TLAC & MREL

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TLAC and MREL

The EBA expects these RTS to be broadly compatible with the proposed FSB term sheet for TLAC for G-SIBs.

Despite having the same purpose, both ratios are different.

"The EBA expects these RTS to be broadly compatible with the proposed FSB term sheet for TLAC for G-SIBs"
MREL depends heavily on the scenarios

Total MREL in Europe would range between 2.4 and 2.8 tn. EUR with needs between 0.8 and 1.1 tn. EUR

Total MREL requirement under different (in bn €)

- Analysis based on 2014 stress test EBA exercise (data as of Dec 2013), SNL Financial and ECB Data
- MREL impact at a consolidated level
- Scenarios: Doubling current capital requirements, excluding buffers and with a 30% decrease in RWA in post resolution, 8% floor

MREL needs over total capital per type of institution (in bn €)
EBA’s analysis/impact assessment

Significant effect in the existing MREL gap of the resolution authority assessments about senior unsecured debt

Average MREL ratio

- Analysis based on EBA QIS data as of the end of 2014 (64 banks)
- Equity + Own Funds instruments + other subordinated debt represent 6% of total liabilities and own funds
- Senior unsecured debt above 1 year is c. 6.8%
- Uncovered deposits above 1 year account for c. 2.8%

Aggregate MREL shortfall (in bn €)

<table>
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<tr>
<th>Scenario A (2* CR)</th>
<th>Scenario B (8% tot. liabilities and own funds)</th>
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<tr>
<td>Amount</td>
<td>% of assets whole sample</td>
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<tr>
<td>MREL 1: Equity &amp; sub debt only</td>
<td>674</td>
</tr>
<tr>
<td>MREL 2: MREL 1 + senior unsecured debt with residual maturity &gt; 1 year + uncovered deposits &gt; 1 year</td>
<td>44</td>
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MREL 1: Regulatory capital + total unsecured subordinated debt > 1 year
MREL 2: MREL 1 + total senior unsecured debt > 1 year
MREL 3: MREL 2 + uncovered deposits > 1 year
TLAC analysis

- Analysis based on our understanding of the latest TLAC draft
- Main Assumptions:
  - Analysis at a consolidated level (No difference SPE/MPE)
  - Max senior debt eligible is 2.5% of RWA
  - Leverage requirement taken into account
  - Data source: Bloomberg as of 24 Sep 2015
  - Structured Notes included due to the lack of information

With the current situation, only around EUR175 bn are eligible (2.5% of RWA) and the total shortfall could be c. EUR374 bn (not including any additional TLAC Pillar 2)

- Shortfall to improve given the issuances from HoldCo
- If senior debt were eligible for TLAC, there would not be any shortfall at an aggregated level

European G-SIBs’ Maturity Profile vs. TLAC estimated shortfall (in bn €)
Pending Issues significant for the “Quantum”

Statutory Approaches

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<th>Retail &amp; SME Deposits</th>
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<td>Senior Debt</td>
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<td>Debt with subordination clauses (“Tier 3”)</td>
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<tr>
<td>Senior Debt (including Schuldchein)</td>
<td>T2</td>
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<tr>
<td>Corporates Deposits</td>
<td>Senior Debt</td>
<td>Structured Notes</td>
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### Z-sprd EUR HoldCo and OpCo senior (bp)
Source: Bloomberg and BBVA GMR

### German issuer senior vs iBoxx Sen. financial (ASW bp)
Source: Bloomberg and BBVA GMR

### Italian bank senior vs iBoxx Sen. financials
Source: Bloomberg and BBVA GMR

![Graphs and charts showing comparisons and trends related to statutory approaches and pending issues.](image-url)
Pending Issues significant for the “Quantum”

MPE vs. SPE

Illustrative example:
The Loss Absorption Amount is equal to 10.5% of RWA and Recapitalization Amount is equal to 10.5% of RWA pre-resolution. How will the MREL expressed over RWA be?

- A bank with a 60% of RWA density will have to hold at least MREL eligible liabilities in an amount equivalent to 21% of RWA.
- A bank with a 22% of RWA density will have a MREL requirement equivalent to 36% of RWA.
Discussion Points

1. Fragmentation: National transpositions of the BRRD could lead to different hierarchy for the senior unsecured debt depending on each Member State. Could this lead to un-level playing field?

2. Should senior unsecured debt be subordinated, how negative could be the impact in terms of spread widening? (not eligible as collateral for Eurosystem credit operations, higher haircuts in the repo market, investment policies not including subordinated instruments…)

3. If senior unsecured debt is not eligible and must be refinanced with Tier 3, could this mean a tightening of the spread covered-senior due to a “scarcity effect”?

4. Although under Pillar 3, market transparency is going to be improved, there are still some requirements that could not be disclosed as they are negotiated bilaterally (MREL, Pillar 2 add-ons…). How likely is that those banks not disclosing this information would see a premium requested by investors? If some banks with a more open communication policy disclose all this information, would this put additional pressure on the rest of the banks to follow?

5. CRR imposes deductions for holding regulatory capital of other banks. Similarly, the FSB recommends to disincentivise active banks from holding TLAC-eligible instruments issued by G-SIBs by deducting them from the entity’s own TLAC. Could we see a dramatic reduction in secondary market liquidity of senior unsecured bonds, similarly to the impact seen in regulatory capital instruments?