European Bank Capital Quarterly
Funding and liquidity under the spotlight

Ever since the write-down of Credit Suisse's AT1 securities in March, questions have continued to be asked about whether the AT1 market is open for banks and at what cost. In recent weeks, we have seen only a very limited re-opening of the market, which has accommodated just one issuer in euros in size: a EUR 1bn 8.375% from BBVA while the only other issuer in euros was Bank of Cyprus Holdings plc, which issued a sub-benchmark EUR 220m AT1 with a coupon of 12.5%.

The Swiss National Bank's (SNB) reflections on the Credit Suisse situation made three principal observations. First, being compliant with capital requirements is necessary but not sufficient to ensure confidence in a bank.

Second, AT1 securities absorbed losses only as the point of non-viability was imminent and State intervention became necessary. Credit Suisse did not cancel interest payments on AT1 securities despite pressures on profitability as doing so would have likely led to negative market reactions, making refinancing even more difficult and expensive. Further, the trigger level for the automatic write-down of AT1 securities was below the level that market participants considered necessary to ensure resilience and confidence.

Third, the scale and pace of deposit outflows were more severe than assumed under liquidity regulations. At legal entity level, the outflows during a 10 business-day period around the time of the acquisition announcement by UBS were about as high as those assumed under the LCR for one month. The bank's liquidity buffer and the collateral set aside for central bank facilities were insufficient to cover liquidity outflows and the higher prepositioning requirements imposed by payment agencies and clearing institutions. In the SNB's view, banks should be required to have a minimum amount of assets which can be pledged at central banks.

Given the increased market focus on funding and liquidity, we take a look in this Bank Capital Quarterly at how banking supervisors monitor these risks. Assessing risks to liquidity and funding is one of the four areas covered by the SREP; the others being business model, governance and risk management, and capital. Following the SREP, the ECB can impose quantitative capital and/or liquidity measures as well as other supervisory measures, including qualitative recommendations.

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Greater transparency to come on P2R setting process

We wrote back in January about the limited changes to this year's Pillar 2 requirements (P2Rs) following the 2022 SREP cycle. Total capital P2Rs are largely stable at around 2% of RWA, compared to 1.9% last year. Reflecting the supervisory attention to evolving risks, some banks were given an add-on related to their leveraged finance activities.

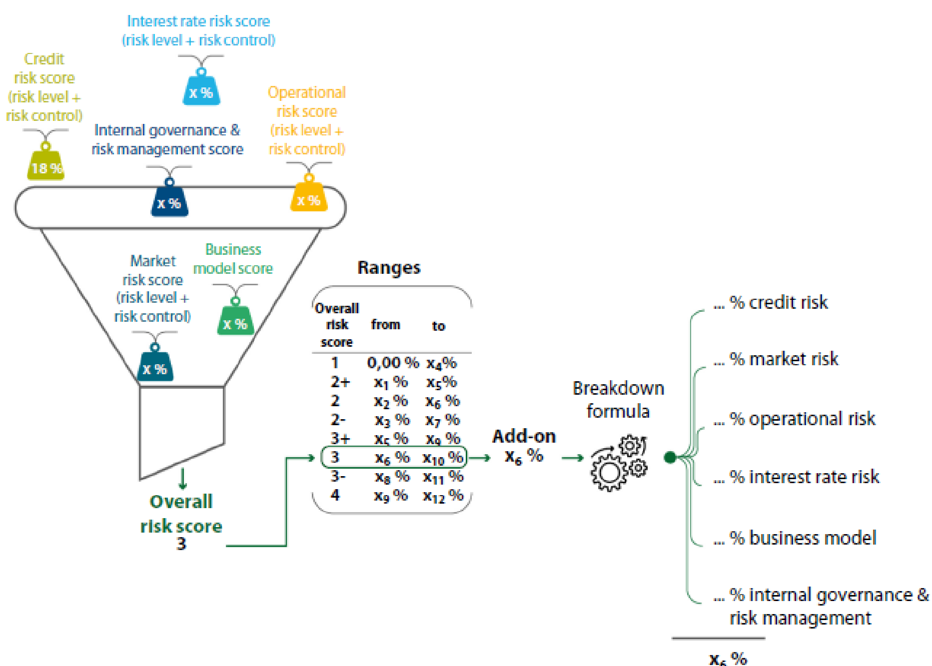
In May, the European Court of Auditors published a report reviewing the ECB's supervision of banks' credit risk. The audit focused on the 2021 SREP cycle and included a review of the supervisory files for a sample of 10 banks with high NPL levels.

The report points to aspects of the P2R setting process that can be improved. The auditors noted that proportionally higher P2Rs were not imposed on banks with higher credit risks. As well, supervisory measures for some banks were not escalated when high and sustained credit risk and control weaknesses persisted.

As we head into 2024, asset quality is likely to be at a turning point. There has been a great deal of resilience due to a combination of factors, including the supervisory focus on reducing NPLs over the last several years, pandemic support measures, and improved profitability. However, we expect to see signs of credit deterioration and would welcome improvements to the ECB's supervisory process as recommended in the report. The active supervision of banks remains a key support for the credit fundamentals of the sector.

A key recommendation is amending the P2R methodology to improve transparency and provide assurance that all relevant risks are sufficiently covered. The current methodology does not follow a risk-by-risk approach hence it is not possible to directly link individual risk drivers with the risk-by-risk add-ons (Figure 1). Furthermore, the auditors found no evidence of the ECB quantifying these risks for individual banks. In response, the ECB has stated that it will perform a more structural review of the effectiveness and efficiency of its P2R methodology throughout 2024.

Figure 1: Current process of initial overall add-on- to add-ons by specific risk



Source: European Court of Auditors based on ECB.

Other supervisory authorities such as the Swedish FSA and the UK PRA provide more details on their approach to setting P2Rs. The Swedish FSA has published its approach to evaluating interest-rate and other market risks in ancillary activities, concentration risk, pension risk, and risk weights for corporate exposures and commercial real estate. Meanwhile, the UK PRA has published methodologies covering the following risks: credit, market, operational, counterparty credit, credit concentration, pension obligation, group, and interest rate risk in the banking book.

Liquidity and funding risks are a key part of SREP

The problems faced by Credit Suisse and US lenders, including Silicon Valley Bank, have increased the focus on liquidity and funding risks. Assessing risks to liquidity and funding is one of the four areas covered by the SREP, the others being business model, governance and risk management, and capital. Following the SREP, the ECB can impose quantitative capital and/or liquidity measures as well as other supervisory measures, including qualitative recommendations.

Given the tightening of monetary policy, Andrea Enria, head of ECB Banking Supervision has said that liquidity and funding risks have risen in prominence in its supervisory priorities. Market participants often focus on two metrics, the LCR and the NSFR, as other disclosures are not widely available. Supervisors, however, can gather on a regular basis more data points to monitor potential risks related to liquidity and funding.

The EBA recently updated its Risk Indicators Methodological Guide. This is meant to aid EBA compilers of risk assessment indicators. The guide also provides transparency on the methodology used to compute indicators included in the EBA's official publications, such as the risk assessment reports and the Risk Dashboard. While the guide is not meant to bind competent authorities and is not mandatory, its use would facilitate comparisons amongst different samples of banks.

From the guide, we have extracted the risk indicators focused on liquidity and funding. Some indicators consider the composition of assets and liabilities from the perspective of their impact on a bank's liquidity. Others are related to the encumbrance of assets, and to the composition and quality of funding and liabilities. The EBA also acknowledges the value of market data such as funding costs and CDS spreads when assessing a bank's funding profile.

Figure 2: Liquidity risk indicators

Core funding ratio (% of total liabilities)	Liquid assets to total assets (liquid asset ratio)
Withdrawable funding (% total liabilities)	Financial assets held for trading to total assets
Term funding (% of total liabilities)	Financial liabilities held for trading to total liabilities and equity
Repo funding ratio (% of items providing stable funding)	Liquidity coverage ratio
Funding via derivatives (% of total items providing stable funding)	Liquid assets to short-term liabilities
Firm specific currency concentration (% of total items providing stable funding)	Net Stable Funding Ratio

Source: EBA Risk Indicators Methodological Guide, Jun 2023.

Figure 3: Funding risk indicators

Asset encumbrance to total assets	Term funding per currency
Encumbrance of central bank eligible assets, debt securities issued by central governments, and collateral received	Proxy of secured funding
Over-collateralisation	Central bank eligible unencumbered own assets and collateral available for encumbrance to total liabilities
Contingent encumbrance	Share of deposits in non-domestic markets
Encumbered assets at central bank	Share of financial liabilities in non-domestic markets
% of total deposits covered by a deposit guarantee scheme to total liabilities	Share of deposits of households and non-financial corporations
Debt securities to total liabilities	Use of subordinated financial liabilities
Deposits from credit institutions to total liabilities	Gains and losses of financial liabilities at fair value to their carrying amount
Loans and advances (excl. trading book) to total assets	Average interest expense of debt securities issued
Debt-to-equity ratio	Covered bonds to total liabilities
Off-balance sheet items to total assets	Asset-backed securities to total liabilities
Loan-to-deposit and advances ratio	Convertible compound financial instruments to total liabilities
Customer deposits to total liabilities	Share of total liabilities in the accounting and regulatory scope of consolidation
Proportion of short-term liabilities with encumbered assets	Loans and advances-to-deposit ratio for households and non-financial corporations
Customer deposits to total (non-interbank) loans	Average interest expense of deposits
Credit growth to private sector	

Source: EBA Risk Indicators Methodological Guide, Jun 2023.

Bank of England to stress system-wide liquidity risks

To better understand the behaviour of banks and non-bank financial institutions (including hedge funds, asset managers, pension funds, insurers and central counterparties) during stressed market conditions, the Bank of England launched a system-wide exploratory scenario exercise. There is a recognition that liquidity conditions can quickly deteriorate and that the individual actions of market participants may further exacerbate the stress.

For the exercise, more than 40 participants are being asked to provide information on their liquidity needs under market stress, their actions in response to those liquidity needs and the liquidity available, as well as additional actions to deleverage, reduce risk exposures or rebalance portfolios. A particular focus will be on the willingness and ability of banks to intermediate in key markets (gilt market, gilt repo market, sterling corporate bond market and associated derivative markets). The Bank of England intends to publish a report to conclude the exercise in 2024. However, there will be no details on individual firms.

Market commentary

Bank hybrid market still not normalised

The European bank hybrid market has not fully regained its poise in the wake of the Credit Suisse AT1 write-down, but it is slowly getting there. Since Scope's last Bank Capital Quarterly on 17 April, a number of elements have helped push the market towards a state of normalisation. Market observers say progress has been steady but add that the investor universe for bank hybrid instruments is likely to have shrunk. Many remaining buyers, meanwhile, are demanding pricing concessions.

AT1 levels have stabilised. Bank of America's CoCo index, which hit a high of 10% immediately after UBS's takeover of Credit Suisse was announced, has steadily tightened to closer to 8% in June. Tightening was propelled by prompt EU and UK regulatory statements of support for the instrument, some calming of nerves around the future of AT1s aided by relief around hoped-for AT1 call activity, an active primary market for European bank and insurance Tier 2 as well as continuing issuance of AT1s by non-European issuers.

Since the beginning of April, 16 European banks have sold over USD 12bn-equivalent in Tier 2 paper (Figure 5). This was supplemented by roughly USD 5.75bn-equivalent in insurance/bancassurance Tier 2 (from Achmea, Admiral, Allianz, Axa, Esure, Ethias, Generali, NN Group, Rothesay Life).

All of this activity helped draw some broad pricing parameters around what an eventual reopening of the European bank hybrid sector would need to look like in the 'new normal'. Despite the progress, there has been just one benchmark-sized euro-denominated AT1 from a large European bank since the Credit Suisse AT1 write-down: a EUR 1bn PNC5.5 equity conversion trade from BBVA, which priced on 13 June.

BBVA re-opens benchmark EUR AT1 market

The market had figured that BBVA would be first in line to open the euro market in benchmark size by the time the Spanish lender had announced its intentions, bearing in mind its 24 September call. BBVA's EUR 750m Tier 2 print on 7 June acted as a useful price and sentiment marker: the 10.25NC5.25 offering went at a yield of 5.901%, equivalent to MS+280bp. That was 25bp through initial price thoughts on a EUR 1.25bn final book (EUR 1.65bn at the highs).

For the AT1, BBVA's leads went out with initial price thoughts of 8.75% area for a EUR 750m-EUR 1bn deal. By the time books closed mid-morning, EUR 3.1bn in orders had been received so the size was set at the top of the range and the coupon was squeezed to 8.375%. That was certainly seen to have been a good result – and a better result than extending the 5.875% AT1 in September, which resets to 5.66% over five-year mid-swaps. But while market observers considered the issue a success, it was notable that by the time allocations were done mid-afternoon, the order book had shrunk to EUR 1.9bn, evidencing residual price sensitivity.

A surprise issuer on the same day as BBVA was Bank of Cyprus, which achieved a solid result with its capped EUR 220m PNC5.5 AT1. The notes came with initial price thoughts of 12.5% area, high enough to create momentum around a bank seen to be on an improving trajectory. Final books of EUR 2.75bn enabled the notes to price at 11.875%, below the 12%-plus market participants expected. The new AT1 came alongside a tender for the bank's 12.5% EUR 220m AT1. By the 19 June deadline, the bank had received EUR 204.483m of valid tenders. On 19 December, the old AT1s reset to 1,260.3bp over five-year mid-swaps so pricing of the new AT1 is significantly below the reset.

Run-up to normalisation

In the run-up to BBVA's AT1 outing, European market participants watched global activity unfold for signs. AT1s from two Japanese megabanks in particular set useful markers. On 19 April, **Sumitomo Mitsui Financial Group** (SMFG) reopened the hybrid capital market in global currencies for G-SIBs.

SMFG priced a dual-tranche AT1 in its home currency: a JPY 89bn callable at five years and two months at 1.879%, and a JPY 51bn with a call at 10 years and two months at 2.18%. The PNC5s started marketing at JGBs +167bp-173bp; the PNC10s at 170bp-176bp. Both tranches priced at +171bp on the back of solid demand that enabled the issuer to increase the size from an initially announced JPY 80bn, first to JPY 110bn and then to the final size of JPY 140bn. SFMG had initially targeted an issue date of 12 April but pushed back a week to assuage some investor concerns.

Mitsubishi UFJ Financial Group took advantage of the momentum created by its crosstown peer, selling a huge three-tranche JPY 570bn combo AT1 and TLAC-eligible bond in late May, equivalent to USD 4bn. The offering was split into a JPY 192bn PNC5 tranche at 1.804% (JGB+165bp), a JPY 138bn 2.127% PNC10 (JGB+166bp); and a JPY240bn 0.521% 2NC1 TLAC tranche (JGB+63bp). **Mizuho Financial Group** is reporting to be prepping a two-tranche PNC5.5 and PNC10.5 AT1, expected soon.

European market participants also took some note of the size and levels achieved by retail hybrid sales by **Commonwealth Bank of Australia** (AUD 1.55bn in PERLS XVI Capital Notes at 7.2067%, BBSW+300bp) and **Bank of New Zealand** (NZD 375m in PNC6 preference shares at an annual distribution rate of 7.30%, 300bp over six-year swaps) even if they offered little true guidance for benchmark international issuance in major currencies from European banks.

Closer to home, Swiss co-operative group **Raiffeisen Schweiz Genossenschaft** opened the AT1 market for European issuers on 9 May with a CHF 100m 4% PNC5, though this too was not seen as a test of the strength of the wider market as it was a Swiss issuer in sub-benchmark size in Swiss francs sold domestically. Another local affair that caused few international ripples was the SEK 700m PNC5.25 AT1 from Swedish NPL servicer **Hoist Finance** on 12 May at 10% over three-month Stibor on a book just covered.

Royal London's insurance hybrid on 17 May added another piece of the pricing jigsaw as the first hybrid capital instrument in a major currency since the Credit Suisse saga. The insurer's GBP 350m PNC10.5 RT1 came with a double-digit coupon of 10.125%, the tighter end of 10.125%-10.25% price thoughts but bearing the highest-ever RT1 coupon. Final books were GBP 535m.

Figure 4: Recent European bank AT1 issuance

	Issue date	Currency	Volume (m)	Coupon (%)	First Call
BBVA	13-Jun-23	EUR	1,000	8.375	21-Dec-28
Bank of Cyprus	13-Jun-23	EUR	220	11.875	21-Jun-28
Raiffeisen Schweiz Genossenschaft	09-May-23	CHF	100	4.000	31-May-29
Hoist Finance	24-May-23	SEK	700	STIBOR+10%	24-May-28

Source: Bond Radar, banks, media reports.

Figure 5: Recent European bank Tier 2 issuance

	Issue date	Currency	Volume (m)	Coupon (%)	First Call	Maturity
Commerzbank	28-Jun-23	EUR	500	6.750	05-Oct-28	05-Oct-33
Barclays	20-Jun-23	USD	1,500	7.119	27-Jun-33	27-Jun-34
Abanca	14-Jun-23	EUR	500	8.375	23-Jun-28	23-Sep-33
IBL Banca	14-Jun-23	EUR	65	9.875	21-Jun-28	21-Jun-33
ABN AMRO	13-Jun-23	EUR	750	5.500	21-Sep-28	21-Sep-33
HSBC	12-Jun-23	USD	2,000	6.547	20-Jun-33	20-Jun-34
BBVA	07-Jun-23	EUR	750	5.750	15-Sep-28	15-Sep-33
DNB	06-Jun-23	EUR	500	5.000	13-Jun-28	13-Sep-33
Credit Agricole	02-Jun-33	JPY	9,500	2.040	13-Jun-28	13-Jun-33
Societe Generale	30-May-23	EUR	1,000	5.625	-	02-Jun-33
Novo Banco	24-May-23	EUR	500	9.875	01-Jun-28	01-Dec-33
Caixabank	23-May-23	EUR	1,000	6.125	30-Nov-28	30-May-34
BPCE	22-May-23	EUR	500	5.750	01-Jun-28	01-Jun-33
Santander	16-May-23	EUR	1,500	5.750	23-May-28	23-May-33
OSB Group	20-Apr-23	GBP	250	9.993	27-Apr-28	27-Jul-33

Source: Bond Radar, banks, media reports

Nordic domestic flow continues

9 May: **Askim & Spydeberg Sparebank** – a NOK 125m PNC5 AT1 at a spread of 465bp over three-month Nibor.

6 June: **Sparebanken Vest** – a NOK 400m AT1 at 380bp over three-month Nibor with a first call on 13 September 2028.

14 June: **Sparebanken Øs**t – a NOK 200m AT1 with a 5.25-year call concurrent with the redemption of NOK 132m of outstanding AT1s (SPOG78 PRO) at a price of 100.56. The new notes launched at 3mN+400bp area and priced at 3mN+400bp.

15 June: **Sparebanken Sogn og Fjordane** – a NOK 100m PNC5.25 AT1 at 3mN+400bp.

16 June**: Eika Boligkreditt** – a NOK 275m PNC5.25 AT1 at 3mN+425bp, the tight end of the +425bp-450bp range and the top of the NOK 175m-NOK275m size range on an over-subscribed book.

16 June, **SpareBank 1 SR-Bank** – a dual-tranche PNC5.25 AT1: a NOK 400m at 3mN+400bp and a NOK 200m fixed-to-floating at a 7.76% yield. The offering came with a NOK 95m buy-back of an outstanding NOK 400m AT1 line at a cash price of 100.65.

22 June, **SpareBank 1 Østfold-Akershus** – a NOK 150m floating-rate PNC5.25 AT1 at a spread of 415bp over three-month Nibor.

UniCredit and Lloyds call

In the previous Bank Capital Quarterly, UniCredit's decision on whether to call its EUR 1.25bn 6.625% temporary write-down AT1 on 3 June was undecided by the date of publication. The market had set that decision as a test of market sentiment. In the event, the bank announced on 27 April that it would call the notes, although the results of the market test were unresolved as the bank opted not to issue new AT1s.

The bank's announcement cited strong capital levels and best-in-class organic capital generation hence limited need for TLAC/MREL funding for the remainder of this year and

no need to issue AT1 instruments for the foreseeable future. The bank's CEO did say at an industry conference, though, that the bank would replenish its AT1 stack once the market has stabilised, according to media reports.

A few days after UniCredit's announcement, Lloyds Banking Group announced that it would call the rump of GBP 135m bonds still outstanding from its 7.625% PNC9 AT1 line on 27 June. The tranche was originally issued at GBP 1.49bn and was part of a four-part sterling and euro offering in April 2014.

Waiving NCWO protection

Away from hybrids, **Zürcher Kantonalbank's** (ZKB) debut offering of 6NC5 bail-in senior bonds at the beginning of June offered something of a novelty in euros. The structure received authorisation at the beginning of this year. According to Homburger, the bank's legal advisor, ZKB's bail-in bonds were designed and issued on the basis of a new legal framework allowing cantonal banks to issue TLAC bonds (gone-concern capital).

Because of the bank's status as an instrument of the Canton of Zurich, its equity cannot be written down. If Swiss regulator FINMA orders a partial or complete reduction of bondholders' claims, bondholders are entitled to receive Recovery Certificates "without par value with claims, subject to multiple conditions, in compensation for each Bond affected after approval of the restructuring plan by FINMA," according to the bond prospectus.

The prospectus makes clear that bondholders receive no 'No Creditor Worse Off' (NCWO) protection. This means they waive rights to any compensation in the event of FINMA measures, except for the claim to a Recovery Certificate. "Bondholders have also agreed that FINMA, may, in particular, order the reduction of the bondholders' claims or the reduction of the issuer's obligations under the bonds in restructuring proceedings with the Issuer's equity having to be written down first," the prospectus notes.

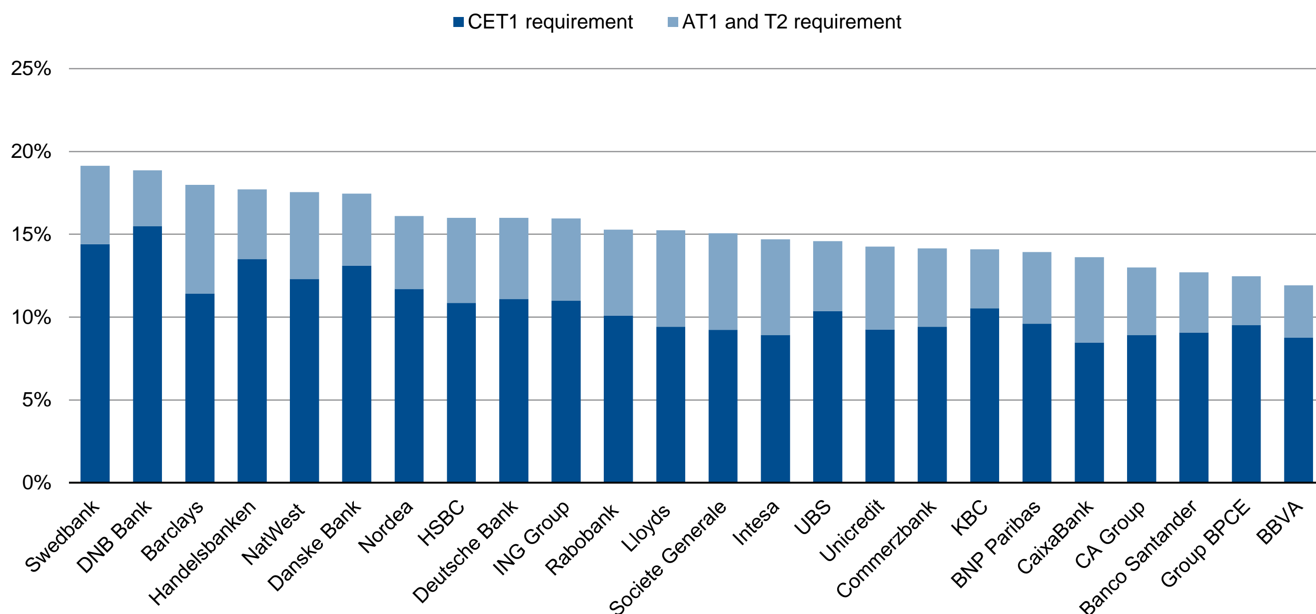
By waiving NCWO protection, the documentation notes that the bondholders concerned equally recognise that, once their claims under the bonds have been written off (in the event of the failure of the restructuring), they will not be entitled to a bankruptcy dividend in any subsequent bankruptcy proceedings of ZKB. With this clear wording, books for the EUR 500m trade opened at MS+125bp-130bp area, which drew EUR 925m in orders. Pricing was set at MS+115bp, for a coupon of 4.156% and the book closed at EUR 785m.

Appendix I: Capital requirements

Total capital requirements as of Q1 2023 (%)

			Buffers						
	Pillar 1	Pillar 2R	Capital conservation	G-SII	O-SII	Systemic	Counter-cyclical	Total req	Of which CET1 req
BBVA	8.0%	1.7%	2.5%		0.8%		0.0%	**13.0%**	8.8%
Banco Santander	8.0%	1.6%	2.5%	1.0%			0.2%	**13.3%**	9.1%
Barclays	8.0%	4.3%	2.5%	1.5%			0.5%	**16.8%**	11.4%
BNP Paribas	8.0%	1.6%	2.5%	1.5%			0.2%	**13.8%**	9.6%
CaixaBank	8.0%	1.7%	2.5%		0.5%		0.0%	**12.7%**	8.5%
Commerzbank	8.0%	2.0%	2.5%		1.3%		0.0%	**13.8%**	9.4%
Rabobank	8.0%	1.9%	2.5%			2.0%	0.2%	**14.4%**	10.1%
CA Group	8.0%	1.5%	2.5%	1.0%			0.1%	**13.1%**	8.9%
Danske Bank	8.0%	2.6%	2.5%		3.0%		1.5%	**17.6%**	13.1%
Deutsche Bank	8.0%	2.7%	2.5%	1.5%	2.0%	0.2%	0.4%	**15.8%**	11.1%
DNB Bank	8.0%	2.1%	2.5%		2.0%	3.2%	2.1%	**19.9%**	15.5%
Group BPCE	8.0%	2.0%	2.5%	1.0%			0.0%	**13.5%**	9.5%
HSBC	8.0%	2.6%	2.5%	2.0%			0.4%	**15.5%**	10.9%
ING Group	8.0%	1.8%	2.5%	1.0%		2.5%	0.5%	**15.3%**	11.0%
Intesa	8.0%	1.7%	2.5%		0.8%		0.2%	**13.2%**	8.9%
KBC	8.0%	1.9%	2.5%		1.5%	0.2%	0.8%	**14.8%**	10.5%
Lloyds	8.0%	2.7%	2.5%		1.7%		0.9%	**14.1%**	9.4%
NatWest	8.0%	3.0%	2.5%		1.2%		0.9%	**17.1%**	12.3%
Nordea	8.0%	1.6%	2.5%		2.5%		1.3%	**15.6%**	11.7%
Societe Generale	8.0%	2.1%	2.5%	1.0%			0.0%	**13.7%**	9.2%
Handelsbanken	8.0%	2.0%	2.5%		1.0%	3.1%	1.1%	**17.8%**	13.5%
Swedbank	8.0%	2.3%	2.5%		1.0%	4.0%	0.9%	**18.7%**	14.4%
UBS							0.4%	**14.7%**	10.4%
Unicredit	8.0%	2.0%	2.5%	1.0%			0.1%	**13.6%**	9.3%

Notes: For Lloyds and NatWest, an O-SII buffer applies at the level of their ring-fenced entities which then corresponds to the noted buffer requirement at group level.
For Rabobank, data is for Q4 2022.
Source: Banks, Scope Ratings.



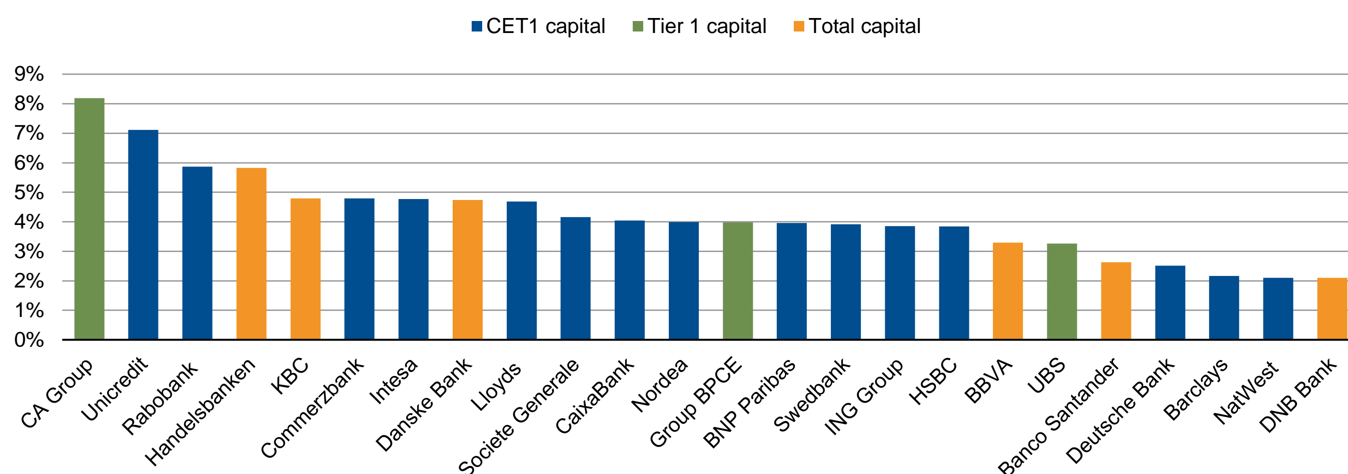
Appendix II: Positioning against capital requirements

Lowest buffer to capital requirements as of Q1 2023 (%)

	CET1 req	CET1	CET1 buffer	Tier 1 req	Tier 1	Tier 1 buffer	Total capital req	Total capital	Total capital buffer	Currency	Total capital buffer (bn)
BBVA	8.8%	13.1%	4.4%	10.6%	14.6%	4.0%	13.0%	16.3%	3.3%	EUR	11
Banco Santander	9.1%	12.3%	3.2%	10.9%	13.7%	2.8%	13.3%	15.9%	2.6%	EUR	16
Barclays	11.4%	13.6%	2.2%	13.7%	17.6%	3.9%	16.8%	20.2%	3.4%	GBP	11
BNP Paribas	9.6%	13.6%	4.0%	11.4%	15.5%	4.1%	13.8%	17.9%	4.1%	EUR	28
CaixaBank	8.5%	12.5%	4.0%	10.3%	14.8%	4.5%	12.7%	17.7%	5.0%	EUR	11
Commerzbank	9.4%	14.2%	4.8%	11.3%	16.1%	4.8%	13.8%	18.9%	5.1%	EUR	9
Rabobank	10.1%	16.0%	5.9%	11.9%	18.0%	6.0%	14.4%	21.1%	6.7%	EUR	16
CA Group	8.9%	17.6%	8.7%	10.7%	18.9%	8.2%	13.1%	21.7%	8.6%	EUR	50
Danske Bank	13.1%	18.0%	4.9%	15.0%	19.8%	4.8%	17.6%	22.3%	4.7%	DKK	39
Deutsche Bank	11.1%	13.6%	2.5%	13.1%	15.9%	2.8%	15.8%	18.5%	2.7%	EUR	10
DNB Bank	15.5%	18.6%	3.1%	17.4%	20.2%	2.8%	19.9%	22.0%	2.1%	NOK	23
Group BPCE	9.5%	15.0%	5.5%	11.0%	15.0%	4.0%	13.5%	17.9%	4.4%	EUR	20
HSBC	10.9%	14.7%	3.8%	12.9%	17.0%	4.1%	15.5%	19.8%	4.3%	USD	37
ING Group	11.0%	14.8%	3.9%	12.8%	17.0%	4.2%	15.3%	19.8%	4.6%	EUR	15
Intesa	8.9%	13.7%	4.8%	10.8%	16.1%	5.4%	13.2%	19.5%	6.3%	EUR	19
KBC	10.5%	16.1%	5.5%	12.4%	17.5%	5.1%	14.8%	19.6%	4.8%	EUR	5
Lloyds	9.4%	14.1%	4.7%	11.4%	16.9%	5.5%	14.1%	19.9%	5.8%	GBP	12
NatWest	12.3%	14.4%	2.1%	14.4%	16.6%	2.2%	17.1%	19.6%	2.5%	GBP	5
Nordea	11.7%	15.7%	4.0%	13.2%	18.0%	4.8%	15.6%	20.1%	4.5%	EUR	6
Societe Generale	9.2%	13.4%	4.2%	11.1%	16.4%	5.3%	13.7%	19.2%	5.6%	EUR	20
Handelsbanken	13.5%	19.4%	5.9%	15.4%	21.3%	5.9%	17.8%	23.6%	5.8%	SEK	48
Swedbank	14.4%	18.3%	3.9%	16.2%	20.1%	3.9%	18.7%	23.1%	4.4%	SEK	36
UBS	10.4%	13.9%	3.5%	14.7%	17.9%	3.3%	14.7%	18.1%	3.4%	USD	11
Unicredit	9.3%	16.4%	7.1%	11.1%	18.4%	7.3%	13.6%	21.4%	7.7%	EUR	23

Note: Rabobank data is for Q4 2022.
Source: Banks, Scope Ratings.

Lowest buffer to capital requirements as of Q1 2023 (%)

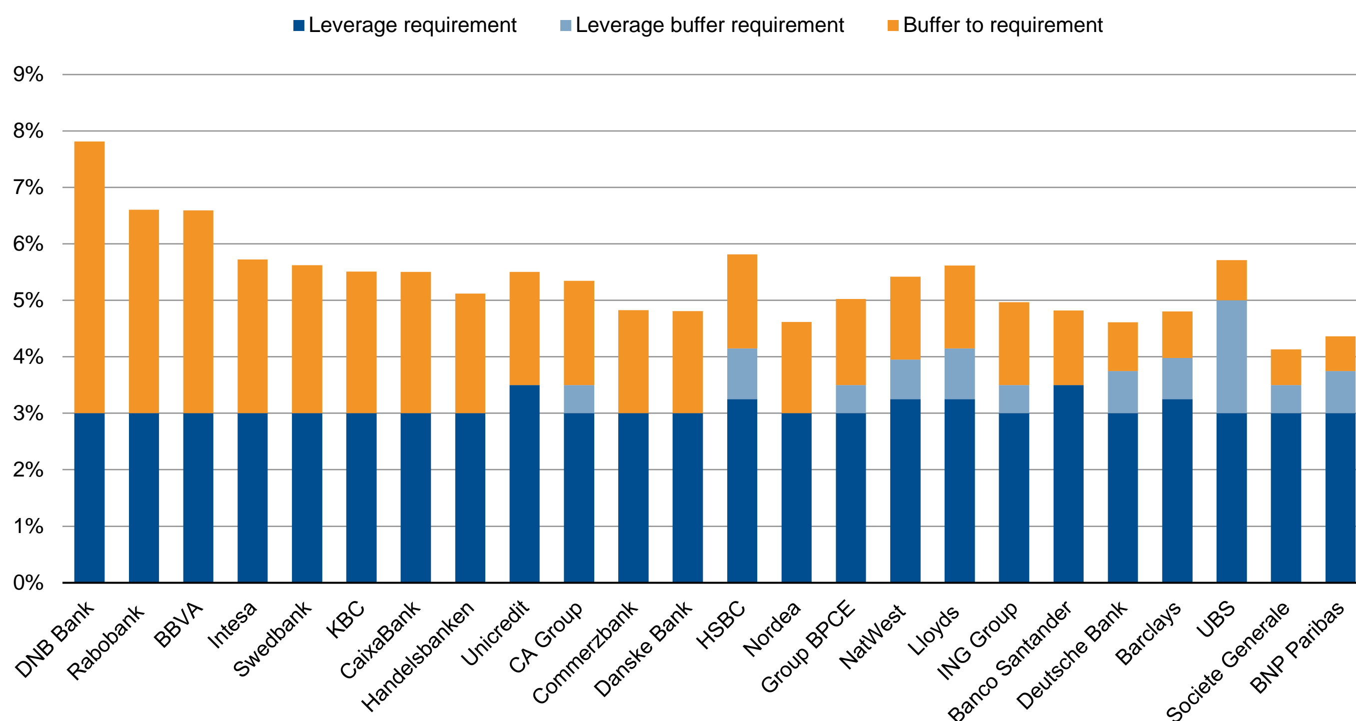


Appendix III: Leverage requirements and positioning against requirements

EU banks have a minimum Tier 1 leverage ratio requirement of 3%. In addition, a bank may be subject to a specific Pillar 2 leverage ratio requirement. Since 1 January 2023, EU G-SIIs have also been subject to a leverage ratio capital add-on equal to 50% of their G-SII buffer, which must be met with Tier 1 capital. In the table below, we include the add-on for banks where this is applicable.

Banks in the UK have been subject to leverage ratio buffers for some time. These are equal to 35% of any systemic and countercyclical capital buffers and must be met with CET1 capital. Unlike in the EU, the base requirement for UK banks is set at 3.25%, of which at least 75% must be met with CET1 capital. This is an offset to the way the UK leverage exposure measure is calculated, which continues to exclude assets constituting claims on central banks when they are matched by deposits denominated in the same currency of identical or longer maturity.

Buffer to leverage requirements as of Q1 2023 (%)



Notes: (1) For UK banks, the buffer to requirements is based on the UK leverage ratio.
(2) The ring-fenced sub-group of Lloyds is subject to an additional leverage ratio buffer of 0.7% which equates to 0.6% at group level.
(3) The ring-fenced bank holding company of NatWest is subject to an additional leverage ratio buffer which equates to 0.4% at group level.
(4) Rabobank data is for Q4 2022.
Source: Banks, Scope Ratings.

Appendix IV: TLAC requirements and positioning against requirements

End-state TLAC requirements for G-SIBs have been binding since 1 January 2022. The minimum TLAC requirement is equivalent to the higher of the following:

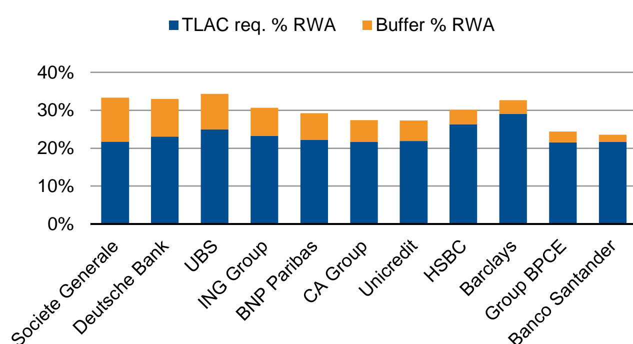
- 18% of the total risk exposure amount plus the combined buffer requirement
- 6.75% of the leverage exposure measure.

Positioning against TLAC requirements (as of Q1 2023)

	TLAC req. % RWA	TLAC % RWA	Buffer % RWA	TLAC req. % LRE	TLAC % LRE	Buffer % LRE	Binding req.	Currency	Buffer to binding req. (bn)
Banco Santander	21.7%	23.6%	1.9%	6.8%	8.6%	1.8%	RWA	EUR	6
Barclays	29.1%	32.7%	3.6%	8.1%	9.5%	1.4%	RWA	GBP	12
BNP Paribas	22.2%	29.2%	7.0%	6.8%	8.2%	1.5%	RWA	EUR	49
CA Group	21.6%	27.4%	5.8%	6.8%	7.8%	1.1%	LE	EUR	22
Deutsche Bank	23.1%	33.0%	9.9%	6.8%	9.6%	2.8%	LE	EUR	35
Group BPCE	21.5%	24.4%	2.9%	6.8%	n.a.	n.a.	RWA	EUR	13
HSBC	26.3%	30.1%	3.8%	8.5%	10.5%	2.1%	RWA	USD	32
ING Group	23.2%	30.7%	7.5%	6.8%	8.9%	2.2%	RWA	EUR	24
Societe Generale	21.7%	33.4%	11.7%	6.8%	8.5%	1.8%	LE	EUR	25
UBS	25.0%	34.3%	9.3%	8.8%	10.9%	2.1%	LE	USD	22
Unicredit	21.9%	27.3%	5.5%	6.8%	8.3%	1.5%	RWA	EUR	16

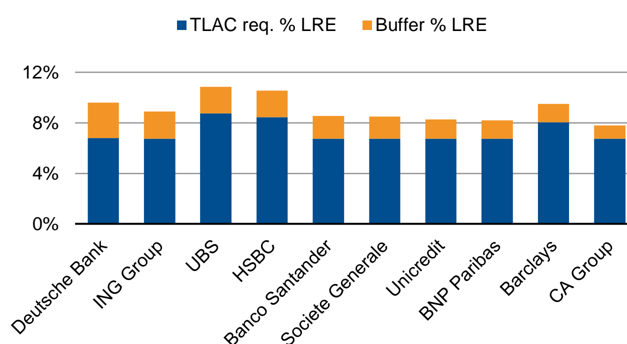
Notes: HSBC's binding requirement is based on a "sum-of-the-parts" approach as a multiple point of entry resolution group. Figures are as of Q4 2022. For Santander, figures are for the resolution group and not the consolidated group.
Source: Banks, Scope Ratings.

TLAC-RWA requirements and positioning as of Q1 2023 (%)



Source: Banks, Scope Ratings.

TLAC-leverage requirements and positioning as of Q1 2023 (%)



Source: Banks, Scope Ratings.

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French banks: sound credit profiles resilient against tighter financial conditions, June 2023

European banks: tighter supervision of liquidity risks not a substitute for structural improvements, May 2023

Spanish banks: net interest income boost more than compensates for bank levy, May 2023

Italian banks: strong Q1 results pave the way for a promising 2023, May 2023

Asset-quality review: falling NPL ratios hide rising vulnerabilities, May 2023

European Bank Capital Quarterly: Capital remains important support for sector, April 2023

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