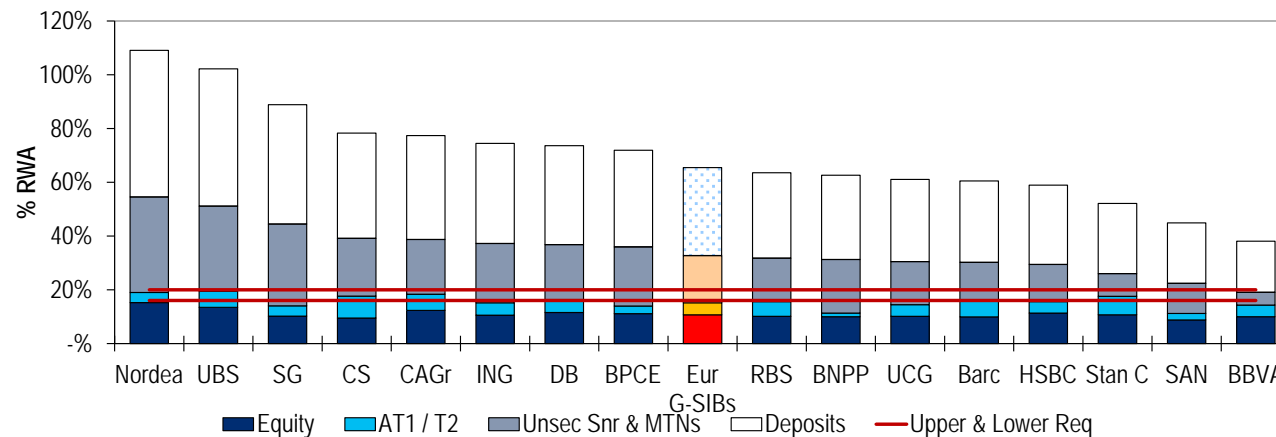


Introducing TLAC

Debate Over Bail-In Intensifies Into September G20 Meeting

- **Introducing TLAC to G-SIBs** — According to a recent Reuters' article, the top 29 global banks (G-SIBs) would have to hold minimum total loss-absorbing-capital of 16-20% of their risk-weighted assets and at least twice the minimum Basel 3 Tier 1 leverage requirement. Thus, unlike the European MREL (Minimum Requirement for Own Funds and Eligible Liabilities) that is based on total liabilities, this proposal appears to be based on both risk-weighted assets and leverage.
- **What is Bail-inable Capital?** — Our key question is on the definition of bail-inable capital: will there be minimum requirements for the components, to what extent is equity included (i.e. only above minimum regulatory ratios), and what features do senior bail-in instruments need for eligibility? Figure 1 shows high-level TLAC estimates of European G-SIBs.

Figure 1. Total Loss Absorbing Capacity (TLAC) For European G-SIBs vs. Lower (16%) And Upper (20%) Potential Requirements (1H14)



Notes: senior unsecured and MTN – used due to lack of info on TLAC – data is sourced from Dealogic. Source: Company Reports, Citi Research, Dealogic

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Comparing Shifts to GLAC Requirements

Given the lack of disclosure on TLAC, we outline the main differences between PLAC (UK), MREL (EU) and GLAC (G-SIBs)

- Banks will increasingly need to focus on their corporate structures, choosing between either a single point of entry (“SPE”) or multiple point of entry (“MPE”) approach

Figure 2. Comparison of PLAC / MREL / GLAC

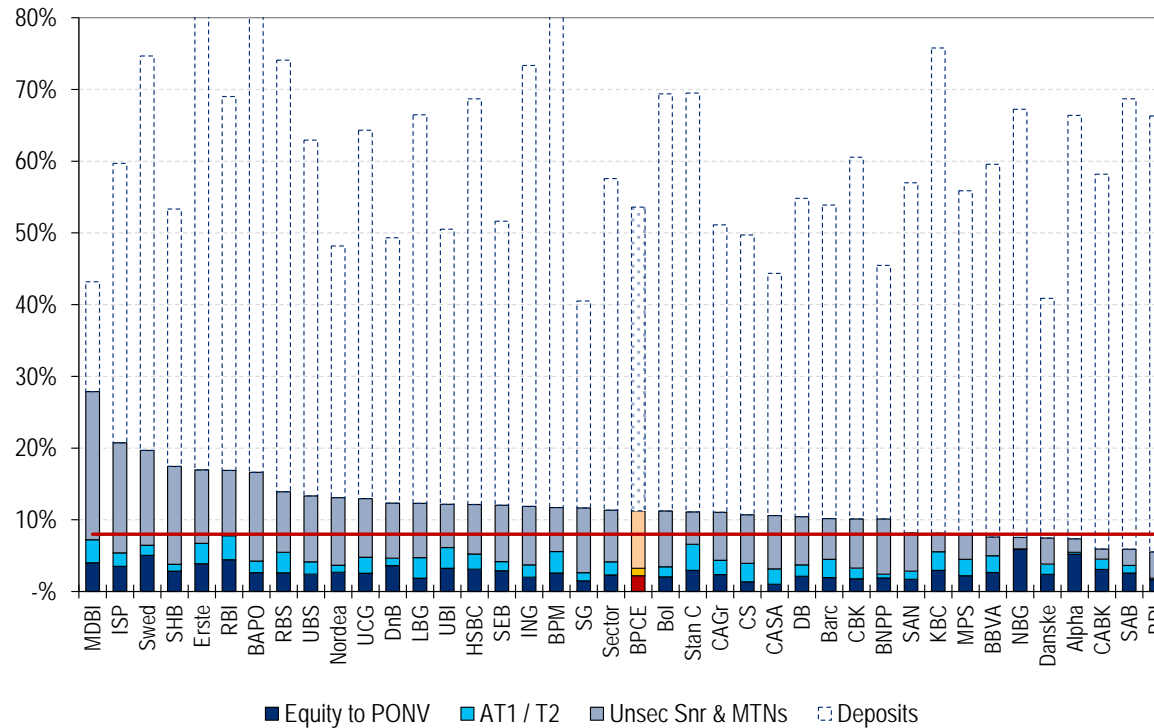
Measure: Jurisdiction:		PLAC UK	MREL EU	GLAC Global (G-SIBs)
Qualifying Items	Equity (Regulatory Capital Requirement)	✓	✓	[✗]
	Equity (Excess)	✓	✓	[?]
	AT1	✓	✓	[✓]
	High Trigger Low Trigger	✓ ✓	✓ ✓	✓ ✓
	T2	✓	✓	✓
	Senior Unsecured (>1yr)	✓	✓	[?] May be subject to contractual bail-in feature (or structural (holdco) subordination?)
Other		[✓] Clearly identified as subject to bail-in	[✓] Corporate deposits >1 year	[?]
Calculation Basis		% RWA	% Total Liabilities (including counterparty netted derivatives)	TBD (% RWA and/or % Total Liabilities)
Amount		Up to 17% (scaled down for smaller banks, may be higher for specified larger banks)	TBD Set individually for each bank [Speculation on 8% remaining from PONV; equivalent to 10+% initial level for most banks]	TBD Aiming for common minimum for all G-SIBs
Applicable Entity		<ul style="list-style-type: none"> UK headquartered G-SIBs <ul style="list-style-type: none"> Including UK/EEA operations Excluding non-EEA where regional resolution strategy applies Ringfenced banks / other D-SIBs 	Solo & Consolidated	TBD Should reflect resolution strategy for each bank
Timing		<ul style="list-style-type: none"> On hold, pending GLAC discussions 	From Jan 2016 (although requirement could be built-up over time)	Consultation to follow G-20 in Nov 2014

Source: Citi, UK Draft Legislation, BRRD, FSB

MREL 'Gone-Concern' Proposal (1) – Vs. 8% Total Liabilities/Eligible Capital

- Banks expected to have buffer of gone-concern loss-absorbing comment. MREL is an EU requirement under the Bank Recovery & Resolution Directive (BRRD): from the Point of Non-Viability (PONV), 8% of total liabilities must be absorbed by capital/eligible liabilities before use of Resolution Fund permitted
- Sector ratio of c.11%, *excluding* PONV (point of non-viability) CET1 of 5.125% (i.e. Equity component = CET1 less 5.125% of RWA); sector ratio is c.13% using *total* CET1

Figure 3. Loss-Absorbing Capital vs. 8% Total Liabilities/Eligible Capital Threshold (1H14)



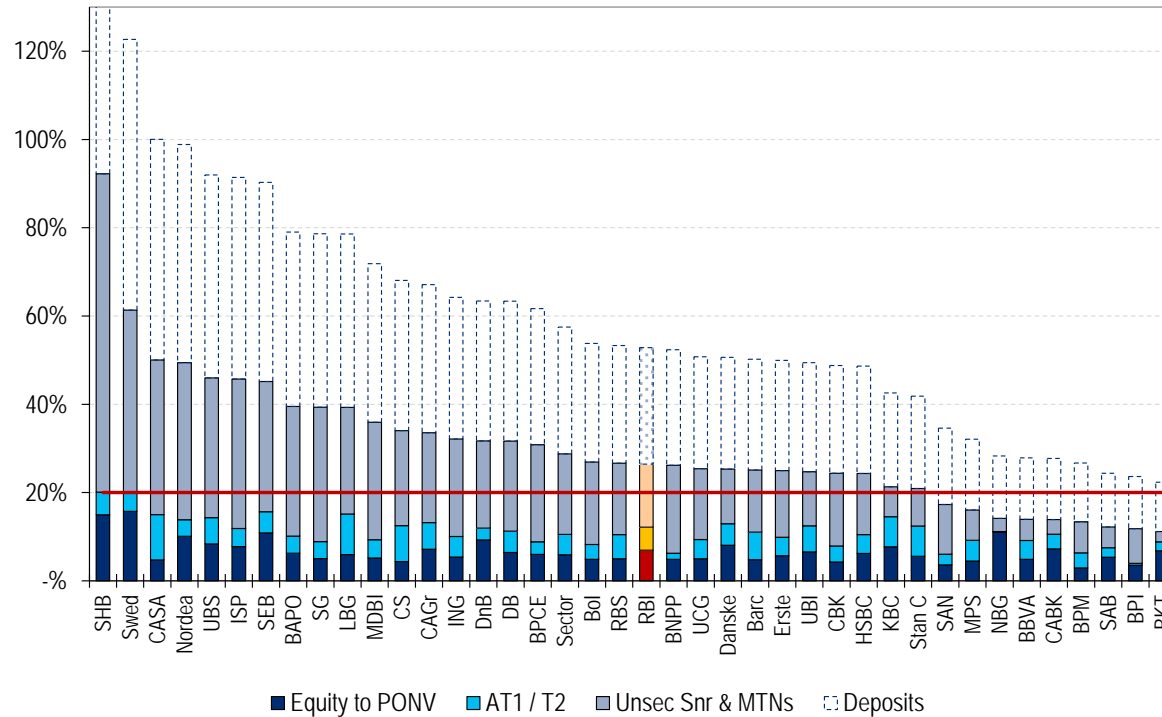
Source: Company Reports, Citi Research, Dealogic. Notes:

1. Senior unsecured debt and MTN data has been sourced from publicly-available information from Dealogic, except for Erste Bank, Santander, and Caixa Bank for which senior unsecured data is per company disclosures
2. Denominator based on Total Assets less Derivatives Netting. Erste Bank total assets reduced by 25% to remove effects due to consolidation of savings banks not fully owned
3. Equity to PONV = amount of equity that must be absorbed prior to PONV being reached, i.e. CET1 capital less 5.125% of RWA

MREL 'Gone-Concern' Proposal (2) – Vs. 20% RWA

■ Sector ratio of c.29%, *excluding* PONV (point of non-viability) CET1 of 5.125% (c.34% on a total CET1 basis)

Figure 4. Loss-Absorbing Capital vs. 20% RWA Threshold (1H14)



Source: Company Reports, Citi Research, Dealogic. Notes:

1. Senior unsecured debt and MTN data has been sourced from publicly-available information from Dealogic, except for Erste Bank, Santander, and Caixa Bank for which senior unsecured data is per company disclosures
2. Equity to PONV = amount of equity that must be absorbed prior to PONV being reached, i.e. CET1 capital less 5.125% of RWA

Figure 5. Companies Mentioned

Companies Mentioned	RIC	Price	Target	Rating
Alpha Bank	ACBr.AT	0.7	0.7	2
Banco BPI	BBPI.LS	1.5	1.5	2H
Banco Popular	POP.MC	4.9	4.9	3
Banco Popolare	BAPO.MI	12.6	12.6	2
Banco Santander	SAN.MC	7.7	7.7	2
Bank of Ireland	BKIR.I	0.3	0.3	3H
Bankinter	BKT.MC	6.8	6.8	2
Barclays	BARC.L	2.3	2.3	1
BBVA	BBVA.MC	9.6	9.6	2
BNP Paribas	BNPP.PA	53.9	53.9	1
BP Milano	PMIL.MI	0.6	0.6	2
CaixaBank	CABK.MC	4.7	4.7	1
Commerzbank	CBKG.DE	12.6	12.6	2H
Credit Agricole	CAGR.PA	11.9	11.9	1
Credit Suisse	CSGN.VX	25.3	25.3	1
Danske Bank	DANSKE.CO	161.4	161.4	1
Deutsche Bank	DBKGn.DE	27.0	27.0	1
DNB	DNB.OL	115.8	115.8	1
Erste Bank	ERST.VI	19.5	19.5	2
HSBC	HSBA.L	6.6	6.6	2
ING	ING.AS	11.0	11.0	1
Intesa Sanpaolo	ISP.MI	2.4	2.4	1
KBC	KBC.BR	43.0	43.0	1
Lloyds Banking Grp	LLOY.L	0.7	0.7	2
Mediobanca	MDBI.MI	7.0	7.0	1H
Monte dei Paschi	BMPS.MI	1.1	1.1	2H
National Bank of Greece	NBGr.AT	2.6	2.6	1
Nordea	NDA.ST	90.0	90.0	1
Piraeus Bank	BOPr.AT	1.5	1.5	1
Railfeisen Bank Intl	RBIV.VI	20.0	20.0	1
RBS	RBS.L	3.5	3.5	3H
Bco de Sabadell	SABE.MC	2.4	2.4	3
SE Banken AB	SEBa.ST	90.1	90.1	1
SHB	SHBa.ST	328.0	328.0	2
Societe Generale	SOGN.PA	41.4	41.4	1
Standard Chartered	STAN.L	12.4	12.4	1
Swedbank	SWEDa.ST	173.8	173.8	2
UBI Banca	UBI.MI	6.3	6.3	1H
UBS	UBSN.VX	16.4	16.4	1
UniCredit	CRDI.MI	6.2	6.2	1

Source: Powered by DataCentral (prices as of 15 Sep 2014)

Appendix A-1

Analyst Certification

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