

AT1 Quarterly: Banks' capital positions in steady state



Scope
Ratings

In this latest quarterly wrap-up of the AT1 market, we highlight innovation, regulatory oversight and the risk of coupon non-payment. As usual, an overview of key metrics of European bank AT1 issuers can be found in the following pages.

Banks' capital positions are in a relatively steady state in general, with most at the target levels set by management. A small number of banks (e.g. BNP Paribas, DNB) are steadily working towards their targets while others (e.g. Danske Bank, Rabobank, RBS) are operating above target levels in anticipation of future uncertainty, such as potential misconduct costs and regulatory headwinds. Over the last few quarters, the average headroom to MDA-relevant CET1 requirements has been stable at around 3% (see Appendix I).

The AT1 market has been relatively busy since publication of the last AT1 update; with issuance from a number of European national champions, US and Canadian banks as well as banks from emerging Europe, the Middle East and Asia. In many cases, banks generated heavy levels of over-subscription and achieved solid execution, broadly driven by investors seeking yield.

Innovation

In September, Nationwide Building Society issued a GBP 600m AT1 with a new feature: an option to call the security six months before the interest-reset date. The issue was marketed as a perpetual non-call December 2024 AT1, with the first interest reset date being 20 June 2025. From a credit perspective, we do not see clear advantages, except perhaps to provide issuers with a longer window to obtain the necessary regulatory approvals to call the securities.

Regulatory oversight

As a reminder, Article 77 of CRR states that an issuer should obtain prior permission from the competent authority to call, redeem, repay or repurchase AT1 or Tier 2 instruments prior to their contractual maturity. Article 78 further clarifies that permission may be granted during the five years following the date of issuance in the following circumstances:

- a change in regulatory classification of the securities
- a change in applicable tax treatment
- the securities are grandfathered
- the securities have been replaced with own funds instruments of equal or higher quality at terms that are financially sustainable; or
- the securities are repurchased for market making purposes.

In another development, there are press reports that Deutsche Bank is facing scrutiny from the ECB for buying and selling its AT1 securities without getting prior approval. These transactions occurred between 2014 and 2017 and were apparently done to ensure market liquidity in the securities.

Meanwhile, most AT1 securities issued by large European banks with first call dates this year have been called. In September, Barclays, Credit Agricole and Nordea redeemed their securities. However, Santander's 6.25% EUR 1.5bn issue which was not called earlier this year is now a floating-rate instrument with quarterly call dates. Details of securities with upcoming call dates in 2020 are in Appendix III.

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Coupon non-payment

And finally, we highlight Bank of Jinzhou's decision last month not to pay its AT1 coupons to protect its financial position. The USD 1.5bn bond was issued in October 2017 with a 5.5% coupon. In July, three state-owned financial entities took stakes in the Chinese regional lender, which had been experiencing governance and liquidity issues. The bank then reported it was suffering losses, with its non-performing loan ratio increasing to 6.9% while its capital adequacy ratio had fallen to 7.5% as of 30 June 2019. The securities were trading around the mid-60s level at the time of writing. The case underlines the importance of issuer fundamentals.

Appendix I: Headroom to MDA-relevant CET1 requirements

	2019	1Q 2019		2Q 2019			
	Req CET1	1Q19 CET1	Buffer	2Q19 CET1	Buffer	Currency	Buffer (bn)
AIB Group	11.6%	n.a.	n.a.	20.3%	6.6%	EUR	3.5
Barclays	11.7%	13.0%	1.3%	13.4%	1.7%	GBP	4.4
BBVA	9.3%	11.6%	2.3%	11.8%	2.5%	EUR	9.0
BNP Paribas	9.9%	11.7%	1.8%	11.9%	2.0%	EUR	13.3
Commerzbank	10.1%	12.7%	2.6%	12.9%	2.8%	EUR	5.1
Credit Agricole Group	9.7%	15.2%	5.5%	15.4%	5.7%	EUR	31.4
Credit Agricole SA	8.5%	11.5%	3.0%	11.6%	3.1%	EUR	9.9
Credit Suisse Group	9.7%	12.5%	2.8%	12.4%	2.8%	CHF	9.7
Danske Bank	11.3%	16.7%	5.4%	16.6%	5.3%	DKK	41.5
Deutsche Bank	11.8%	13.7%	1.9%	13.4%	1.6%	EUR	5.5
DNB Group	14.0%	16.4%	2.4%	16.5%	2.5%	NOK	27.2
HSBC	11.4%	14.3%	2.9%	14.3%	2.9%	USD	25.9
ING Group	11.8%	14.7%	2.9%	14.5%	2.7%	EUR	8.5
Intesa	9.0%	13.1%	4.2%	13.6%	4.6%	EUR	12.9
KBC Group	10.4%	15.7%	5.3%	15.6%	5.2%	EUR	5.0
Lloyds	12.3%	13.9%	1.6%	13.9%	1.6%	GBP	3.4
Nordea Bank	11.0%	14.6%	3.6%	14.8%	3.8%	EUR	5.9
Rabobank	11.8%	15.8%	4.0%	15.8%	4.0%	EUR	8.3
RBS Group	10.7%	16.2%	5.5%	16.0%	5.3%	GBP	10.0
Santander	9.7%	11.2%	1.5%	11.3%	1.6%	EUR	9.7
Societe Generale	10.0%	11.5%	1.5%	12.0%	2.0%	EUR	7.3
Svenska Handelsbanken	11.5%	16.4%	4.9%	17.1%	5.6%	SEK	40.9
Swedbank	11.6%	15.9%	4.3%	16.1%	4.5%	SEK	29.6
UBS Group	9.7%	13.0%	3.3%	13.3%	3.7%	USD	10.7
Unicredit	10.1%	12.3%	2.2%	12.1%	2.0%	EUR	7.8

Notes: (1) For AIB, the buffer incorporates the impact of 2.1% in unfilled AT1 / Tier 2. AIB reports half-yearly.

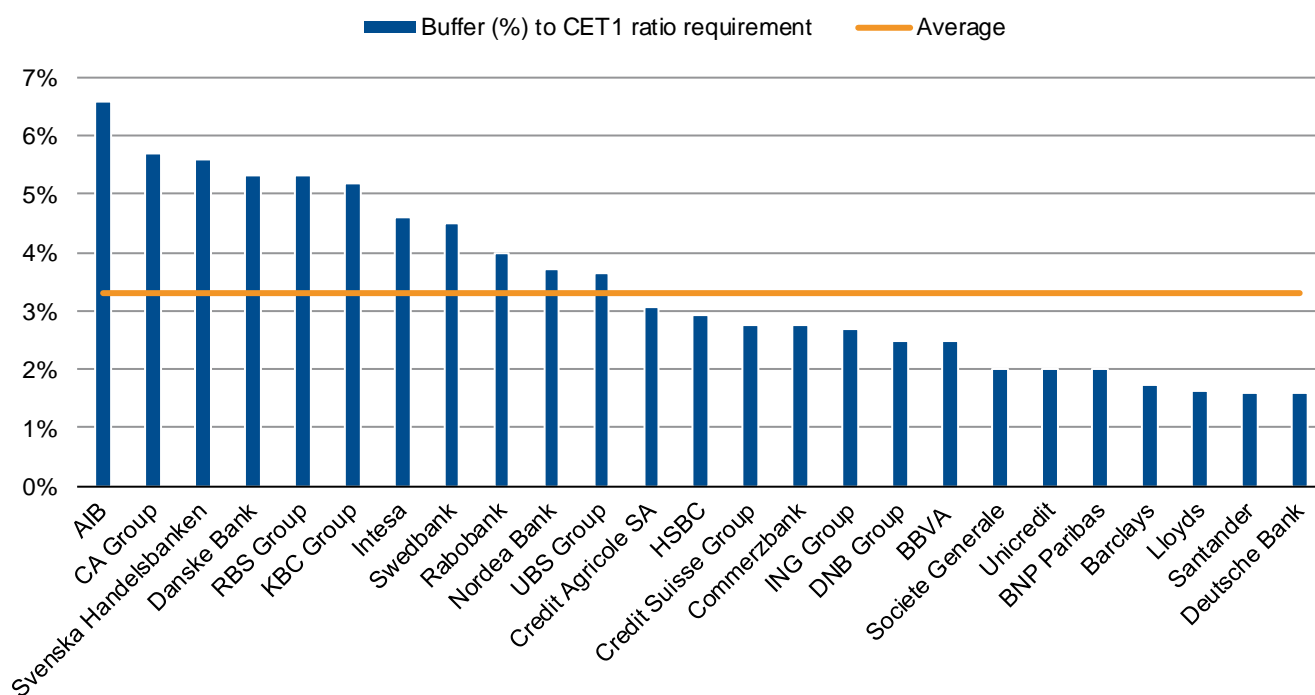
(2) For Lloyds, the 1.7% buffer stemming from the 2% systemic risk buffer on the ring-fenced sub-group has been included in the MDA requirement. Excluding this, the headroom to the MDA requirement would be 3.3%.

(3) Nordea is not expected to receive its SREP from the ECB until 1Q 2020.

(4) For Nordea, Handelsbanken, Swedbank, DNB and Danske, Pillar 2 requirements are excluded from 2019 MDA relevant CET1 requirements.

Source: Banks, Scope Ratings.

Headroom to MDA-relevant CET1 requirements (as of 2Q 2019)



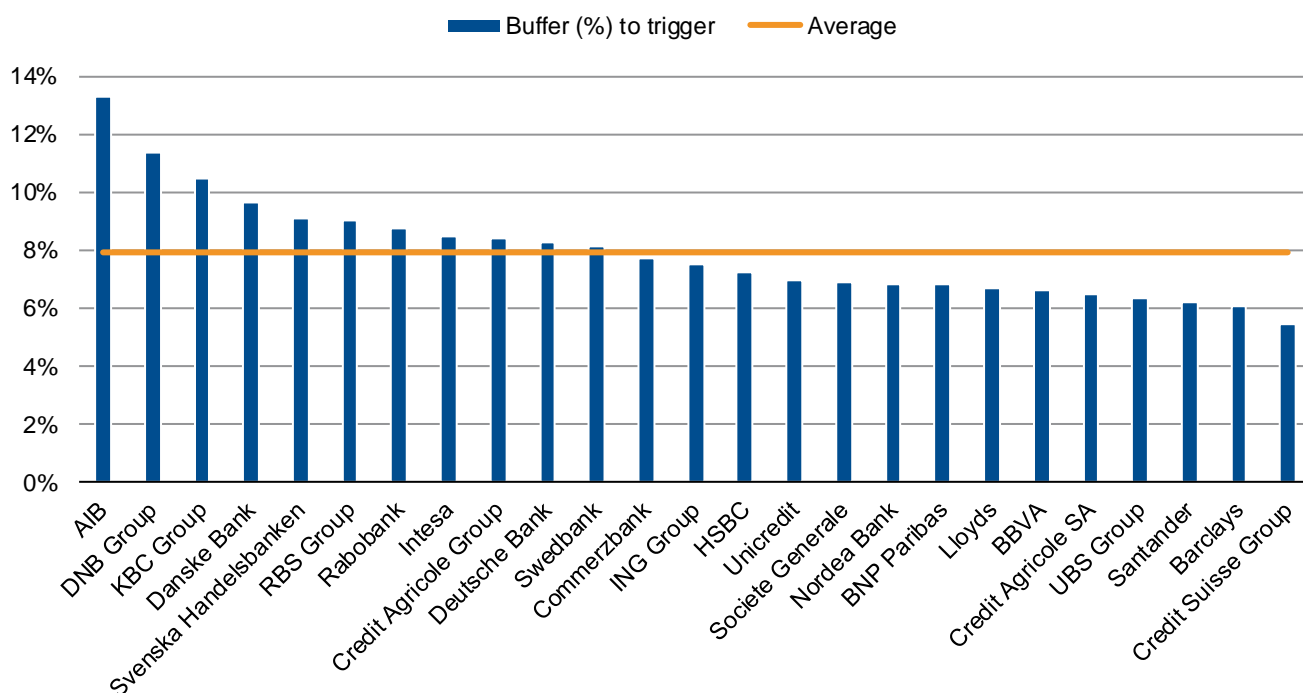
Source: Banks, Scope Ratings

Appendix II: Headroom to writedown/conversion trigger

	Basis	Trigger	2018		1Q 2019		2Q 2019	
			YE CET1	Buffer	1Q19 CET1	Buffer	2Q19 CET1	Buffer
AIB Group	Transitional	7.00%	21.1%	14.1%	n.a.	n.a.	20.3%	13.3%
Barclays	Fully loaded	7.00%	12.8%	5.8%	12.6%	5.6%	13.1%	6.1%
BBVA	Transitional	5.125%	11.6%	6.5%	11.6%	6.5%	11.8%	6.6%
BNP Paribas	Transitional	5.125%	11.8%	6.7%	11.7%	6.6%	11.9%	6.8%
Commerzbank	Transitional	5.125%	12.9%	7.7%	12.7%	7.6%	12.9%	7.7%
Credit Agricole Group	Transitional	7.00%	15.0%	8.0%	15.2%	8.2%	15.4%	8.4%
Credit Agricole SA	Transitional	5.125%	11.5%	6.4%	11.5%	6.4%	11.6%	6.4%
Credit Suisse Group	Transitional	7.00%	12.5%	5.5%	12.5%	5.5%	12.4%	5.4%
Danske Bank	Transitional	7.00%	17.0%	10.0%	16.7%	9.7%	16.6%	9.6%
Deutsche Bank	Transitional	5.125%	13.6%	8.4%	13.7%	8.6%	13.4%	8.3%
DNB Group	Transitional	5.125%	16.4%	11.3%	16.4%	11.3%	16.5%	11.4%
HSBC	Fully loaded	7.00%	13.9%	6.9%	14.2%	7.2%	14.2%	7.2%
ING Group	Transitional	7.00%	14.5%	7.5%	14.7%	7.7%	14.5%	7.5%
Intesa	Transitional	5.125%	13.5%	8.3%	13.1%	8.0%	13.6%	8.4%
KBC Group	Transitional	5.125%	16.0%	10.8%	15.7%	10.5%	15.6%	10.5%
Lloyds	Fully loaded	7.00%	14.3%	7.3%	13.6%	6.6%	13.7%	6.7%
Nordea Bank	Transitional	8.00%	15.5%	7.5%	14.6%	6.6%	14.8%	6.8%
Rabobank	Transitional	7.00%	16.0%	9.0%	15.8%	8.8%	15.8%	8.8%
RBS Group	Fully loaded	7.00%	16.2%	9.2%	16.2%	9.2%	16.0%	9.0%
Santander	Transitional	5.125%	11.5%	6.3%	11.2%	6.1%	11.3%	6.2%
Societe Generale	Transitional	5.125%	11.0%	5.9%	11.5%	6.4%	12.0%	6.9%
Svenska Handelsbanken	Fully loaded	8.00%	16.8%	8.8%	16.4%	8.4%	17.1%	9.1%
Swedbank	Fully loaded	8.00%	16.3%	8.3%	15.9%	7.9%	16.1%	8.1%
UBS Group	Transitional	7.00%	13.1%	6.1%	13.0%	6.0%	13.3%	6.3%
Unicredit	Transitional	5.125%	12.1%	7.0%	12.3%	7.1%	12.1%	7.0%

Notes: AIB reports half-yearly. For banks with securities containing different trigger levels, the highest is used.
Source: Banks, Scope Ratings.

Headroom to writedown / conversion trigger (as of 2Q 2019)



Source: Banks, Scope Ratings.

Appendix III: Selected issues with call dates in 2020

Issuer	Currency	Amount	Coupon %	Issue Date	Next call date	Reset Spread %	Reference swap	Conversion type	Trigger %
HSBC Holdings PLC	USD	1,500,000,000	5.625	17/09/2014	17/01/2020	3.626	USISDA05	Equity conversion	7
Societe Generale	USD	1,500,000,000	6	25/06/2014	27/01/2020	4.067	USSW5	Temporary write down	5.125
BBVA	EUR	1,500,000,000	6.75	18/02/2015	18/02/2020	6.608	EUSA5	Equity conversion	5.125
UBS Group Funding AG	USD	1,250,000,000	7.125	19/02/2015	19/02/2020	5.464	USSW5	Permanent write down	7
DNB Bank ASA	NOK	2,150,000,000	3M Nibor + 325	26/02/2015	26/02/2020	3.25	NIBOR3M	Temporary write down	5.125
Nordea Bank AB	SEK	2,250,000,000	2.61	12/03/2015	12/03/2020	3.1	STIB3M	Temporary write down	5.125
Swedbank	USD	750,000,000	5.5	19/02/2015	17/03/2020	3.767	USSW5	Equity conversion	5.125
DNB Bank ASA	USD	750,000,000	5.75	26/03/2015	26/03/2020	4.075	USSW5	Temporary write down	5.125
Standard Chartered	USD	2,000,000,000	6.5	02/04/2015	02/04/2020	4.889	USSW5	Equity conversion	7
Danske Bank A/S	EUR	750,000,000	5.75	12/03/2014	06/04/2020	4.64	EUSA6	Temporary write down	7
Deutsche Bank AG	USD	1,250,000,000	6.25	27/05/2014	30/04/2020	4.358	USSW5	Temporary write down	5.125
SEB	USD	1,100,000,000	5.75	13/11/2014	13/05/2020	3.85	USSW5	Temporary write down	5.125
Bank of Ireland	EUR	750,000,000	7.375	18/06/2015	18/06/2020	6.956	EUSA5	Temporary write down	5.125
Lloyds Banking Group PLC	EUR	750,000,000	6.375	01/04/2014	27/06/2020	5.29	EUSA5	Equity conversion	7
Rabobank Nederland	EUR	1,500,000,000	5.5	22/01/2015	29/06/2020	5.25	EUSA5	Temporary write down	5.125
UniCredit SpA	EUR	500,000,000	9.375	21/07/2010	21/07/2020	7.49	EUR003M	Temporary write down	6
RBS Group PLC	USD	2,000,000,000	7.5	10/08/2015	10/08/2020	5.8	USSW5	Equity conversion	7
ABN AMRO	EUR	1,000,000,000	5.75	22/09/2015	22/09/2020	5.452	EUSA5	Temporary write down	5.125
Barclays PLC	EUR	1,000,000,000	8	10/12/2013	15/12/2020	6.75	EUSA5	Equity conversion	7

Source: Banks, Scope Ratings.



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