

FINANCIALS

A Research Publication by DZ BANK AG

Bail-in regulations making banks' liability structure more important

- » With the introduction of rigorous resolution regimes designed to allow the orderly resolution and recovery of distressed banks it has become ever more important to understand a bank's liability structure, since a resolution can lead to a bail-in of equity and bond holders. The amount of equity and loss-absorbing liabilities a bank holds, and how these are distributed between the different ranks of the bail-in hierarchy, provide an indication of the loss an investor may be faced with on an individual instrument.
- » In this publication we will start by presenting the liability structure - i.e. the equity instruments and loss-absorbing liabilities - of the banks we cover as at the year-end 2014. We then simulate a loss to determine what impact this has on the bank's capital ratios. It also provides an indication of the extent to which shareholders and creditors would be bailed in in the event that the institution is subject to resolution and recovery and the CET1 ratio has to be brought back up to a predefined level.
- » The results of the simulation are that even with a loss of 5% of total assets, and even more so at a loss of 8% of assets, a large haircut is imposed on senior creditors at many banks.
- » Interpreting the results is not necessarily straightforward, however. As so often there are no unambiguous answers - what is a "good" result and what is a "bad" one? It depends on a whole variety of factors that go to make up a bank's credit quality. The question of how likely it is that a bank will suffer a (severe) loss and undergo resolution and recovery in the first place is of course critical too. A further point to take into account is the fact that our figures are based on some simplifying assumptions, such as the complete absence of capital market access. The analysis set out here should therefore only be taken as an indication of how heavily a bank's equity and bond holders would be hit by a particular defined loss and subsequent resolution.

BONDS

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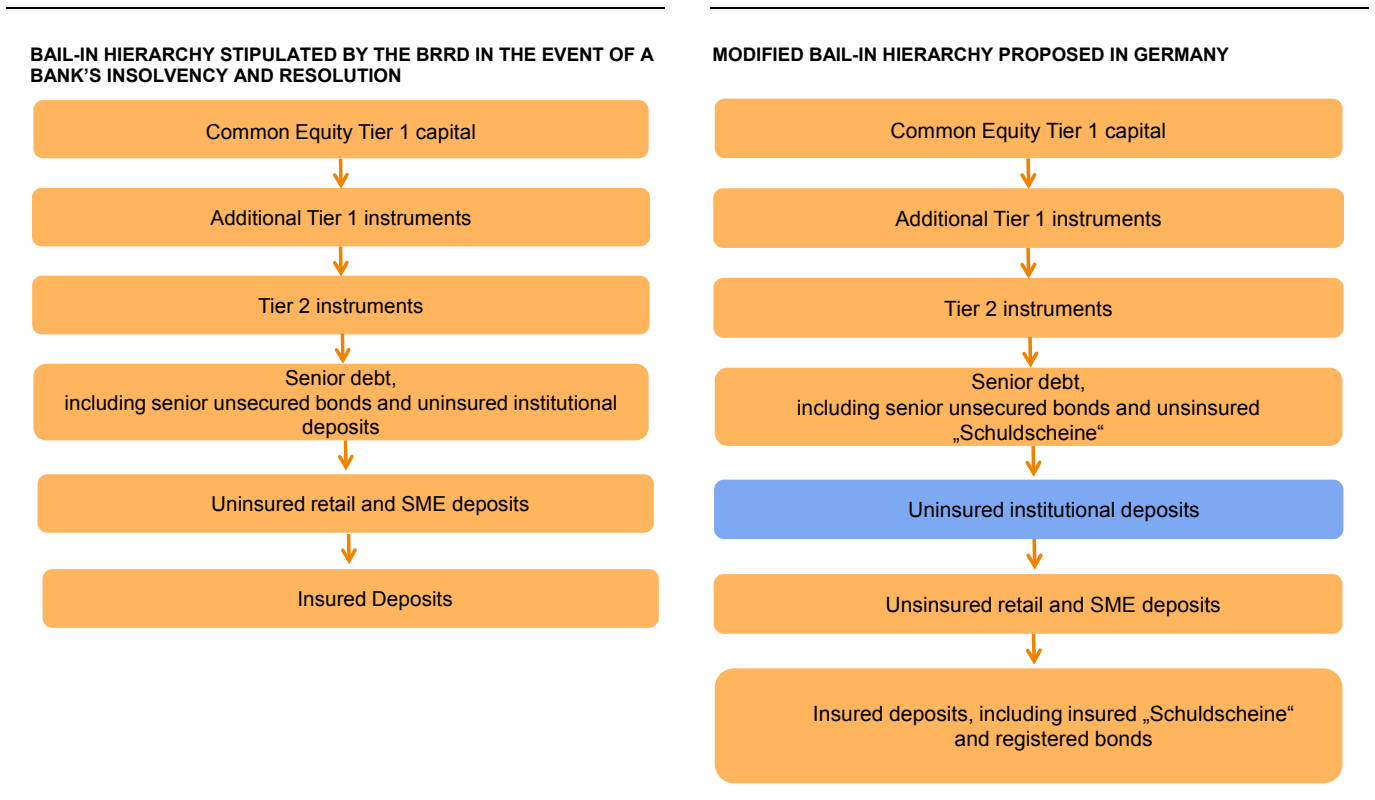
INVESTIGATING A BANK'S LIABILITY STRUCTURE

Many countries in Europe have introduced a rigorous resolution regime designed to allow the orderly resolution and recovery of distressed banks. As a result, it has become ever more important to understand a bank's liability structure, since a resolution can lead to a bail-in of equity and bond holders. The amount of equity and loss-absorbing liabilities a bank holds, and how these are distributed between the different ranks of the bail-in hierarchy, provide an indication of the loss an investor could be faced with on an individual instrument. The various national restructuring laws stipulate that all of the paper in each rank of the creditor hierarchy must be bailed in before the paper in the next category can be drawn on for loss absorption purposes.

Structure of a bank's liabilities more important after introduction of the bail-in rules

The Bank Recovery and Resolution Directive (BRRD), which is intended to harmonise banking resolution, at least at EU level, and must be transposed into national law by the individual member states, specifies a bail-in hierarchy in the event of insolvency and resolution. The draft legislation in Germany, which still has to be approved by Bundesrat (upper house of parliament) before it becomes law, contains a slight modification of this bail-in hierarchy (see our Flash "Deutschland ändert Haftungskaskade"/ Germany changes the creditor hierarchy – available in German only; of 20 May 2015). The chart below shows both bail-in hierarchies.

Bail-ins based on the legislation on creditor hierarchies



Source: DZ BANK Research

In this publication we will start by presenting the liability structure – i.e. the capital (equity) instruments and loss-absorbing liabilities – of the banks we cover as at the year-end 2014. The banks' equity instruments include Common Equity Tier 1 (CET1)

Analysis of the liability structure of the banks we cover

^{1)–9)} Important: Please read the references to possible conflicts of interest and disclaimers/disclosures at the end of this report.

capital, Additional Tier 1 (AT1) capital and Tier 2 capital. The loss-absorbing liabilities include senior unsecured liabilities, except covered bonds and structured products. Due to the uncertainty about their loss-absorbing capacity we have also excluded commercial paper and certificates of deposit from our data.

We then simulate a particular loss – in our example 5% and 8% of the bank's total assets – to determine what impact this has on the bank's capital ratios. It also provides an indication of the extent to which shareholders and creditors would be bailed in in the event that the institution is subject to resolution and recovery and the CET1 ratio has to be brought back up to a predefined level.

We use bank data as at the end of 2014 throughout this publication, as complete and comparable data is available for most of the banks we cover. Not all of the banks provided comprehensive information on their capital positions in their interim reports on the first quarter of 2015. We have excluded **HSB Nordbank**²⁾ from the results, as the analysis of this bank is rendered considerably more complicated by the state guarantees. In the case of **Banca Monte dei Paschi di Siena** we need to take into account that the bank carried out a capital increase of EUR 3 billion in the first half of 2015 and has therefore already strengthened its capital ratios compared with the end of 2014.

OVERVIEW: CAPITAL INSTRUMENTS AND LOSS-ABSORBING LIABILITIES

In a first step we added together the equity and loss-absorbing liabilities, i.e. senior unsecured bonds (excluding commercial paper, certificates of deposit and structured paper), held by the banks at the end of 2014 and divided these by their total assets (see chart on next page).

The chart shows how much equity and debt each bank holds and the extent to which the various equity and debt holders would be affected by a bail-in in the event of resolution. The chart shows, for example, that a loss of 8% of total assets would lead to an almost complete bail-in of the shareholders at most of the banks and in many cases also a substantial bail-in of the holders of senior unsecured paper.

The loss of 8% of total assets shown in the chart was not chosen completely arbitrarily. This is the minimum level of losses that must be borne by shareholders and creditors before resources can be drawn from the European bank resolution funds. We will go into this in more detail in the next section.

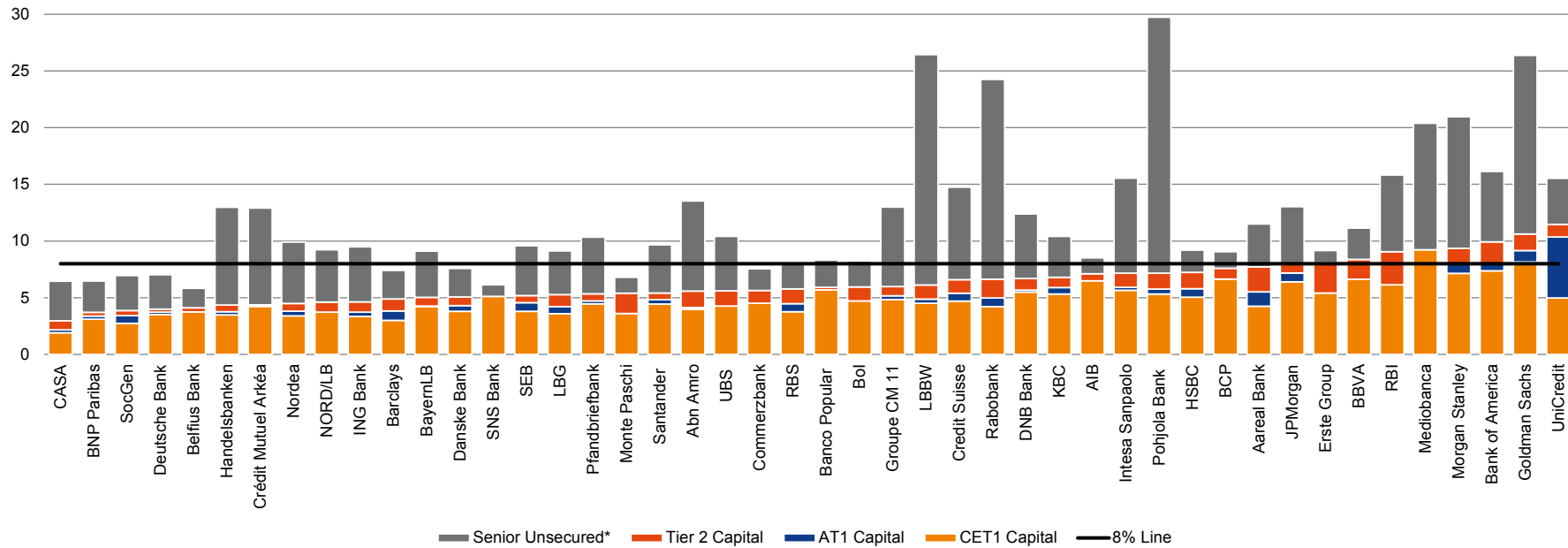
Simulation of a loss highlights potential creditor losses

What equity and debt buffers do the banks have?

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SHAREHOLDERS AND CREDITORS USUALLY HIT HARD BY LOSS OF 8% OF ASSETS

ELIGIBLE CAPITAL AND OUTSTANDING SENIOR UNSECURED BONDS* AS % OF ASSETS (DATA AS AT END-DECEMBER 2014)



* Loss-absorbing senior bonds only, i.e. excluding covered bonds, structured paper, commercial paper and certificates of deposit; outstanding senior bonds of the parent company as an approximation for DNB Bank Group, ING Bank, Pfandbriefbank, Pohjola Bank, RBI and SNS Bank; Source: Company data, Dealogic, DZ BANK Research

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Accessing resources from the resolution funds

The BRRD requires the establishment of national resolution funds throughout the EU to fund the restructuring of distressed banks (e.g. to provide liquidity, set up and finance a bridge bank etc.). Each country's banks will pay in to these national resolution funds, and the aim is that they will reach a target volume of at least 1% of the covered deposits of the country's banking system within 10 years.

The national supervisory authorities have a certain degree of flexibility in how they use these funds and are permitted to use them for loss absorption or to recapitalise a distressed bank in exceptional cases, subject to strict criteria. An essential precondition for any such intervention is that the shareholders and creditors must already have absorbed losses of at least 8% of the bank's total liabilities including equity (see our Special "Banking Regulation – an Overview" of 7 November 2013).

We have therefore drawn in a line at 8% of assets in the chart above to show how much of a buffer the banks covered by us have and the extent to which a bank's shareholders and creditors would be bailed in if the resolution fund were to inject capital.

Investors should not rely too heavily on the 8% threshold

However, investors should not over-rely on the possibility of access to the resolution funds for loss absorption and re-capitalisation, and under no circumstances should it be interpreted as placing a limit on losses at 8% of liabilities. Firstly, any capital provided by the national resolution funds is limited by the BRRD to 5% of total liabilities; and secondly the regulations refer to a minimum bail-in of 8% of liabilities. Intervention by the national resolution funds is intended to be the exception, and the national supervisory authorities have considerable discretion in using this tool.

It also remains to be seen how long it will take the national resolution funds to build up sufficient resources. After all, the regulations only require the provisional target volume of 1% of the covered deposits of a banking system to be reached in 10 years. And even then it is by no means certain that the funds would be big enough to cover all of a bank's losses above 8% of total assets. This question would be particularly pressing in the event of a systemic crisis where more than one bank got into difficulties.

The "8% rule" applies, moreover, at the time of the bail-in. It therefore does not take account of previous losses – which are not unlikely for a bank in the process of resolution. Previous losses could therefore have already eaten up a large proportion of a bank's capital and the distressed bank may not yet have been able to raise any new capital in the meantime. A bail-in of 8% could therefore be significantly more painful for the creditors than it appears in a static analysis of current data.

HOW LARGE A BAIL-IN CAN BE EXPECTED? SIMULATION OF A LOSS

This section will examine the impact of a particular loss assumption on a bank's capital ratios and the extent to which its shareholders and creditors would be bailed in if the bank was resolved. To carry out this exercise we have to make a number of assumptions.

The resolution funds will only provide capital injections on the basis of stringent criteria

Supervisory authorities have considerable scope for discretion

8% haircut only applies at the point of the bail-in

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Banking supervisors normally require a restructured bank that has undergone a bail-in of creditors to have a CET1 ratio that is higher than its peer group. The purpose of this exercise is that banks will be able to fund themselves independently on the capital markets even after a bail-in. We have therefore assumed that after suffering losses a bank that is in the course of restructuring will be required by the supervisory authorities to reach a CET1 ratio of 14%. The "CET1 capital requirement after loss" column in our tables is therefore a CET1 ratio of 14%. The charts that follow the tables are also based on this assumption. However, it is worth noting that this is likely to lead to the scale of the bail-in being overstated if a loss is relatively small (e.g. a loss of 1% of assets).

The assumptions underlying our simulation

Moreover, we also assume that banks have no access to the capital market and therefore cannot plug their capital shortfall on the market after a loss. In reality banks which normally enjoy good market access are still likely to be able to raise capital, even after a large loss, in order to close a capital shortfall. Therefore they would probably not have to impose a bail-in on the scale indicated in the table. We have also assumed that in the event of a loss there is no change in the volume of risk-weighted assets. Nor have we taken account of write-downs of goodwill, so the loss we are assuming is passed through in full to the bank's capital position. However, in reality losses deriving from write-downs of goodwill do not reduce the level of regulatory capital.

Banks do not have capital market access

We obtained our data on outstanding loss-absorbing senior bonds from Dealogic. It should be noted that for DNB Bank Group, ING Bank, Pfandbriefbank, Pohjola Bank, RBI and SNS Bank we used the outstanding volume at the parent company, which probably tends to overstate the senior bond volume and so may underestimate the scale of any bail-in.

In the two tables set out below the first five columns show each bank's total assets, equity and the outstanding volume of loss-absorbing senior bonds. We then simulate a loss, of 5% of total assets in the first table and 8% in the second, which produces a new CET1 ratio. The next column shows the new target CET1 capital if, as set out above, we assume that the regulators demand a CET1 ratio of 14% after the loss event. The next four columns show the amounts of equity and senior bonds remaining after the loss and recapitalisation. The haircut this represents for the senior bonds is listed in the final column on the right-hand side.

Explanation of the two tables below

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Bank	Total assets	CET1 Capital	AT1 Capital	Tier 2 Capital	Loss absorbing Seniors	Assumed loss 5% of TA	CET1 ratio after loss	CET1 Capita requirem. after loss	Residual CET1 Capital	Residual AT1 Capital	Residual T2 Capital	Residual Seniors	Senior Haircut
Aareal Bank	49,557	2,109	626	1,091	1,870	2,478	-2.38	2,169	0	0	0	1,049	44%
Abn Amro	386,867	15,426	559	5,663	30,733	19,343	-3.57	15,351	0	0	0	17,687	42%
AIB	107,455	6,974	0	674	1,500	5,373	2.71	8,276	0	0	0	0	100%
Banco Popular	161,456	9,194	0	366	3,885	8,073	1.40	11,192	0	0	0	0	100%
Bank of America	2,104,534	155,361	13,612	39,697	130,977	105,227	3.97	176,616	0	0	0	57,804	56%
Bank of Ireland	129,800	6,136	0	1,597	2,955	6,490	-0.69	7,224	0	0	0	0	100%
Barclays	1,357,906	40,870	11,192	14,281	34,283	67,895	-6.11	61,946	0	0	0	0	100%
BayernLB	232,124	9,800	100	1,800	9,439	11,606	-2.36	10,724	0	0	0	0	100%
BBVA	631,942	41,937	0	11,046	17,391	31,597	2.95	49,082	0	0	0	0	100%
BCP	76,361	5,077	0	723	1,120	3,818	2.97	5,933	0	0	0	0	100%
Belfius Bank	194,407	7,276	0	705	3,356	9,720	-4.94	6,932	0	0	0	0	100%
BNP Paribas	2,077,759	64,500	5,900	6,800	57,330	103,888	-6.41	85,960	0	0	0	0	100%
CASA	1,589,100	30,411	4,100	12,756	55,209	79,455	-16.74	41,018	0	0	0	0	100%
Commerzbank	557,609	25,123	0	6,353	10,639	27,880	-1.28	30,125	0	0	0	0	100%
CM Arkéa	103,204	4,375	0	145	8,800	5,160	-2.85	3,852	0	0	0	4,308	51%
Credit Suisse	921,462	43,322	6,482	10,947	75,148	46,073	-0.94	40,797	0	0	0	49,028	35%
Danske Bank	3,453,015	131,139	17,434	26,310	87,100	172,651	-4.79	121,240	0	0	0	0	100%
Deutsche Bank	1,708,703	60,103	3,795	4,395	51,786	85,435	-6.39	55,531	0	0	0	0	100%
DNB Bank	2,361,990	129,915	4,028	24,115	134,448	118,100	1.14	145,375	0	0	0	29,031	78%
Erste Group	196,287	10,623	0	5,216	2,126	9,814	0.80	14,084	0	0	0	0	100%
Goldman Sachs	856,240	69,830	8,603	12,545	134,802	42,812	4.74	79,844	0	0	0	103,124	23%
Groupe CM11	543,735	26,332	1,747	4,494	38,110	27,187	-0.47	25,459	0	0	0	18,037	53%
HSBC	2,634,139	133,200	19,539	37,991	51,278	131,707	0.12	170,767	0	0	0	0	100%
ING Bank	992,856	33,256	3,844	8,915	48,246	49,643	-5.53	41,485	0	0	0	3,134	94%
Intesa Sanpaolo	646,427	36,547	1,700	8,043	54,131	32,321	1.57	37,771	0	0	0	30,329	44%
JPMorgan	2,573,126	164,852	20,058	21,684	128,662	128,656	2.24	226,700	0	0	0	0	100%
KBC	245,174	13,076	1,400	2,212	8,814	12,259	0.90	12,773	0	0	0	471	95%
LBBW	266,230	12,015	957	3,343	54,087	13,312	-1.58	11,508	0	0	0	45,582	16%
LBG	854,896	30,689	5,355	9,023	32,939	42,745	-5.03	33,563	0	0	0	1,698	95%
Mediobanca	70,559	6,513	0	0	7,864	3,528	5.04	8,287	0	0	0	2,562	67%
Monte Paschi	183,444	6,608	0	3,293	2,578	9,172	-3.36	10,671	0	0	0	0	100%
Morgan Stanley	801,510	57,324	6,858	10,790	93,009	40,076	3.72	64,834	0	0	0	63,071	32%
NORD/LB	197,607	7,381	0	1,742	9,125	9,880	-3.61	9,692	0	0	0	0	100%
Nordea	669,342	22,821	2,767	4,461	36,308	33,467	-7.32	20,367	0	0	0	12,523	66%
Pfandbriefbank	75,518	3,364	195	483	3,771	3,776	-2.66	2,168	0	0	0	1,868	50%
Pohjola Bank	50,703	2,700	219	713	11,442	2,535	0.75	3,057	0	0	0	9,482	17%
Rabobank	681,086	28,714	5,160	11,265	119,985	34,054	-2.52	29,662	0	0	0	101,408	15%
RBI	121,624	7,477	0	3,527	8,231	6,081	2.03	9,621	0	0	0	3,533	57%
RBS	1,050,763	39,649	7,468	13,626	23,526	52,538	-3.62	49,826	0	0	0	0	100%
Santander	1,266,296	56,282	4,728	7,560	53,704	63,315	-1.21	81,671	0	0	0	0	100%
SEB	2,641,246	100,561	19,756	16,582	115,922	132,062	-5.11	86,314	0	0	0	34,444	70%
SNS Bank	68,159	3,485	0	0	698	3,408	0.34	3,132	0	0	0	0	100%
SocGen	1,308,170	35,792	8,858	5,864	40,537	65,409	-8.39	49,447	0	0	0	0	100%
S'Handelsbanken	2,816,676	98,084	8,043	16,731	242,683	140,834	-8.90	67,254	0	0	0	157,453	35%
UBS	1,007,976	42,975	0	13,448	48,568	50,399	-3.36	30,923	0	0	0	23,670	51%
UniCredit	844,217	41,998	45,499	9,358	34,271	42,211	-0.05	57,291	0	0	0	31,624	8%

Data in millions of local currency; outstanding senior bonds of the parent company as an approximation for DNB Bank Group, ING Bank, Pfandbriefbank, Pohjola Bank, RBI and SNS Bank; Source: Company data, Dealogic, DZ BANK Research

Bank	Total assets	CET1 Capital	AT1 Capital	Tier 2 Capital	Loss absorbing Seniors	Assumed loss 8% of TA	CET1 ratio after loss	CET1 Capita requirem. after loss	Residual CET1 Capital	Residual AT1 Capital	Residual T2 Capital	Residual Seniors	Senior Haircut
Aareal Bank	49,557	2,109	626	1,091	1,870	3,965	-11.98	2,169	0	0	0	0	100%
Abn Amro	386,867	15,426	559	5,663	30,733	30,949	-14.16	15,351	0	0	0	6,081	80%
AIB	107,455	6,974	0	674	1,500	8,596	-2.74	8,276	0	0	0	0	100%
Banco Popular	161,456	9,194	0	366	3,885	12,917	-4.66	11,192	0	0	0	0	100%
Bank of America	2,104,534	155,361	13,612	39,697	130,977	168,363	-1.03	176,616	0	0	0	0	100%
Bank of Ireland	129,800	6,136	0	1,597	2,955	10,384	-8.23	7,224	0	0	0	0	100%
Barclays	1,357,906	40,870	11,192	14,281	34,283	108,632	-15.31	61,946	0	0	0	0	100%
BayernLB	232,124	9,800	100	1,800	9,439	18,570	-11.45	10,724	0	0	0	0	100%
BBVA	631,942	41,937	0	11,046	17,391	50,555	-2.46	49,082	0	0	0	0	100%
BCP	76,361	5,077	0	723	1,120	6,109	-2.44	5,933	0	0	0	0	100%
Belfius Bank	194,407	7,276	0	705	3,356	15,553	-16.72	6,932	0	0	0	0	100%
BNP Paribas	2,077,759	64,500	5,900	6,800	57,330	166,221	-16.57	85,960	0	0	0	0	100%
CASA	1,589,100	30,411	4,100	12,756	55,209	127,128	-33.01	41,018	0	0	0	0	100%
Commerzbank	557,609	25,123	0	6,353	10,639	44,609	-9.06	30,125	0	0	0	0	100%
CM Arkéa	103,204	4,375	0	145	8,800	8,256	-14.11	3,852	0	0	0	1,212	86%
Credit Suisse	921,462	43,322	6,482	10,947	75,148	73,717	-10.43	40,797	0	0	0	21,384	72%
Danske Bank	3,453,015	131,139	17,434	26,310	87,100	276,241	-16.76	121,240	0	0	0	0	100%
Deutsche Bank	1,708,703	60,103	3,795	4,395	51,786	136,696	-19.31	55,531	0	0	0	0	100%
DNB Bank	2,361,990	129,915	4,028	24,115	134,448	188,959	-5.69	145,375	0	0	0	0	100%
Erste Group	196,287	10,623	0	5,216	2,126	15,703	-5.05	14,084	0	0	0	0	100%
Goldman Sachs	856,240	69,830	8,603	12,545	134,802	68,499	0.23	79,844	0	0	0	77,437	43%
Groupe CM11	543,735	26,332	1,747	4,494	38,110	43,499	-9.44	25,459	0	0	0	1,725	95%
HSBC	2,634,139	133,200	19,539	37,991	51,278	210,731	-6.36	170,767	0	0	0	0	100%
ING Bank	992,856	33,256	3,844	8,915	48,246	79,428	-15.58	41,485	0	0	0	0	100%
Intesa Sanpaolo	646,427	36,547	1,700	8,043	54,131	51,714	-5.62	37,771	0	0	0	10,936	80%
JPMorgan	2,573,126	164,852	20,058	21,684	128,662	205,850	-2.53	226,700	0	0	0	0	100%
KBC	245,174	13,076	1,400	2,212	8,814	19,614	-7.17	12,773	0	0	0	0	100%
LBBW	266,230	12,015	957	3,343	54,087	21,298	-11.29	11,508	0	0	0	37,595	30%
LBG	854,896	30,689	5,355	9,023	32,939	68,392	-15.73	33,563	0	0	0	0	100%
Mediobanca	70,559	6,513	0	0	7,864	5,645	1.47	8,287	0	0	0	446	94%
Monte Paschi	183,444	6,608	0	3,293	2,578	14,676	-10.58	10,671	0	0	0	0	100%
Morgan Stanley	801,510	57,324	6,858	10,790	93,009	64,121	-1.47	64,834	0	0	0	39,026	58%
NORD/LB	197,607	7,381	0	1,742	9,125	15,809	-12.17	9,692	0	0	0	0	100%
Nordea	669,342	22,821	2,767	4,461	36,308	53,547	-21.12	20,367	0	0	0	0	100%
Pfandbriefbank	75,518	3,364	195	483	3,771	6,041	-17.29	2,168	0	0	0	0	100%
Pohjola Bank	50,703	2,700	219	713	11,442	4,056	-6.21	3,057	0	0	0	7,961	30%
Rabobank	681,086	28,714	5,160	11,265	119,985	54,487	-12.16	29,662	0	0	0	80,975	33%
RBI	121,624	7,477	0	3,527	8,231	9,730	-3.28	9,621	0	0	0	0	100%
RBS	1,050,763	39,649	7,468	13,626	23,526	84,061	-12.48	49,826	0	0	0	0	100%
Santander	1,266,296	56,282	4,728	7,560	53,704	101,304	-7.72	81,671	0	0	0	0	100%
SEB	2,641,246	100,561	19,756	16,582	115,922	211,300	-17.96	86,314	0	0	0	0	100%
SNS Bank	68,159	3,485	0	0	698	5,453	-8.80	3,132	0	0	0	0	100%
SocGen	1,308,170	35,792	8,858	5,864	40,537	104,654	-19.50	49,447	0	0	0	0	100%
Svenska Handelsbanken	2,816,676	98,084	8,043	16,731	242,683	225,334	-26.49	67,254	0	0	0	72,952	70%
UBS	1,007,976	42,975	0	13,448	48,568	80,638	-17.05	30,923	0	0	0	0	100%
UniCredit	844,217	41,998	45,499	9,358	34,271	67,537	-6.24	57,291	0	0	0	6,297	82%

Data in millions of local currency; outstanding senior bonds of the parent company as an approximation for DNB Bank Group, ING Bank, Pfandbriefbank, Pohjola Bank, RBI and SNS Bank; Source: Company data, Dealogic, DZ BANK Research

The tables show that even with a loss of 5% of total assets, and even more so at a loss of 8% of assets, a large haircut is imposed on senior creditors at many banks.

SENSITIVITY OF INDIVIDUAL BANKS - OVERVIEW

In this section we illustrate in chart form the bail-ins on unsecured senior bonds for the banks covered by us, grouped by country, for losses of 1% to 10% of total assets. The same assumptions and provisos apply as in the previous section.

Results for individual banks by country

When interpreting the charts below it should be noted that the level of the CET1 ratio or CET1 capital at the start date determines the size of the bail-in, as we are assuming not just a loss, but also subsequent recapitalisation (target CET1 requirement of 14%). We also simulate a loss as a percentage of total assets. This is therefore an unweighted approach. The composition of a bank's assets or its business model (e.g. focus on mortgage lending or lending to SMEs, securities trading etc.) is not taken into account in our figures.

Points to note

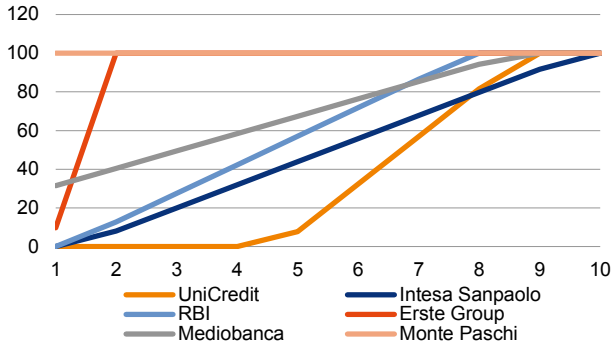
The charts show that the sensitivity to loss levels varies considerably from bank to bank. At **Banca Monte dei Paschi di Siena (BMPS)** and **Allied Irish Banks (AIB)** a loss of just 1% of total assets leads to a 100% bail-in of senior bonds. In other words, the entire outstanding volume of loss-bearing senior bonds is bailed in to cover the loss and fund the subsequent recapitalisation. It should be noted, however, that as mentioned earlier BMPS raised fresh capital of EUR 3 billion on the market in May 2015, which boosted its CET1 ratio (under the transitional rules) to 10.9%. At AIB the large and early bail-in of senior creditors reflects the fact that owing to the financial crisis the bank has no AT1, very little T2 and only a small amount of senior bonds.

In general we can say that the higher a bank's equity as a proportion of its assets, the longer the losses borne by senior creditors will remain at zero. At **UniCredit^{2,5)}**, for example, senior creditors are only bailed in at a loss of over 4% of total assets and at **Aareal Bank^{2,5)}** at a loss of 3% of total assets. Moreover, the more loss-bearing senior paper the bank has outstanding over which the loss can be distributed equally, the gentler the rate of increase in bail-ins and the less abrupt this process is.

^{1)–9)} Important: Please read the references to possible conflicts of interest and disclaimers/disclosures at the end of this report.

ITALIAN AND AUSTRIAN BANKS

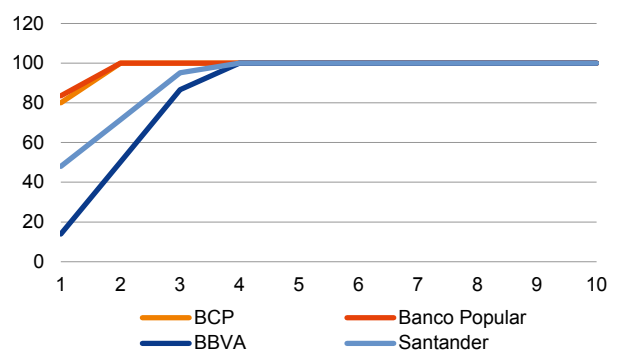
X-AXIS: LOSS AS % OF TOTAL ASSETS;
 Y-AXIS: HAIRCUT ON LOSS-BEARING SENIOR BONDS



Source: Company data, Dealogic, DZ BANK Research

SPANISH AND PORTUGUESE BANKS

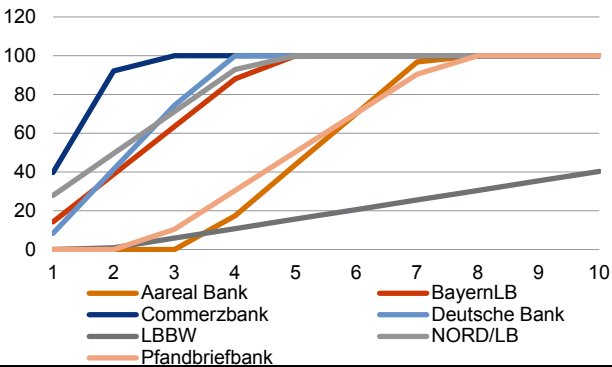
X X-AXIS: LOSS AS % OF TOTAL ASSETS;
 Y-AXIS: HAIRCUT ON LOSS-BEARING SENIOR BONDS



Source: Company data, Dealogic, DZ BANK Research

GERMAN BANKS

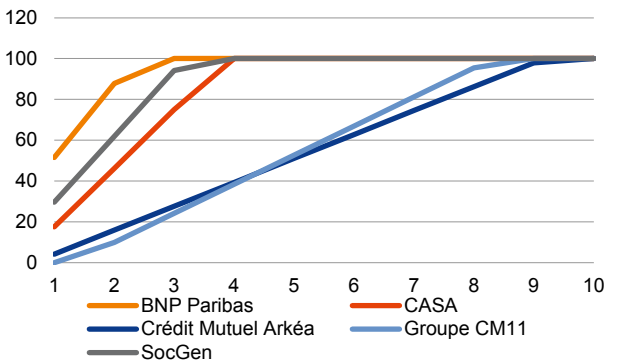
X-AXIS: LOSS AS % OF TOTAL ASSETS;
 Y-AXIS: HAIRCUT ON LOSS-BEARING SENIOR BONDS



Source: Company data, Dealogic, DZ BANK Research

FRENCH BANKS

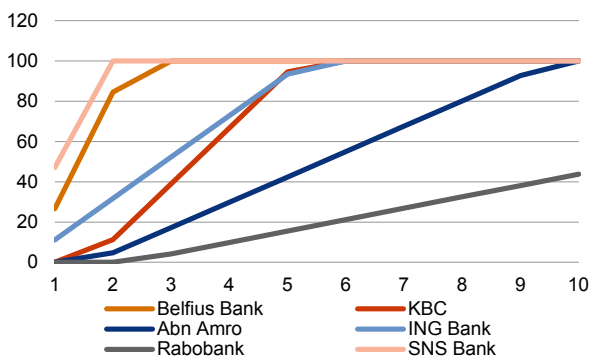
X-AXIS: LOSS AS % OF TOTAL ASSETS;
 Y-AXIS: HAIRCUT ON LOSS-BEARING SENIOR BONDS



Source: Company data, Dealogic, DZ BANK Research

DUTCH AND BELGIC BANKS

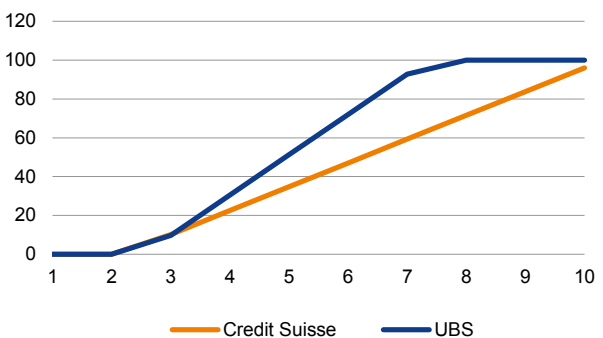
X-AXIS: LOSS AS % OF TOTAL ASSETS;
 Y-AXIS: HAIRCUT ON LOSS-BEARING SENIOR BONDS



Source: Company data, Dealogic, DZ BANK Research

SWISS BANKS

X-AXIS: LOSS AS % OF TOTAL ASSETS;
 Y-AXIS: HAIRCUT ON LOSS-BEARING SENIOR BONDS

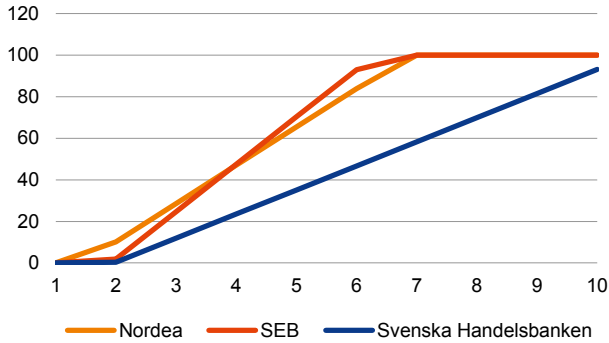


Source: Company data, Dealogic, DZ BANK Research

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SWEDISH BANKS

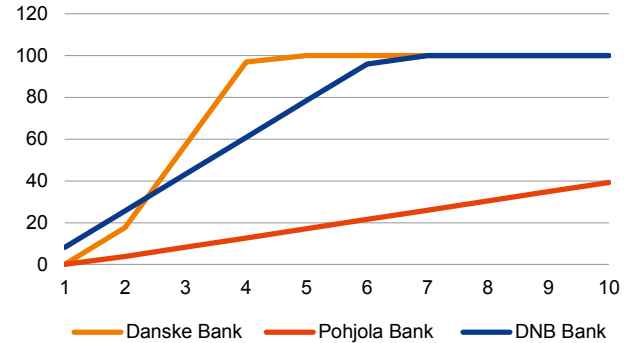
X-AXIS: LOSS AS % OF TOTAL ASSETS;
 Y-AXIS: HAIRCUT ON LOSS-BEARING SENIOR BONDS



Source: Company data, Dealogic, DZ BANK Research

OTHER NORDIC BANKS

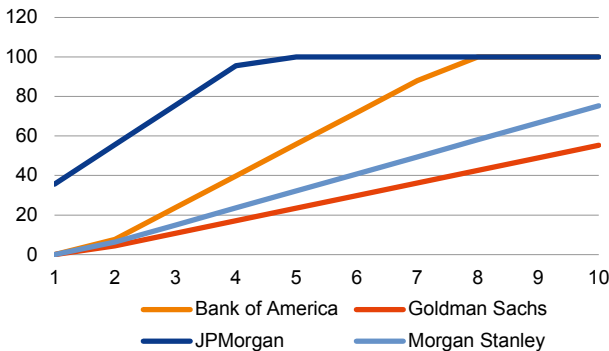
X-AXIS: LOSS AS % OF TOTAL ASSETS;
 Y-AXIS: HAIRCUT ON LOSS-BEARING SENIOR BONDS



Source: Company data, Dealogic, DZ BANK Research

US BANKS

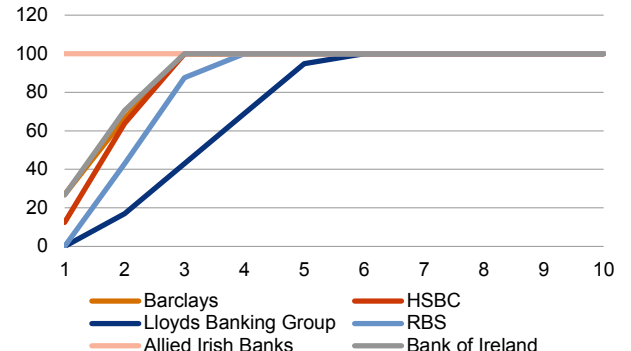
X-AXIS: LOSS AS % OF TOTAL ASSETS;
 Y-AXIS: HAIRCUT ON LOSS-BEARING SENIOR BONDS



Source: Company data, Dealogic, DZ BANK Research

UK AND IRISH BANKS

X-AXIS: LOSS AS % OF TOTAL ASSETS;
 Y-AXIS: HAIRCUT ON LOSS-BEARING SENIOR BONDS



Source: Company data, Dealogic, DZ BANK Research

CONCLUSION

Interpreting the results is not necessarily straightforward. As so often there are no unambiguous answers – what is a “good” result and what is a “bad” one? It depends on a whole variety of factors that go to make up a bank’s credit quality. The question of how likely it is that a bank will suffer a (severe) loss and undergo resolution and recovery in the first place is of course critical too. For example, banks that have a relatively large deposit base or where the issuance of covered bonds accounts for a large part of their funding generally perform worse under our analysis, as the loss after wiping out the equity is distributed between a relatively small number of senior creditors. However, these funding types are generally regarded as more stable and are typically seen as embodying a more stable business model.

A further point to take into account is the fact that our figures are based on some simplifying assumptions, such as the complete absence of capital market access. Some of the banks listed in the tables, particularly the larger international banks,

Interpreting the results can be problematic

¹⁾–⁹⁾ Important: Please read the references to possible conflicts of interest and disclaimers/disclosures at the end of this report.

would probably still be able to raise funds on the market even in the event of a large loss, allowing them to avoid a restructuring with a bail-in of creditors. This option is not taken into account in our data.

Furthermore, the data at our disposal, particularly the volume of outstanding loss-bearing senior bonds, is by no means unproblematic. This figure is a key determinant of a bank's performance in the tables but is very difficult to determine accurately. We have used data from Dealogic, but note that it is very difficult to define loss-absorbing paper and the data is therefore subject to error.

The analysis set out here should therefore only be taken as an indication of how heavily a bank's equity and bond holders would be hit by a particular defined loss and subsequent resolution.

Having investigated and analysed the structure of the banks' liabilities side in this publication, in a future publication we will look at the relationship between these results and the current spreads of bank bonds. The questions we will want to answer are as follows. Does the structure of a bank's liabilities influence the level of its spreads? And what conclusions can then be drawn from this for investment decisions?

Results can only provide an initial indication

We will examine the relationship between the liability structure and spreads in a later publication

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Buy 70.5%, Hold 12.1%, Sell 17.4%

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Buy 14.6%, Hold 38.2%, Sell 8.2%

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BELFIUS BANK SA	26.05.2015	Underperformer
BERLIN HYP	16.05.2015	Underperformer
BMW	27.05.2015	Underperformer
BMW	24.03.2015	Marketperformer
BMW	05.08.2014	Underperformer
Banca Monte dei Paschi di Siena	06.11.2014	Outperformer
Banca Monte dei Paschi di Siena	28.10.2014	Underperformer
Banco Comercial Portugues	28.10.2014	Marketperformer
Bank of America	17.07.2014	Marketperformer
Bardays Bank	05.03.2015	Marketperformer
Bertelsmann	07.04.2015	Marketperformer
Casino Guichard-Perrachon	01.08.2014	Underperformer
Daimler	24.10.2014	Marketperformer
Daimler	24.07.2014	Underperformer
Deutsche Post	14.11.2014	Marketperformer
Deutsche Telekom	14.10.2014	Marketperformer
Electricité de France	28.01.2015	n.a.
Electricité de France	31.07.2014	Underperformer
EnBW	02.07.2015	Marketperformer
Enel	28.01.2015	n.a.
Enel	14.11.2014	Marketperformer
Erste Group Bank	07.05.2015	Marketperformer
FEDERAL REPUBLIC OF GERMANY	23.10.2014	Marketperformer
Fraport	07.11.2014	Outperformer
Fresenius SE & Co. KGaA	06.11.2014	Marketperformer
GDF Suez	28.01.2015	n.a.
GDF Suez	17.11.2014	Marketperformer
GDF Suez	04.08.2014	Underperformer
HELLENIC REPUBLIC	23.10.2014	Underperformer
ING BANK NV	05.11.2014	Marketperformer
KBC GROEP NV	08.08.2014	Underperformer
KINGDOM OF BELGIUM	29.01.2015	Underperformer
KINGDOM OF THE NETHERLANDS	23.10.2014	Marketperformer
MAN SE	10.06.2015	Marketperformer
MAN SE	26.03.2015	Underperformer
MAN SE	29.10.2014	Outperformer
Merck KGaA	18.11.2014	Marketperformer
Merck KGaA	24.09.2014	Underperformer
Metro	15.06.2015	Outperformer
Metro	04.09.2014	Marketperformer
Novo Banco	09.03.2015	Outperformer
Novo Banco	09.12.2014	Marketperformer
Orange	26.09.2014	Marketperformer
PORTUGUESE REPUBLIC	29.01.2015	Outperformer
PORTUGUESE REPUBLIC	23.10.2014	Marketperformer
Peugeot SA	23.10.2014	Marketperformer
Peugeot SA	13.08.2014	Outperformer
REPUBLIC OF AUSTRIA	29.01.2015	Underperformer
REPUBLIC OF AUSTRIA	23.10.2014	Marketperformer
REPUBLIC OF ITALY	23.10.2014	Marketperformer
RWE	26.06.2015	Marketperformer
Royal Bank of Scotland	09.01.2015	Marketperformer
SAP	13.11.2014	Outperformer
SAP	22.09.2014	Marketperformer
SAP	19.09.2014	Outperformer
STADA	02.04.2015	Marketperformer
Siemens	06.08.2014	Underperformer
Südzucker	15.01.2015	Outperformer
TELEKOM AUSTRIA AG	13.02.2015	Marketperformer
TELEKOM AUSTRIA AG	06.11.2014	Outperformer
Telecom Italia	30.01.2015	Outperformer
Tesco	24.10.2014	Underperformer
Vattenfall	28.01.2015	n.a.
Vattenfall	31.10.2014	Underperformer
Vodafone Group	28.05.2015	Outperformer
Vodafone Group	27.08.2014	Marketperformer

RESPONSIBLE

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