1Q 2020

Prudential Data Report

EU GSIBs prudential capital and liquidity

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What this report covers

This report collates timely information on European GSIBs' prudential capital*, leverage, loss-absorption capacity and liquidity ratios with updated information as at 31 March 2020.

It also illustrates the recent performance of the debt and contingent convertibles (CoCo) markets for banks in Europe.

Most prudential data publications and statistical sources compile information that is not comparable or is published with a substantial delay. This report addresses the existing data gap by publishing comparable and consistent prudential statistics of EU GSIBs on a timely basis.

All data is sourced from public information, with the exception of CoCo markets performance and banks' debt structure by seniority. All figures exclude any estimates for the impact of the final Basel III proposals.

As this Data Report illustrates, European systemically important banks (or EU-GSIBs) have improved their capital, leverage, loss-absorption and liquidity positions over the last years, in compliance with CRDIV.

The CRDIV rules comprise minimum requirements on bank solvency and liquidity, which seek to enhance the soundness of banks' balance sheets.

*According to the 2019 FSB GSIB list. EU27 and UK

Key Highlights

European GSIBs capital and liquidity ratios

		2013	2014	2015	2016	2017	2018	2019	1Q 20
CET1 ratio (end-point)		10.0%	10.9%	11.6%	12.2%	13.3%	13.1%	13.6%	13.4%
T1 ratio (end-point)		11.3%	11.7%	12.7%	13.5%	14.7%	14.8%	15.3%	15.0%
Leverage ratio (end-point)		3.6%	4.2%	4.5%	4.7%	4.9%	4.8%	4.9%	4.6%
Liquidity Coverage Ratio (LCR)		-	127.5%	134.8%	132.9%	141.0%	141.3%	140.4%	142.1%
TLAC ratio	% RWAs	-	-	-	-	-	-	26.1%	25.7%
	% exposure measure	-	-	-	-	-	-	8.4%	8.0%

Source: EUGSIBs earnings reports, EBA and Dealogic

European systemically important banks* (GSIBs) reported in 1Q20 a decline in their capital ratios on the back of increased balance sheet use to support the COVID-19 economic recovery.

Risk exposure measure rose during the quarter due to higher lending and derivatives exposure. RWAs rose due to the severe market volatility, higher balance sheet size, rating migrations and implementation of regulatory changes to the securitisation framework.

European banks entered the COVID-19 crisis with the highest quarterly solvency ratios in records and will continue to utilize their balance sheets to support the economy and facilitate risk management.

Among the main findings of this report:

- **EU GSIBs end-point CET1 ratio decreased to 13.4% in 1Q20, from 13.6% in 4Q19.**
- **End-point Tier 1 ratios decreased to 15.0% in 1Q20, from 15.3% in 4Q19.**
- **End-point Leverage ratios (LR) decreased to 4.6% in 1Q20 from 4.9% in 4Q19.**
- **Liquidity Coverage Ratio (LCR) increased to 142.1% in 1Q20, from 140.4% in 4Q19, driven by a c18% increase in cash and central bank deposits.**
- **TLAC ratio stood at 25.7% relative to RWAs and 8.0% as a percentage of leverage exposure.**

*According to the 2019 FSB GSIB list. EU27 and the UK

Key Highlights

Dividend restrictions contributed to build capital buffers

The ECB and PRA's issued guidance recommending suspension of dividend payments until at least 1 October 2020. As shown on page 12, restrictions on unpaid 2019 dividends partially offset the quarterly decline in CET1 ratio by 30bps.

The RWA quarterly increase generated from higher lending and market activities contributed 40bps to the decline in CET1 ratio.

Recent regulatory changes to the securitisation framework negatively impacted banks' CET1 ratios between 0.3%-0.07%.

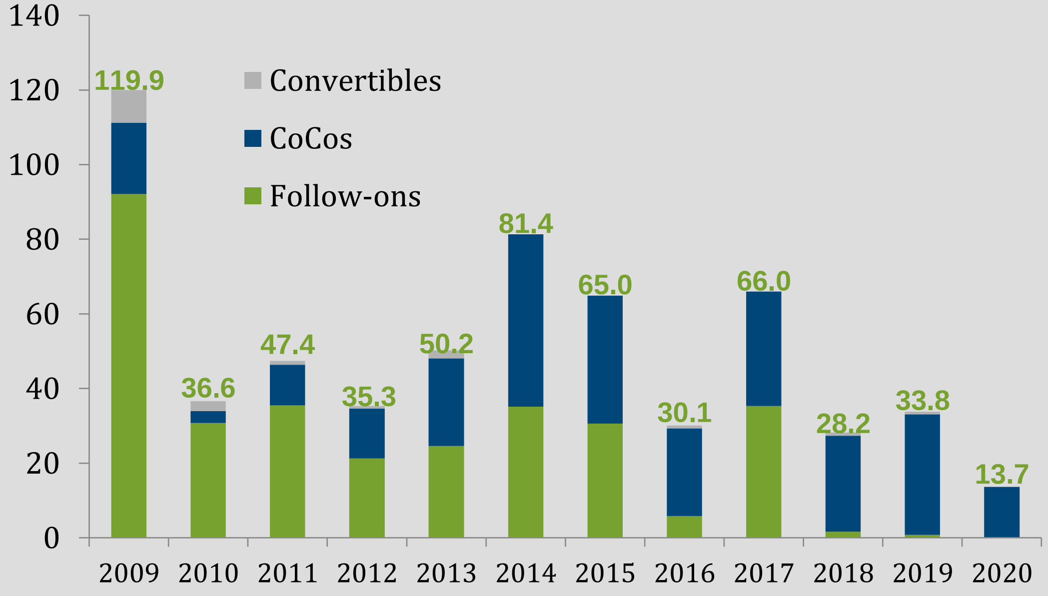
External capital raising below 2019YtD level

The amount of new capital raised during 2020YtD by European banks totalled €13.7 bn.

The amount of fresh capital raised was almost exclusively in the form of contingent convertible (CoCo) bonds. See chart on right panel.

16 European banks have issued 17 CoCo instruments in 2020YtD including 6 European GSIBs (vs 31 notes issued in 2019YtD from 30 banks including 9 European GSIBs).

Fresh capital raised by European banks (€bn)



Source: Dealogic

Contingent Convertible (CoCo) market

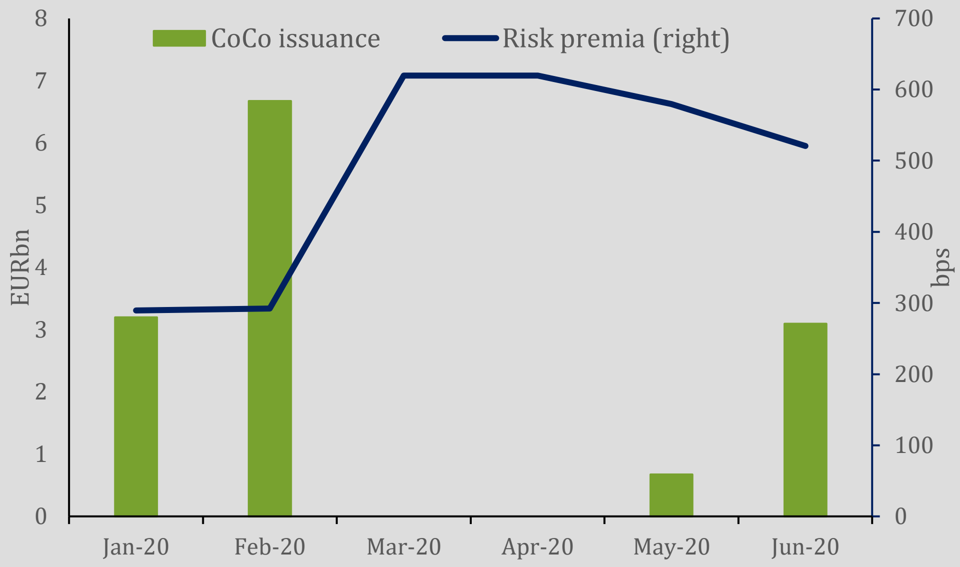
CoCo issuance was abruptly interrupted during the months of March and April due to the sharp increase in CoCo risk premia as a result of the market turbulence generated by the COVID-19 outbreak.

The rising spreads implied a substantial increase in the cost of CoCo debt, which made uneconomical to raise capital in such market conditions.

As shown on the right panel chart, a total of €9.8bn in CoCos were issued in the first two months of 2020 when risk premia was on average at 300bps.

The CoCo market has recently reopened with the issuance of four notes since May-20 equivalent to €3.8bn in proceeds. These notes, however, have been issued with higher coupon rates compared to those issued in 1Q20 (5.8% in 2Q20 vs. 4.6% in 1Q20 for fixed rate bonds). See further details on page 33

CoCo issuance & CoCo risk premia



Source: Dealogic and Barclays

Key highlights

CRR quick fix (See box pages 21-24)

Euro area statistics have already shown a marked increase in corporate lending of EUR 122bn in March and EUR 75bn in April 2020. Further increases in bank balance sheets are also to be expected as corporates continue to draw down on their existing borrowing facilities and banks channel government support programmes to clients.

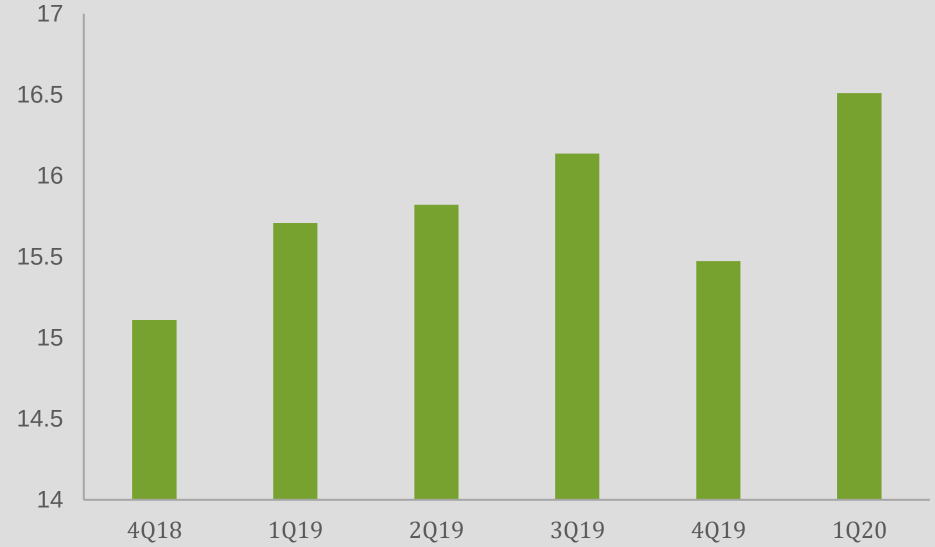
Banks exposure measure, total assets and RWAs sharply increased during Q1 as banks support businesses navigate the pandemic. Total assets expanded 10% QoQ, exposure measure increased 6.7% QoQ while RWAs rose 2% QoQ.

Recognising the scale of the pandemic, on 28 April, the European Commission proposed targeted changes to the Capital Requirements Regulation (CRR) to maximise the capacity of banks to lend and to absorb losses related to the pandemic.

This "Quick Fix" initiative complements supervisory guidance that banks should use draw down their capital buffers and has been approved with amendments by the ECON committee and endorsed by EU Ambassadors. A final vote in the European Parliament Plenary is expected for 19 June so that banks can make use of the package in their Q2 reporting.

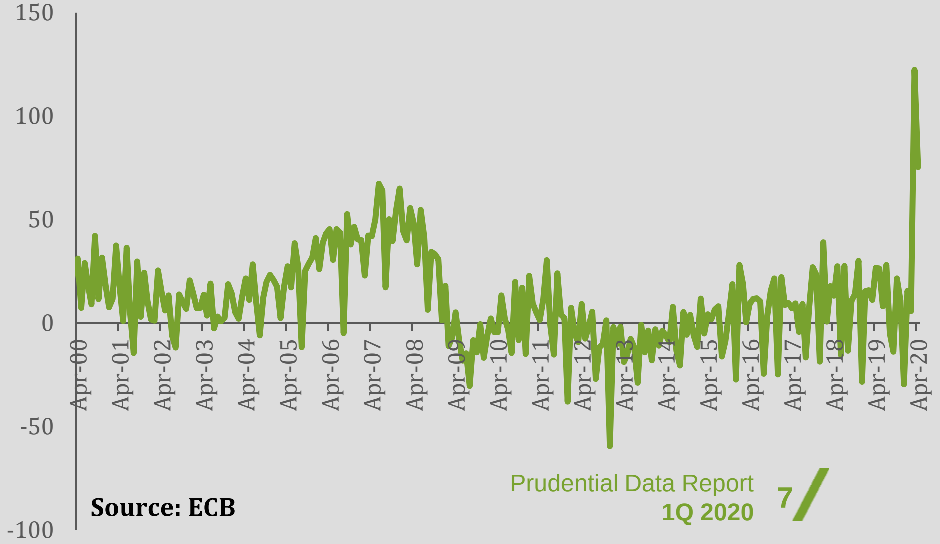
The package will help mitigate the capital impacts of IFRS9 expected loss accounting and contribute to banks' capacity to continue to support the economy during the pandemic and through recovery.

European GSIBs leverage exposure measure (EURtn)



Source: Banks earnings reports

Euro area net bank lending to non-financial corporations (EURbn)



Source: ECB

Major upcoming regulatory, legislative and policy initiatives

CRR quick fix and Basel IV implementation in the EU

Following the agreement of the co-legislators on the “CRR quick fix”, the European Commission will continue to work towards the EU’s implementation of the Basel IV agreement whose implementation was deferred by one year to 1 January 2023 by the Basel Committee. The Commission’s so-called CRR3 proposal is likely to be issued towards the end of 2020.

Other upcoming initiatives

The Basel committee will continue addressing a targeted set of policy initiatives that require finalisation. This includes work related to the Credit Valuation Adjustment (CVA) framework, expected credit loss accounting changes, the leverage ratio treatment of client cleared derivatives and measures to curtail window-dressing behaviour, efforts to enhance operational resilience, and potential policy measures related to crypto-assets.

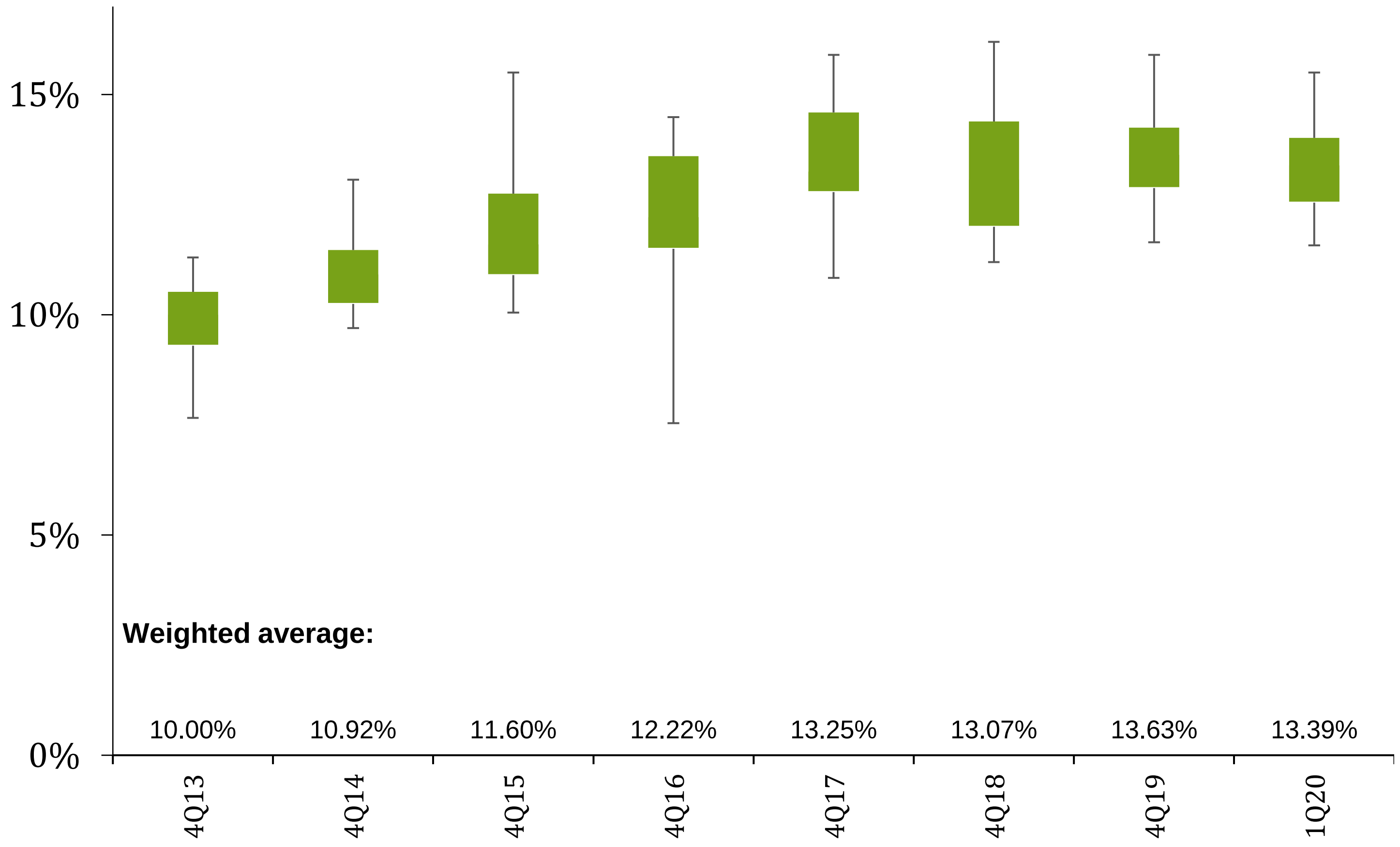
These initiatives will potentially impact the basis of calculations for the metrics covered in this report for future iterations.

AFME is actively contributing to each of these initiatives.

Capital and liquidity ratios

CET1 ratio

CET1 end-point ratio



Source: EU GSIBs earnings reports

Capital buffers remain resilient to support the economy

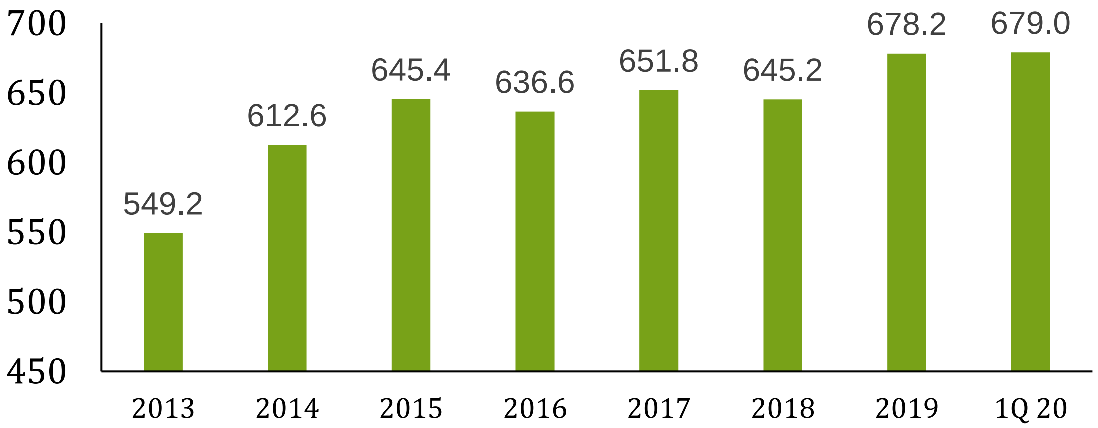
10 of the 11 European GSIBs reported a quarterly decline in their CET1 ratios.

The decline was driven by a 2% QoQ increase in RWAs partially offset by a 0.1% increase in CET1 capital.

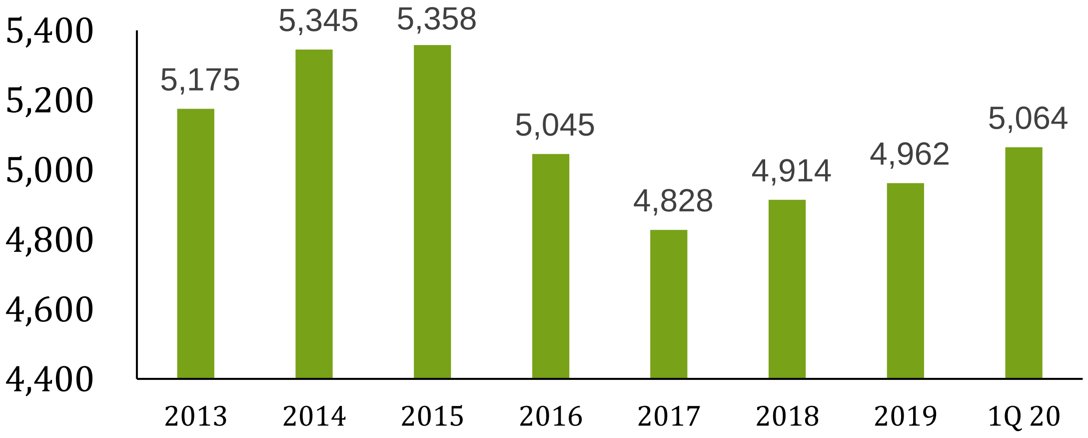
Notwithstanding the quarterly decline, the largest European banks have accumulated robust capital buffers since December 2013 with a cumulative increase of 339bps in CET1 ratio, from 10% to 13.39% in March 2020.

CET1 and RWA levels

CET1 capital (€bn)



RWA (€bn)



Source: EU GSIBs earnings reports. CET1 phased-in transitional measures finalised in 2019.

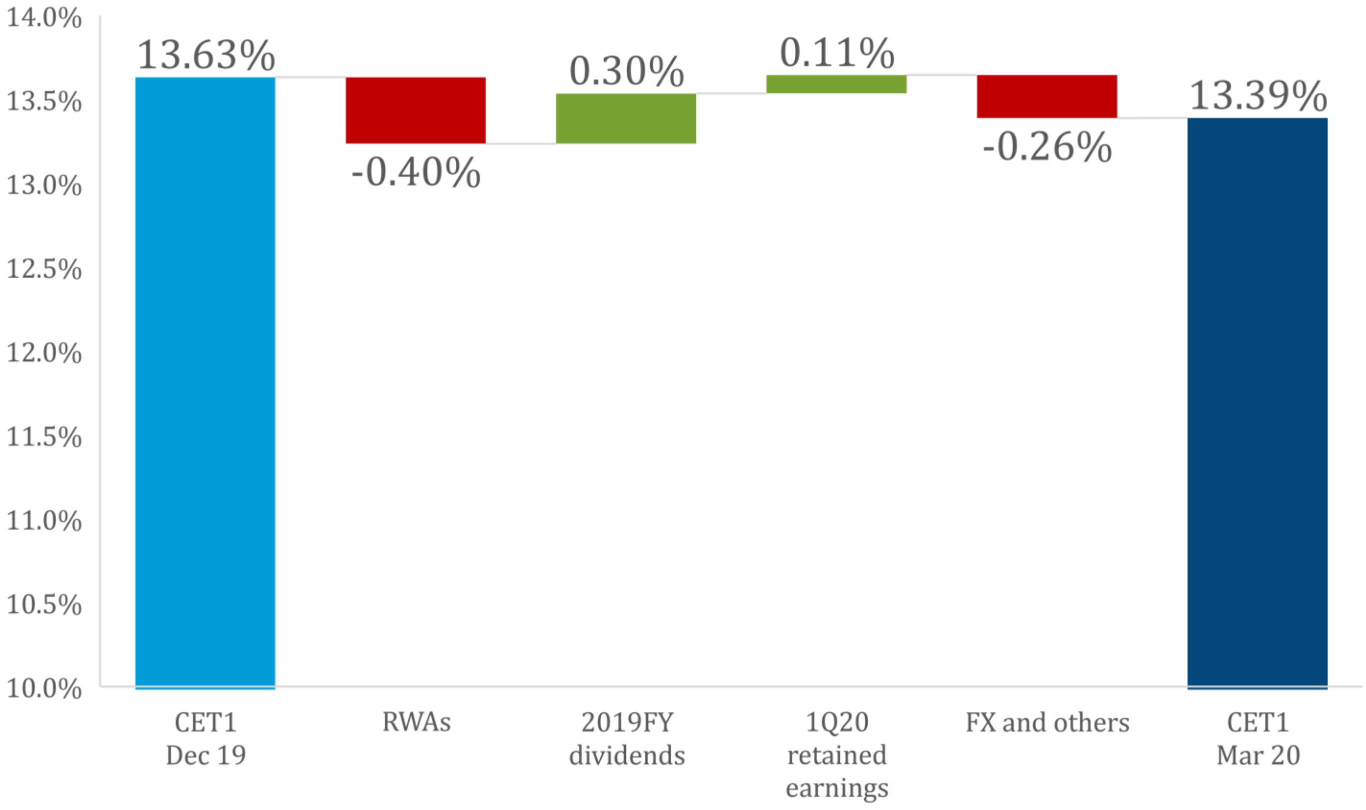
Higher risk exposures to support businesses navigate the pandemic

RWAs rose 2% QoQ on the back of higher market risk due to the severe market volatility during the quarter, asset growth from higher lending and derivatives exposure, rating migrations and implementation of regulatory changes to the securitisation framework.

EU GSIBs marginally increased their reported CET1 capital to €679bn.

Drivers of CET1 ratio

Change in CET1 ratio by components in 1Q 2020 (%)



Source: EU GSIBs earnings reports

2019FY dividend retention reduced the impact of RWA pressure on CET1 ratio

RWA increase during the quarter contributed 40bps to the decline in CET1 ratio.

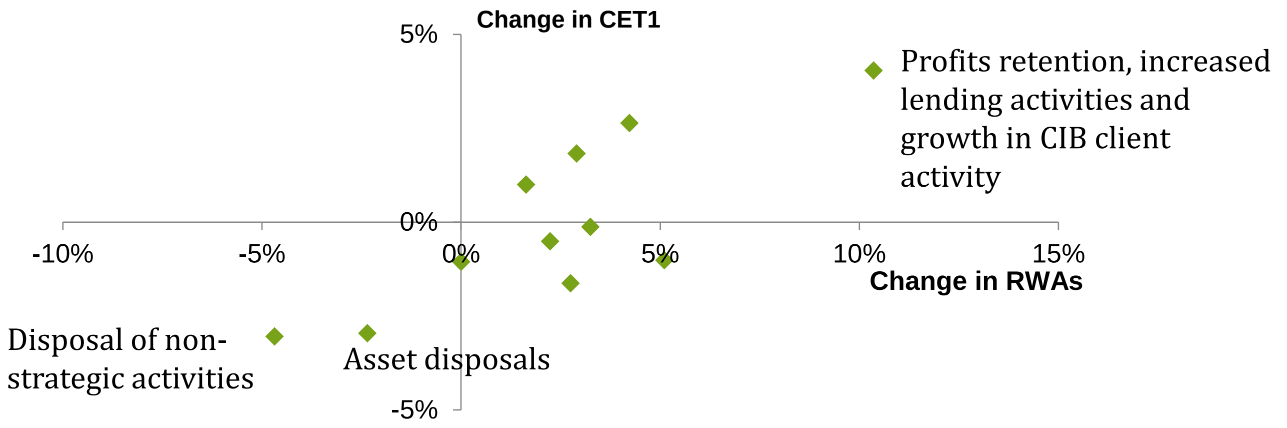
The ECB and PRA's guidance recommending suspension of dividend payments partially offset by 30bps the quarterly decline in CET1 ratio.

Other factors like FX translation and regulatory factors also contributed 26bps to the CET1 ratio decline.

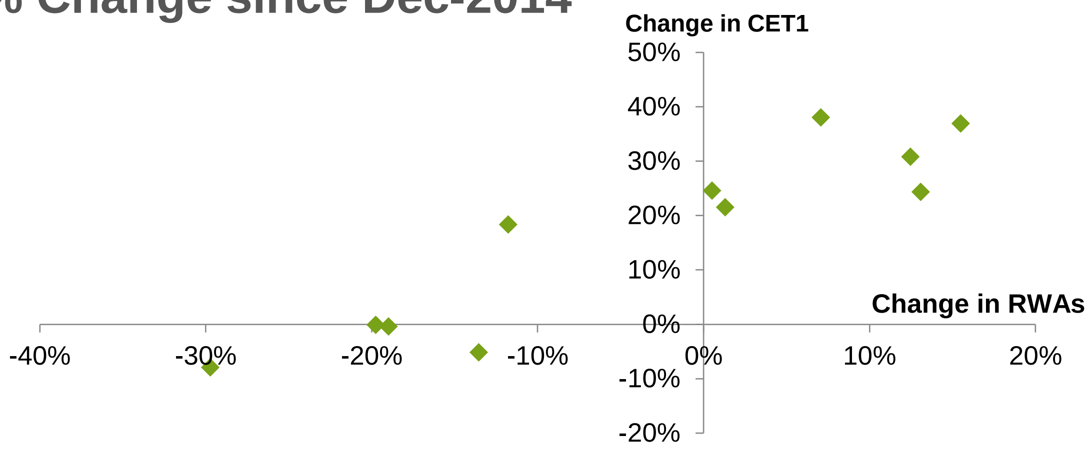
Recent regulatory changes to the securitisation framework negatively impacted banks' CET1 ratios between 0.07%-0.3% (depending on the bank).

Change in CET1 capital and RWAs by banks

1Q 20 % change QoQ



% Change since Dec-2014



Source: EU GSIBs earnings reports. Each dot represents a bank

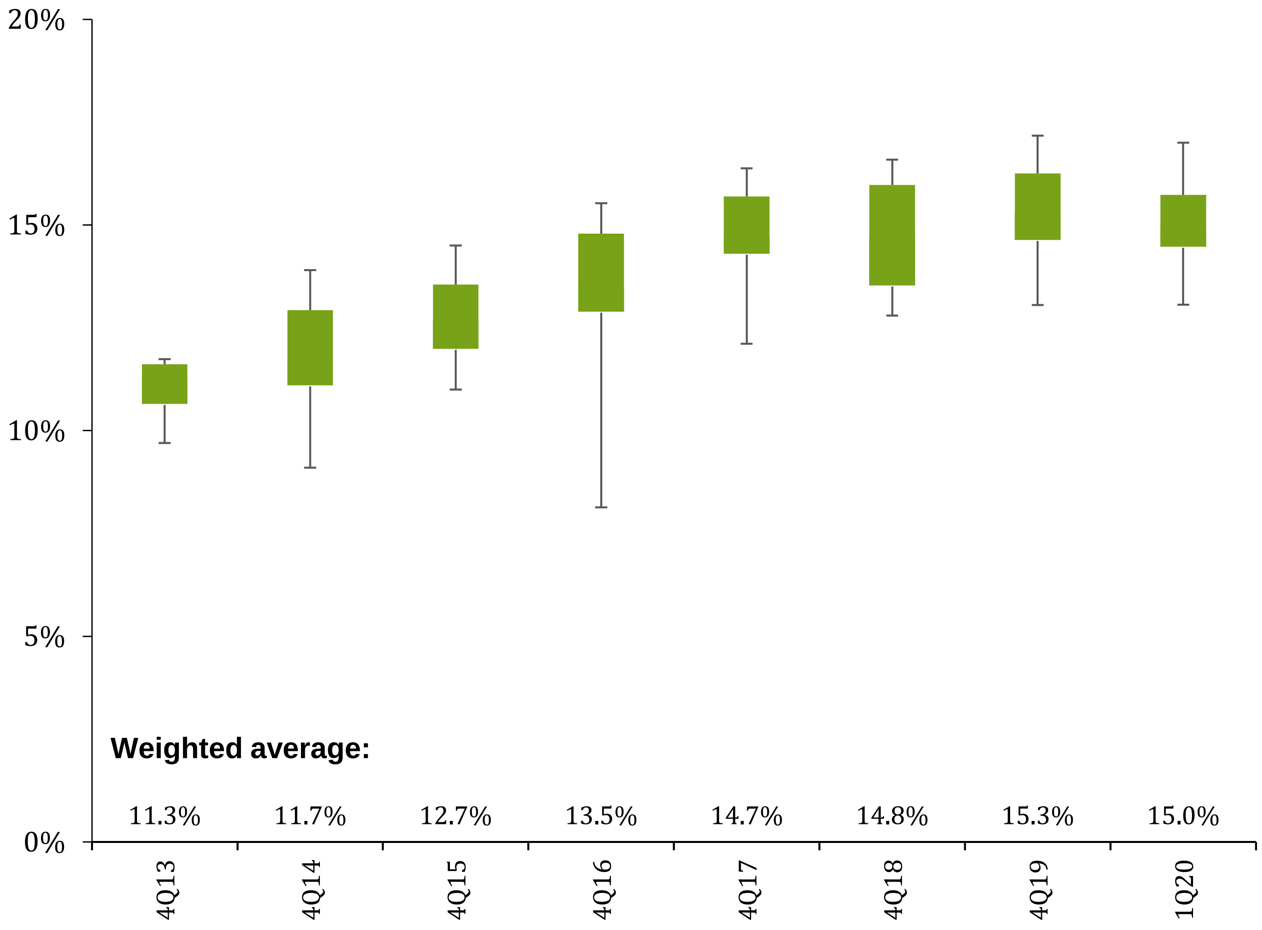
Heterogeneity in CET1 and RWA variations by banks

The large majority of banks reported an increase in RWAs during the quarter, predominantly due to increased lending and trading activities.

The two banks that reported a decline in RWAs attribute the quarterly variation to asset disposals of activities deemed non-strategic.

T1 ratio

End-point



Source: EU GSIBs earnings reports

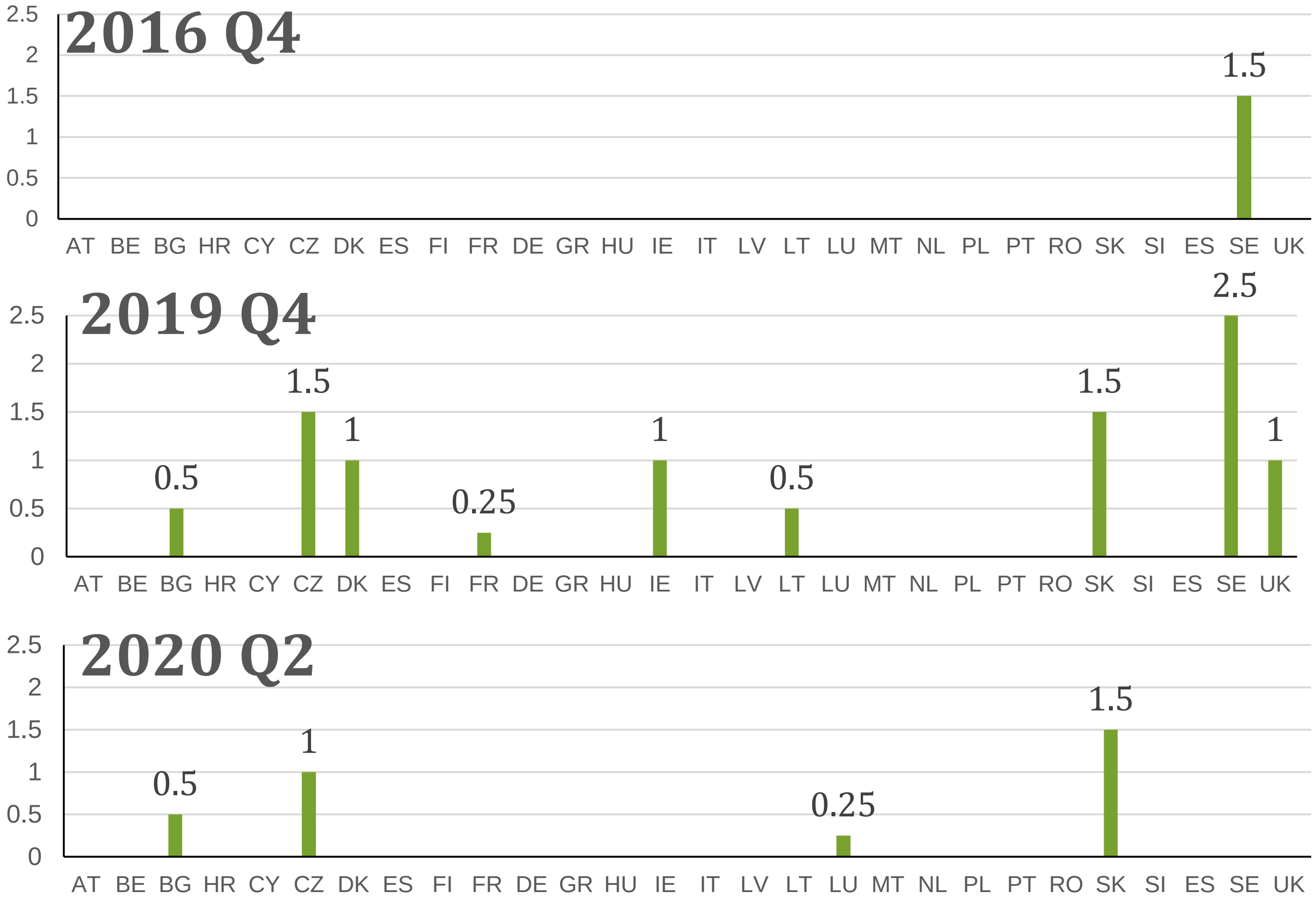
30bps decline in T1 capital ratio

End-point T1 ratios declined to 15.0% in 1Q20 from 15.3% in 4Q20 when banks reported record T1 ratios.

As observed on page 34, five of the 11 European GSIBs covered in this report issued AT1 instruments in Q1 equivalent to €6.2bn in proceeds, which partially offset the sharp increase in RWAs.

Countercyclical capital buffer (CCyB)

CCyB rates by jurisdiction (%)



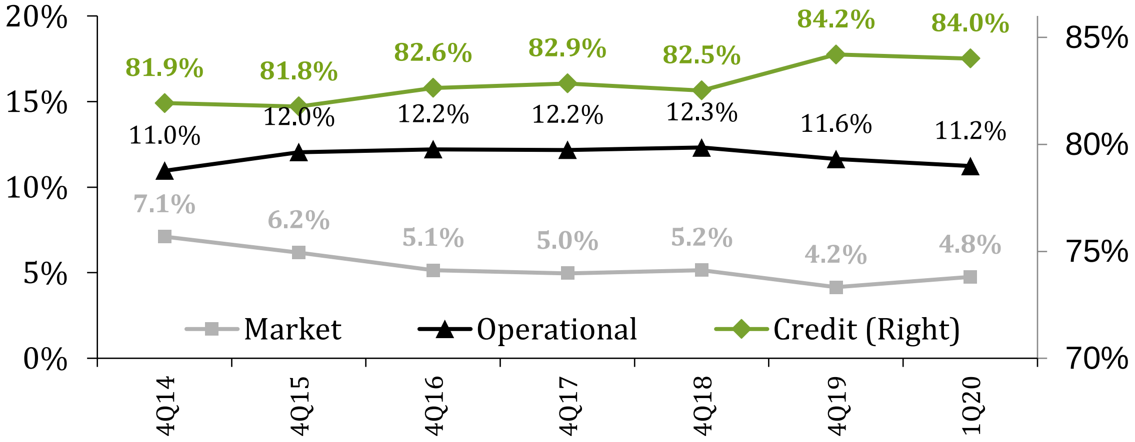
Source: ESRB. Exemptions are provided for certain small and medium-sized investment firms from holding a CCyB in the following countries: Croatia, Cyprus, Luxembourg, Malta, Poland, Slovakia, Sweden and the United Kingdom

In response to the COVID-19 pandemic, most of the national prudential authorities cut the local CCyB to zero or reversed decisions related to planned increases expected to be implemented in 2020.

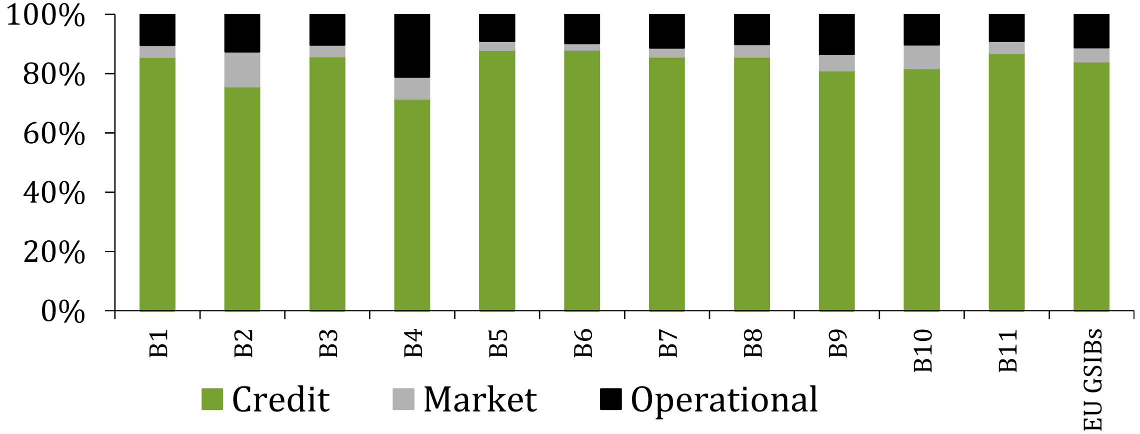
Over the last quarter national authorities have not made any further adjustments to their CCyB rates.

RWAs by risks

RWAs by risks



RWAs by risks and EU GSIB



Source: EU GSIBs earnings reports

Quarterly increase in market risk RWAs

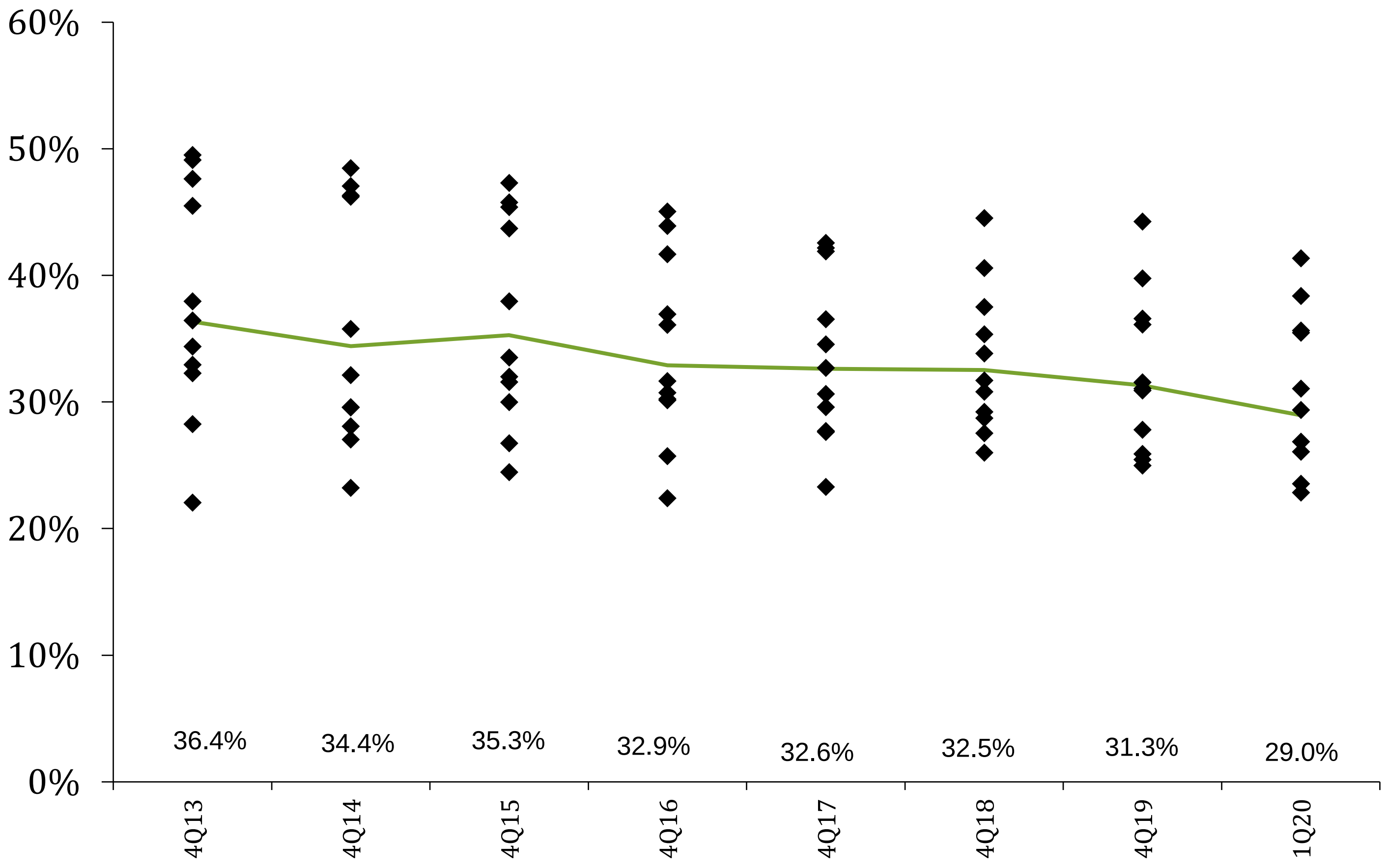
Market risk RWAs rose 17% QoQ (€34bn) due to the significant increase in market volatility and trading activities during the quarter.

All the banks covered in this report increased their market risk RWAs during the quarter.

Credit risks RWAs totalled €4tn in 1Q 2020 an increase of €58bn from the value reported at the end of 2019.

RWA densities

RWA densities: RWA/total assets



Source: EU GSIBs earnings reports

29% average RWA density

All the banks covered in this report decreased their RWA densities during the quarter.

RWAs increased 2% during the quarter, while total assets increased 10% resulting from higher derivatives exposures and higher liquidity reserves at central banks.

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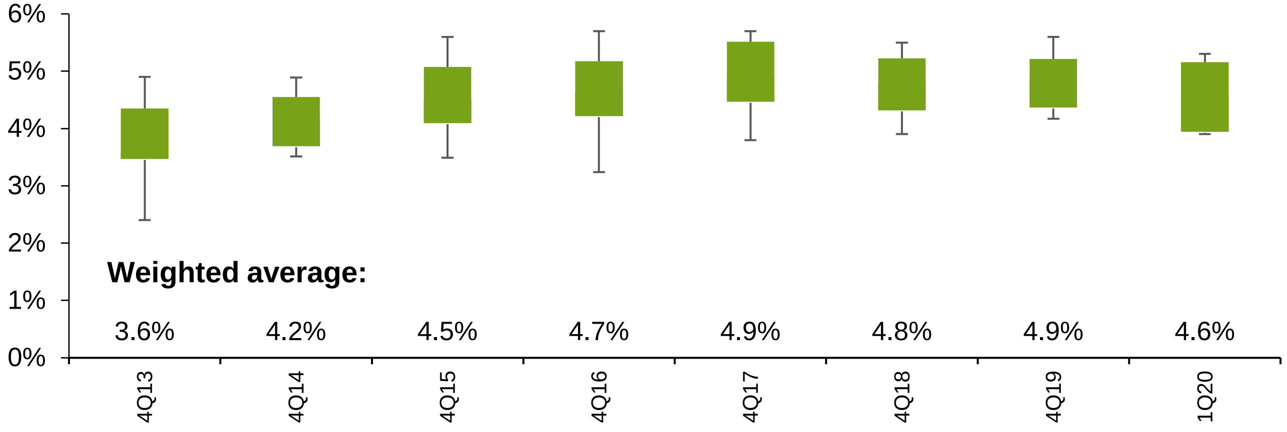
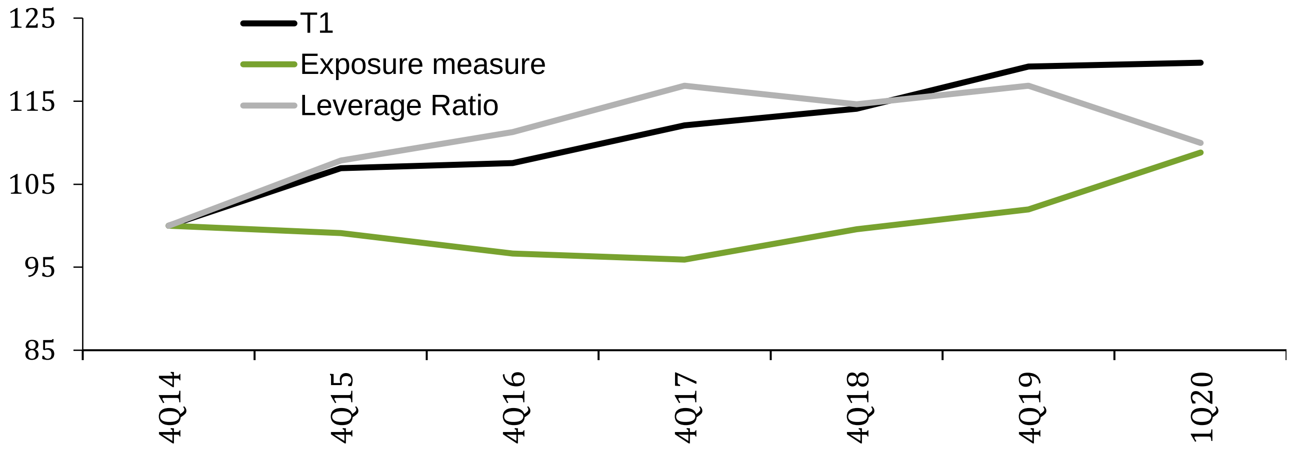
Leverage Ratio (LR)

Leverage ratio: end-point



Cumulative change of T1 capital, exposure measure and LR



Source: EU GSIBs earnings reports

Decline in Leverage Ratio due to sharp increase in balance sheet size to support the COVID-19 recovery

The weighted average leverage ratio stood at 4.6% in 1Q20, 30bp below the ratio observed in 4Q19 (4.9%).

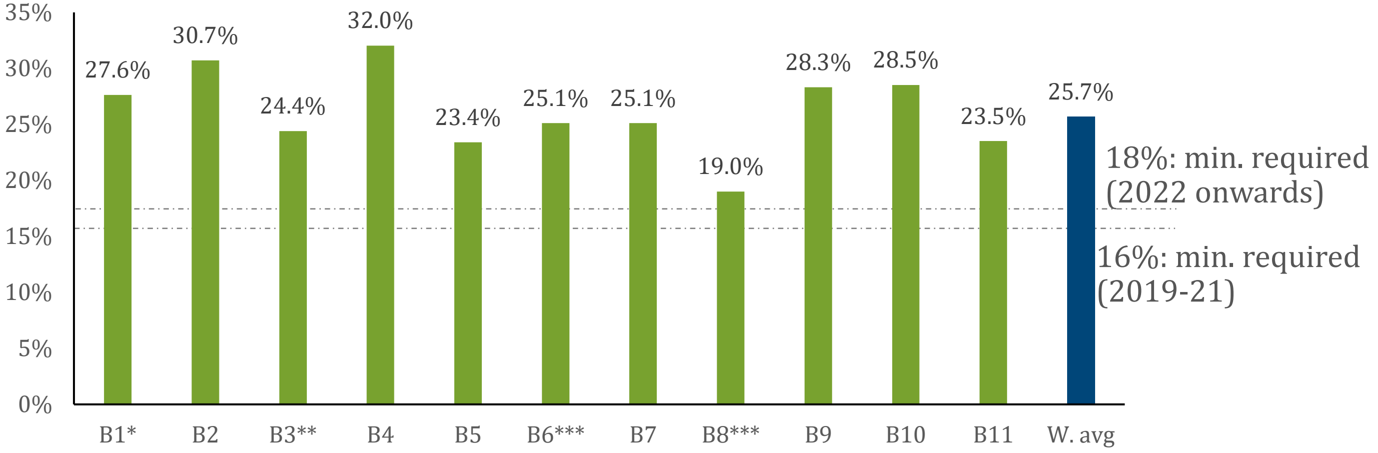
The decrease was driven by a larger increase in risk exposure (6.7%) compared with the quarterly increase in T1 capital (0.4%).

Increase in risk exposure arose on the back of balance sheet growth resulting from higher derivatives exposure and increase in corporate loans.

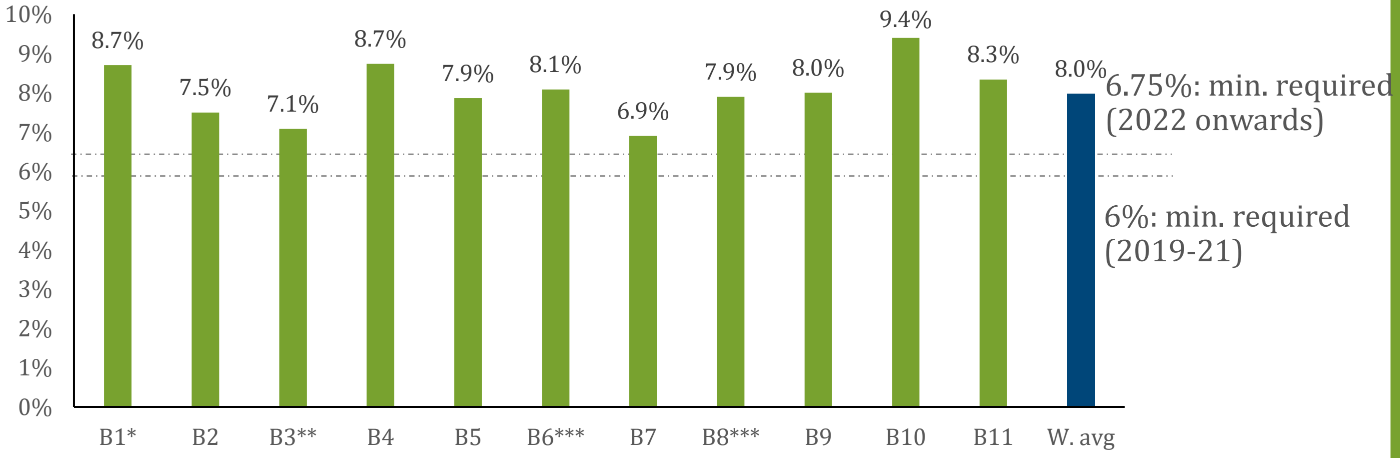
The weighted average ratio of 4.6% is comparable with a global minimum standard of 3% according to the Basel III accord.

TLAC ratio

TLAC ratio (as % of RWAs)



TLAC ratio (as % of exposure measure)



Source: EU GSIBs earnings reports. *weighted average of resolution entities. ** including 2.5% senior preferred allowance *** not based on public disclosure. Based on AFME calculations as a sum of own funds + senior non-preferred+ senior preferred allowance of 2.5% of RWAs

Quarterly decline in TLAC ratios

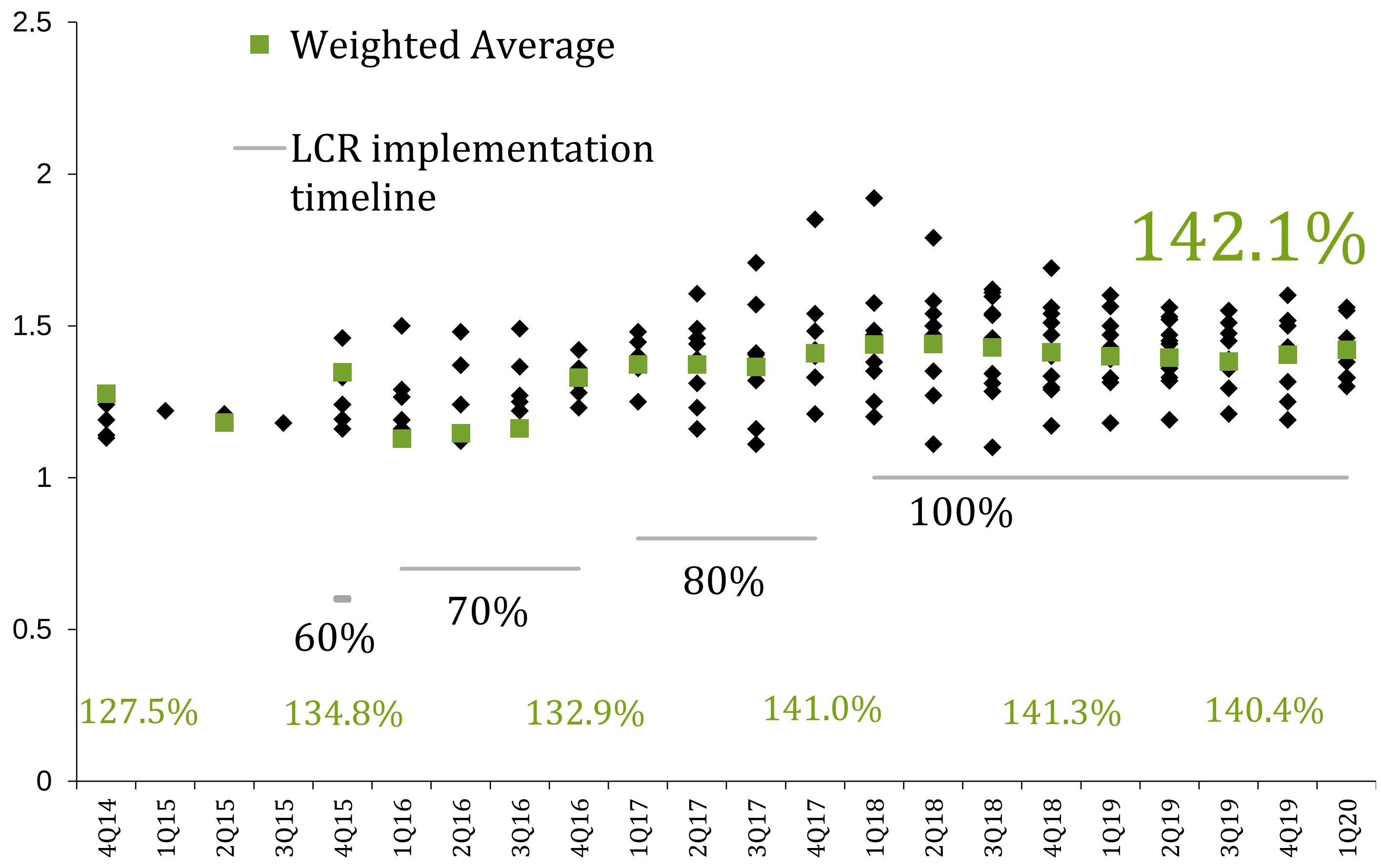
The quarterly decline was largely driven by the sharp increase in exposure measure and RWAs during the quarter as shown on pages 11 and 18.

TLAC ratios measured relative to RWAs declined from 26.1% in 4Q19 to 25.7% in 1Q20. TLAC ratios measured as a percentage of exposure measure declined from 8.4% in 4Q19 to 8.0% in 1Q20.

According to AFME estimates based on public disclosures, EUGSIBs have a total of c€1.2tn of TLAC eligible liabilities, with all EU GSIBs meeting their 2020 and 2022 TLAC minimum ratios.

Liquidity Coverage Ratio (LCR)

Liquidity coverage ratio (%)



Source: EU GSIBs earnings reports

LCR 42% above minimum required ratio (100%)

The weighted average LCR finalised the quarter at 142.1%, above the average ratio at the end of 2019 (140.4%).

The quarterly variation was driven by an increase in cash and central bank deposits of c18% QoQ.

CRDIV requires banks to have a sufficient level of High Quality Liquid Assets (HQLA) to withstand a stressed funding scenario of 30 days. HQLA relative to total net cash outflows over a 30-day time period must be greater than or equal to 100%.

Box: CRR Quick Fix

CRR quick fix: rationale

The European Commission proposed on 28 April targeted changes to the Capital Requirements Regulation (CRR) to maximise the capacity of banks to lend and to absorb losses related to the pandemic.

National and European authorities have issued measures providing capital and operational relief to mitigate the impact of COVID-19. The ECB estimated that banks using their capital buffers and changing the capital composition of their so-called pillar 2 requirement will free up €120bn of capital, enough to support €1.8 trillion of additional lending.

However, in light of the significant demand for new lending volumes likely to arise over the coming months, the additional capacity provided by flexibility inherent in the capital framework might not be sufficient in the medium-term.

Euro area statistics already show a marked increase in corporate lending of EUR 122bn in March and EUR 75bn in April 2020. Further increases in bank balance sheets are also to be expected as corporates continue to draw down on their existing borrowing facilities.

As shown on pages 11 and 18, banks reported a sharp increase in RWA and exposure measure risks during 1Q20 on the back of higher corporate lending and higher market trading activity, supporting businesses to navigate the pandemic.

The CRR quick fix will complement supervisory measures to ensure that banks have sufficient capacity going forward, although this should be kept under review given the unprecedented scale of the present crisis.

CRR quick fix: content

The European Commission's "CRR Quick Fix" initiative has been approved by the ECON committee and endorsed by EU Ambassadors.

The main measures of this initiative include:

- Extension by two years of the transitional arrangements for the capital impact of IFRS 9;
- Temporary exclusion of Central Bank exposures from leverage risk exposure measure;
- Deferred application of the leverage ratio buffer by one year to January 2023 – in line with Basel recommendations;
- Banks will no longer be required to deduct certain software assets from their capital;
- The amount of unrealised gains or losses on public debt accumulated between 31 Dec 2022 and 31 Dec 2019 can be deducted from CET1 using the following factors; 1 (for 2020); 0.7 (for 2021) and 0.4 (for 2022);
- Alignment of minimum coverage requirements for non-performing loans guaranteed by the public sector with those guaranteed by official export credit agencies;
- Advanced application of SME and infrastructure supporting factors (application from date of text);
- Reintroduction of previous transitional arrangements of public financing of Member States (MS) via debt denominated in currency of another MS (non-Euro MS financing in Euros).

CRR quick fix: next steps

The European Parliament Plenary approved the initiative on 19 June.

The regulatory changes shall apply from the date of entry into force which is +1 day after publication in the EU Official Journal (OJ).

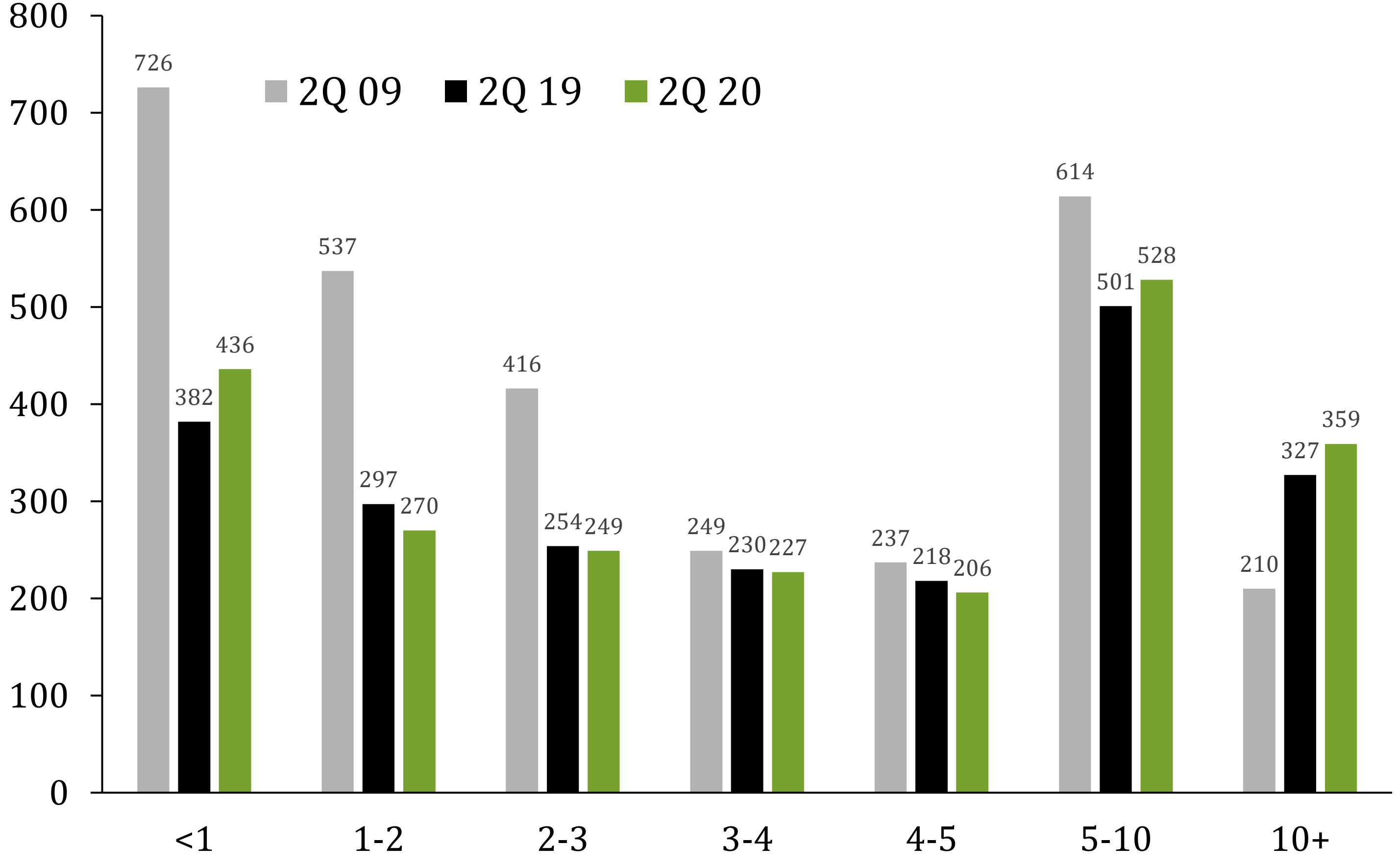
This should allow banks to make use of the package for their Q2 reporting.

The prudential treatment of software to be set out in the forthcoming EBA Regulatory Technical Standard (RTS) should be applicable from the date of entry into force of the RTS.

Funding structure

Maturity wall of EU banks' debt

Maturity profile of EU27 banks' outstanding debt securities (€ bn, maturity in years)



Source: ECB

EU banks maturity ladder

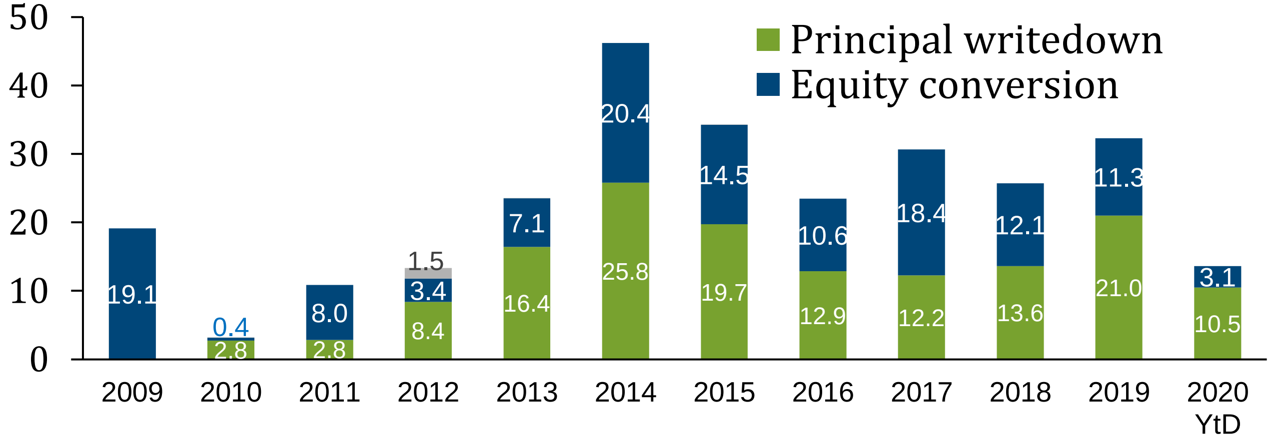
The proportion of short-term debt (<1Y maturity) short-term debt (<1Y maturity) has increased from 15% (2018) of total market debt to 19% in 2Q 2020.

Long-term debt (>10Y), however, has continued to increase in both relative and absolute terms over this period, increasing from €210bn (7%) in 2Q09 to €359bn (16%) in 2Q20.

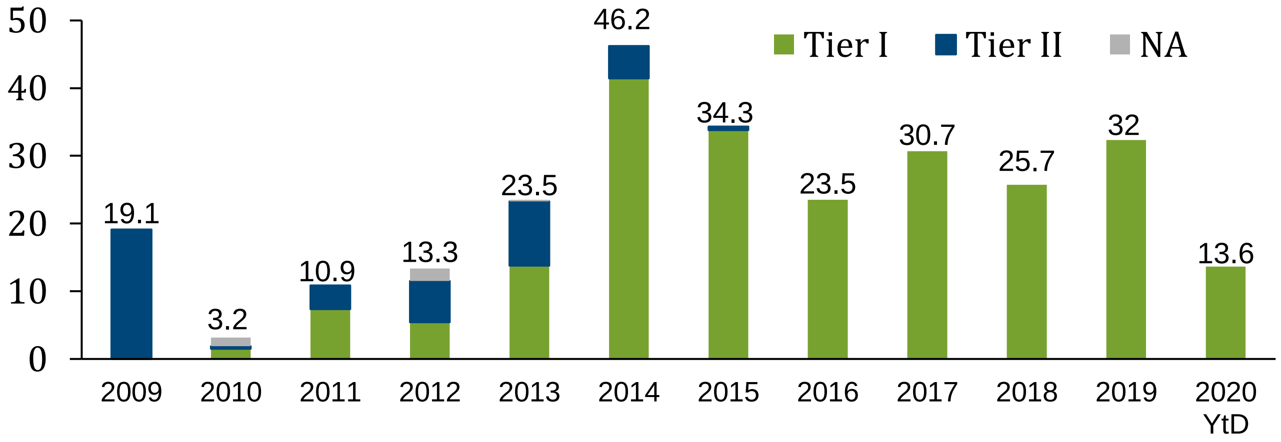
Contingent Convertibles (CoCo)

European CoCo issuance

CoCos by loss absorbing mechanism (€ bn)



CoCos by capital tiering (€ bn)



Source: Dealogic and Thomson Reuters

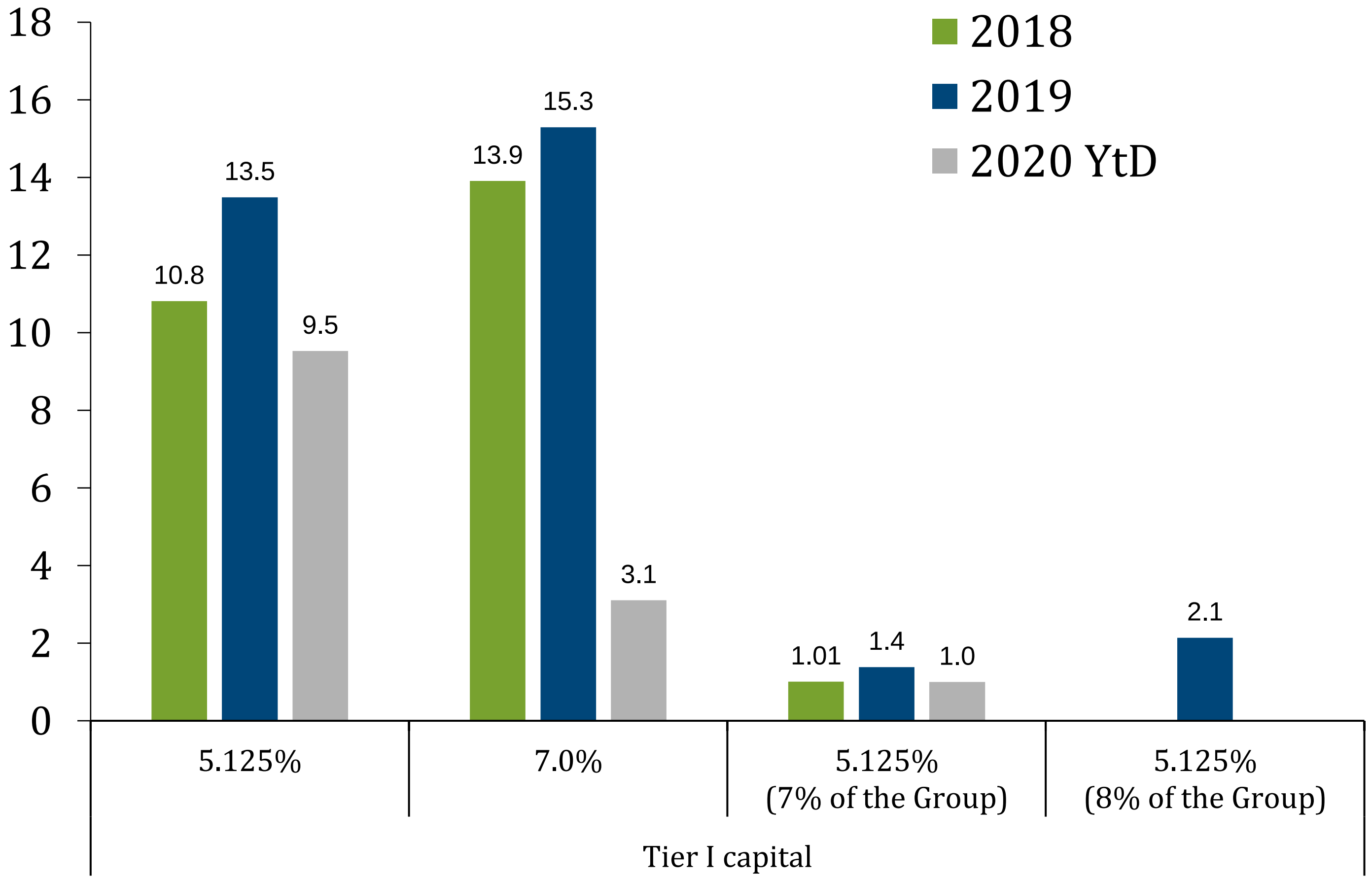
Decline in CoCo issuance

European banks have issued a total of 17 CoCo bonds during 2020, representing a total of €13.6 bn in proceeds (or 27% below the amount during the same period of 2019).

All the instruments issued in 2020YtD have been structured on the basis of Tier 1 performance.

CoCo issuance by trigger

CoCos by trigger (€ bn)



Source: Dealogic and Thomson Reuters

CoCos contingent on CET1 capital triggers

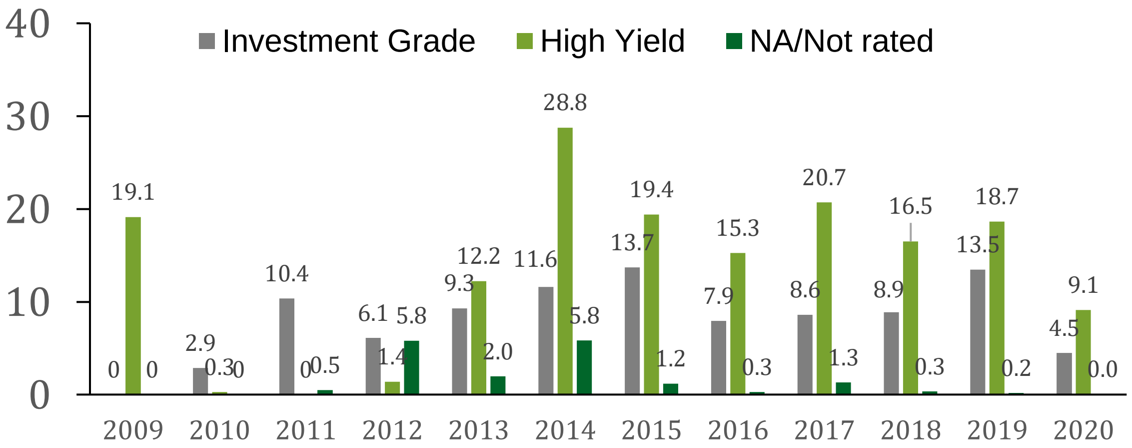
The majority of instruments issued so far in the year have been structured with triggers of 5.125%.

One instrument equivalent to €1bn where issued contingent on the bank's and the parent company's CET1 capital ratios.

CoCos by credit rating

2020 YtD CoCo issuance by credit rating (€ bn)

CoCo issuance by credit risk (€ bn)



Source: Dealogic. Credit rating at date of issuance

CoCo credit quality

CoCos issued during 2020 have been assessed with credit ratings of between BBB and B (or between Baa1 and B- in the Moody's scale).

33% of the total issuance value in 2020YtD has been rated at investment grade ratings (AAA to BBB-), 67% were rated at BB+ or below.

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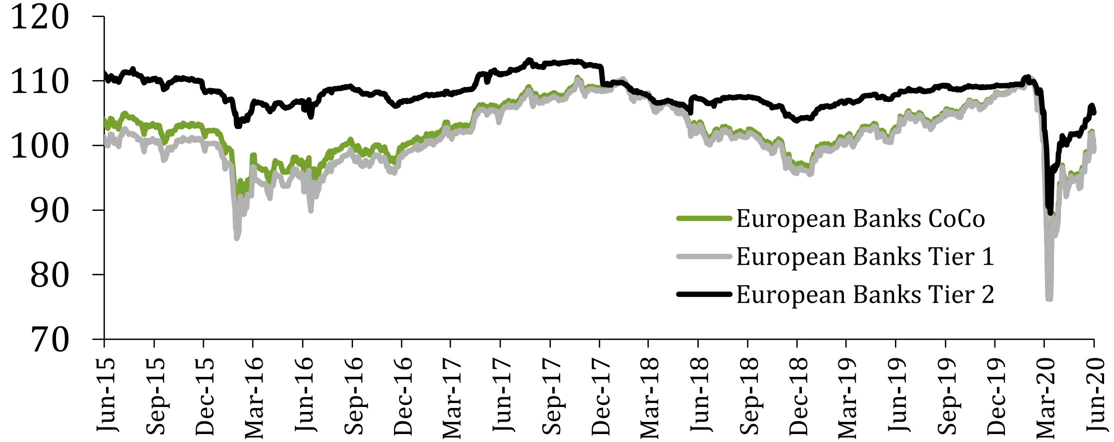
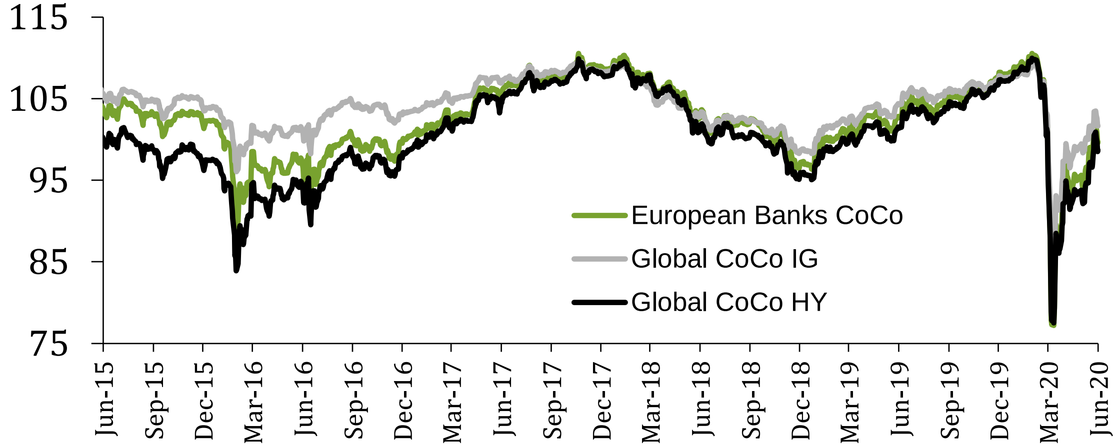
CoCo prices

CoCo prices by capital tiering



CoCo prices by credit risk



Source: Barclays capital

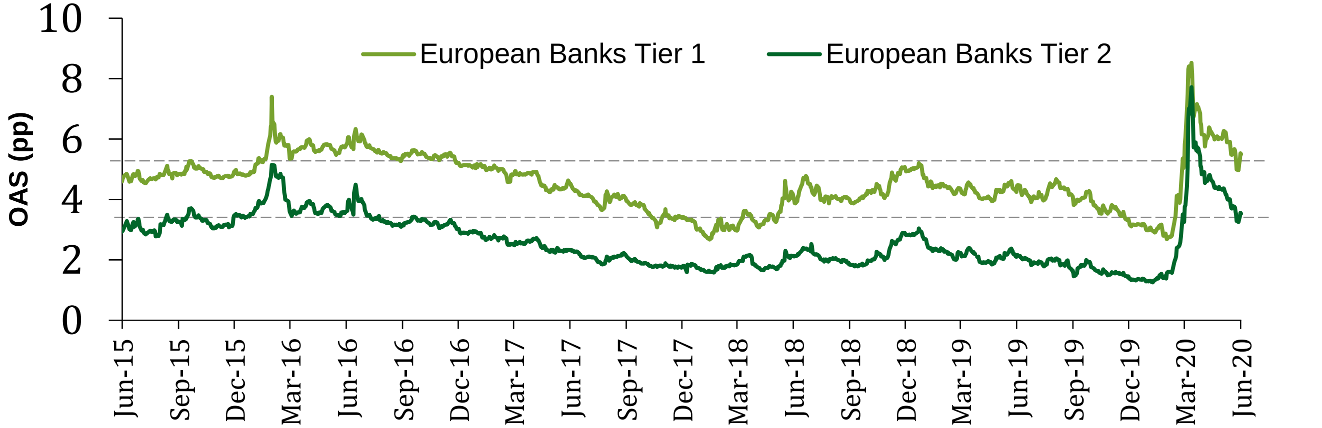
V-shaped CoCo prices recovery?

European banks CoCo prices have rapidly recovered (albeit partially) from the sharp losses observed in March following the outbreak of COVID-19.

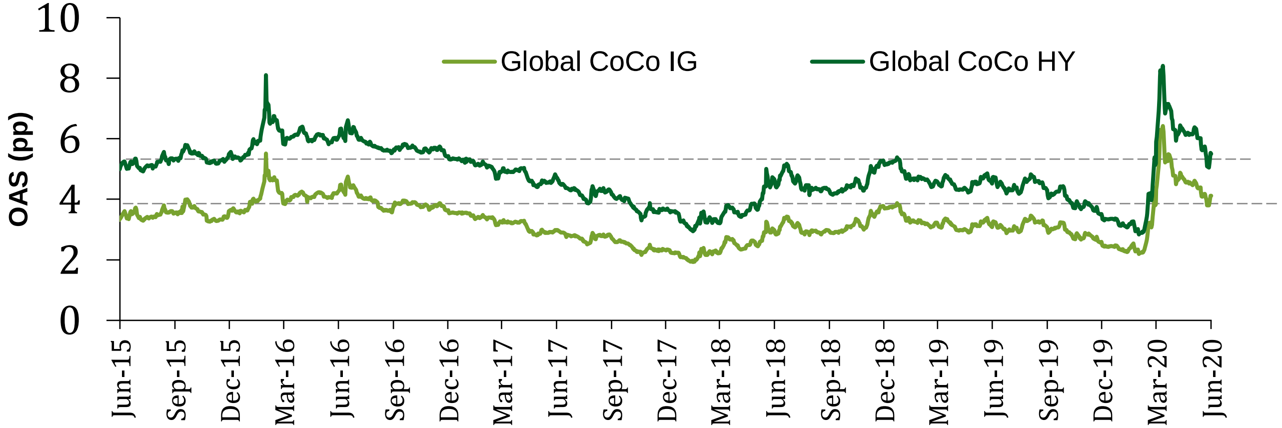
The largest price declines were observed in CoCos contingent on T1 performance which as of Mid-June report a 8% YtD decline (from a 18%YtD decline in Mid-March).

CoCo risk premia

CoCo option-adjusted spreads (OAS) by capital tiering (%)



CoCo option-adjusted spreads (OAS) by credit risk (%)



Source: Barclays capital

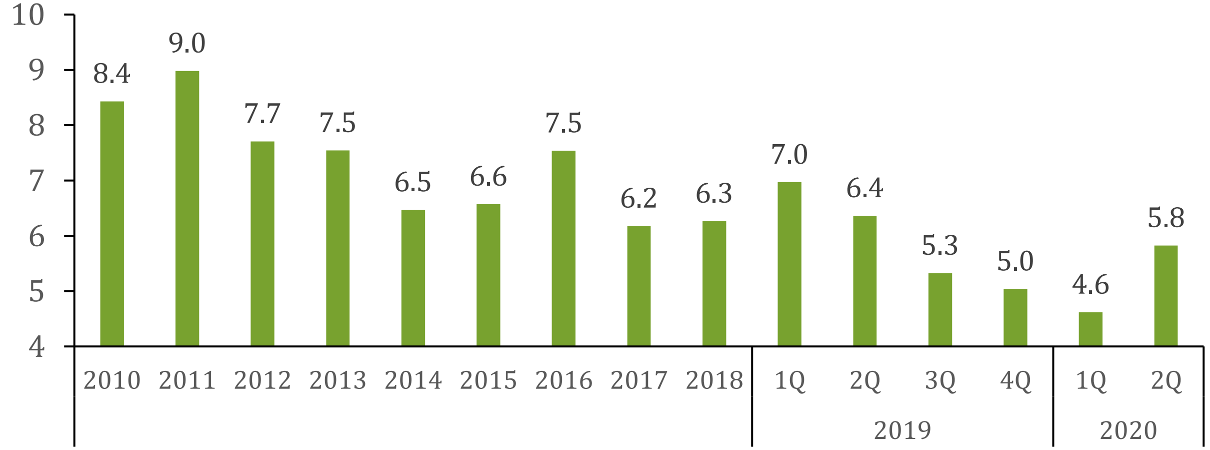
CoCo risk premia partially reverses sharp increase

AT1 option-adjusted spreads (OAS) have accumulated an increase of more than 200bps from the record low levels observed at the of 2019.

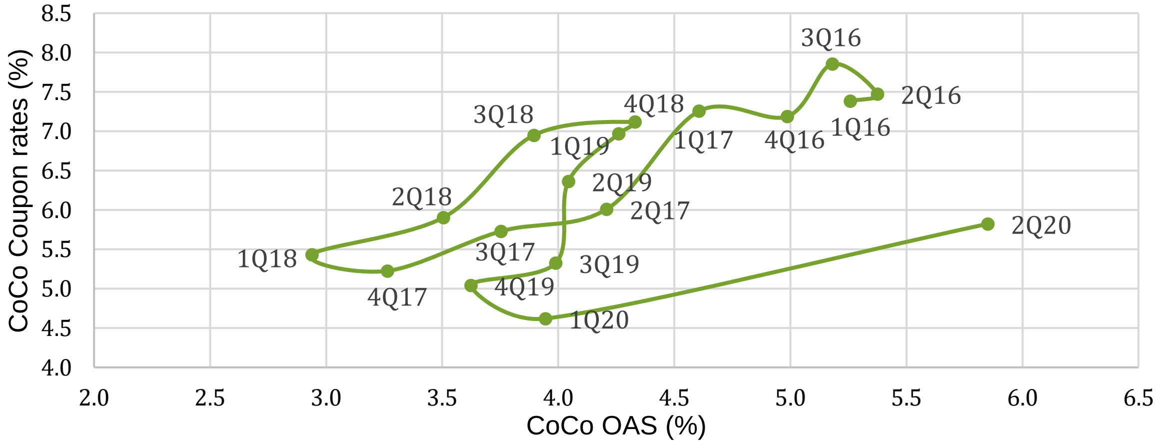
By credit risk, the largest increase in risk premia has been observed in High Yield CoCo instruments with an increase of 215bps.

CoCo risk premia

Weighted average coupons of fixed-rate CoCos (%)



CoCo risk premia (OAS) and coupon rates of new issues



Source: Barclays capital

CoCo borrowing costs rise in tandem with risk premia

Coupon rates of newly originated CoCos increased to 5.8% in Q2, on the back of a c200bps increase in CoCo risk premia.

Only four instruments have been issued so far in 2Q2020 of which 3 were issued in June when spreads had partially stabilised following the abrupt increase in mid-March.

Recently issued CoCos

Pricing Date	Issuer	Tier Capital	Deal Total Value (Euro)	Trigger	Conversion mechanism	Issue Rate	Effective Rating (Launch)	Maturity	Coupon
09-Jan-20	Santander	Tier I	1,500,000,000	5.125%	Equity conversion	Fixed rate	BB+	Perpetual	4.375
13-Jan-20	UBI Banca	Tier I	400,000,000	5.125%	writedown	Fixed rate	B+	Perpetual	5.875
14-Jan-20	Banco BPM SpA	Tier I	400,000,000	5.125%	writedown	Fixed rate	B-	Perpetual	6.125
16-Jan-20	Credit Suisse Group AG	Tier I	897,545,214	7.000%	writedown	Fixed rate	BB	Perpetual	5.1
06-Feb-20	Luzerner Kantonalbank AG	Tier I	336,385,722	5.125%	writedown	Fixed rate	BBB	Perpetual	1.5
11-Feb-20	Deutsche Bank	Tier I	1,143,229,405	5.125%	writedown	Fixed rate	B+	Perpetual	6
12-Feb-20	UniCredit	Tier I	1,250,000,000	5.125%	writedown	Fixed rate	BB-	Perpetual	3.875
19-Feb-20	Hoist Finance AB	Tier I	40,000,000	5.125%	writedown	Fixed rate	Not rated	Perpetual	7.75
19-Feb-20	BNP Paribas SA	Tier I	1,617,823,796	5.125%	writedown	Fixed rate	BBB-	Perpetual	4.5
19-Feb-20	Arion Banki	Tier I	92,447,074	5.125%	Equity conversion	Fixed rate	BB	Perpetual	6.25
20-Feb-20	Intesa Sanpaolo SpA	Tier I	750,000,000	5.125%	writedown	Fixed rate	BB-	Perpetual	3.75
20-Feb-20	Intesa Sanpaolo SpA	Tier I	750,000,000	5.125%	writedown	Fixed rate	BB-	Perpetual	4.125
24-Feb-20	ING Groep NV	Tier I	691,467,294	7.000%	Equity conversion	Fixed rate	BBB-	Perpetual	4.875
14-May-20	Bank of Ireland	Tier I	675,000,000	7.000%	writedown	Fixed rate	BB	Perpetual	7.5
08-Jun-20	Commerzbank	Tier I	1,250,000,000	5.125%	writedown	Fixed rate	BB	Perpetual	6.125
08-Jun-20	ABN AMRO Bank	Tier I	1,000,000,000	5.125% (7% of the Group)	writedown	Fixed rate	BBB-	Perpetual	4.375
10-Jun-20	Nationwide Building Society	Tier I	843,170,320	7.000%	Equity conversion	Fixed rate	BBB-	Perpetual	5.75

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