

AT1 Securities: 2Q 2017 Wrap-up



Scope
Ratings

Following the market apprehension of June when the capital securities of Banco Popular were written down and the coupons on the AT1 securities of Bremer Landesbank were skipped, the capital securities market has remained relatively calm. During the second quarter, major European AT1 issuers generally improved or maintained their capital positions. At the same time, there were no new regulatory changes of note with implications for the market.

This does not mean, however, that there were no developments of interest. The volume of new AT1 issuance was around the same level as in the first quarter, with notable issuers being Bankia, Caixabank, Barclays and HSBC (including an issue in SGD).

Credit Suisse and Deutsche Bank raised new equity and improved their capital positions, a positive development not only for their AT1 securities but their overall credit profiles.

Banco Santander and Lloyds Bank completed significant acquisitions which bolstered their already strong business franchises. Banco Santander acquired Banco Popular, becoming the leading retail bank in Spain, with the impact on the group's capital position being neutralized by a EUR 7.1bn capital increase in July. Meanwhile, Lloyds acquired a prime book of UK credit cards from MBNA to align the group's market position in this business with other retail banking products and services. The acquisition was funded with organic capital generation; approximately 80bps of CET1 capital.

Recently, Nordea announced its intention to move its headquarters to Finland from Sweden. This decision comes after a reorganization of the group's legal structure, with Nordic subsidiaries being converted into branches. An interesting case to follow as the group's supervisor will become the ECB/SSM rather than the Swedish FSA, with likely implications for capital requirements.

Issuer fundamentals and capital metrics remain reassuring

As we highlighted in our last AT1 update, "Mind the Issuer" published in June, Scope considers that the headroom to CET1 requirements is no longer the only relevant metric for assessing a potential breach of the combined buffer requirement. In December 2015, the EBA issued an opinion which clarified that all capital requirements as well as the combined buffer were relevant for determining the maximum distributable amount (MDA) threshold (i.e. the point where the MDA needs to be calculated and distributions are restricted). This was then reiterated by the ECB in December 2016 when it detailed capital requirements for 2017 stemming from the Supervisory Review and Evaluation Process (SREP).

As shown in Figure 1, the binding constraint for an issuer can be CET1, Tier 1 or total capital. Compared to 1Q 2017, the following are worth highlighting:

- Credit Suisse and Deutsche Bank reassuringly improved their positions via capital raises;
- Barclays as well through profits and the sale and proportional regulatory deconsolidation of the Africa business;
- Santander's position was stable as a capital increase neutralised the impact of the Banco Popular acquisition;
- Lloyds saw a decline in headroom due to the MBNA acquisition but the level continues to be solid; and
- DNB's position remained stable and is unlikely to change significantly as the group has reached its desired capital level, which includes a management buffer above requirements and guidance communicated by the Norwegian FSA.

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Related Research

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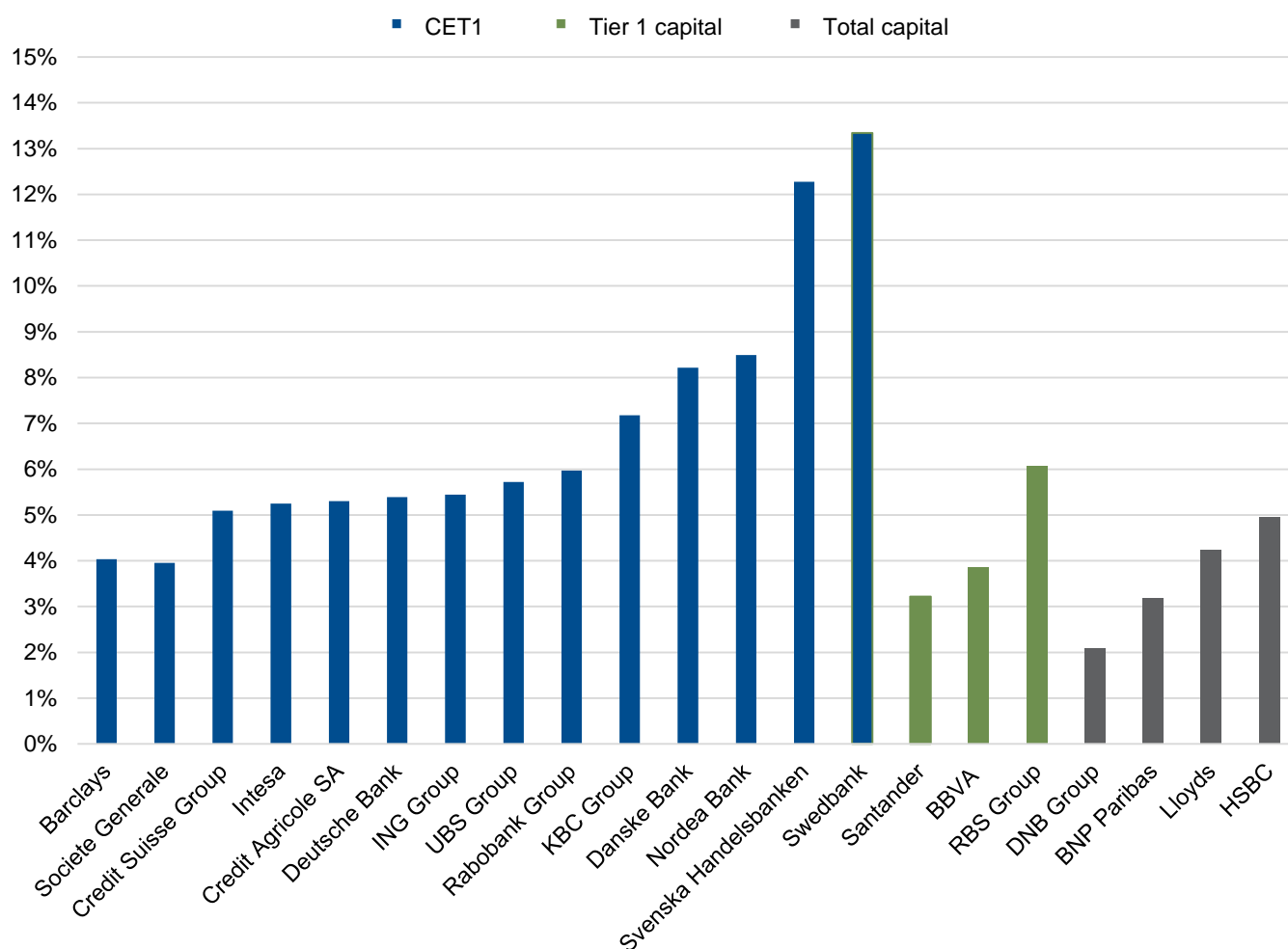
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Figure 1: Narrowest headroom to MDA relevant requirements



Note: Based on capital figures as of 2Q 2017. Deutsche Bank figure is pro forma capital raise. Santander figure is pro forma capital raise and includes Banco Popular.
Source: Company data, Scope Ratings

Appendix:

Headroom to MDA relevant CET1 requirements

	2016	2017	1Q 2017		2Q 2017			
	FYE CET1	Req CET1	1Q17 CET1	Gap %	2Q17 CET1	Gap %	Currency	Gap bn
Barclays	12.4%	9.1%	12.5%	3.4%	13.1%	4.0%	GBP	13.2
BBVA	12.2%	7.6%	11.6%	4.0%	11.8%	4.1%	EUR	15.4
BNP Paribas	11.6%	8.0%	11.7%	3.7%	11.8%	3.8%	EUR	24.5
Credit Agricole Group	14.4%	7.8%	14.5%	6.8%	15.0%	7.2%	EUR	37.6
Credit Agricole SA	12.1%	7.3%	12.0%	4.8%	12.5%	5.3%	EUR	15.6
Credit Suisse Group	13.4%	9.0%	12.6%	3.6%	14.1%	5.1%	CHF	13.3
Danske Bank	16.3%	8.0%	15.5%	7.5%	16.2%	8.2%	DKK	64.0
Deutsche Bank	13.4%	9.5%	12.6%	3.1%	14.9%	5.4%	EUR	10.8
DNB Group	16.0%	13.6%	15.8%	2.2%	15.8%	2.2%	NOK	23.9
HSBC	13.6%	8.6%	14.3%	5.7%	14.7%	6.1%	USD	53.8
ING Group	14.1%	9.0%	14.5%	5.5%	14.5%	5.4%	EUR	16.9
Intesa	12.7%	7.3%	12.5%	5.2%	12.5%	5.2%	EUR	15.8
KBC Group	16.2%	8.7%	15.9%	7.2%	15.8%	7.2%	EUR	6.5
Lloyds	13.6%	8.3%	14.3%	6.0%	13.5%	5.2%	GBP	11.3
Nordea Bank	18.4%	10.7%	18.8%	8.1%	19.2%	8.5%	SEK	11.0
Rabobank Group	14.0%	9.0%	14.0%	5.0%	15.0%	6.0%	EUR	12.4
RBS Group	13.4%	8.4%	14.1%	5.7%	14.8%	6.4%	GBP	13.8
Santander	12.5%	7.8%	12.1%	4.4%	12.1%	4.3%	EUR	20.3
Societe Generale	11.8%	7.8%	11.7%	4.0%	11.7%	4.0%	EUR	13.9
Svenska Handelsbanken	25.1%	11.1%	23.8%	12.7%	23.4%	12.3%	SEK	61.4
Swedbank	25.0%	11.3%	24.2%	12.9%	24.6%	13.3%	SEK	54.3
UBS Group	16.8%	9.1%	15.6%	6.5%	14.8%	5.7%	CHF	13.6

Note: 2Q 2017 figures for Santander are pro forma the acquisition of Banco Popular and the capital increase.
Source: Company data, Scope Ratings

Headroom to writedown/conversion trigger

			2016		1Q 17		2Q 17	
	Basis	Trigger	FYE CET1	Gap %	1Q17 CET1	Gap %	2Q17 CET1	Gap %
Barclays	Fully loaded	7.00%	12.4%	5.4%	12.5%	5.5%	13.1%	6.1%
BBVA	Transitional	5.125%	12.2%	7.1%	11.6%	6.5%	11.8%	6.6%
BNP Paribas	Transitional	5.125%	11.6%	6.5%	11.7%	6.6%	11.8%	6.7%
Credit Agricole Group	Transitional	7.00%	14.4%	7.4%	14.5%	7.5%	15.0%	8.0%
Credit Agricole SA	Transitional	5.125%	12.1%	7.0%	12.0%	6.9%	12.5%	7.4%
Credit Suisse Group	Transitional	7.00%	13.4%	6.4%	12.6%	5.6%	14.1%	7.1%
Danske Bank	Transitional	7.00%	16.3%	9.3%	15.5%	8.5%	16.2%	9.2%
Deutsche Bank	Transitional	5.125%	13.4%	8.3%	12.6%	7.5%	14.9%	9.8%
DNB Group	Transitional	5.125%	16.0%	10.9%	15.8%	10.7%	15.8%	10.7%
HSBC	Fully loaded	7.00%	13.6%	6.6%	14.3%	7.3%	14.7%	7.7%
ING Group	Transitional	7.00%	14.1%	7.1%	14.5%	7.5%	14.5%	7.5%
Intesa	Transitional	5.125%	12.7%	7.5%	12.5%	7.4%	12.5%	7.4%
KBC Group	Transitional	5.125%	16.2%	11.0%	15.9%	10.7%	15.8%	10.7%
Lloyds	Fully loaded	7.00%	13.6%	6.6%	14.3%	7.3%	13.5%	6.5%
Nordea Bank	Fully loaded	8.00%	18.4%	10.4%	18.8%	10.8%	19.2%	11.2%
Rabobank Group	Transitional	7.00%	14.0%	7.0%	14.0%	7.0%	15.0%	8.0%
RBS Group	Fully loaded	7.00%	13.4%	6.4%	14.1%	7.1%	14.8%	7.8%
Santander	Transitional	5.125%	12.5%	7.4%	12.1%	7.0%	12.1%	7.0%
Societe Generale	Transitional	5.125%	11.8%	6.7%	11.7%	6.6%	11.7%	6.6%
Svenska Handelsbanken	Fully loaded	8.00%	25.1%	17.1%	23.8%	15.8%	23.4%	15.4%
Swedbank	Fully loaded	8.00%	25.0%	17.0%	24.2%	16.2%	24.6%	16.6%
UBS Group	Transitional	7.00%	16.8%	9.8%	15.6%	8.6%	14.8%	7.8%

Notes: 2Q 2017 figures for Deutsche Bank are pro forma the capital increase. 2Q 2017 figures for Santander are pro forma the acquisition of Banco Popular and the capital increase.
Source: Company data, Scope Ratings



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