C	
– FTA tax rate revision reserve on property	25	-	25	-	A, B, C	
– Other reserves	420	67	344	9	A, B, C	-
Valuation reserves						
– Realuation reserve (Law 576 of 2/12/1975)	3	-	-	3	A, B(2), C(3)	
– Revaluation reserve (Law 72 of 19/3/1983)	143	-	-	143	A, B(2), C(3)	
– Revaluation reserve (Law 408 of 29/12/1990)	7	-	-	7	A, B(2), C(3)	
– Revaluation reserve (Law 413 of 30/12/1991)	379	-	-	379	A, B(2), C(3)	
– Revaluation reserve (Law 342 of 22/11/2000)	455	-	-	455	A, B(2), C(3)	
– AFS valuation reserve	224	-	224	-	(4)	
– CFH valuation reserve	-1,268	-	-1,268	-	(4)	
– Defined benefit plans valuation reserve	-540	-	-540	-	(4)	
	-	-	-	-	-	
– Treasury shares	-17	-17	-	-	-	
Total Capital and Reserves	**39,170**	**18,635**	**17,555**	**2,980**	(5)	
Non-distributable portion (d)	5,614	-	-	-	-	-

Source: Intesa Annual Report (Parent Company)

Based on this disclosure, and adding the parent company's net profit of EUR 1.2bn, we actually estimate ADI of EUR 26bn – higher than the amount announced by Intesa.

As one can see very quickly from the table above, the calculation of available distributable items at Intesa revolves around the key assumption on the distributability of the share premium reserve. A more detailed analysis of the disclosure, which we provide in Figure 3, allows us to make some considerations on the quality of Intesa's ADI.

Our understanding is that the share premium account is largely distributable, although we subtract EUR 35m – to supplement the legal reserve to reach 20% of share capital and EUR 2,340m which is related to a merger reserve.

Other non-distributable items include the legal reserve, revaluation reserves, the employee stock option plan (ESOP) reserve and part of the concentration reserve.

Valuation reserves (when positive) are also non-distributable. In our calculation of distributable items we deduct valuation reserves when these are negative (e.g. cash flow hedge reserve).

Figure 3: Scope Ratings detailed analysis of Intesa's ADI

ADI - Intesa - 2014	EURm	ow distributable	Comment
Net Equity:	**39,170**		
Share capital	8,725	-	
Own shares/treasury shares	(17)	(17)	Negative items of shareholders' equity affect the availability and distributability of positive reserves of the shareholders equity.
Share premium reserve	27,508	25,128	Subtract 2340 due to merger reserve, 35 due to fulfilling 20% legal reserve requirement and 5 as per footnotes
Reserves of profits:			
Legal reserve	1,710	-	Not distributable
Legal reserve branches abroad	14	14	Distributable
Own shares reserve	-		
Statutory reserve	-		
Extraordinary reserve	774	774	Distributable
Reserve arising out of share swaps	-		
Reserve arising out of asset transfers	-		
Reserve arising out of split offs	-		
Unavailable reserve ex art. 6 D.Lgs 38/2005	-		
Concentration reserve (Legge Amato 218/1990 art 7)	232	-	Distribution requires capital decrease - EGM
Concentration reserve (Legge Amato 218/1990 art 7.3)	302	-	Distribution requires capital decrease - EGM
Reserve for business combinations (IFRS3)	-		
Reserve for business combinations within the group	-		
Reserve for profit allocation via free shares (scrip dividend)	-		
Reserve for employee medium term plan	-		
Reserve for employee stock option plans (ESOP)	13	-	Not distributable
Oper. reserve under common control	61	61	Distributable
FTA tax rate revision reserve on property	25	25	Distributable
Merger surplus/deficit reserve	-		
Art. 22 D Lgs 153/1999	-		
Repurchase of treasury shares	-		
Art 13.6 D Lgs 124/93	-		
Reserve act. health policy	-		
Reserve for valuation of equity accounted entities	-		
Reserve for reversal of prior year D&A	-		
Reserve for supplementary pension reform	-		
Other reserves of profits or retained earnings	-		
Other reserves	420	420	Distributable
Negative components of shareholders' equity	-		
Valuation Reserves:			
Monetary equalisation 576/75	3		Distribution requires capital decrease - EGM
Monetary revaluation 72/83	143		Distribution requires capital decrease - EGM
Asset revaluation 408/90	7		Distribution requires capital decrease - EGM
Property revaluation 413/91	379		Distribution requires capital decrease - EGM
Asset revaluation 342/2000 art 14	455		Distribution requires capital decrease - EGM
Revaluation reserve 350/2003	-		
AFS reserve	224		When positive, is not available (art.6 of Legislative Decree 38/2005.)
Fair value reserve for adoption of FV accounting	-		
Cash flow hedges	(1,268)	(1,268)	Negative items of shareholders' equity affect the availability and distributability of positive reserves of the shareholders equity.
Actuarial reserves (defined benefit plans valuation)	(540)	(540)	Negative items of shareholders' equity affect the availability and distributability of positive reserves of the shareholders equity.
Other valuation reserves			
Distributable researves		**24,597**	
(+) Parent net income		1,212	
Total ADI		**25,809**	

Source: Scope Ratings estimates

Unicredit: ample distributable items

To our knowledge, Unicredit has not disclosed its Available Distributable Items estimate. However, the net equity disclosure of the parent company's unconsolidated accounts points to EUR 19.6bn of available distributable reserves at the parent company level, which offers ample comfort that ADI should not be a limiting factor in the payment of AT1 coupons.

Figure 4: Net equity disclosure for Unicredit

Breakdown of Shareholders' equity (with indication of availability for distribution)

ITEMS	AMOUNT	PERMITTED USES (*)		AVAILABLE PORTION	SUMMARY OF USE IN THE THREE PREVIOUS FISCAL YEARS: TO COVER LOSSES	SUMMARY OF USE IN THE THREE PREVIOUS FISCAL YEARS: OTHER REASONS
Share capital	**19,905,774**	**-**		**-**		
Share premium	**15,976,604**	**A, B, C**	**(1) (2)**	**15,976,604**	**14,351,334**	**6,495,276**
Reserves:	**9,323,078**					
legal reserve	4,050,666	B	(3)	4,050,666		
reserve for treasury shares or interests	2,440	-		-		
statutory reserves	1,195,845	A, B, C	(4)	1,195,845	-	
reserves arising out of share swaps	511,210	A, B, C		511,210		
reserves arising out of transfer of assets	477,090	A, B, C	(5)	477,090		
reserves arising out of split-offs	15,672	A, B, C		15,672		
reserves related to the medium-term incentive programme for Group staff	108,038	-	(6)	-		35,326 (15)
reserve related to equity-settled plans	419,268	-		-		
reserve related to business combinations (IFRS 3)	2,118,624	A, B, C	(7)	2,118,624		
reserve related to business combinations within the Group	254,619	A, B, C	(8)	254,619	3,818,208	512,535 (16)
reserve for allocating profits to Shareholders through the issuance of new free shares	794,796	A, B, C	(9)	794,796	-	399,166 (17)
reserve pursuant to art. 6, paragraph 2 Lgislative Decree 38/2005	11,913	B	(10)	11,913		
Other reserves	45,307	A, B, C	(11)	45,307	-	
Negative components of Shareholders' equity	(682,410)		(12)	(682,410)		
Revaluation reserves	**1,001,110**					
monetary equalisation reserve under L. 576/75	4,087	A, B, C	(13)	4,087		
monetary revaluation reserve under L.72/83	84,658	A, B, C	(13)	84,658		
asset revaluation reserve under L. 408/90	28,965	A, B, C	(13)	28,965		
property revaluation reserve under L. 413/91	159,310	A, B, C	(13)	159,310		
Available-for-sale financial assets	753,563	-	(14)	-		
Cash-flow hedges	238,916	-	(14)	-		
Reserve for actuarial gains (losses) on employee defined -benefit plans	(268,389)	-		-		
Total	**46,206,566**			**25,046,956**		
Portion not allowed in distribution (**)				**5,465,536**		
Remaining portion available for distribution (***)				**19,581,420**		

Source: Intesa Annual Report (Parent Company)

Figure 5 overleaf offers more details on the different items, to help gauge the quality of the reported distributable items as well as our assumptions with regards o distributability.

As in the case of Intesa, we note how the share premium reserve comprises a large portion of Unicredit's ADI. From it we deduct EUR 691m related to goodwill arising from the Capitalia acquisition.

It is worth noting that our calculation is slightly lower than the bank's, as we prudently exclude from our ADI estimate those reserves for which a shareholder deliberation would be needed.

Figure 5: Scope Ratings detailed analysis of Unicredit's ADI

ADI - Unicredit - 2014	EURm	ow distributable	Comment
Net Equity:	**46,207**		
Share capital	19,908	-	
Own shares/treasury shares	2	-	Non distributable
Share premium reserve	15,977	15,286	EUR691m non distributale as arising from capitalia acquisition. Legal reserve exceeds 20% so no further deduction.
Reserves of profits:			
Legal reserve	4,051	-	Not distributable
Legal reserve branches abroad			
Own shares reserve			
Statutory reserve	1,196	1,196	Distributable
Extraordinary reserve			
Reserve arising out of share swaps	511.210	511	Distributable
Reserve arising out of asset transfers	477	262	Remaining EUR 215m would require capital decrease
Reserve arising out of split offs	15.672	16	Distributable
Unavailable reserve exert. 6 D.Lgs 38/2005	12	-	Not distributable
Concentration reserve (Legge Amato 218/1990 art7)			
Concentration reserve (Legge Amato 218/1990 art7.3)			
Reserve for business combinations (IFRS3)	2,118.624	1,406	Partly distributable
Reserve for business combinations within the group	255	255	Distributable
Reserve for profit allocation via free shares (scrip dividend)	795	795	Distributable
Reserve for employee medium term plan	108	-	Could be rendered distributable via a shareholder meeting
Reserve for employee stock option plans (ESOP)	419	-	Not distributable
Oper. reserve under common control			
FTA tax rate revision reserve on property			
Merger surplus/deficit reserve			
Art. 22 D Lgs 153/1999			
Repurchase of treasury shares			
Art 13.6 D Lgs 124/93			
Reserve act. health policy			
Reserve for valuation of equity accounted entities			
Reserve for reversal of prior year D&A			
Reserve for supplementary pension reform			
Other reserves of profits or retained earnings			
Other reserves	45	45	Distributable
Negative components of shareholders' equity	(682)	(682)	Negative items of shareholders' equity affect the availability and distributability of positive reserves of the shareholders equity.
Valuation Reserves:			
Monetary equalisation 576/75	4		Distribution requires capital decrease - EGM
Monetary revaluation 72/83	85		Distribution requires capital decrease - EGM
Asset revaluation 408/90	29		Distribution requires capital decrease - EGM
Property revaluation 413/91	159		Distribution requires capital decrease - EGM
Asset revaluation 342/2000 art 14			
Revaluation reserve 350/2003			
AFS reserve	754		When positive, is not available (art.6 of Legislative Decree 38/2005.)
Fair value reserve for adoption of FV accounting			
Cash flow hedges	239		When positive, is not available (art.6 of Legislative Decree 38/2005.)
Actuarial reserves (defined benefit plans valuation)	(268)	(268)	Negative items of shareholders' equity affect the availability and distributability of positive reserves of the shareholders equity.
Other valuation reserves			
Distributable researves		**18,820**	
(+) Parent net income		80	
Total ADI		**18,900**	

Source: Scope Ratings estimates

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The countercyclical capital buffer: Its relevance for assessing bank risk

The countercyclical capital buffer is one of the new macroprudential tools available to regulators to mitigate cyclical systemic risks and to support the provision of credit through the cycle. Capital buffers are meant to be imposed when there is an increase in cyclical systemic risks and are meant to be eased when the cycle turns and risks decline.

Under CRD IV, each EU country is responsible for setting a countercyclical buffer for credit exposures located in their respective country. Interestingly, the ECB does not set the buffers. This could potentially lead to some friction between the ECB and euro area (EA) national authorities as some differences in attitudes and the degree of proactivity when setting policies persist.

As a starting point and to promote international consistency, the credit gap – the deviation of the private sector credit-to-GDP ratio from its long-term trend – is used. The countercyclical buffer should normally range between 0% and 2.5% and is phased-in starting this year, with full implementation on 1 January 2019. Further, there is automatic mutual recognition of buffers up to 2.5% for internationally active banks in member jurisdictions.

However, Scope notes that the credit gap is not the only indicator for determining the countercyclical capital buffer. Policy makers are also using other measures in their decision-making which are informative for those involved in assessing bank risk. Further, to the extent that countercyclical buffers will be set above 0%, this will have implications for bank capital requirements. This applies in particular to CET1 capital requirements as the buffer must be met with CET1 capital.

The majority of buffer rates have been set at 0% which does not surprise us in light of the generally muted economic situation in Europe. There are, however, still meaningful differences in credit gaps even for countries which have 0% countercyclical capital buffers (Appendix A). Norway and Sweden are exceptions, where countercyclical buffer rates will be increasing to 1.5% later this year from 1%. As well, while the UK buffer rate is currently at 0%, there are ongoing discussions about what the appropriate level should be.

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Related Research

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Role of the countercyclical capital buffer

Under CRD IV, banks are meant to accumulate sufficient capital during periods of economic growth in order to absorb losses in stressed periods, strengthening the resilience of the banking sector and the financial system to potential downturns. The countercyclical capital buffer is one macro-prudential tool available to regulators which can be used to curb high credit growth and to mitigate the risk that financial imbalances trigger or amplify an economic downturn.

To more accurately reflect the risk of excessive credit growth, banks are required to calculate a specific buffer rate based on the weighted average of the countercyclical buffer rates that apply in the countries where their private sector credit exposures are located. To ensure the same buffer is applied to exposures in the same country, CRD IV specifies international reciprocity.

Each country needs to designate an authority responsible for the quarterly setting of the countercyclical buffer for exposures located in their respective country. The buffer should take into account the growth of credit and other factors relevant for financial stability. To promote international consistency, the Basel Committee on Banking Supervision has developed a methodology based on the credit gap – the deviation of the private sector credit-to-GDP ratio from its long-term trend. The credit gap is the basis for calculating the buffer guide, which provides an indication of the appropriate countercyclical capital buffer level. This serves as a common starting point but does not lead to automatic buffer-setting or bind designated authorities. Specificities of national economies should be taken into account.

The countercyclical buffer expressed as a percentage of total risk-weighted assets should normally range from 0% to 2.5% and is calibrated in multiples of 0.25%. Under CRD IV, buffers of up to 2.5% are automatically recognised between EU countries. Where justified, the countercyclical buffer may be set in excess of 2.5%. In addition to setting the buffer, the designated authority must also decide on an effective date for banks to apply the buffer which should be no later than 12 months after the buffer has been set. The countercyclical capital buffer regime can be phased in in parallel with the capital conservation buffer between 1 January 2016 and end-2018, becoming fully effective on 1 January 2019. National authorities, however, may accelerate phase-in.

Implementation of countercyclical capital buffer frameworks

Under CRD IV, each EU Member State should have established a framework and set a countercyclical buffer by January 2016. Up until early December 2015, only around ten EU/EEA countries had done so. In addition, Switzerland and Hong Kong had set buffer rates. In Switzerland, a buffer requirement has been in place since 2013 but applies only to residential mortgages. Many European countries such as Belgium, France, Germany, Italy, the Netherlands and Spain communicated countercyclical buffer decisions during the final days of 2015.

The majority of buffer rates have been set so far at 0%. This is not surprising in light of the still generally muted economic situation in Europe. The exceptions are Norway and Sweden. In the UK, buffer rate is currently set at 0% but the Financial Policy Committee (FPC) in December 2015 updated its strategy for setting the countercyclical capital buffer and has stated that it is considering the appropriate level as financial conditions have shifted out of the “post-crisis phase”.

Specifically, the FPC has stated that it intends to set the countercyclical capital buffer rate above zero before risks become elevated. The buffer is expected to be in the region of 1% of risk-weighted assets when risks are considered neither subdued nor elevated. By moving early, before risks are elevated, the FPC expects to have more flexibility in varying the countercyclical capital buffer gradually and to reduce its economic cost (via the repricing of loan terms).

It is informative to examine the countercyclical capital buffer frameworks in Norway, Sweden and the UK. All recognise the role of the buffer as a macroprudential tool for strengthening the resilience of banks and the financial system. More specifically, the FPC has stated that the primary objective of the countercyclical capital buffer is to ensure that the banking system is able to withstand stress without restricting services to the real economy. Moreover, as capital buffers may be reduced when there is an economic downturn or when financial imbalances have reduced, this may help to mitigate a collective contraction in the supply of lending.

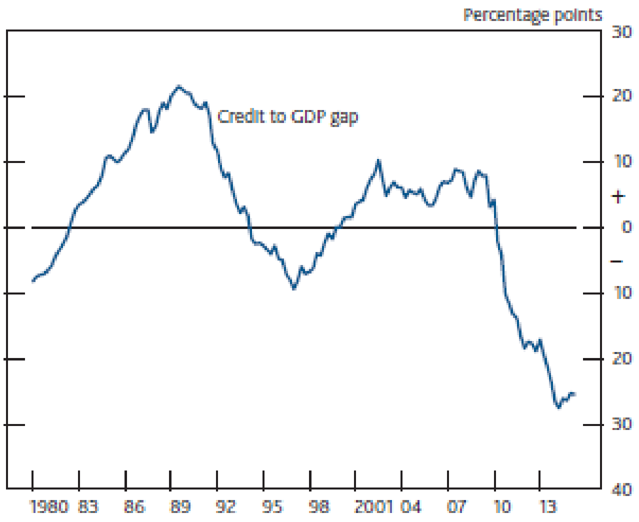
Norges Bank, however, has clarified that the buffer should not be reduced to address isolated problems at individual banks and that the appropriate size of the buffer should be viewed in light of other requirements applicable to banks. This is also in line with the FPC's capital framework for UK banks which aims to ensure that there is no duplication of requirements.

In line with CRD IV, the three designated authorities in Norway, Sweden and the UK responsible for setting the countercyclical buffer start with the credit-to-GDP ratio. In Norway, Norges Bank also focuses on three other indicators: the ratio of house prices to household disposable income, commercial property prices and the wholesale funding ratio of Norwegian credit institutions. Similarly in Sweden, Finansinspektionen monitors a number of other indicators including the progression of household and corporate lending, current account and financial savings in the public sector as a share of GDP and developments in real equity prices.

In the UK, the FPC monitors a wide set of information which is expected to vary over time depending on emerging risks, including both market and supervisory intelligence and stress test results. A set of core indicators which have been useful in identifying emerging risks to financial stability in the past is consistently monitored. The core indicators include measures of "balance sheet stretch" within the financial system and among borrowers, and financial market conditions.

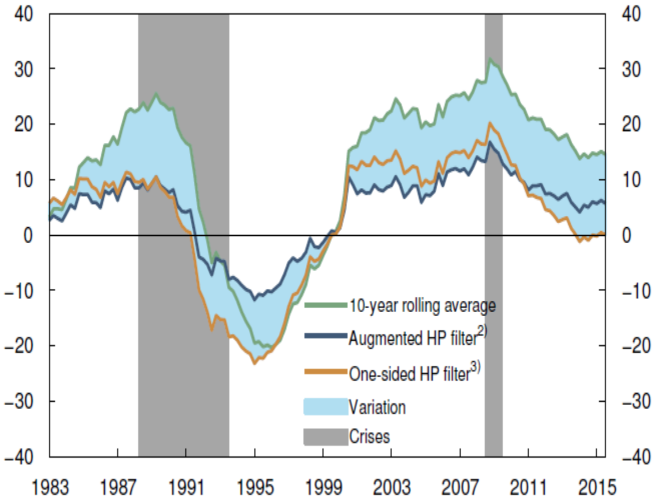
The FPC assesses whether an aggregate or sectoral response is more appropriate as it considers that macroprudential tools other than the countercyclical buffer such as those aimed directly at lending standards or sectoral capital requirements are more suited for addressing excessive credit growth. Sectoral capital requirements are a more targeted measure that enables the FPC to change capital requirements above microprudential standards on exposures to specific sectors which are deemed to pose a risk to the system as a whole.

Figure 11: UK credit to GDP gap (%)



Source: Bank of England

Figure 22: Norwegian credit to GDP gap (%)



Source: Norges Bank

Relevance for bank analysis

When making decisions on the countercyclical capital buffer, designated authorities are assessing the risks to financial stability, including an evaluation of banks' resilience. Consequently, these considerations provide useful insights when assessing bank risks. This is notably the case when the indicators are tracked for long periods of time and are publicly disclosed.

As an example, the UK publishes a comprehensive set of core indicators with historical data back to 1987 (Appendix B). The first sub-set of indicators examines bank "balance-sheet stretch". They include aggregate capital and leverage ratios, return on assets as a measure of the profitability of the banking system, loan-to-deposit ratios and short-term wholesale funding ratios. These measures indicate the availability of resources available to deal with losses as well as provide information on how banks are funding themselves. There are also market-based metrics relating to bank debt and bank equity as they may provide some insight on the market's views of bank health. In addition, there is an overseas exposure indicator as the FPC has authority to set a buffer rate for some foreign exposures.

A second sub-set of indicators looks at non-bank "balance-sheet stretch", focusing on the UK private non-financial sector as well as the national balance sheet. The last sub-set of indicators focuses on conditions and terms in markets. Within this sub-set, the spreads on UK household and corporate lending are of particular interest.

The FPC has communicated that concerns it sees arising from core indicators may not always be best addressed by using the countercyclical capital buffer. For example, if leverage ratios were growing due to the mis-measurement of risk weights or a decline in the prudence of banks' risk management, the FPC may find it simpler and more direct to make a recommendation that banks' leverage ratio standards are increased relative to microprudential requirements.

At individual bank level, decisions regarding the countercyclical buffer will directly influence a bank's capital requirements. The countercyclical buffer is one component of the combined buffer which sits on top of other own funds requirements and which must be met with CET1 capital. If the combined buffer is breached, a bank is subject to capital distribution restrictions (including distributions on AT1 securities and dividends). For banks with diverse international loan portfolios, analysts are likely to face challenges calculating the institution-specific buffer rate and will need to rely on disclosure by the banks. Under the Basel III framework, banks must disclose their countercyclical capital buffer requirement on at least the same frequency as minimum capital requirements.

In Norway, the current buffer rate is 1% and will increase to 1.5% from 30 June 2016. DNB, a largely domestic bank (approximately 80% domestic exposures), has indicated that the buffer rate applies to all its exposures (domestic and international). In Sweden, the current buffer rate is 1% and will increase to 1.5% as well from 27 June 2016. For the four large Swedish banks, this translates into individual countercyclical buffer rates ranging from 0.4% for Nordea to 0.7% for Swedbank (as of 30 September 2015).

Appendix A: Notifications of countercyclical buffer rates

Country	CCB rate	Type of setting	Application	Credit-to-GDP	Reference date	Credit Gap	Buffer Guide	Decision	Date of Announcement
Belgium	0	First time setting	01/01/2016	76.5	24/11/2015	-4.95	0	24/11/2015	28/12/2015
Bulgaria	0	First time setting	01/01/2016	114.9	30/09/2015	-46.3	0	12/12/2015	12/12/2015
Croatia	0	First time setting	01/01/2016	103.82	30/09/2014	-13.23	0	19/01/2015	19/01/2015
Croatia	0	Confirmation	01/04/2016	99.35	31/12/2014	-14.25	0	31/03/2015	31/03/2015
Croatia	0	Confirmation	01/07/2016	100.8	31/03/2015	-12.9	0	30/06/2015	30/06/2015
Croatia	0	Confirmation	01/10/2016	99.15	30/06/2015	-14.58	0	30/09/2015	30/09/2015
Croatia	0	Confirmation	01/01/2017	97.3	30/09/2015	-16.3	0	31/12/2015	31/12/2015
Cyprus	0	First time setting	01/01/2016	356	30/06/2015	-13	0	30/12/2015	31/12/2015
Czech Republic	0	First time setting	01/10/2015	73.6	31/03/2014	8.4	2	28/08/2014	12/09/2014
Czech Republic	0	Confirmation	01/01/2016	77.9	30/06/2014	7.3	1.75	04/12/2014	06/02/2015
Czech Republic	0	Confirmation	01/04/2016	77.3	30/09/2014	6.1	1.25	18/03/2015	24/03/2015
Czech Republic	0	Confirmation	01/07/2016	77.7	31/12/2014	6	1.25	21/05/2015	16/06/2015
Czech Republic	0	Confirmation	01/10/2016	76.6	31/03/2015	4.4	1	03/09/2015	18/09/2015
Czech Republic	0.5	Increase	01/01/2017	75.6	30/06/2015	3.1	0.5	03/12/2015	18/12/2015
Denmark	0	First time setting	01/01/2016	243.63	30/06/2014	-18.13	0	19/12/2014	20/01/2015
Denmark	0	Confirmation	01/01/2016	243.74	30/09/2014	-20.91	0	30/03/2015	07/04/2015
Denmark	0	Confirmation	01/01/2016	241.44	31/03/2015	-24.21	0	30/09/2015	30/09/2015
Denmark	0	Confirmation	01/01/2016	233.82	30/06/2015	-30.36	0	17/12/2015	17/12/2015
Estonia	0	First time setting	01/01/2016	127	30/06/2015	-16	0	30/11/2015	02/12/2015
Finland	0	First time setting	16/03/2015	173.07	30/09/2014	4.7	0.75	16/03/2015	16/03/2015
Finland	0	Confirmation	30/06/2015	173.6	31/12/2014	1.94	0	30/06/2015	30/06/2015
Finland	0	Confirmation	29/09/2015	180.93	31/03/2015	3.45	0.5	29/09/2015	29/09/2015
Finland	0	Confirmation	21/12/2016	180	30/06/2015	7.9	1.75	21/12/2015	22/12/2015
France	0	First time setting	31/12/2016	92.4	31/03/2015	5.6	1	30/12/2015	30/12/2015
Germany	0	First time setting	01/01/2016	120.94	31/03/2015	-5.65	0	15/12/2015	15/12/2015
Greece	0	First time setting	01/01/2016	129.2	30/06/2015	-17.37	0	18/12/2015	22/12/2015
Hungary	0	First time setting	01/01/2016	46.3	30/06/2015	-27.8	0	15/12/2015	15/12/2015
Ireland	0	First time setting	01/01/2016	262	30/06/2015	-60	0	08/12/2015	08/12/2015
Italy	0	First time setting	01/01/2016	121.8	30/06/2015	-9.9	0	29/12/2015	30/12/2015
Latvia	0	First time setting	01/02/2016	49.6	30/09/2014	-36.2	0	21/01/2015	02/02/2015
Latvia	0	Confirmation	01/05/2016	47.1	31/12/2014	-36.1	0	29/04/2015	30/04/2015
Latvia	0	Confirmation	01/08/2016	46	31/03/2015	-35	0	29/07/2015	31/07/2015
Latvia	0	Confirmation	01/11/2016	46	30/06/2015	-34	0	28/10/2015	29/10/2015
Lithuania	0	First time setting	30/06/2015	57.93	31/03/2015	-23.1	0	19/06/2015	30/06/2015
Lithuania	0	Confirmation	30/09/2015	58	01/08/2015	-21.3	0	25/09/2015	25/09/2015
Lithuania	0	Confirmation	31/12/2015	58.5	30/06/2015	-20.9	0	22/12/2015	23/12/2015
Luxembourg	0	First time setting	01/01/2016	81.7	30/06/2015	-63.16	0	30/11/2015	16/12/2015
Malta	0	First time setting	01/01/2016	102	30/09/2015	-18	0	30/11/2015	29/12/2015
Netherlands	0	First time setting	01/01/2016	220	30/06/2015	-19.25	0	11/12/2015	15/12/2015
Norway	1	First time setting	30/06/2015	n/a	12/12/2013	n/a	n/a	12/12/2013	12/12/2013
Norway	1.5	Increase	30/06/2016	n/a	18/06/2015	n/a	n/a	18/06/2015	18/06/2015
Norway	1.5	Confirmation	30/06/2016	193.18	31/12/2015	5.67	0	17/12/2015	17/12/2015
Poland	0	First time setting	01/01/2016	n/a	31/12/9999	n/a	n/a	05/08/2015	01/10/2015
Portugal	0	First time setting	01/01/2016	199.97	30/06/2015	-33.73	0	21/12/2015	29/12/2015
Romania	0	First time setting	01/01/2016	44.9	30/06/2015	-15.82	0	24/12/2015	29/12/2015
Slovakia	0	First time setting	09/10/2014	78.9	30/06/2014	-2.7	0	07/10/2014	07/10/2014
Slovakia	0	Confirmation	02/02/2015	82.6	30/09/2014	-1.8	0	29/01/2015	29/01/2015
Slovakia	0	Confirmation	30/04/2015	81.7	31/12/2014	-3.2	0	28/04/2015	29/04/2015
Slovakia	0	Confirmation	22/07/2015	85.41	31/03/2015	0.51	0	14/07/2015	14/07/2015
Slovakia	0	Confirmation	23/10/2015	85.21	30/06/2015	-0.46	0	20/10/2015	16/11/2015
Slovenia	0	First time setting	01/01/2016	117.6	30/06/2015	-21.6	0	08/12/2015	08/12/2015
Spain	0	First time setting	01/01/2016	175	30/06/2015	-58	0	25/11/2015	28/12/2015
Sweden	1	First time setting	13/09/2015	151.3	31/03/2014	6	1.25	08/09/2014	10/09/2014
Sweden	1	Confirmation	13/09/2015	147	30/06/2014	7.8	1.65	08/12/2014	10/12/2014
Sweden	1	Confirmation	13/09/2015	148.1	30/09/2014	7.3	1.65	16/03/2015	17/03/2015
Sweden	1.5	Increase	27/06/2016	148.6	31/12/2014	6.8	1.5	22/06/2015	23/06/2015
Sweden	1.5	Confirmation	27/06/2016	150.2	31/03/2015	7.3	1.65	07/09/2015	08/09/2015
United Kingdom	0	First time setting	26/06/2014	162.9	31/03/2014	-18.7	0	26/06/2014	26/06/2014
United Kingdom	0	Confirmation	28/10/2014	157.5	26/09/2014	-23.5	0	02/10/2014	02/10/2014
United Kingdom	0	Confirmation	17/12/2014	150	16/12/2014	-25.5	0	16/12/2014	16/12/2014
United Kingdom	0	Confirmation	08/04/2015	148.7	20/03/2015	-25.5	0	26/03/2015	26/03/2015
United Kingdom	0	Confirmation	06/07/2015	145.1	19/06/2015	-25.3	0	01/07/2015	01/07/2015
United Kingdom	0	Confirmation	30/09/2015	144.8	18/09/2015	-24.7	0	25/09/2015	25/09/2015
United Kingdom	0	Confirmation	01/12/2015	139.8	20/11/2015	-25.5	0	01/12/2015	01/12/2015

Source: European Systemic Risk Board, as of 14 January 2016

Appendix B: UK's Core Indicators for setting the countercyclical capital buffer

Table A.1 Core indicator set for the countercyclical capital buffer[a]

Indicator	Average, 1987–2006[b]	Average 2006[c]	Minimum since 1987[b]	Maximum since 1987[b]	Previous value (oya)	Latest value (as of 20 November 2015)
Bank balance sheet stretch[d]						
1 Capital ratio						
Basel II core Tier 1[e]	6.6%	6.3%	6.2%	12.3%	n.a.	n.a.
Basel III common equity Tier 1[f]	n.a.	n.a.	n.a.	n.a.	11.1%	12.0% (2015 Q3)
2 Leverage ratio[g]						
Simple	4.7%	4.1%	2.9%	6.3%	5.8%	6.3% (2015 H1)
Basel III (2014 proposal)	n.a.	n.a.	n.a.	n.a.	4.0%	4.6% (2015 H1)
3 Average risk weights[h]	53.6%	46.4%	34.6%	65.4%	38.6%	37.4% (2015 H1)
4 Return on assets before tax[i]	1.0%	1.1%	-0.2%	1.5%	0.5%	0.3% (2015 H1)
5 Loan to deposit ratio[j]	114.5%	132.4%	96.0%	133.3%	97.5%	97.4% (2015 H1)
6 Short-term wholesale funding ratio[k]	n.a.	24.3%	12.6%	26.5%	14.1%	12.6% (end-2014)
of which excluding repo funding[k]	*n.a.*	*15.6%*	*5.8%*	*16.1%*	*5.8%*	*6.3% (end-2014)*
7 Overseas exposures indicator: countries to which UK banks have 'large' and 'rapidly growing' total exposures[l][m]		In 2006 Q4: AU, BR, CA, CH, CN, DE, ES, FR, IE, IN, JP, KR, KY, LU, NL, US, ZA			In 2014 Q2: CN, HK, SG, TW	In 2015 Q2: KY
8 CDS premia[n]	12 bps	8 bps	6 bps	298 bps	56 bps	71 bps (Nov. 2015)
9 Bank equity measures						
Price to book ratio[o]	2.14	1.97	0.52	2.86	0.99	0.85 (Nov. 2015)
Market-based leverage ratio[p]	9.7%	7.8%	1.9%	15.7%	5.7%	5.3% (Nov. 2015)
Non-bank balance sheet stretch[q]						
10 Credit to GDP[r]						
Ratio	124.0%	157.4%	93.8%	176.7%	141.7%	139.8% (2015 Q2)
Gap	5.7%	5.2%	-27.6%	21.4%	-27.6%	-25.5% (2015 Q2)
11 Private non-financial sector credit growth[s]	10.1%	9.8%	-3.1%	22.8%	0.6%	2.5% (2015 Q2)
12 Net foreign asset position to GDP[t]	-3.6%	-13.1%	-25.3%	19.4%	-23.7%	-20.1% (2015 Q2)
13 Gross external debt to GDP[u]	193.4%	320.8%	122.8%	406.6%	321.1%	306.5% (2015 Q2)
of which bank debt to GDP	*127.9%*	*201.9%*	*84.3%*	*275.4%*	*172.4%*	*161.9% (2015 Q2)*
14 Current account balance to GDP[v]	-1.8%	-2.3%	-6.3%	0.4%	-4.2%	-3.6% (2015 Q2)
Conditions and terms in markets						
15 Long-term real interest rate[w]	3.10%	1.27%	-0.88%	5.29%	-0.34%	-0.54% (20 Nov. 2015)
16 VIX[x]	19.1	12.8	10.6	65.5	14.4	15.9 (20 Nov. 2015)
17 Global corporate bond spreads[y]	115 bps	87 bps	52 bps	486 bps	107 bps	135 bps (30 June 2015)
18 Spreads on new UK lending						
Household[z]	480 bps	352 bps	285 bps	840 bps	662 bps	642 bps (Sep. 2015)
Corporate[aa]	106 bps	100 bps	84 bps	386 bps	249 bps	237 bps (Dec. 2014)

Source: Bank of England

The countercyclical capital buffer:
Its relevance for assessing bank risk

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