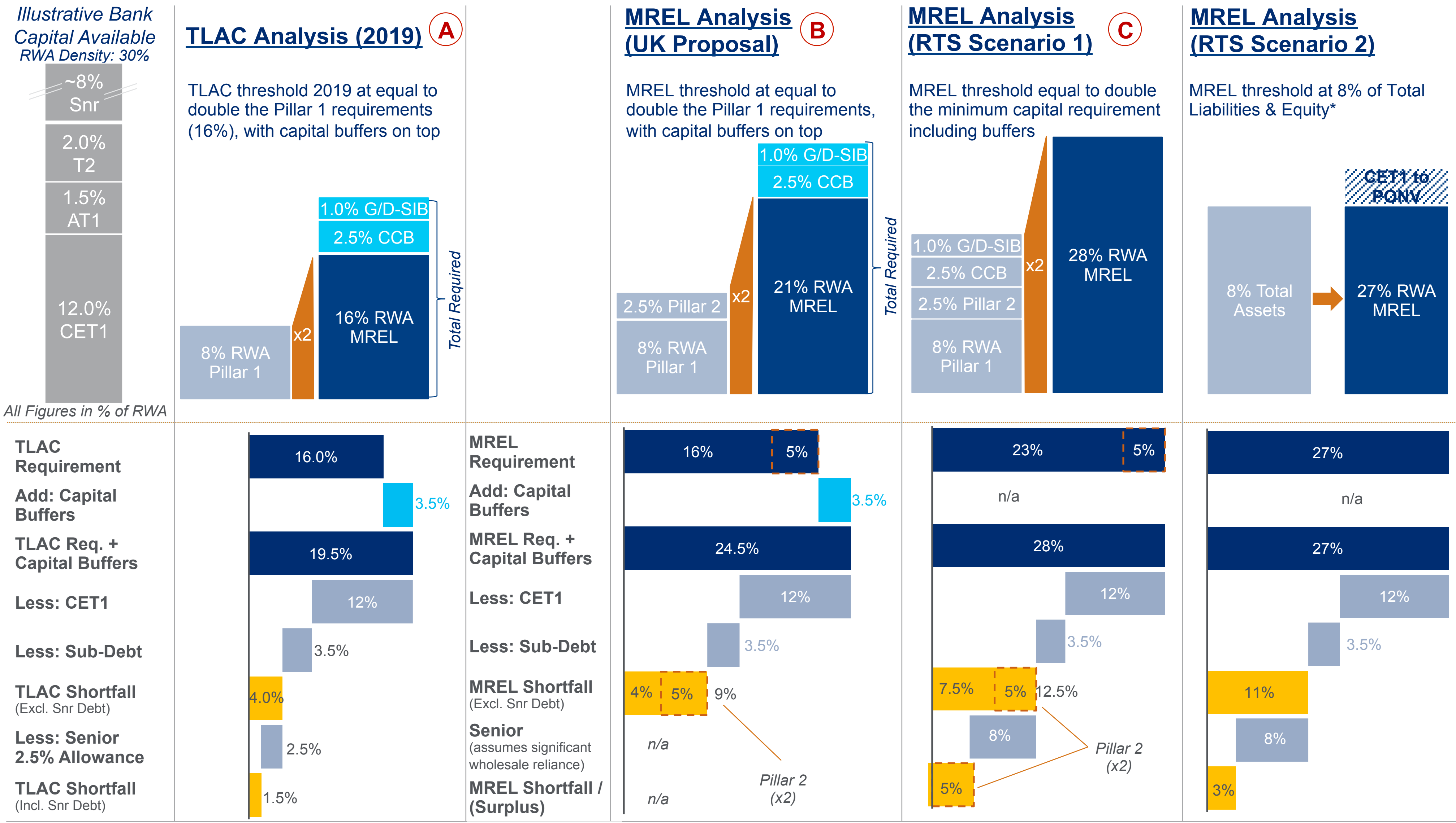
Illustrative: Potential MREL Calibration

Based on external assessment, banks' shortfall to meet their potential MREL requirement would vary substantially based in the calibration, in most cases requiring significant wholesale issuance.



*NB: As per EBA RTS as MREL measured from PONV. PONV here assumed to be 12% CET1 (current level); **MREL under Scenario 2 calculated as the sum of (i) 8% of total equity and liabilities, and current CET1 (in reality PONV may be lower and thus refer to the difference between current CET1 of 12% and PONV)

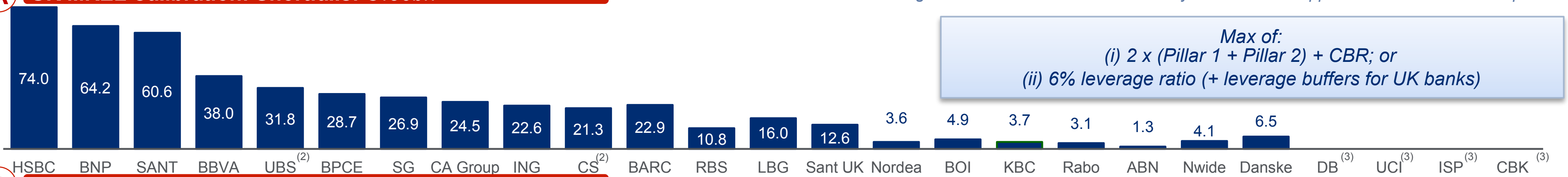
citi

MREL / TLAC – Application to European G-SIBs / D-SIBs

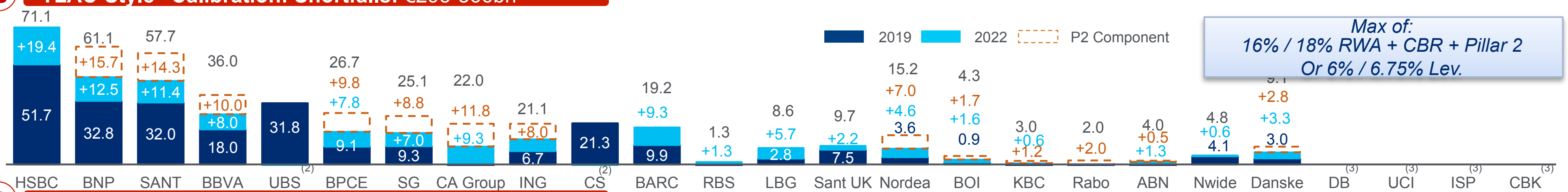
Depending on the calibration method, estimates on the total MREL shortfall for the largest Europe banks range from €289bn to €575bn.

A **UK MREL Calibration: Shortfalls: €436bn**

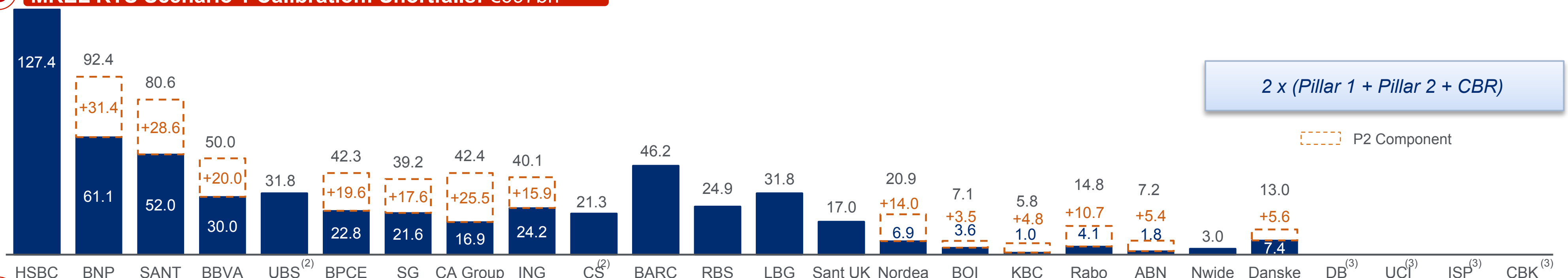
Including senior where structural or statutory subordination applies *All in EURbn equivalent*



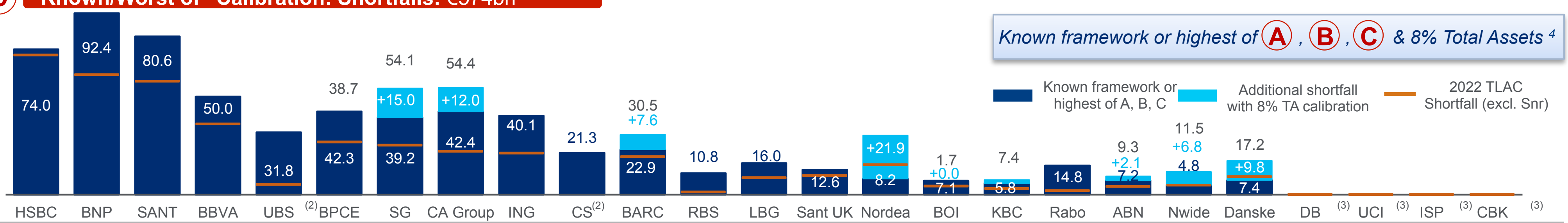
B **"TLAC-Style" Calibration: Shortfalls: €295-366bn**



C **MREL RTS Scenario 1 Calibration: Shortfalls: €697bn**



D **"Known/Worst of" Calibration: Shortfalls: €574bn**



Source: Citi

Using latest disclosure pro forma for new issuance; given inconsistency of disclosures where possible fully loaded CET1 is used with transitional tier 1 and 2 levels; (1) Assuming 18% RWA TLAC constraint plus applicable buffers including Pillar 2; (2) Using upper end of 8-10% Leverage TLAC requirement range for Swiss banks & a leverage buffer of 35% DSIB buffer of 3% for UK banks; (3) Assuming application of German and Italian statutory approaches; (4) measured from PONV (which is assumed as Pillar 1 + Pillar 2 + phased-in buffers + 0.25%)

Approaches to TLAC Subordination

National approaches to TLAC-eligible subordination encompass structural, statutory and contractual approaches, or a combination of the three.

	Statutory / Contractual Subordination					Structural Subordination
	Basic BRRD	German Bill	Spanish Law	Italian Decrees	Announced French Approach	UK (HoldCo Approach)
More Senior	Guaranteed Deposits	Guaranteed Deposits	Guaranteed Deposits	Guaranteed Deposits	Guaranteed Deposits	Guaranteed Deposits
	Retail / SME Deposits	Retail / SME Deposits	Retail / SME Deposits	Retail / SME Deposits	Retail / SME Deposits	Retail / SME Deposits
		Corp. Dep. / Net. Deriv. Liab.[1] / Struc. Notes		Corporate Deposits	Pref. Vanilla Sr. Debt / Corp. Dep. / Net. Deriv. Liab.[1] / OtherStruc. Notes	
	Vanilla Sr. Debt / Corp. Dep. / Net. Deriv. Liab.[1] / Struct. Notes	Vanilla Sr. Debt / Schuldscheine (loan-style private placements)	Vanilla Sr. Debt / Corp. Dep. / Net. Deriv. Liab.[1] / Struct. Notes	Vanilla Sr. Debt / Net. Deriv. Liab.[1] / Struct. Notes	Non-Pref Vanilla Sr. Debt	OpCo Sr. Debt / Corp. Dep. / Net. Deriv. Liab.[1] / Struct. Notes
			Sub. Debt (non-regulatory capital)		Sub. Debt (non-regulatory Tier 3 capital)	Intercompany Debt to HoldCo
	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
More Junior	Additional Tier 1	Additional Tier 1	Additional Tier 1	Additional Tier 1	Additional Tier 1	Additional Tier 1
Considerations	• NCWO claims may arise if corporate deposits, derivatives and structured notes are carved out from bail-in by the resolution authority, hence use of senior unsecured debt may be restricted	• Corporate deposits raised above vanilla senior (vs. previous draft where vanilla senior was automatically subordinated) • Senior debt may (for now) be eligible for ECB repo following revisions	• Allows creation of "Tier 3" statutorily where contracts allow • Allows banks to control the mix of senior / Tier 3	• Statutorily preferred status for corporate deposits may politically be more acceptable than for derivatives • TLAC eligibility of senior relies upon net uncollateralised derivatives / structured notes falling into the de minimis exemption (as they remain pari passu with senior)	• Allows creation of "non-preferred senior", subordinated to "preferred senior" in liquidation • "Tier 3" possible through contractual subordination but effective only after existing T2 has rolled off • Banks able to control the mix of preferred senior / senior / Tier 3	• Intercompany debt corresponds to Holdco Senior, Tier 2 and Additional Tier 1 • HoldCo instrument loss absorption influenced by capital structure (diversification, form of down streaming and thickness of capital layers) • Generally a SPE HoldCo resolution strategy
		• Applies to all existing senior obligations • Bill was published in the official Federal Law Gazette on 5th Nov; applies from January 2017 • Revised proposal to accommodate ECB opinions	**• Allows the issuance of Tier 3 subordinated debt • Doesn't impact existing senior**	**• Separates other senior liabilities through depositor preference & netting / collateralisation • Applies from 2019**	**• Creates two categories of senior debt • Unlike German approach, existing stock of debt to count as "preferred senior" • Law expected in 2016**	**• Banks required to transition all capital and some / funding to HoldCo**

1: Net uncollateralised derivative liabilities
Source: National legislation, Citi

Importance of Maintaining Secondary Market Liquidity

Secondary market liquidity is already diminished, especially relative to the size of “real money” investors. This remaining liquidity is predominantly provided by G-SIBs. In order to support the continued development of primary markets for TLAC, it is important that investors feel confident in the provision of secondary market liquidity. This needs to be carefully considered in relation to the limitations on G-SIBs holding other G-SIBs’ TLAC.