

CMBI Credit Commentary

European AT1s: Our picks under Basel III finalization

Our top picks are BACR 4.375 Perp and INTNED 4.25 Perp

In European USD AT1 space, we prefer UK and EU G-SIBs in view of their stance of equity should be written down ahead of AT1 in any resolution first. We consider the risk of non-call and coupon skips for EU G-SIBs is low under the backdrop of the falling UST and these banks' ability and incentive to maintain access to capital markets at low funding costs. We pick banks with good track records in coupon payments as scheduled and calling their AT1s on the first call dates. Finally, we prefer shorter tenor (to call) AT1s given our view of yield curve to stay steep, if not steepening, and AT1s with lower cash prices.

Hence, we maintain buy on **BACR 4.375 Perp** (Ba1/BB+/BBB-, first call in Mar'28), supported by Barclays' strong CET1 ratio of 14.1% in Sep'25, consistent call history of its USD AT1s and the lower cash price of the AT1. The bank's robust capital position provides substantial buffer above the 7.0% mechanical trigger. At 96.4, BACR 4.375 Perp is trading 6.1% YTC, provides c90bps yield pick-up of over HSBC 8 Perp (Baa3/-/BBB, first call in Mar'28).

We also maintain buy on **INTNED 3.875 Perp** (Ba1/-/BBB, first call in May'27). At 96.9, INTNED 3.875 Perp is trading at 6.2% YTC and offers pick-up of c40bps over UBS 4.875 Perp (-/BBB-/BBB-, first call in Feb'27). ING has solid capital metrics, CET1 ratio of 13.4% in Sep'25 which is higher than the 7.0% mechanical trigger (see Table 4), and good track records to call its USD AT1s on the first call dates. We expect ING to continue to call its perps on the first call.

BACR 4.375 Perp and INTNED 3.875 Perp will be converted into equity rather than being written down at PONV. This loss absorption mechanism, in our view, is more favourable from a recovery perspective.

We anticipate a modest increase in the net issuance in the space, driven by the refinancing requirements, potential capital replenishment arising from Basel III finalization and falling UST. ECB and the Bank of England reaffirmed the role of AT1 in bolstering banks' capital cushion after the collapse of Credit Suisse in Mar'23. This is in contrast to the plan of APRA of Australia to start phasing out AT1s as early as Jan'27.

Table 1: Our European AT1 picks

Security Name	ISIN	Amt o/s (USD mn)	Ask px	YTC	Issue rating (M/S/F)	First call date
BACR 4.375 Perp	US06738EBT10	1,500	96.4	6.1%	Ba1/BB+/BBB-	15 Mar'28
INTNED 3.875 Perp	US456837AY94	1,000	96.9	6.2%	Ba1/-/BBB	16 May'27

Source: Bloomberg.

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BACR

We maintain buy on BACR 4.375 Perp, supported by Barclays' strong capital adequacy (CET 1 ratio of 14.1% in Sep'25), which provides a sufficient buffer over the 7% mechanical trigger. Barclays' consistent call history for its USD AT1 also underpins our high confidence in future call. At 96.4, BACR 4.375 Perp is trading at YTC of 6.1%.

Barclays is a global systemically important bank (G-SIB) with businesses spanning across retail, wholesale, and investment banking. Barclay's achieved ROTE of 12.3% in 9M25, increased from 11.5% in 9M24. As of Sep'25, Barclays' CET1 ratio was 14.1%, within its 2025-26 internal target of 13-14%, and higher than the regulatory requirement of 12.2%. Barclays also maintained a strong TLAC/RWA ratio and MREL/RWA ratio of 35.8%. These were well above the TLAC requirement of 18.0% and MREL requirement of 30.5% plus a confidential, institution specific PRA buffer, providing substantial loss-absorption capacity ahead of AT1 instruments.

BACR 4.375 Perp contains both mechanical and statutory loss-absorption features. It will be converted if Barclays' fully-loaded CET1 falls below 7%. Statutory powers allow the Bank of England to exercise bail-in or trigger conversion at the point of non-viability or resolution, regardless of whether the mechanical trigger is breached. In our view, the loss-absorption risk in the medium term is low given Barclays' large capital and MREL buffers, protected by a diversified business profile.

The UK Special Resolution Regime (SRR) empowers the Bank of England, as the resolution authority, to intervene early and stabilize failing banks through mechanisms such as bail-in. The SRR can only be invoked when four conditions are met: a firm is failing or likely to fail; recovery actions are unlikely to restore viability; resolution is necessary in the public interest; and objectives cannot be met as effectively through insolvency. In such resolution events, AT1 instruments may be written down or converted at the point of non-viability, ranking after equity but ahead of Tier 2 and senior liabilities.

In Nov'25, S&P upgraded BACR 4.375 Perp by two notches to BB+ from BB-, as a part of S&P portfolio review on European banks' hybrid instruments where S&P viewed these instruments faced lower default risk than previously assessed. At the same time, S&P also upgraded Barclays' subordinated bonds by one notch to BBB from BBB-.

INTNED

We maintain buy on INTNED 3.875 Perp, anchored by ING's solid capital adequacy and track records of redeeming AT1 bonds at their first call dates. ING reported a robust CET1 ratio of 13.4% in Sep'25, well above the 7% mechanical trigger. This mitigated the risk of contractual loss-absorption in the near term. At 96.9, INTNED 3.875 Perp is trading at YTC of 6.2%.

ING is a G-SIB, it has diversified retail and wholesale banking operations across Europe, and as a systemically important Dutch institution, its resolution would be managed by the Single Resolution Board (SRB) and De Nederlandsche Bank (DNB). Under the Dutch regime, AT1 bonds are subject to both contractual triggers and statutory bail-in, ranking behind equity but ahead of Tier 2 and senior debt in loss absorption. If ING's consolidated CET1 ratio falls below 7% or the bank reaches the point of non-viability as designated by authorities, INTNED 3.875 Perp holders could face conversion even if the contractual trigger has not been breached. However, we view ING's robust capital position and historically stable asset quality make loss-absorption risk remote in the near-term.

In Sep'25, ING's asset quality improved with the NPL ratio fell to 1.5% from 1.7% in Dec'24, placing it at the low end of its historical range since 2017. ING's CET 1 ratio was 13.4% as of Sep'25, slightly down from 13.6% as of Dec'24 after the Basel III finalization implemented from 1 Jan'25, while still above its own internal target range of 13.0%. ING reported TLAC/RWA ratio of 23.4% and MREL/RWA ratio of 28.0% as of Sep'25, above the TLAC requirement of 18.0% and MREL requirement of 22.6%, respectively, providing a sufficient headroom for bail-in resolution.

Basel 3.1 at a glance...

The Basel Committee's original timeline for Basel III finalization, also referred to as Basel 3.1 or Basel IV, was 1 Jan'23. The reforms include revised credit risk approaches, a standardized operational risk approach, an updated credit valuation adjustment (CVA) framework, and an output floor. The floor of 50% started to phase-in on 1 Jan'23, and the floor will be gradually lifted to 72.5% by 1 Jan'28, i.e. banks using internal models will have to report RWA figures more in line with the figures generated from the standardized approach. The floor for RWA figures will be gradually increase to 72.5% of the figures generated from the standardized approach by Jan'28. Hence, we believe that some European banks will have to increase their capital in the course of Basel III finalization.

The Basel 3.1 implementation timelines differ across jurisdictions. In the EU, the output floor of 50% started phasing in from 1 Jan'25, the floor will gradually be raised to 72.5% by 1 Jan'30. There are specific transitional arrangements, particularly for certain legacy portfolios such as unrated corporates and low-risk residential real estate. The phase-in period of these will be extended up to the end of 2032.

Meanwhile, in the UK, the Prudential Regulation Authority (PRA) delayed its Basel 3.1 implementation to 1 Jan'27 to better align with the US timeline. Despite the late start, the output floor is still scheduled to be fully phased-in by 1 Jan'30, implying a more compressed transition period for UK banks compared to their EU counterparts. See Table 2 for the implementation timeline.

Table 2: Basel 3.1 implementation timeline

Component	EU	UK
Credit risk SA	1 Jan'25	1 Jan'27
Credit risk IRB	1 Jan'25	1 Jan'27
Market risk	1 Jan'27	1 Jan'27
CVA	1 Jan'25	1 Jan'27
Operational risk	1 Jan'25	1 Jan'27
Output floor phase in	From 1 Jan'25 till 1 Jan'30 (with transitional arrangement until 31 Dec'32)	From 1 Jan'27 till 1 Jan'30

Source: BIS as of 31 Oct'25.

.... EU banks may need to replenish capital

EU banks face higher capital adequacy pressures relative to UK peers under Basel 3.1 implementation. That said, the impact on EU banks remains manageable with the sector's strong capital base. As per European Banking Authority (EBA), the aggregate capital shortfall across the EU banking sector is EUR5.1bn, with additional Tier 1 capital needs of EUR0.9bn. According to the EBA's third mandatory Basel III monitoring report published in Oct'24, EU banks' minimum Tier 1 capital requirements will increase by 7.8% at full implementation in 2033, represents a substantial improvement from the EBA's Dec'22 estimate of 9.0% increase, and reflecting the beneficial impact of EU-specific adjustments.

The impact from Basel 3.1 varies across banking categories. The overall minimum Tier 1 capital requirements for large and internationally active banks (Group 1) would increase by 8.6%; global systemically important institutions (G-SIIs, subset of Group 1) would increase by 12.2%; and Group 2 banks (smaller institutions) would increase by 3.6%. The output floor is the dominant factor driving capital increases. Operational risk under the new Standardized Measurement Approach (SMA) constitutes the second major contributor, particularly impacting institutions with substantial retail operations.

On the other hand, UK's PRA estimated that Tier 1 capital requirements for major UK banks will increase by less than 1% when fully implemented the Basel 3.1. The big four UK banks, i.e. Lloyds, Barclays, HSBC and NatWest face limited capital increase despite their significant IRB model usage. The difference in Basel 3.1 impact between UK and EU banks are partly attributable to UK banks' IRB models which have resulted in more conservative parameter estimates compared to EU practices.

Non-call is not uncommon in non-USD space but less common in USD space

As of today, among non-USD European AT1s issued after the implementation of Basel III in Jan'14, 85 issues were not redeemed on their first call dates. These AT1s are mainly from Germany, Norway and Austria. The non-call of USD AT1s is less common. We noted that there were 6 non-call events for USD AT1 issued after Jan'14, including the 3 AT1s of Credit Suisse. They were written down in 2023 when Credit Suisse collapsed. See Table 3. These somehow reflect the overall quality of issuers in USD space is higher such that they are more able to access offshore funding channels. They are also more incentivized to maintain the access and avoid higher funding cost resulting from coupon skip and non-call.

Table 3: Loss absorption, non-call and coupon skip events for AT1s issued after 2014

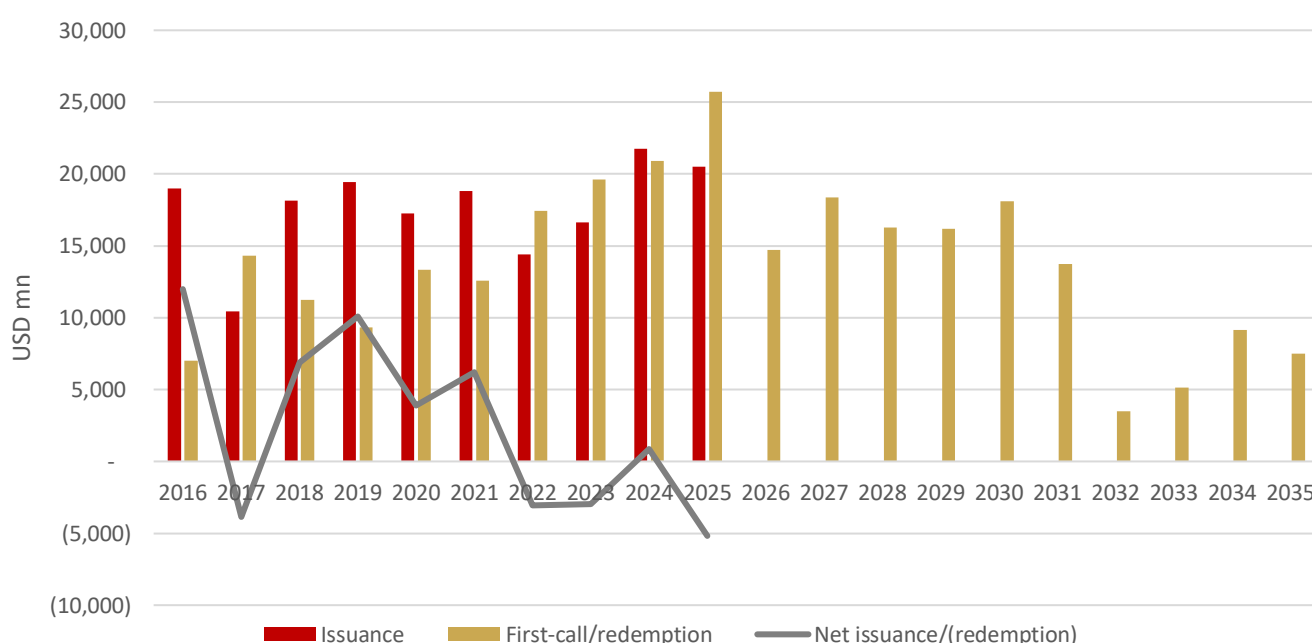
Year	Bank	Country	Incident	Bond	ISIN	Principal amt	Detail
USD							
2020/ 2025	Deutsche Bank AG	DE	Non-call on first call in Apr'20 and second call in Apr'25	DB 4.789 Perp/ DB 8.13011 Perp	XS1071551474	USD1.25bn	To avoid high refinancing cost, the coupon is reset to 8.13011% from 4.789% on the first call date
2022	CEG NV	NL	Non-call on first call in Dec'22	CGRPNV 10.27 Perp	XS1740243834	USD50mn	N/A
2023	Credit Suisse	CH	Written down	CS 7 1/2 Perp/ CS 7 1/2 Perp/ CS 6 1/4 Perp	US225401AJ72/ US225401AK46/ US225436AA21	USD2.0bn/ USD2.25bn/ USD2.5bn	Written down to zero during the emergency takeover by UBS
EUR							
2017	BremerLB	DE	Coupon skip	NDB Float Perp/ NDB 9.5 Perp	DE000BRL00A4/ DE000BRL00B2	EUR150mn	NDB recorded loss due to its exposure to weak shipping industry, was called in Jun'25
2017	Banco Espanol	Popular ES	Written down	SANTAN Float Perp	XS1189104356	EUR750mn	Written down to zero
2019	Banco Santander	ES	Non-call on first call in Mar'19	SANTAN 5.481 Perp	XS1043535092	EUR1.5bn	The coupon reset to 5.481% from 6.25% on first call date, was called in Mar'20
2020	Lloyds Group	Banking GB	Non-call on first call in Jun'20	LLOYDS 4.947 Perp	XS1043545059	EUR750mn	To maintain Tier 1 capital resources during Covid-19, was called in Jun'25
2023	Deutsche Pfandbriefbank	DE	Non-call on first call in Apr'23	PBBGR 8.474 Perp	XS1808862657	EUR300mn	To avoid high cost refinancing
2023	Banco Santander	ES	Non-call on first call in Sep'23	SANTAN 8.1232 Perp	XS1692931121	EUR1bn	To maintain AT1 capital and save funding cost. The perp was called in Dec'23 after issuance of EUR2.5bn AT1 at 9.625%

Source: Bloomberg

Modest increase in net issuance expected

We expect the capital requirements of European banks to increase in the course Basel III finalization. That said, the gradual phase-in should provide adequate time for raising additional capital in an orderly manner. Hence, we expect a modest increase in net issuance in 2026, driven by USD AT1s set for first-call redemption totaled USD11.2bn. A lower interest rate environment would also be supportive for new issuance to replenish capital. We consider the risk of non-call and coupon skips for EU G-SIBs is low under the backdrop of the falling UST, as well as the banks' incentive to maintain access to capital at low funding costs.

Chart 1: Net issuance to increase in 2026



Note: First-call/redemption include AT1 next callable.

Source: Bloomberg

Table 4: CET 1 ratio comparison of major EU and UK banks

Bank	Country	G-SIB	Dec'24	Mar'25	Jun'25	Sep'25
BNP Paribas	FR	Yes	12.9%	12.4%	12.5%	12.5%
Crédit Agricole	FR	Yes	11.6%	12.1%	11.9%	11.7%
Deutsche Bank	DE	Yes	13.8%	13.8%	14.2%	14.5%
ING	NL	Yes	13.6%	13.6%	13.2%	13.4%
Santander	ES	Yes	12.8%	12.9%	13.0%	13.1%
Société Générale	FR	Yes	13.3%	13.4%	13.5%	13.7%
UBS	CH	Yes	14.3%	14.3%	14.4%	14.8%
Barclays	UK	Yes	13.6%	13.9%	14.0%	14.1%
Lloyds	UK	No	14.2%	13.5%	13.8%	13.8%
HSBC	UK	Yes	14.9%	14.7%	14.6%	14.5%
NatWest	UK	No	13.6%	13.8%	13.6%	14.2%
Standard Chartered	UK	Yes	14.2%	13.8%	14.3%	14.2%

Source: Bloomberg

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