

1Q 2021

Prudential Data Report

European GSIBs prudential
capital and liquidity



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This report collates timely information on European GSIBs' prudential capital*, leverage, loss-absorption capacity and liquidity ratios with updated information as at 31 March 2021.

It also illustrates the recent performance of the debt and contingent convertibles (CoCo) markets for banks in Europe as at May 2021.

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 2020 FSB GSIB list. EU27 and UK

European GSIBs capital and liquidity ratios

		2013	2019	2020	Q1 2021
CET1 ratio (end-point)		10.0%	13.6%	14.4%	14.4%
T1 ratio (end-point)		11.3%	15.3%	16.2%	16.2%
Leverage ratio (end-point)		3.6%	4.8%	5.2%	4.9%
Liquidity Coverage Ratio (LCR)		-	139.5%	153.2%	153.2%
TLAC ratio	% RWAs	-	26.1%	27.9%	27.8%
	% exposure measure	-	8.4%	9.0%	8.6%

Source: European GSIBs earnings reports, EBA and Dealogic

*According to the 2020 FSB GSIB list. EU27 and the UK

European systemically important banks* (GSIBs) continued to comply with the minimum required solvency and liquidity ratios to support businesses navigate the economic recovery.

Among the main findings of this report:

- **European GSIBs end-point CET1 ratio slightly increased from 14.40% in 4Q20, to 14.44% in 1Q21.**
- **End-point Tier 1 ratios slightly increased from 16.20% in 4Q20, to 16.24% in 1Q21.**
- **End-point Leverage ratios (LR) decreased from 5.2% in 4Q20 to 4.9% in 1Q21.**

- **Liquidity Coverage Ratio (LCR) slightly decreased from 153.23% in 4Q20 to 153.17% in 1Q21.**
- **TLAC ratio decreased to 27.79% relative to RWAs (from 27.89% in 4Q20) and to 8.57% as a percentage of leverage exposure (from 9.02% in 4Q20).**

External capital raising of €12.6bn as of May 2021

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

European banks have issued a total of EUR 10.1bn in AT1 CoCos as of May 2021, of which EUR 6.3bn were issued by European GSIBs.

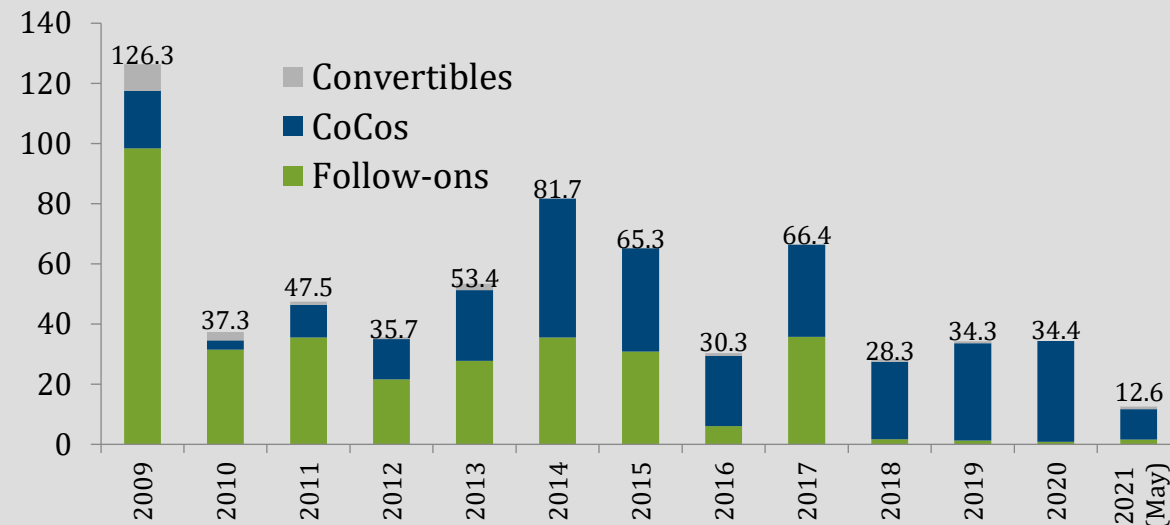
CoCo borrowing costs reach record low

The market conditions for AT1 CoCos significantly contrasts with those observed a year ago during the initial outbreak of the COVID-19 pandemic.

In the first months of the second quarter of 2021, borrowing costs for AT1 fixed coupon instruments reached a record low reflected with an average coupon of 4.2% for newly originated CoCos. See bottom chart.

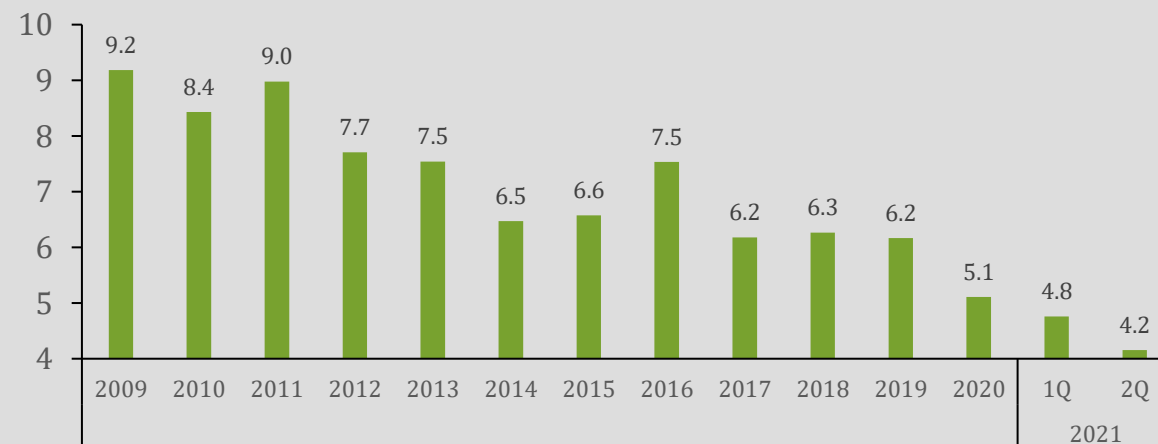
With the record-low borrowing costs, it is expected that the CoCo primary market will continue to accelerate. Other European banks are expected to re-enter the AT1 market in coming months like the Greek bank [Piraeus](#).

Fresh capital raised by European banks (€bn)



Source: Dealogic

Weighted average coupons for recently issued CoCos (%)



Source: Dealogic

Exceptional circumstances for leverage ratio relief

The Box on pages 21-24 discusses the importance of extending the period of exceptional circumstances for the temporary exclusion of certain central bank exposures from the leverage ratio(LR).

The size of the government bond issuance and the ECB balance sheet has material implications for the banking system, which is evidenced in the significant growth of excess reserves coinciding with the expansion of the ECB balance sheet.

Since the beginning of the pandemic, monetary financial institutions' deposits at the Eurosystem have increased from €4,147 bn to €6,576 bn in February 2021 and €7,064 bn in April 2021.

The Q1 2021 pro-forma submissions by the EU GSIBs show that the average benefit from the LR exemption is 50 basis points.

The average benefit has not materially changed between the Q4 2020 and Q1 2021 submissions as observed on the right-hand chart.

Given the continued economic strain, quantitative easing measures and extraordinary levels of Member States and EU bond issuance, **it would be premature to exit the 'exceptional circumstances' in June 2021.**

The LR could very quickly become the front-stop for large wholesale banks, limiting their ability to support bond issuance and repo finance and potentially even limit deposit taking activity.

Benefit from the LR exemption of central bank deposits by EU GSIB (bps)



Source: European GSIBs earnings reports. Benefit didn't change for B2 and B4

Major upcoming regulatory, legislative and policy initiatives

Implementation of finalised Basel III agreement in the EU

The European Commission will continue to work towards the EU's implementation of the Basel III agreement which 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 in late Q3 2021.

Other upcoming initiatives

The Basel committee will continue addressing a targeted set of policy initiatives that require finalisation. This includes work related to 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.

The Basel Committee on Banking Supervision (BCBS) is expected to launch in July 2021 an interim report on lessons learnt from the COVID-19 pandemic.

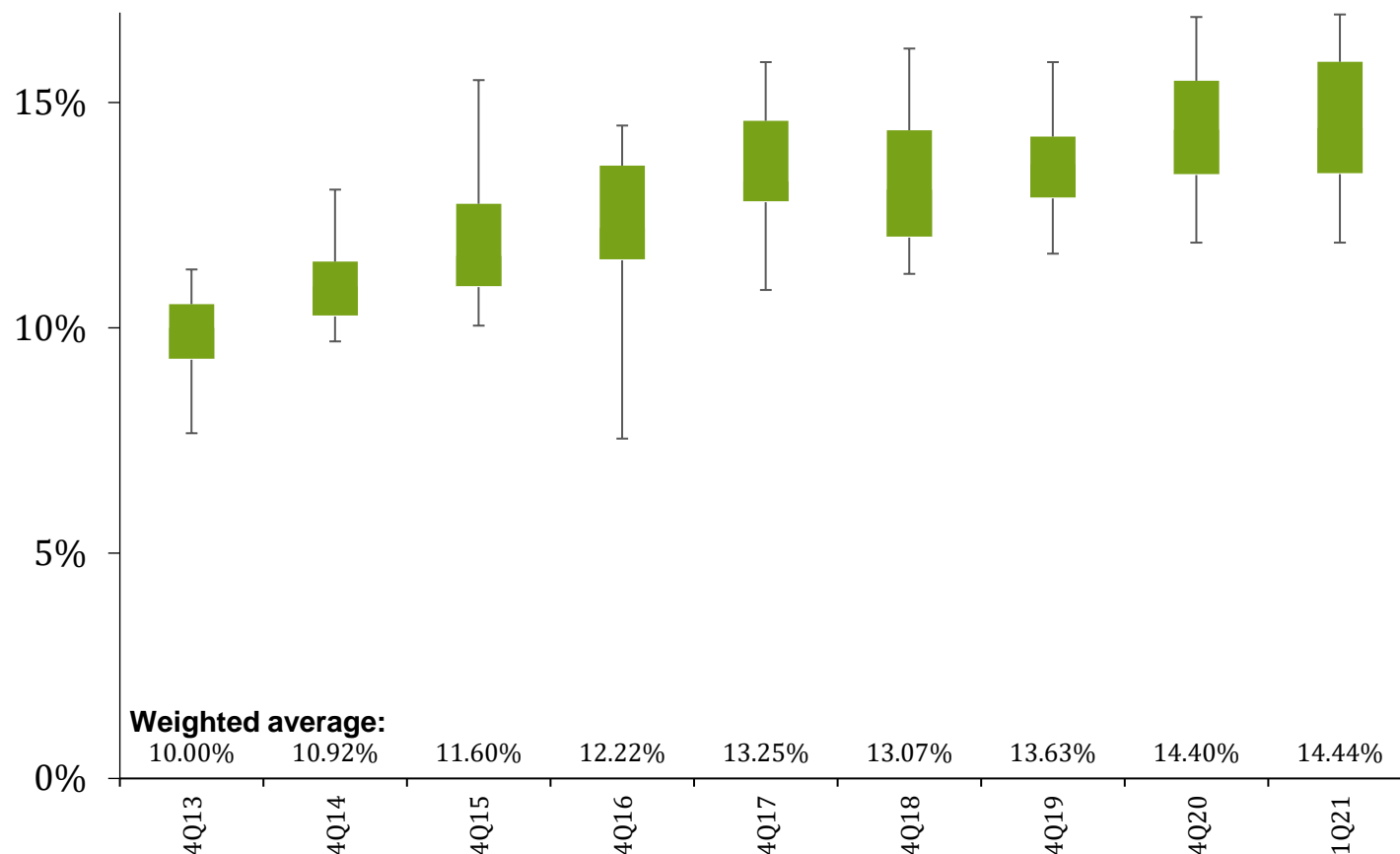
The Financial Stability Board (FSB) is currently undertaking work evaluating the Non-banking Financial Institutions (NBFI) vulnerabilities in addition to assessing too-big-to-fail reforms and lessons learnt following the COVID-19 pandemic.

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 end-point ratio



Source: European GSIBs earnings reports

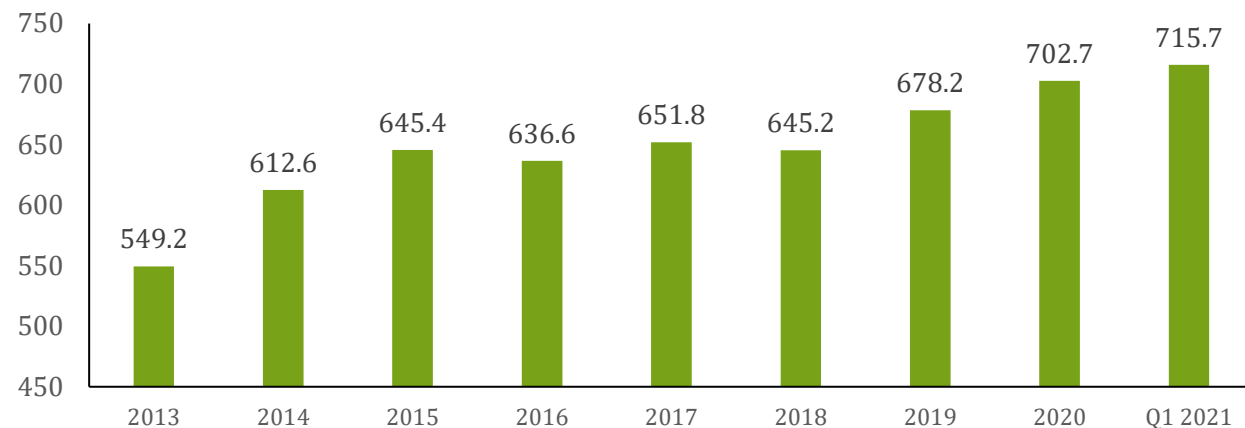
Slight increase in CET1 ratio

European GSIBs reported a new increase in CET1 ratio equivalent to 4bps.

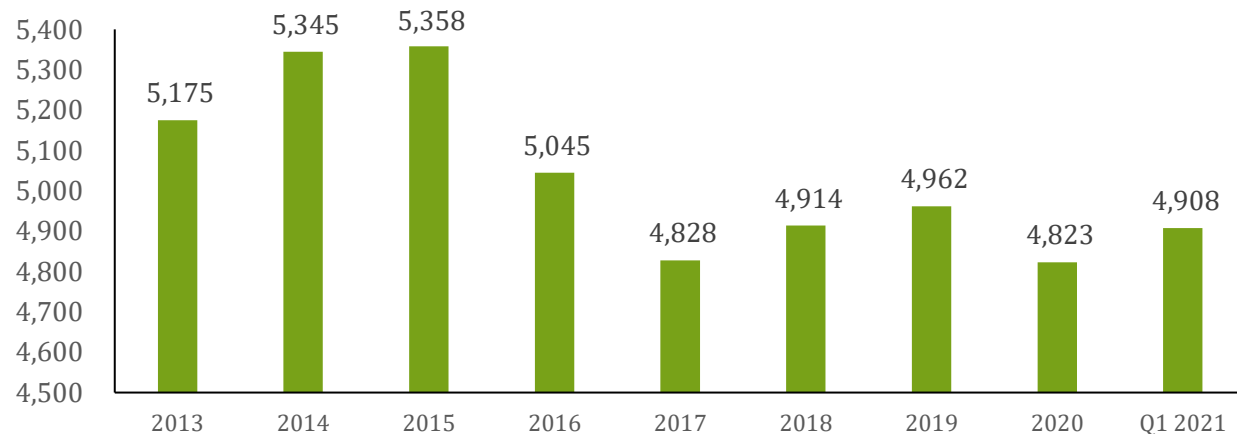
The quarterly improvement in capital buffers was driven by a 1.7% QoQ increase in RWAs and a 2% QoQ increase in CET1 capital.

5 of the 11 European GSIBs reported a quarterly increase in their CET1 ratios. 3 banks reported no change in their CET1 ratio, and the remaining 3 banks reported a quarterly decline.

CET1 capital (€bn)



RWA (€bn)



Source: European GSIBs earnings reports.

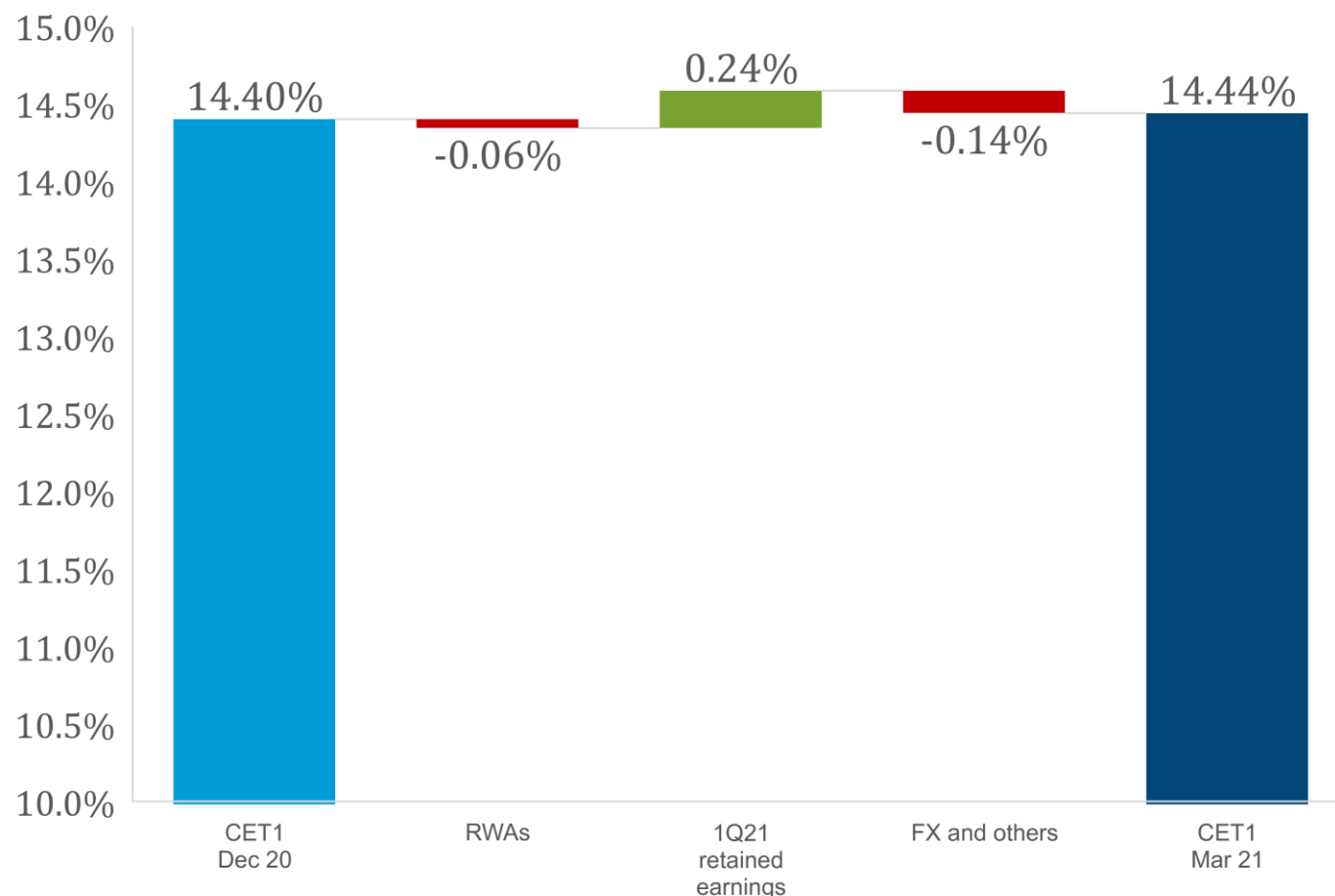
Robust accumulation of capital buffers and balance sheet management

EU GSIBs increased their reported CET1 capital to €715.7 bn (+2.0% QoQ)

RWAs increased to €4.9tn on the back of higher market risk RWAs which increased as proportion of total RWAs from 4.5% in 4Q20 to 4.6% in 1Q21 (predominantly from trading activities).

Going forward, however, it is expected that there will be a further increase in RWAs from regulatory changes over 2022-23, including from the impact of Basel 3 reform, amendments to CRR and changes to internal models under the IRB approach, before any mitigating actions.

Change in CET1 ratio by components in Q1 2021 (%)



Source: European GSIBs earnings reports

CET1 ratio increase by components

Earnings retention contributed 24 bps to the 4bps increase in CET1 during the quarter.

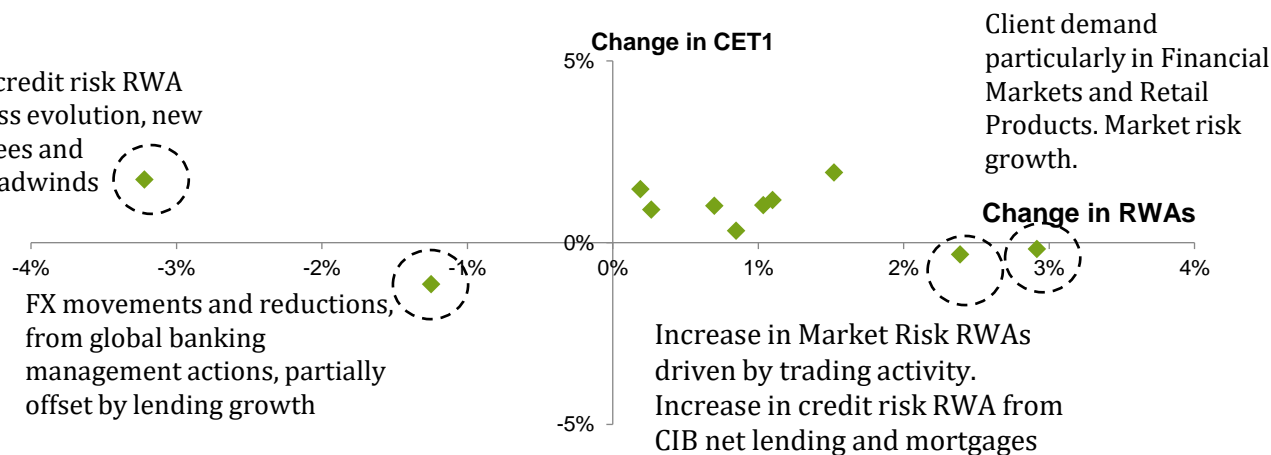
The €85bn increase in RWAs (as observed on page 10) contributed to a decline in CET1 ratio of 6bps.

Other bank specific factors and FX movements negatively contributed in 14bps in CET ratio. These bank-specific factors are detailed on page 12.

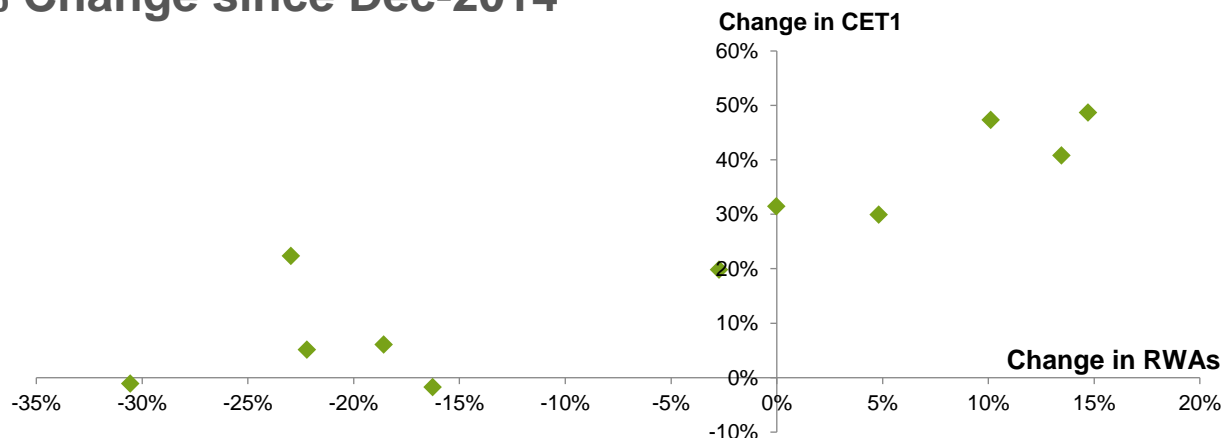
Change in CET1 capital and RWAs by banks

% change QoQ

Reduction in credit risk RWA due to business evolution, new state guarantees and regulatory headwinds



% Change since Dec-2014



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

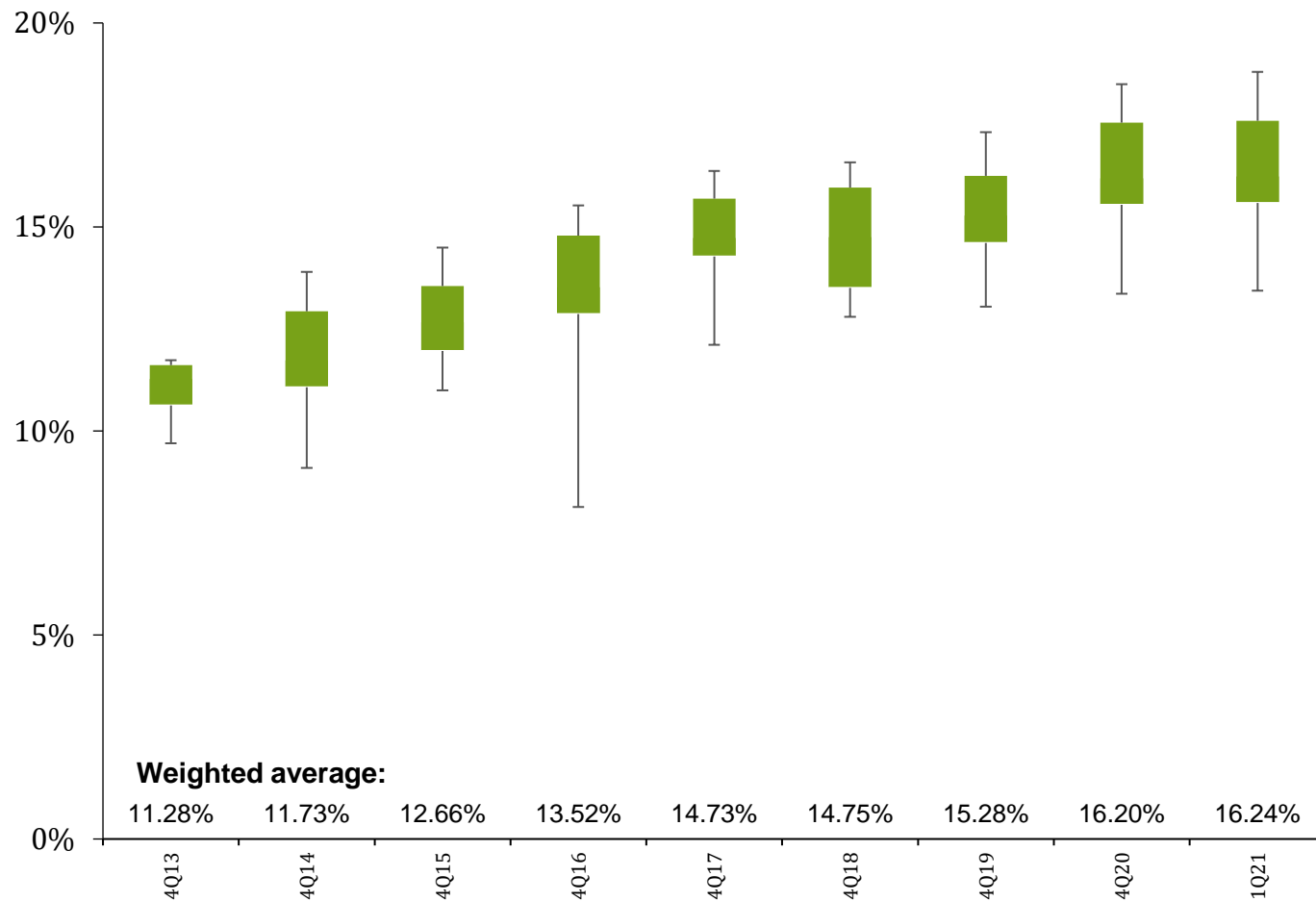
CET1 and RWA variations by banks

Most banks reported an increase in RWAs during the year, predominantly due to growth in market risk RWAs.

7 of the 11 banks increased their CET1 capital and RWAs during the quarter.

2 of the 11 banks reported a decline in RWAs during the quarter due to bank-specific factors as noted on the top chart including FX translations, management actions, and origination of new state loan guarantees.

End-point



Source: European GSIBs earnings reports

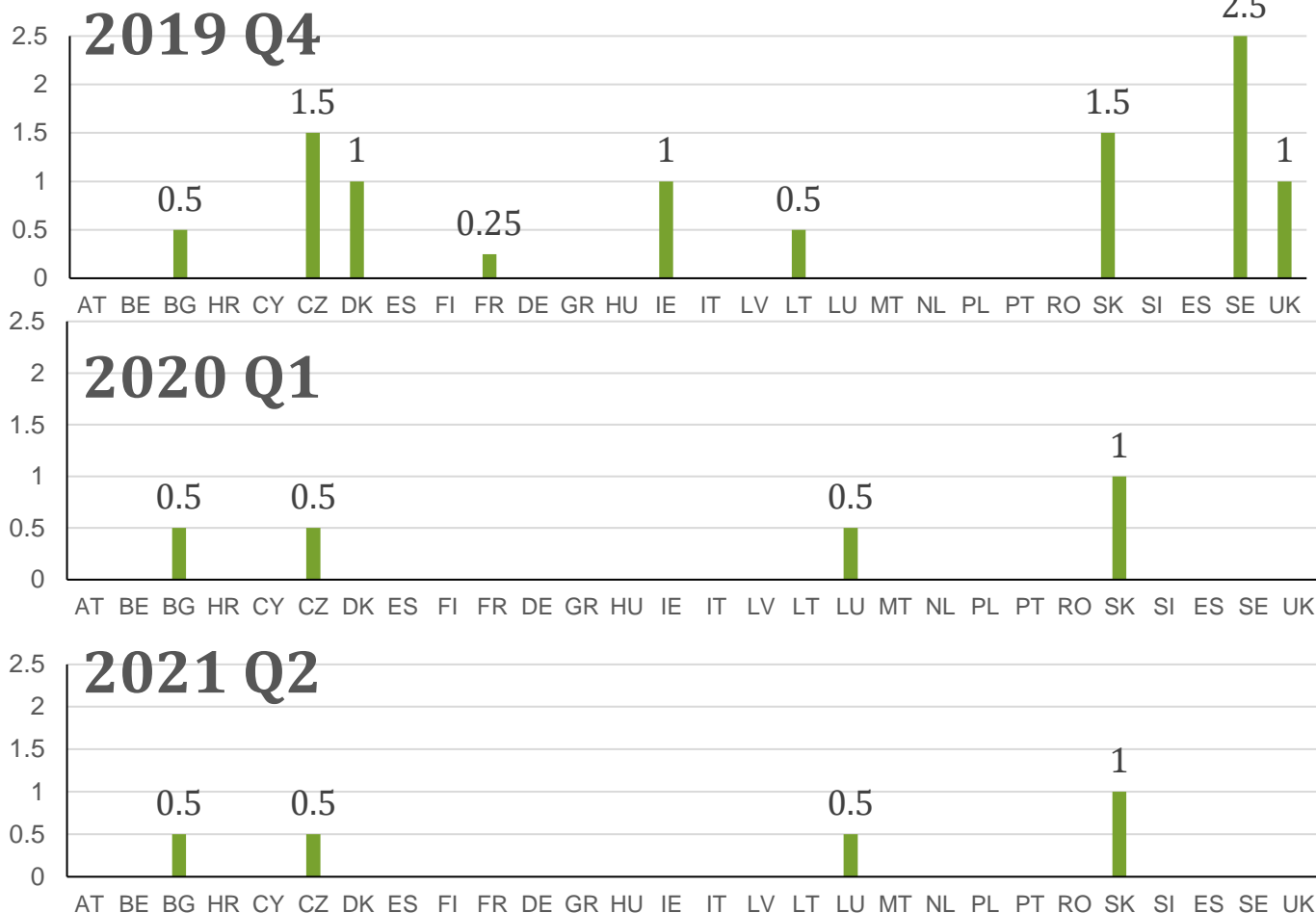
4bps increase in T1 capital ratio during 1Q21

End-point T1 ratios increased to 16.24% in 1Q21 from 16.20% in 4Q20.

AT1 capital grew at a similar proportion as RWAs on the back of newly originated AT1 CoCo instruments by European GSIBs accumulating a total of €2.0bn as of March 2021 and €6.3bn as of May 2021. See further details on pages 28-30.

Countercyclical capital buffer (CCyB)

CCyB rates by jurisdiction (%)



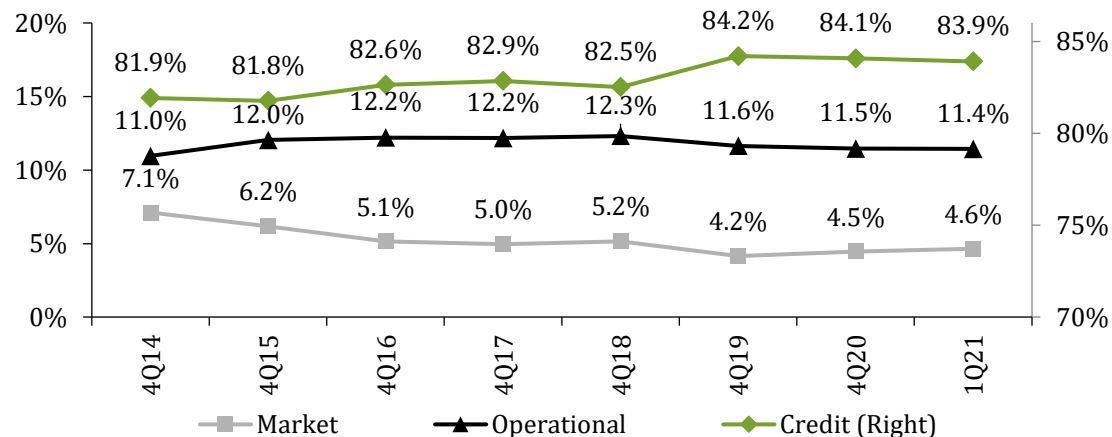
Source: ESRB. Exemptions are provided for certain small and medium-sized investment firms from holding a CCyB in the following countries: Croatia, Cyprus, Luxembourg, Malta, Poland, Slovakia, Sweden and the United Kingdom

Most national macroprudential authorities have kept the CCyB rate to zero as a measure to support the financial recovery from the COVID-19 outbreak.

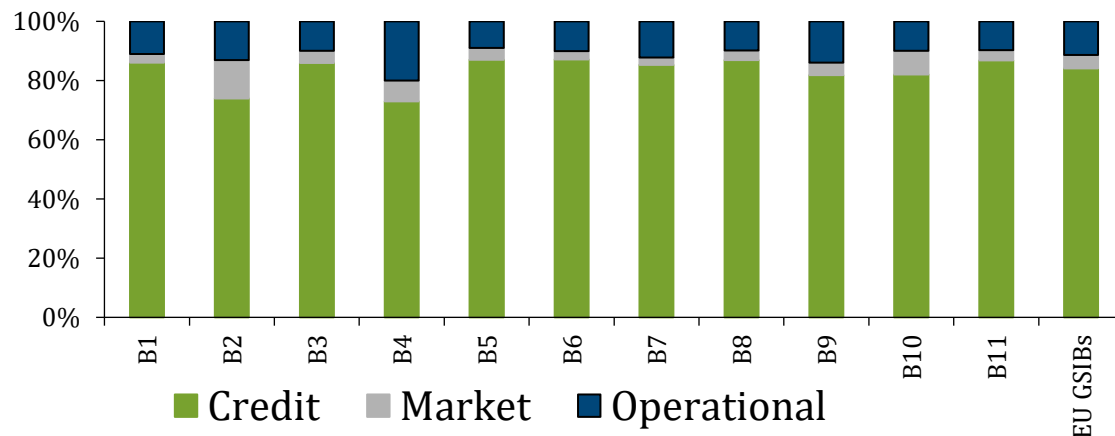
Only one national macroprudential authority increased the CCyB during 1Q21 (Luxembourg), from 0.25% to 0.5%.

No further changes have been announced during 2Q21.

RWAs by risks



RWAs by risks and GSIB



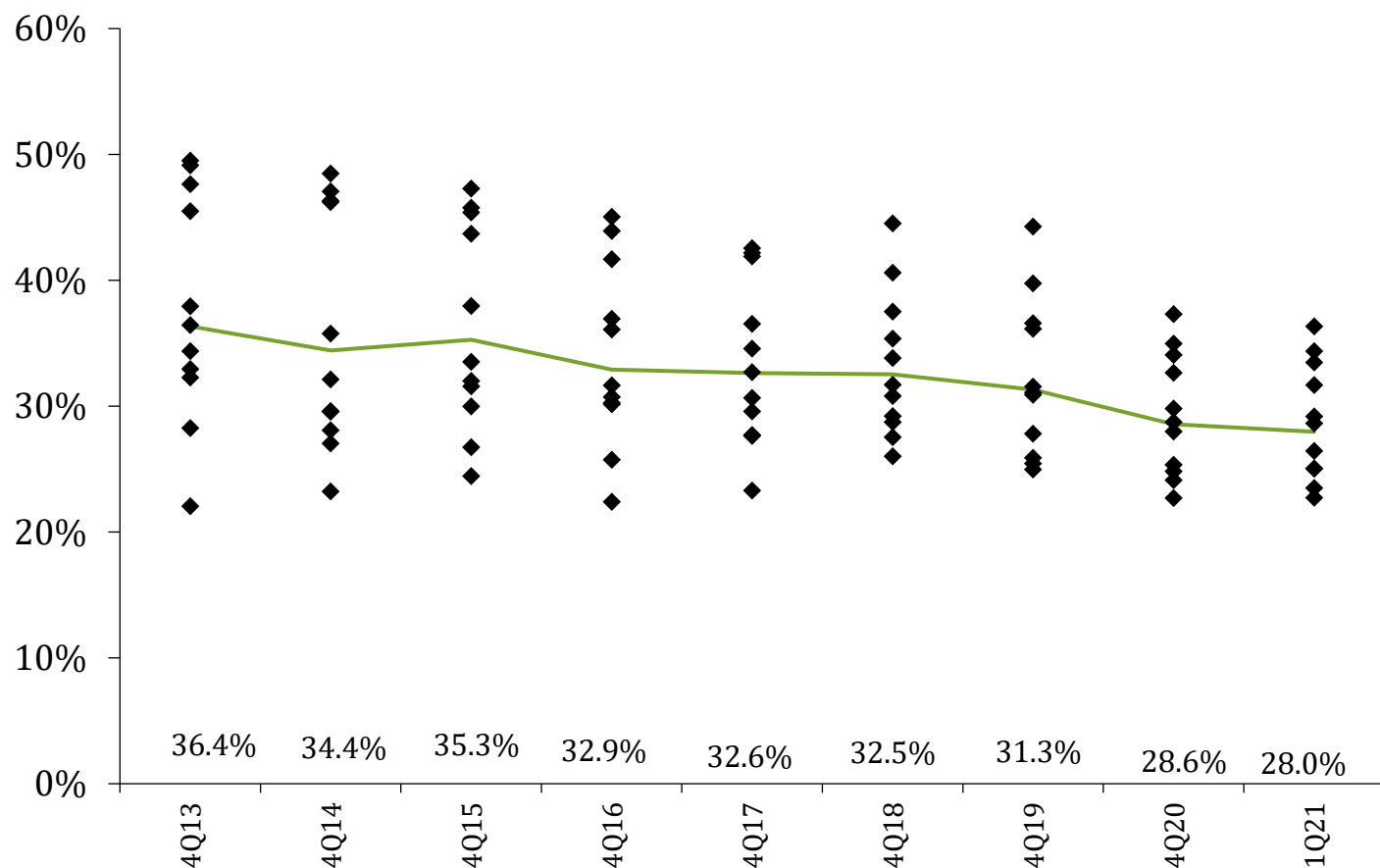
Source: European GSIBs earnings reports

RWA composition stable against end-of-year 2020 distribution

Market risk RWAs continued to increase as a proportion of total RWAs, reversing the declining trend observed in 2014-19.

Operational risks slightly decreased from 11.5% in 4Q20 to 11.4% in 1Q21. This, however, continues the declining trend observed since 4Q18 when operational risks RWAs reached a record high as a proportion of total RWAs of 12.3%

RWA densities: RWA/total assets



Source: European GSIBs earnings reports

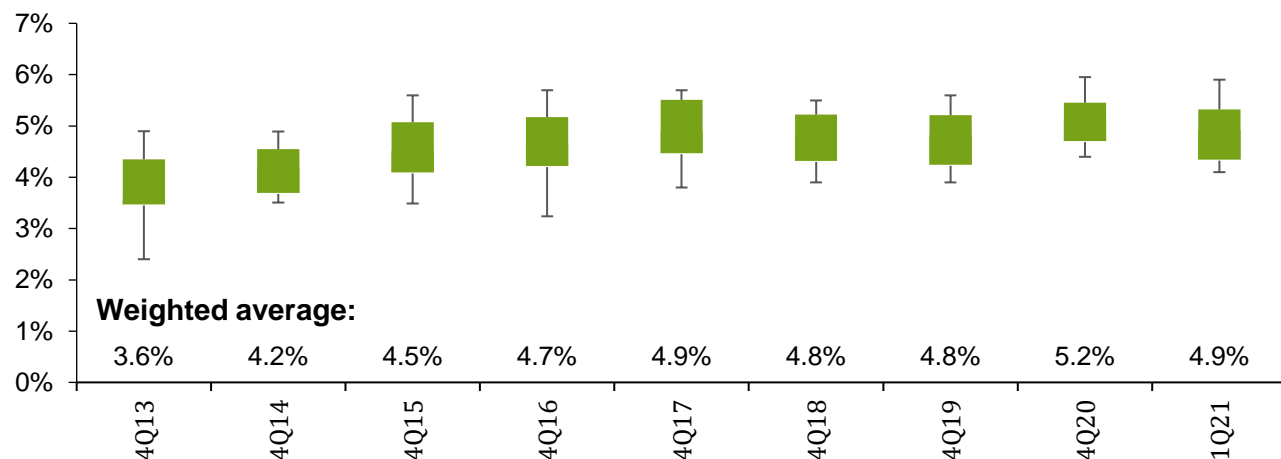
28% average RWA density reaching record low

RWA density declined to the lowest end-of-quarter ratio in records (since records began in 2013).

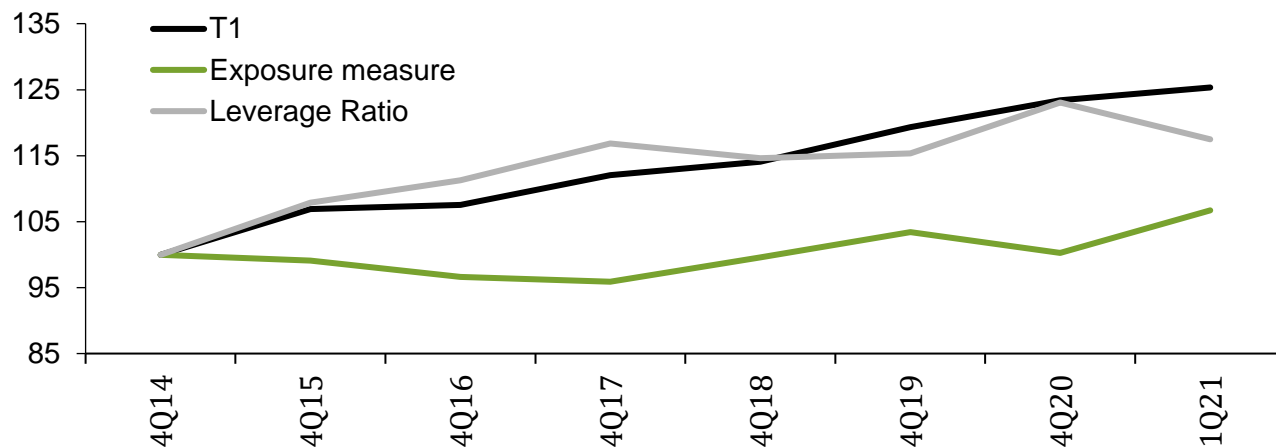
The decline can be in part attributed to the regulatory dispensation as a result of the COVID-19 crisis, which include the introduction of SME and infrastructure supporting factors.

The variation in RWA densities between banks also reached a record low, with a gap of 13pps between the banks with the highest and lowest density ratios (vs. a gap of 28pps in 2013).

Leverage ratio: end-point



Cumulative change of T1 capital, exposure measure and LR



Source: European GSIBs earnings reports

Quarterly decline in Leverage Ratio (LR)

The weighted average leverage ratio stood at 4.92% in 1Q21, 23bp below the ratio observed in 4Q20 (5.15%).

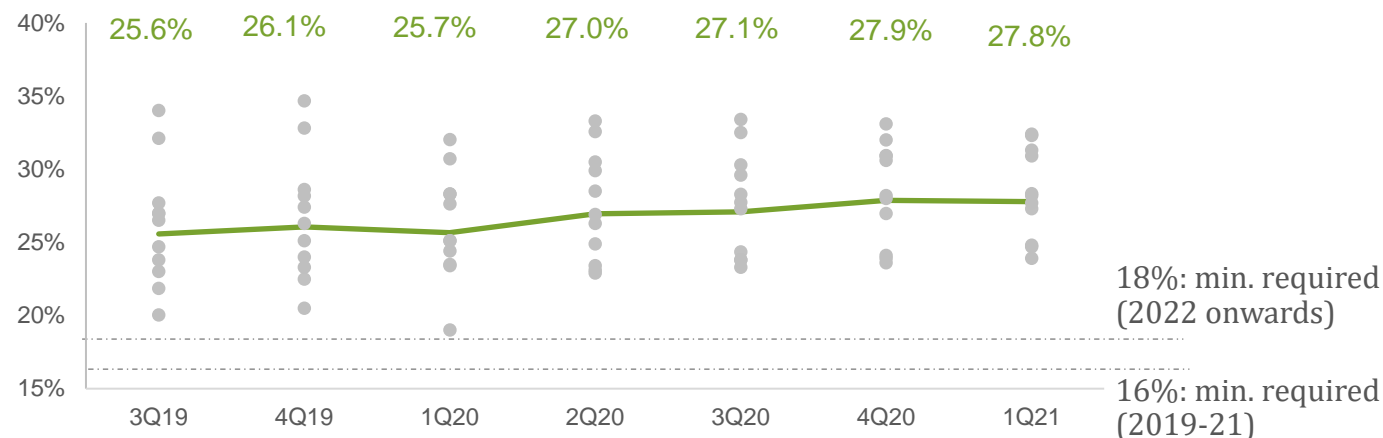
The decline was driven by an increase in T1 capital (2% QoQ) fully offset by a large increase in exposure measure of 7% QoQ.

The increase in exposure measure is driven by seasonal factors and business growth reflected in higher total assets (4% QoQ) and RWAs (1.7% QoQ).

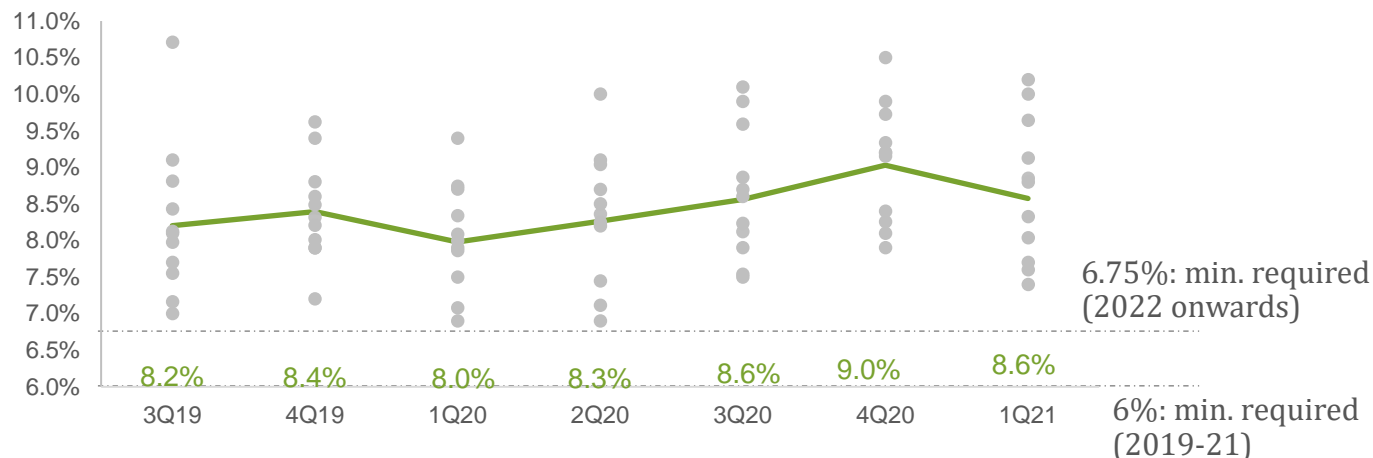
The exposure measure growth is notwithstanding the ongoing regulatory relief which exempts deposits with the Eurosystem for the calculation of the leverage exposure measure. See for further details the box on pages 21-24.

The weighted average ratio of 4.92% is comparable with a global minimum standard of 3% according to the Basel III accord.

TLAC ratio (as % of RWAs)



TLAC ratio (as % of exposure measure)



Source: European GSIb 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

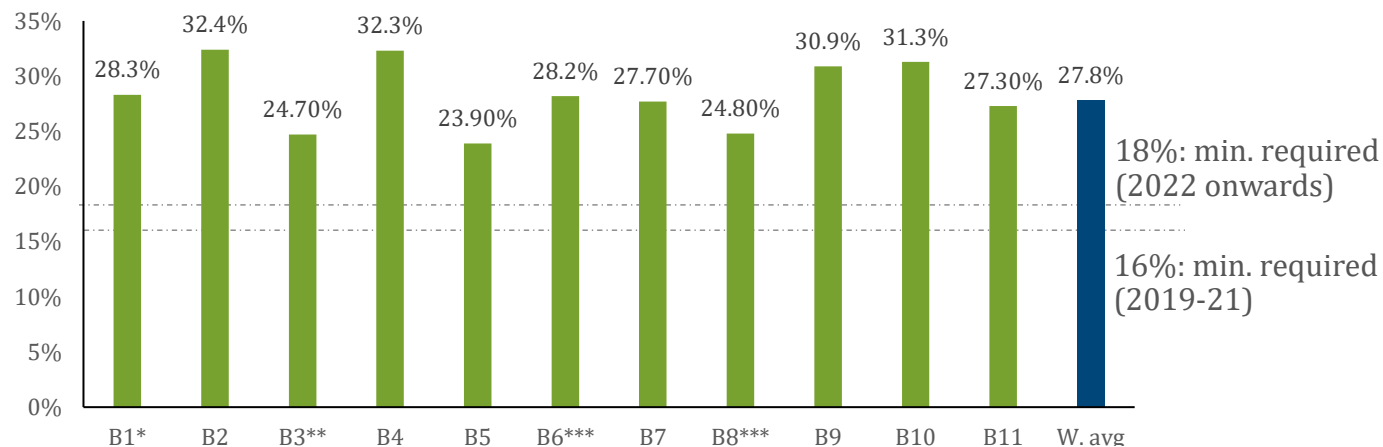
European banks increase their TLAC buffers

TLAC ratios measured relative to RWAs slightly decreased from 27.9% in 4Q20 to 27.8% in 1Q21.

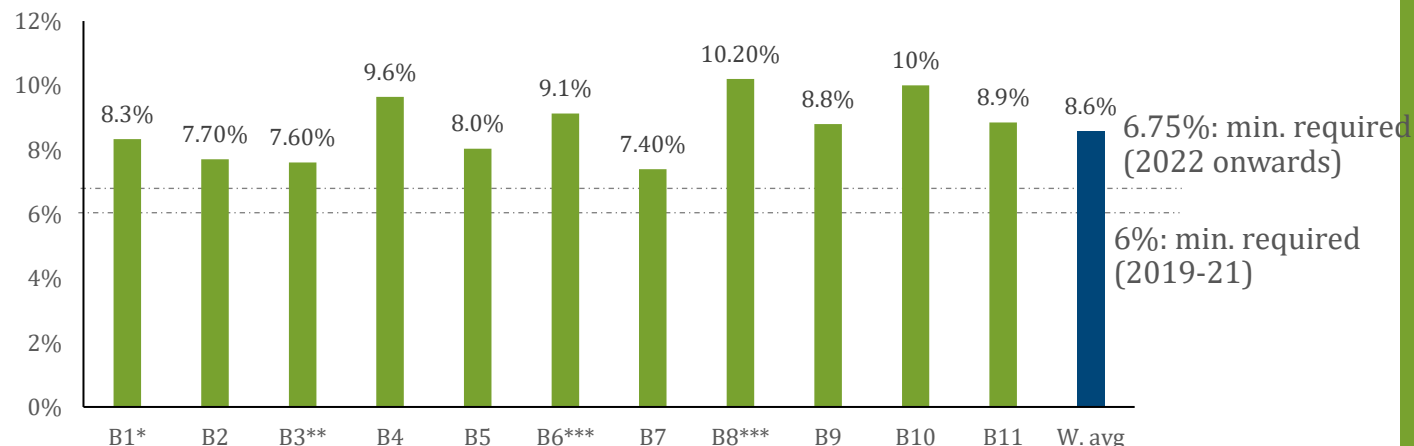
TLAC ratios measured as a percentage of exposure measure decreased from 9.0% in 4Q20 to 8.6% in 1Q21 but above the ratio observed in 1Q20 (8.0%).

In addition to the continued increase in capital buffers, the temporary exemption of central bank deposits for the calculation of the exposure measure continues to contribute to the year-on-year increase in the TLAC ratio calculated as a percentage of exposure measure.

TLAC ratio (as % of RWAs)



TLAC ratio (as % of exposure measure)



Source: European 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

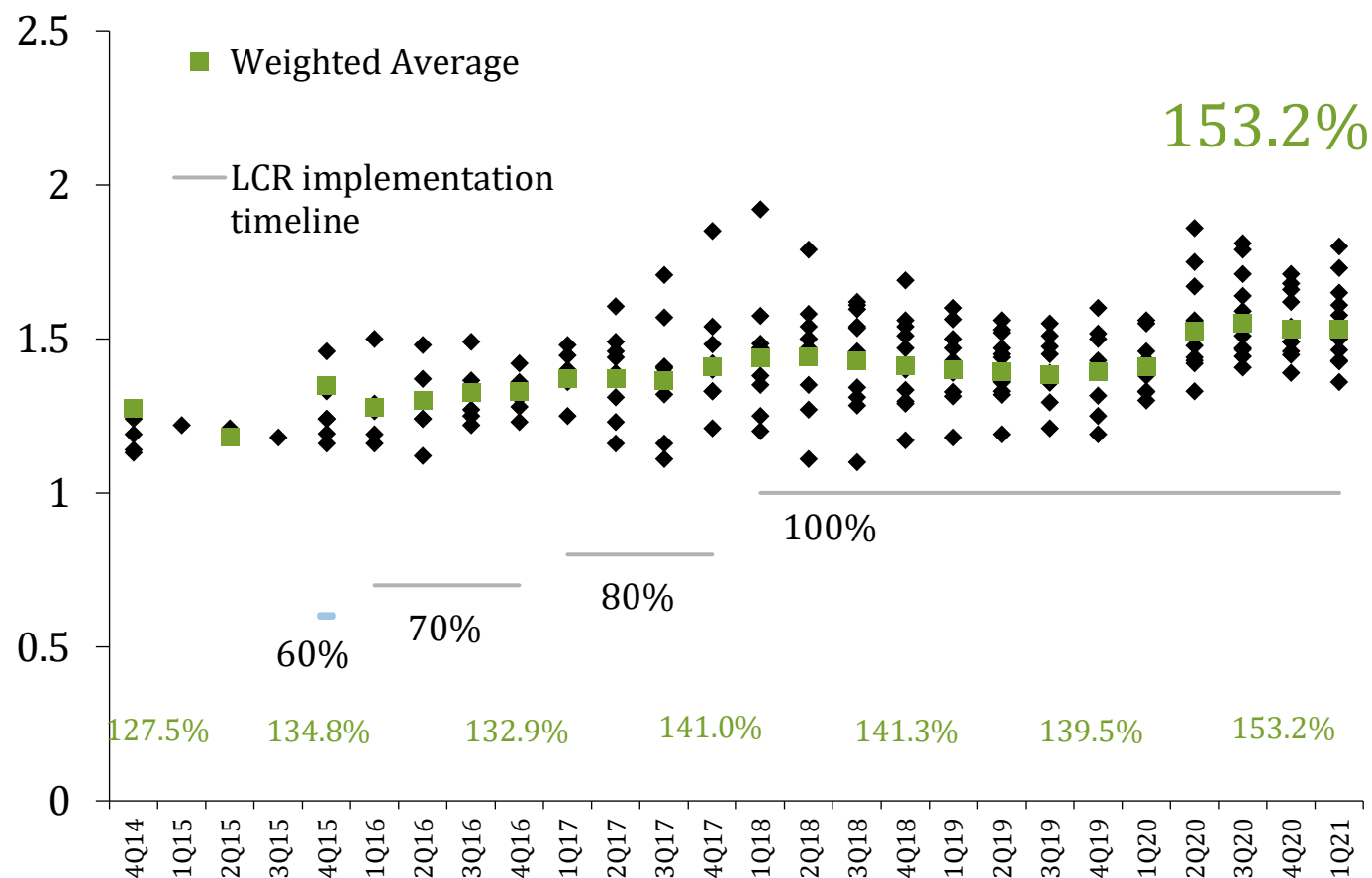
European GSIBs hold wide TLAC buffers

According to AFME estimates based on public disclosures, European GSIBs have a total of c€1.3tn of TLAC eligible liabilities.

All European GSIBs are currently meeting their 2021 and 2022 TLAC minimum ratios.

Liquidity Coverage Ratio (LCR)

Liquidity coverage ratio (%)



Source: European GSIIBs earnings reports

LCR 53.2pp above minimum required ratio (100%)

The weighted average LCR finished the quarter at 153.2%, above the average ratio at the end of 2019 (139.5%).

The precautionary increase in cash buffers by European banks has been driven predominantly by an increase in central bank deposits.

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: Exceptional circumstances for leverage ratio relief

Exceptional circumstances for leverage ratio relief

In September 2020, the Governing Council of the ECB decided together with ECB Banking Supervision that there are ‘exceptional circumstances’ that justify the temporary exclusion of certain central bank exposures from the leverage ratio(LR).

In the statement, the Governing Council referred to the profound impacts that the COVID-19 pandemic has had on the Eurozone economies and the need to facilitate undeterred transmission of monetary policy via the bank channel.

Unfortunately, the pandemic-driven reduction in economic activity and the wide-ranging support measures are still required as economies continue to be restrained by the ongoing health crisis.

As this Box shows, extending the period of exceptional circumstances is fully justified by the current macro-economic conditions and also necessary to enable banks to continue playing a full role in supporting the communities, public sector and the wider markets that they serve.

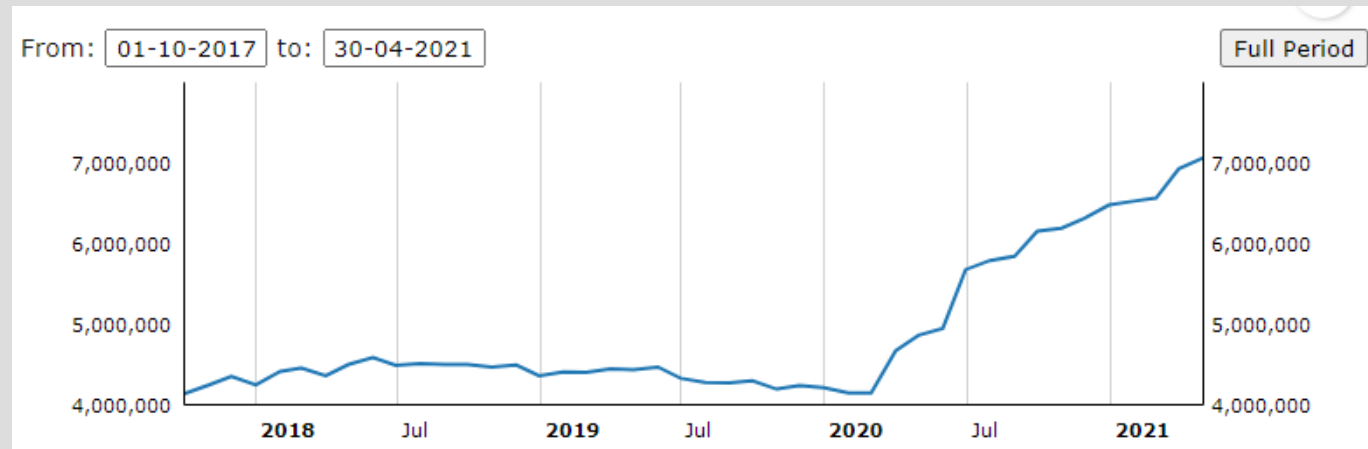
Exceptional circumstances for leverage ratio relief

The size of the government bond issuance and the ECB balance sheet has material implications for the banking system, which is evidenced in the significant growth of excess reserves coinciding with the expansion of the ECB balance sheet.

Since the beginning of the pandemic, monetary financial institutions' deposits at the Eurosystem have increased from €4,147 bn to €6,576 bn in February 2021 and €7,064 bn in April 2021.

This increase is in stark contrast to the relatively stable levels during the period before the pandemic, as can be seen in the chart on the right panel.

Monetary financial institutions' deposits at the Eurosystem



Exceptional circumstances for leverage ratio relief

The Q1 2021 pro-forma submissions by the EU GSIBs show that the average benefit from the LR exemption is 50 basis points. This benefit represents c€900bn in exposure measure capacity only for euro area GSIB banks.

The average benefit has not materially changed between the Q4 2020 and Q1 2021 submissions as observed on the right-hand chart.

Given the continued economic strain, quantitative easing and extraordinary levels of Member States and EU bond issuance, it would be premature to exit the ‘exceptional circumstances’ in June 2021. The LR could very quickly become the front-stop for large wholesale banks, limiting their ability to support bond issuance and repo finance and potentially even limit deposit taking activity.

Benefit from the LR exemption of central bank deposits by EU GSIB (bps)



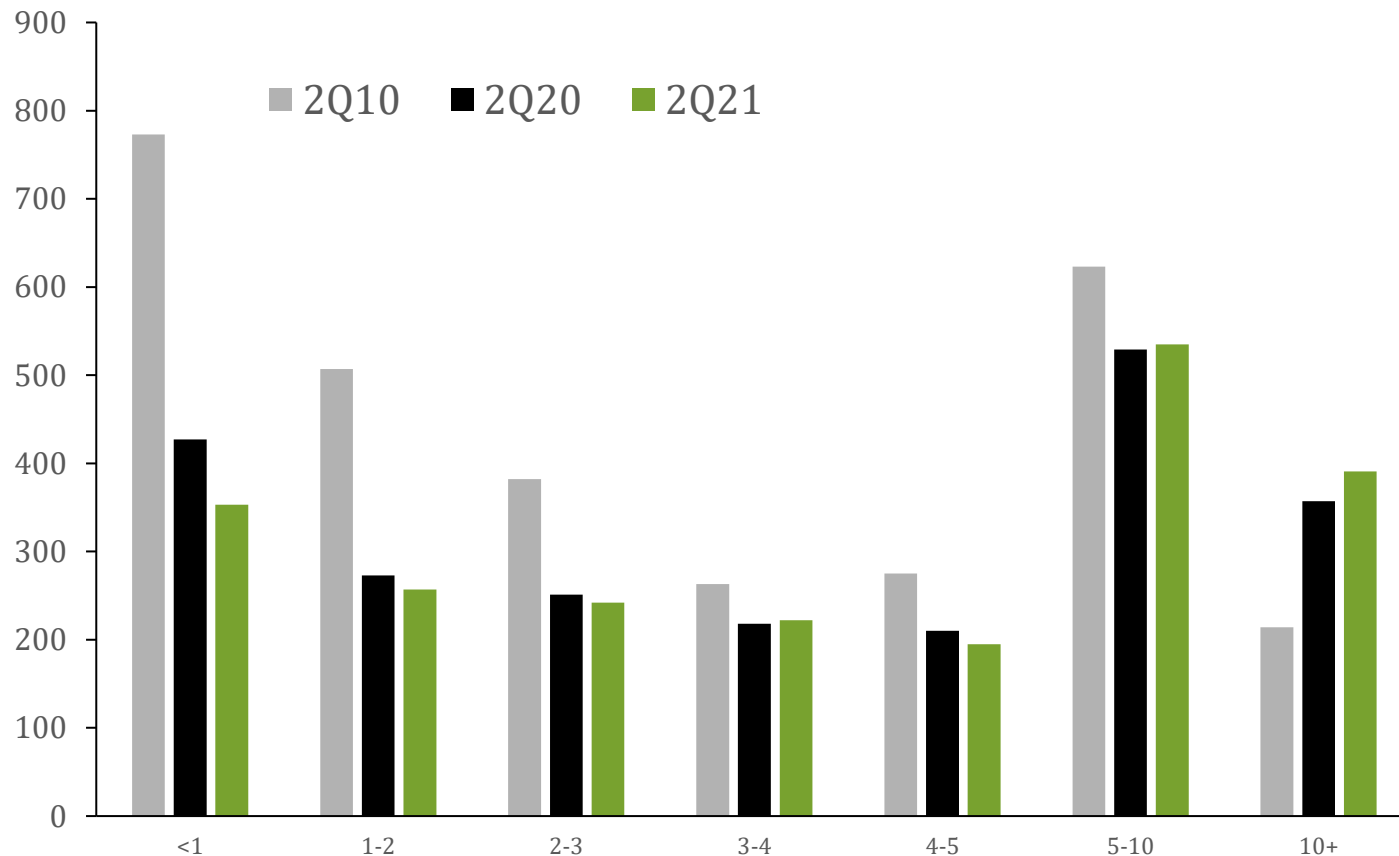
Source: European GSIBs earnings reports. Benefit didn't change for B2 and B4

Funding structure

afme / Maturity wall of EU banks' debt

Finance for Europe

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



Source: ECB

EU banks maturity ladder

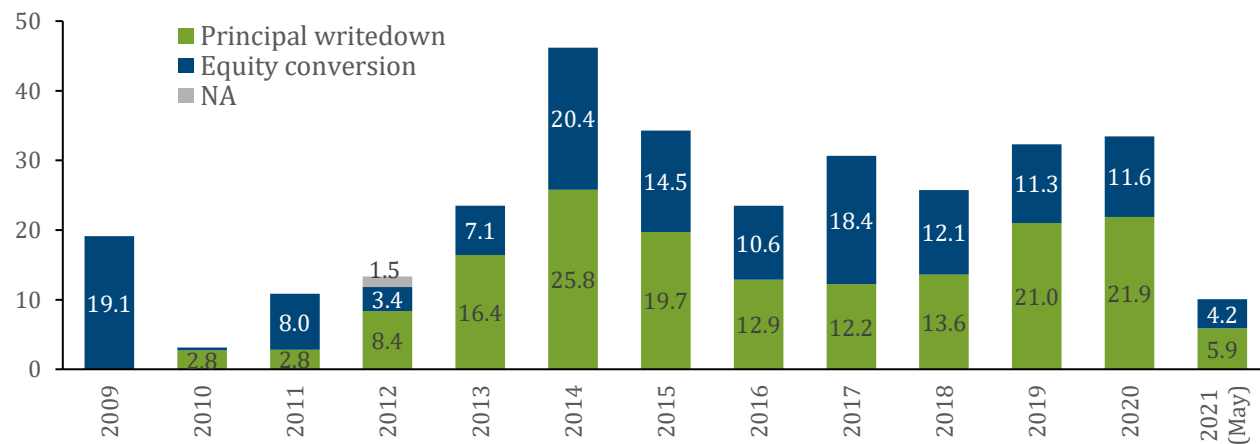
Banks have continued to extend their debt maturity profile.

The proportion of long-term debt (>10Y) has continued to increase in both relative and absolute terms over the last year, increasing from €357bn (17% of the total) in 2Q20 to €391bn (18%) in 2Q21.

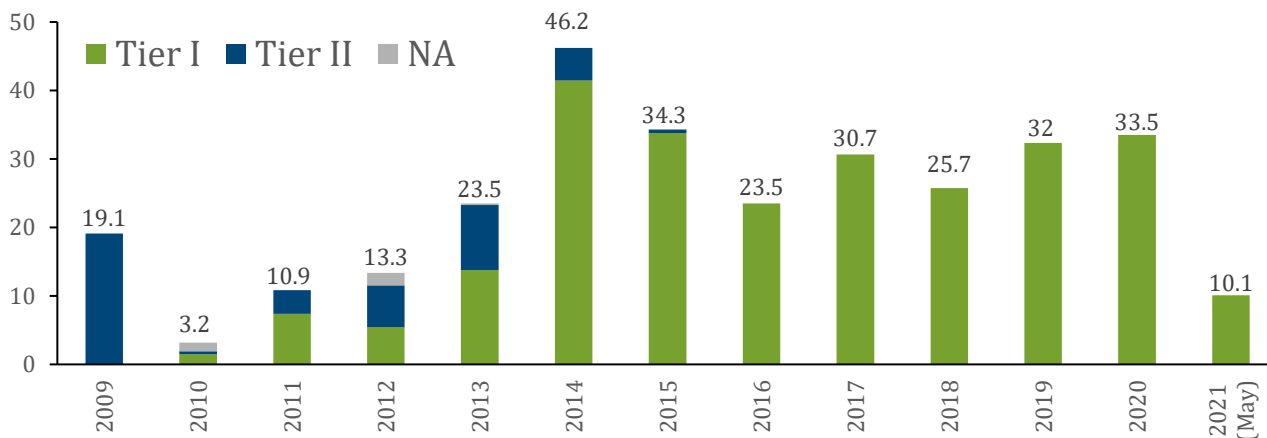
The proportion of short-term debt (<1Y maturity) has decreased from 19% in 2Q20 of total market debt to 16% in 2Q21.

Contingent Convertibles (CoCo)

CoCos by loss absorbing mechanism (€ bn)



CoCos by capital tiering (€ bn)



Source: Dealogic and Thomson Reuters

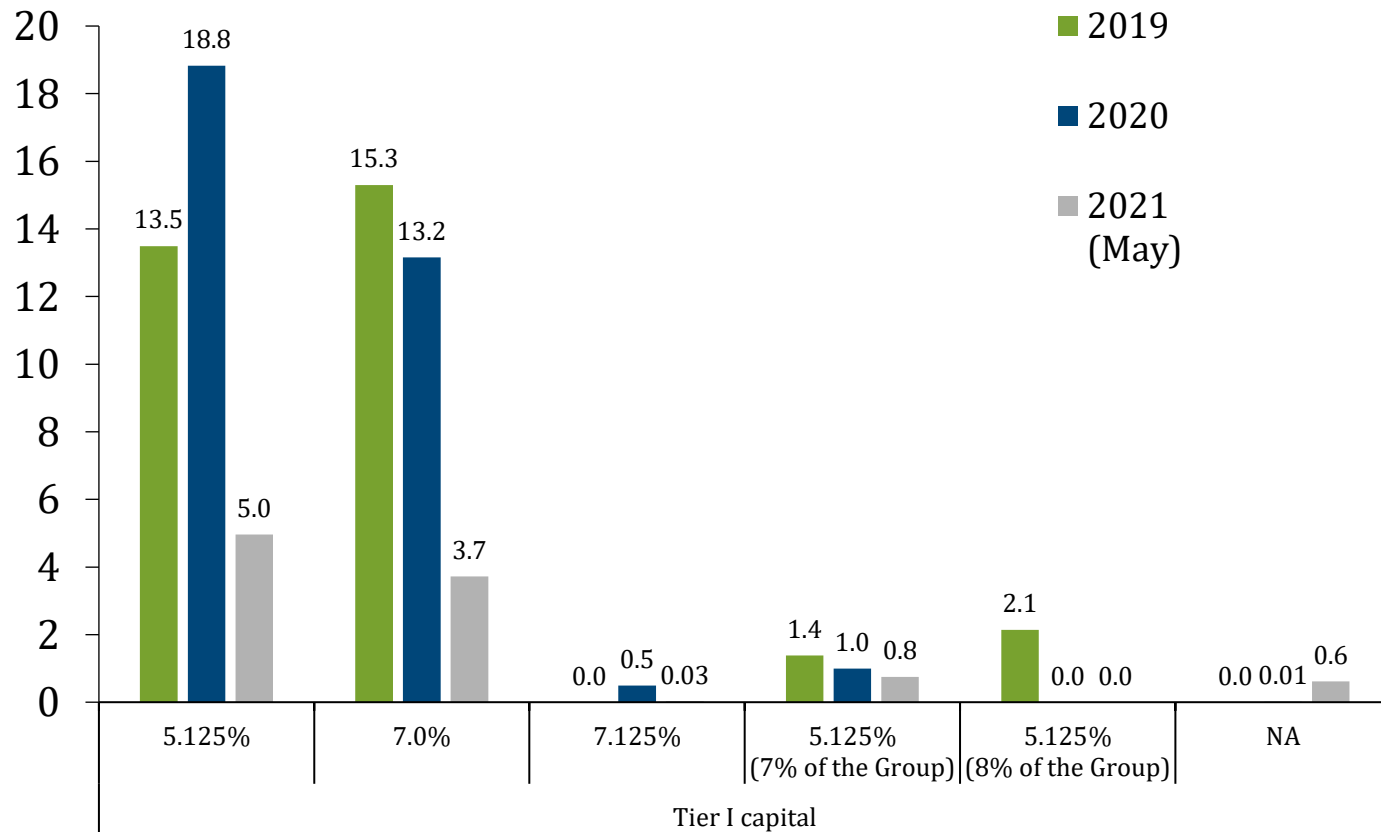
CoCo market on track to continue robust issuance amount

As of May 2021, European banks have continued to issued CoCo instruments accumulating a total of EUR 10.1bn in proceeds from 18 tranches.

7 of the 18 tranches were issued by European GSIBs accumulating a total of €6.3 bn in proceeds (or 62% of the total issued amount). See page 34 for further instrument details.

All the instruments issued in 2021 YtD (May) were structured on the basis of Tier 1 performance.

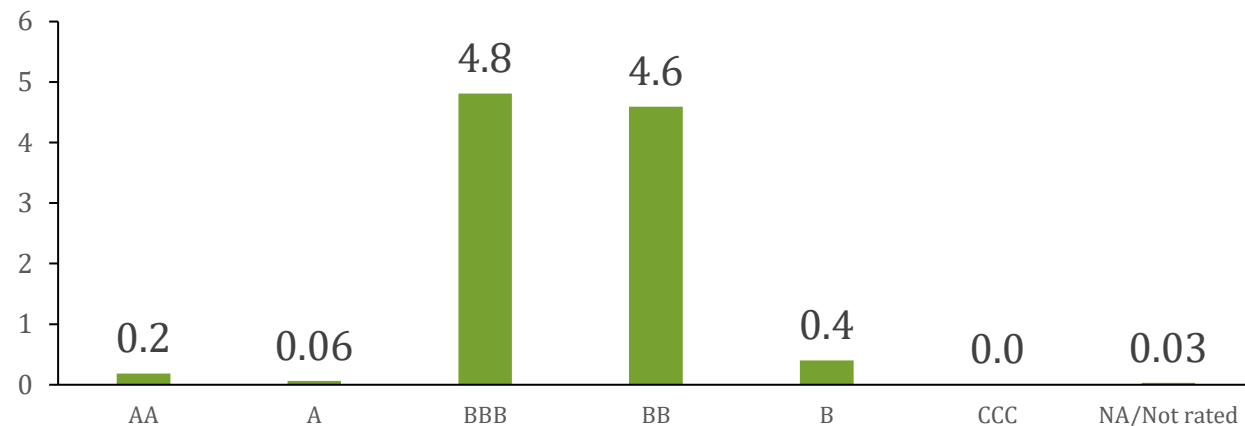
CoCos by trigger (€ bn)



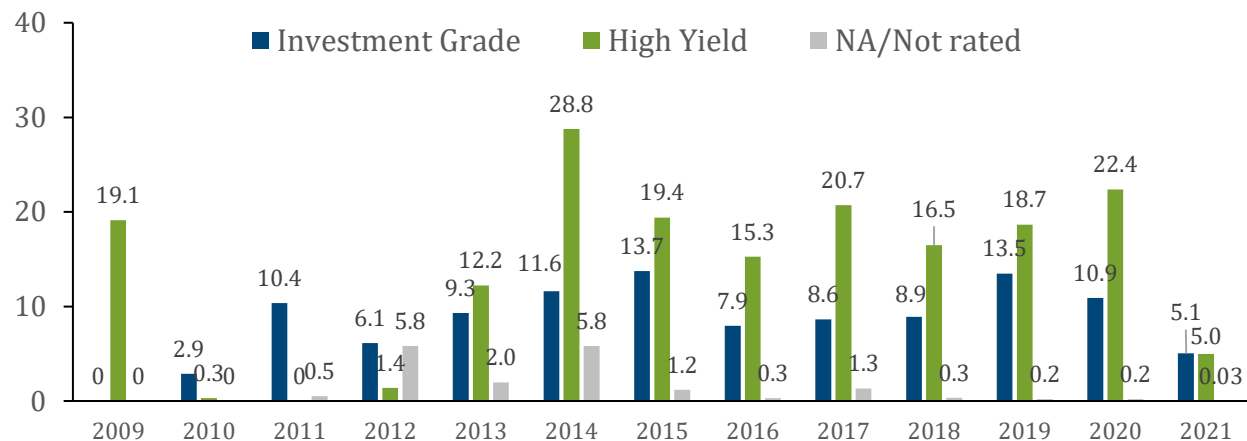
CoCos contingent on CET1 capital triggers

The majority of instruments issued in 2021 YtD (May) were structured with triggers of 5.125%.

2021 YtD (May) CoCo issuance by credit rating (€ bn)



CoCo issuance by credit risk (€ bn)



Source: Dealogic. Credit rating at date of issuance

Majority of CoCos issued in 2021 YTD (May) rated at investment grade

CoCos issued during 2021YtD (May) have been assessed with credit ratings of between AA and B- (or between Aa2 and B3 in the Moody's scale).

50.2% of the total issuance value in 2021YtD has been rated at investment grade ratings (AAA to BBB-), 49.5% were rated at BB+ or below, and the remaining 0.3% was no rated (or the rating was not available at the time producing this report).

CoCo price index: European AT1



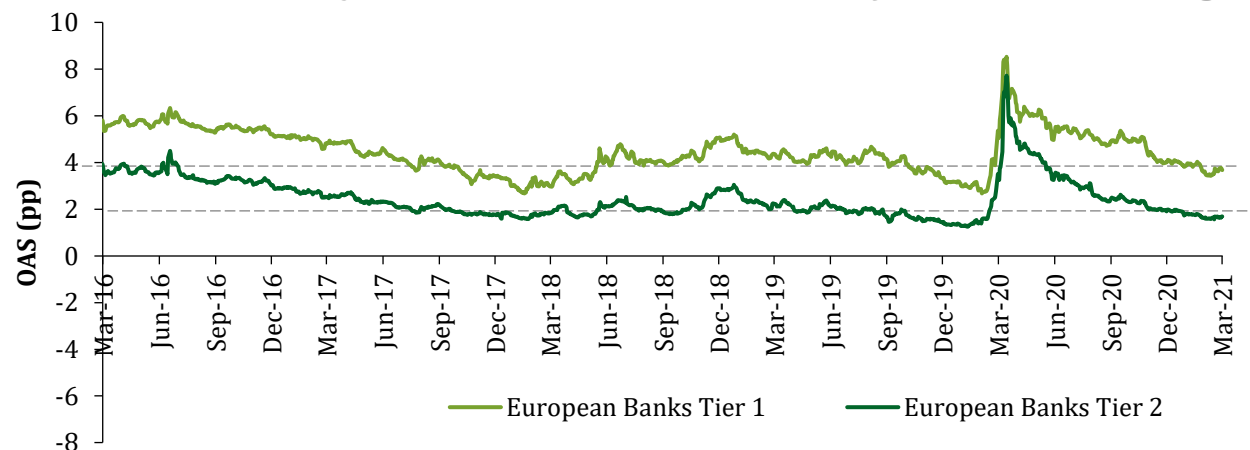
Source: IHS Markit. EUR Contingent Convertible Liquid Developed Market AT1

CoCo prices register significant gains after the sharp losses observed in Q1 2020

As of end of May 2021, CoCos contingent on T1 performance stood 6% above prices observed prior to the COVID-19 outbreak.

AT1 instruments have accumulated gains of 59% between May 2021 and March 2020.

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



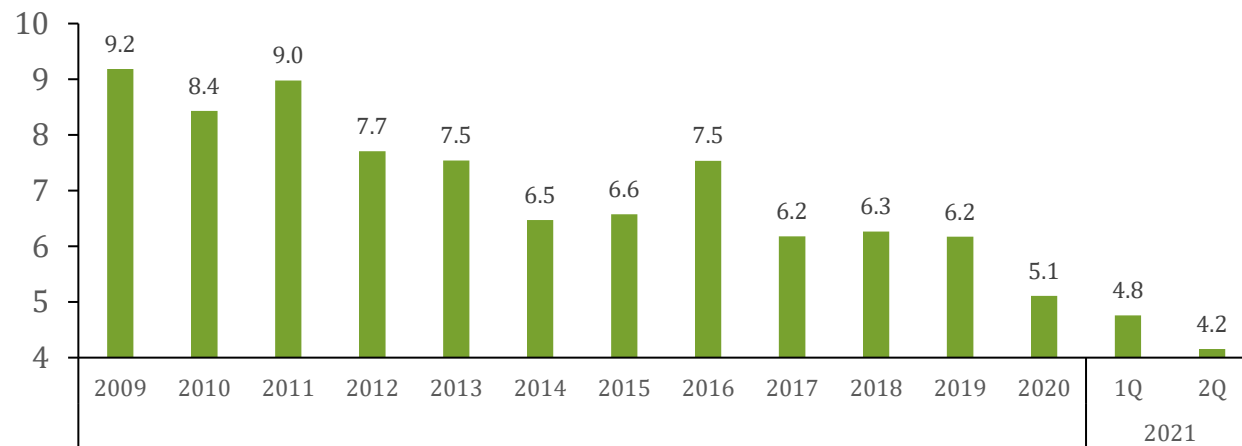
CoCo option-adjusted spreads (OAS) by credit risk (%)



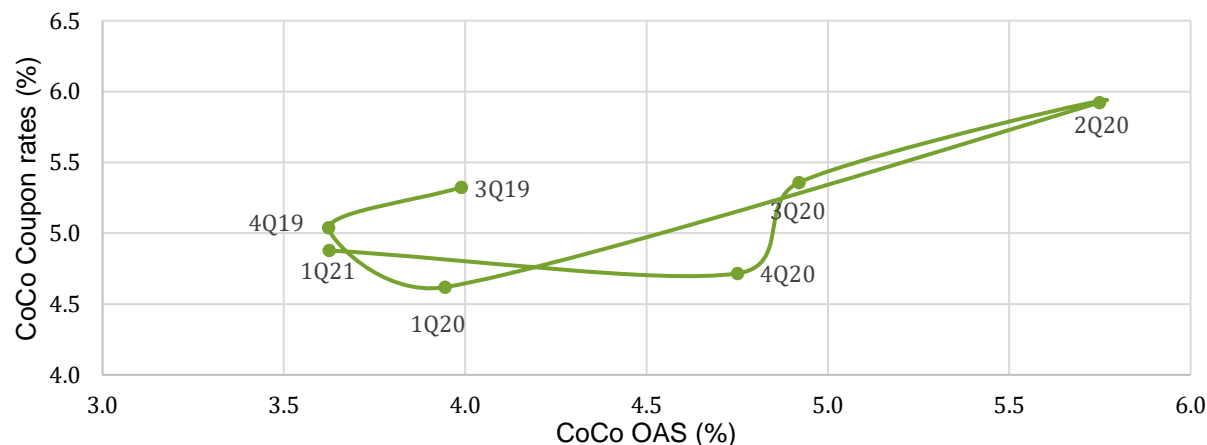
CoCo risk premia has steadily decline over the last 12 months

AT1 option-adjusted spreads (OAS) have accumulated a decrease of more than 485bps from the record high levels observed at the end of Q1 2020.

Weighted average coupons of fixed-rate CoCos (%)



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



Source: Dealogic and Bloomberg-Barclays indices

CoCo borrowing costs reach record low

Coupon rates of newly originated CoCos declined to 4.2% in 2Q'21, on the back of a continued decrease in CoCo risk premia since 2Q'20 and normalisation of credit market conditions.

afme / Recently issued CoCos

Finance for Europe

Pricing Date	Issuer	Tier Capital	Deal Total Value (Euro)	Trigger	Conversion mechanism	Issue Rate	Effective Rating (Launch)	Maturity	Coupon
05-Jan-21	Standard Chartered plc	Tier I	1,019,201,761	7.000%	Equity conversion	Fixed rate conv. to floating rate note	BB+	Perpetual	4.75
07-Jan-21	Abanca Corporacion Bancaria SA	Tier I	375,000,000	5.125%	writedown	Fixed rate	BBB-	Perpetual	6
12-Jan-21	Banco BPM SpA	Tier I	400,000,000	5.125%	writedown	Fixed rate	B-	Perpetual	6.606
01-Feb-21	UBS Group AG	Tier I	1,235,941,169	7.000%	writedown	Fixed rate	BBB-	Perpetual	4.375
04-Feb-21	Luzerner Kantonalbank AG	Tier I	184,988,207	5.125%	writedown	Fixed rate	AA	Perpetual	2
18-Feb-21	BNP Paribas SA	Tier I	1,036,269,430	5.125%	writedown	Fixed rate	BBB-	Perpetual	4.625
02-Mar-21	Banco de Sabadell SA	Tier I	500,000,000	5.125%	Equity conversion	Fixed rate	BB-	Perpetual	5.75
09-Mar-21	NatWest Group plc	Tier I	465,657,742	7.000%	Equity conversion	Fixed rate	BB	Perpetual	4.5
11-Mar-21	Raiffeisen Schweiz Genossenschaft	Tier I	180,733,779	7.000%	writedown	Fixed rate	BBB	Perpetual	2.25
17-Mar-21	Alandsbanken AB	Tier I	29,580,694	7.125%	writedown	Floating rate note	NA	Perpetual	3-mth Other +375
13-Apr-21	Rabobank	Tier I	750,000,000	5.125% (7% of the Group)	writedown	Fixed rate conv. to floating rate note	BBB	Perpetual	3.1
06-May-21	Santander	Tier I	832,882,189	5.125%	Equity conversion	Fixed rate	BB+	Perpetual	4.75
06-May-21	Santander	Tier I	750,000,000	5.125%	Equity conversion	Fixed rate	BB+	Perpetual	4.125
12-May-21	Danske Bank	Tier I	617,207,752	7.000%	Equity conversion	Fixed rate	BBB-	Perpetual	4.375
18-May-21	Societe Generale	Tier I	823,282,427	5.125%	writedown	Fixed rate	BB+	Perpetual	4.75
19-May-21	Aktia Bank Oyj	Tier I	60,000,000	5.125%	writedown	Fixed rate	A	Perpetual	3.875
25-May-21	UBS Group AG	Tier I	614,577,785	NA	writedown	Fixed rate	BBB-	Perpetual	3.875
26-May-21	Jyske Bank A/S	Tier I	200,000,000	7.000%	writedown	Fixed rate	BB+	Perpetual	3.625

Contacts

Research

Julio Suarez

Director

Julio.Suarez@afme.eu

+44 (0)20 3828 2726

Prudential

Michael Lever

Head of Prudential Regulation

Michael.Lever@afme.eu

+44 (0)20 3828 2707

Sahir Akbar

Managing Director, Prudential

Regulation & Head of Finance

Sahir.Akbar@afme.eu

+44 (0)20 3828 2721

London Office

39th Floor

25 Canada Square

London E14 5LQ

United Kingdom

+44 (0)20 3828 2700

Brussels Office

Rue de la Loi, 82

1040 Brussels

Belgium

+32 (0)2 788 3971

Frankfurt Office

Neue Mainzer Straße 75

60311 Frankfurt am Main

Germany

+49 69 153 258 963



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