

22 November 2017

Bank Capital: How Much is Too Much?



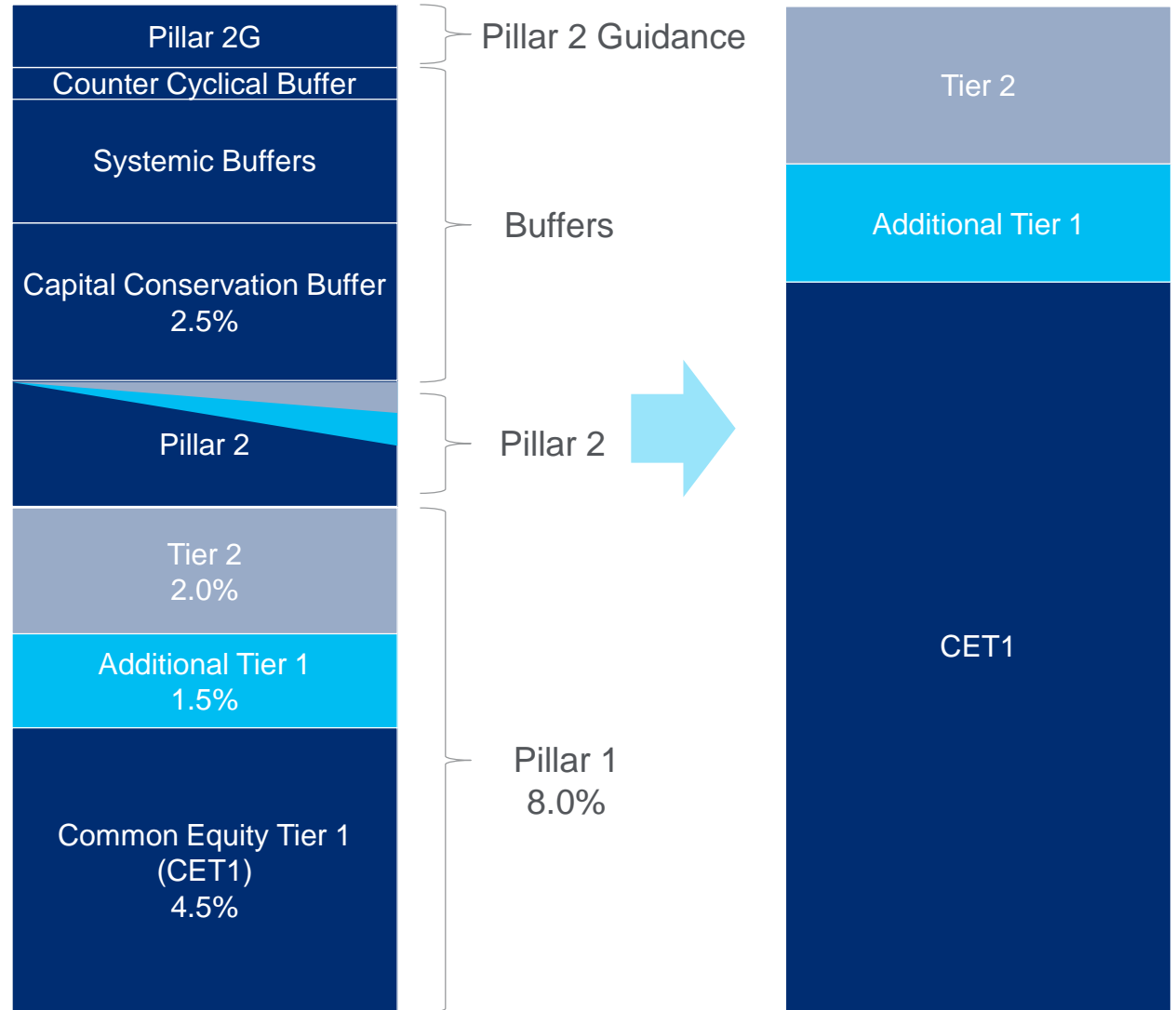
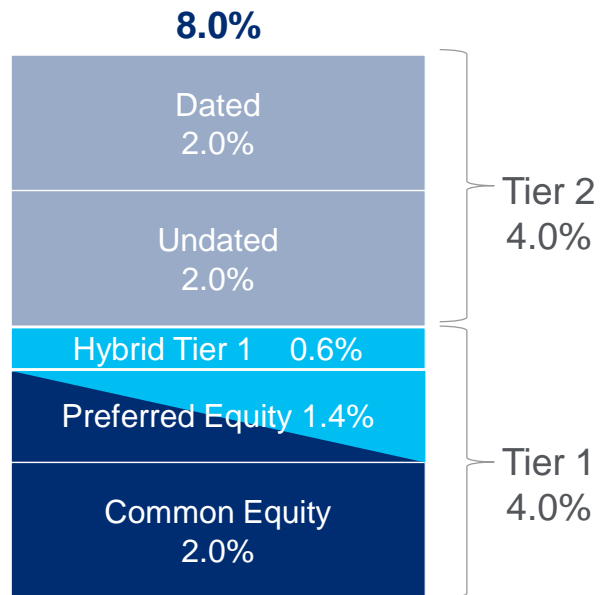
2017 Economic Outlook

Simon McGeary
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Head of Capital Strategy & Structuring
Capital Markets Origination

Evolution of European Capital Requirements

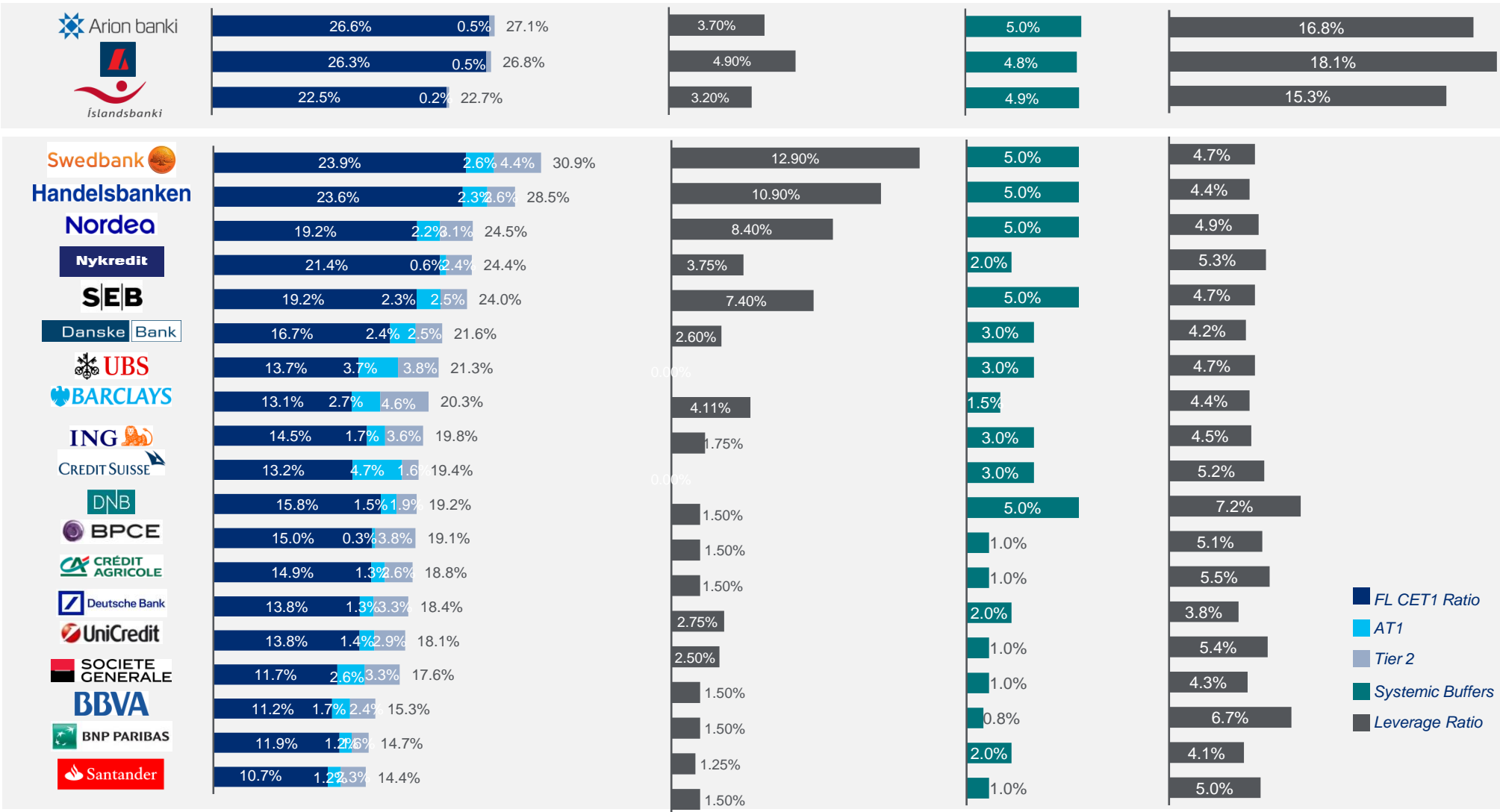
Old World (Pre-2011)

New World



Where Are We Now?

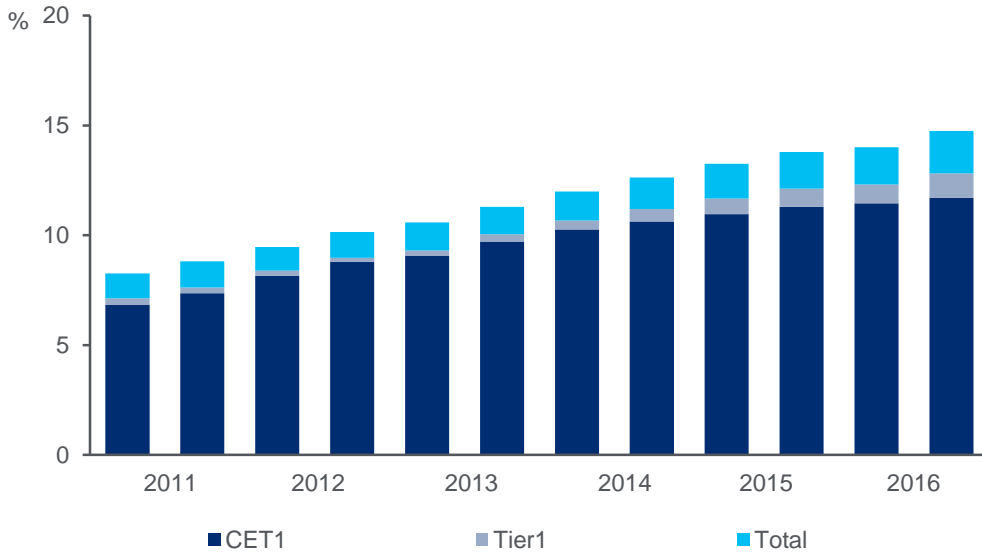
Capital Ratios	Pillar 2	Systemic Buffers	Leverage Ratio
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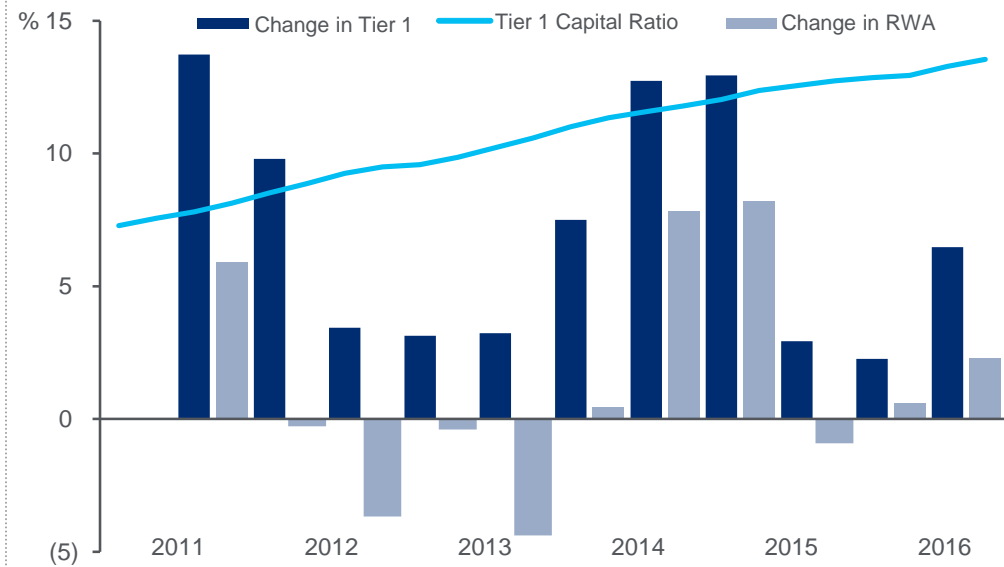
Source: Company disclosure

How Have Banks Improved Their Ratios?

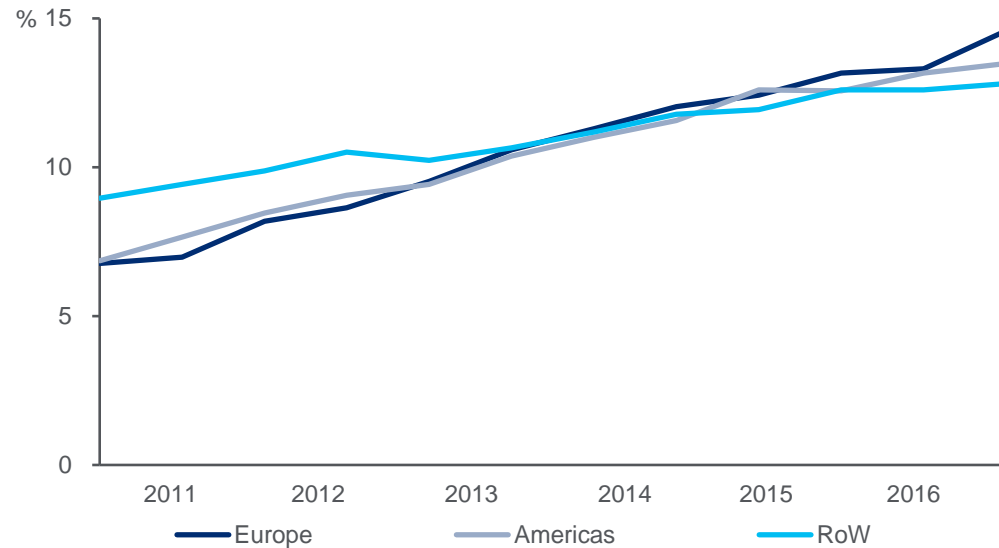
CET1, Tier 1 and Total Capital Ratios



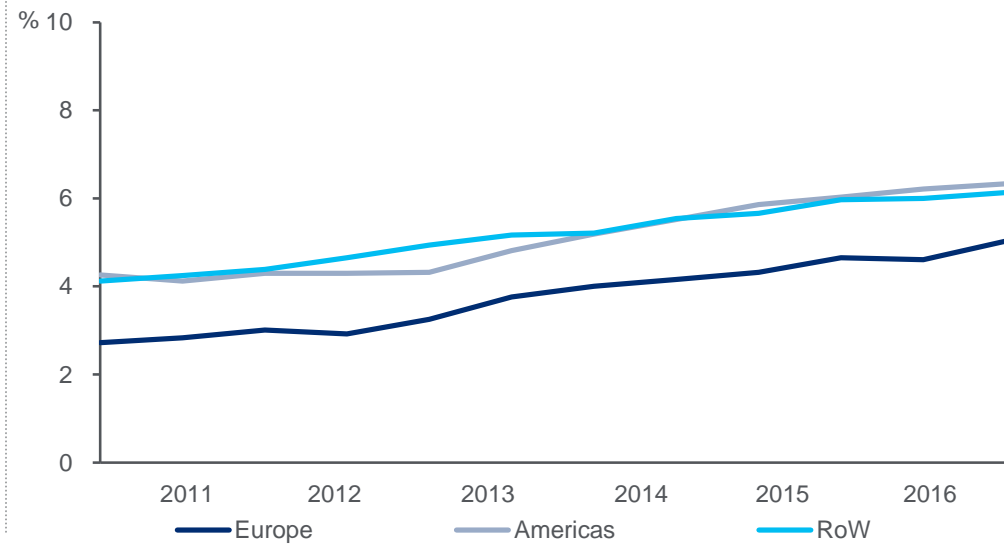
Determinants of Change



Tier 1 Ratios by Region

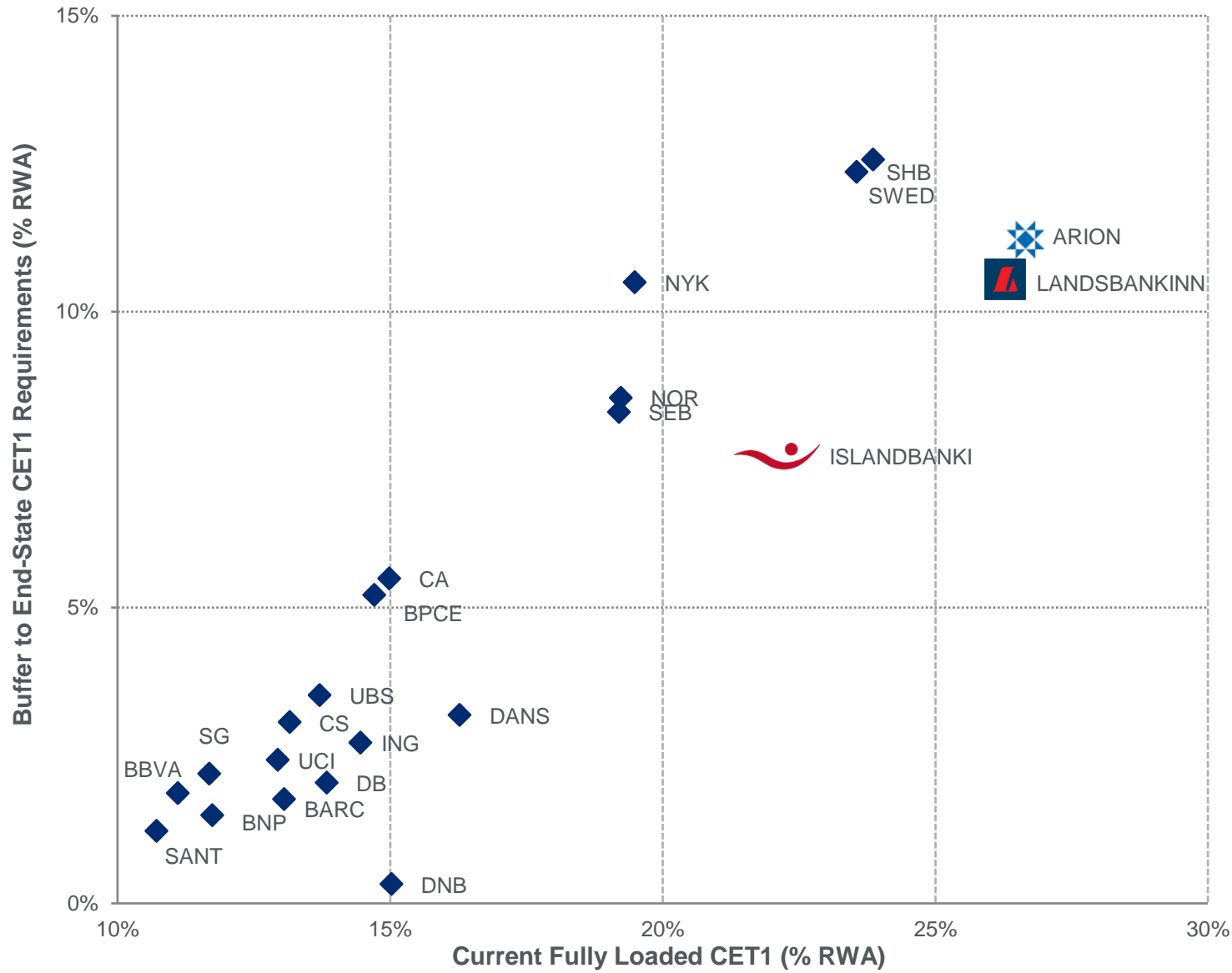


Leverage Ratios by Region



Source: Basel Monitoring Report, September 2017

Are We There Yet?



Regulatory Agenda

- “Basel 4”
- IFRS 9
- Model Review
- NPEs
- Stress Tests
- Banking Union

Source: Company's Information
 Notes: Swedish and Danish banks P2 is excluded from CET1 Requirements as they are not MDA binding

Optimising the Capital Structure

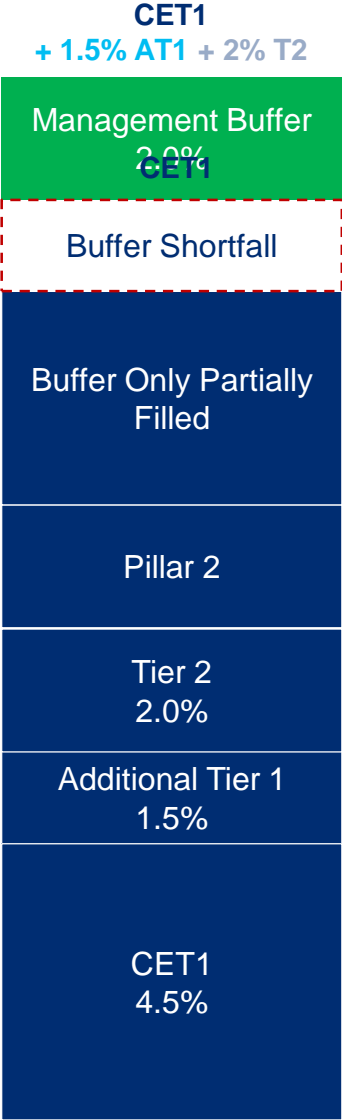
Capital Position



Capital Requirements

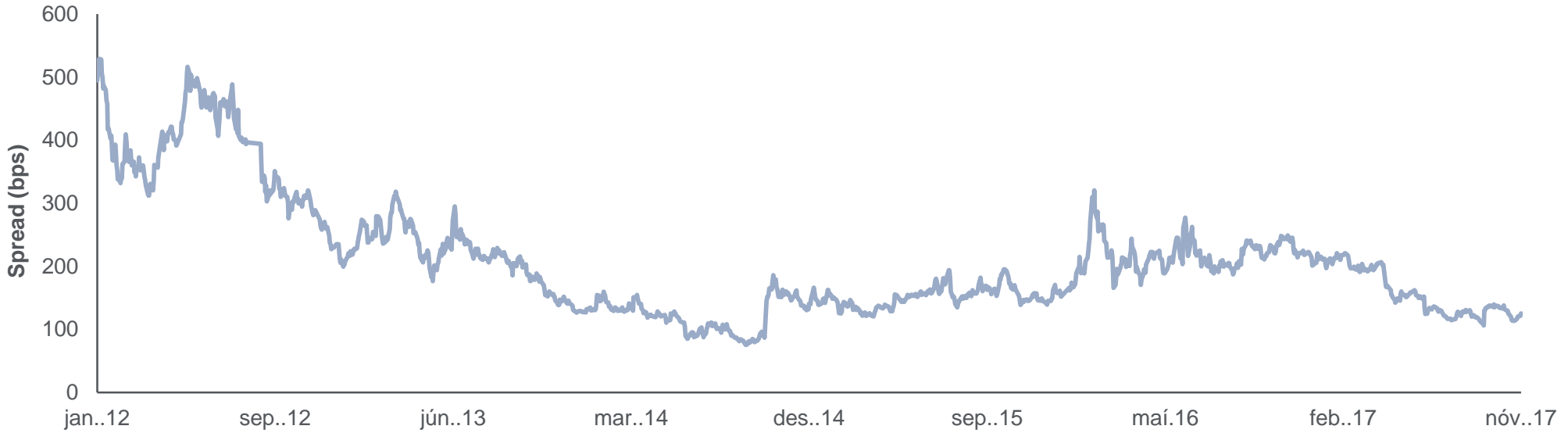


Uncomfortable Position ✘

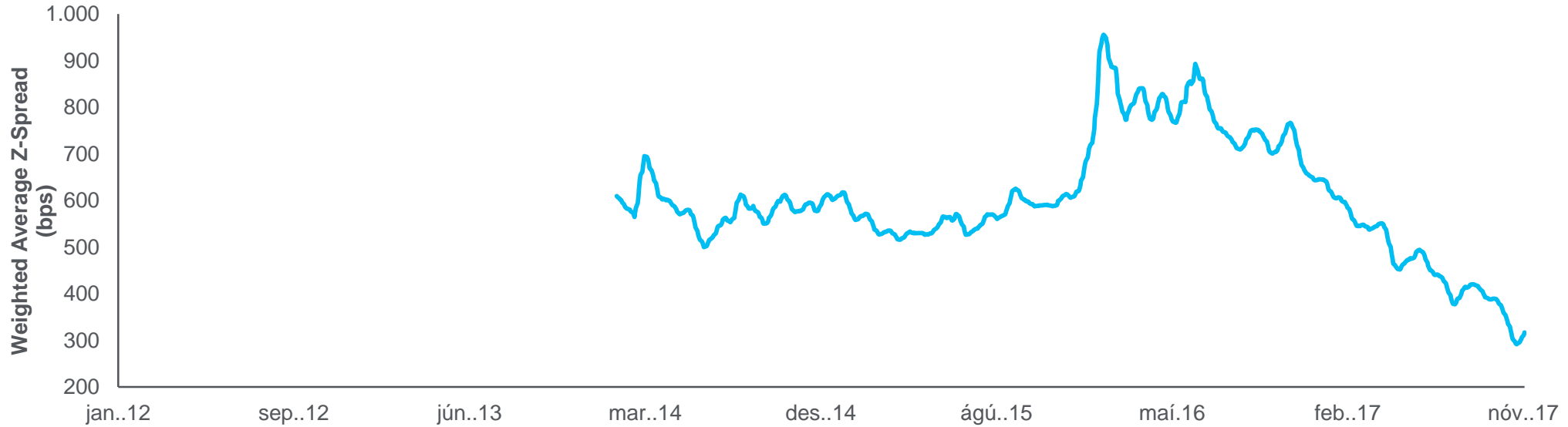


Capital Costs Less

Tier 2 Performance Close to Historic Tights...



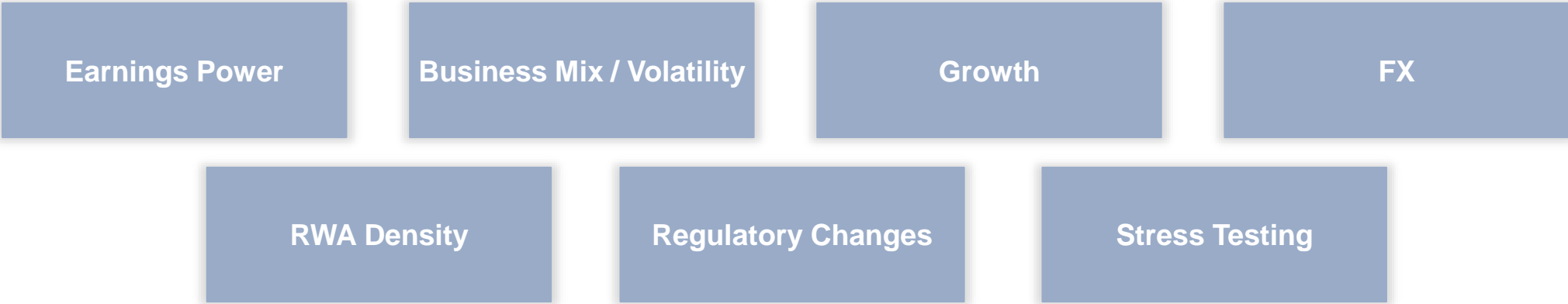
...Additional Tier 1 Even Better



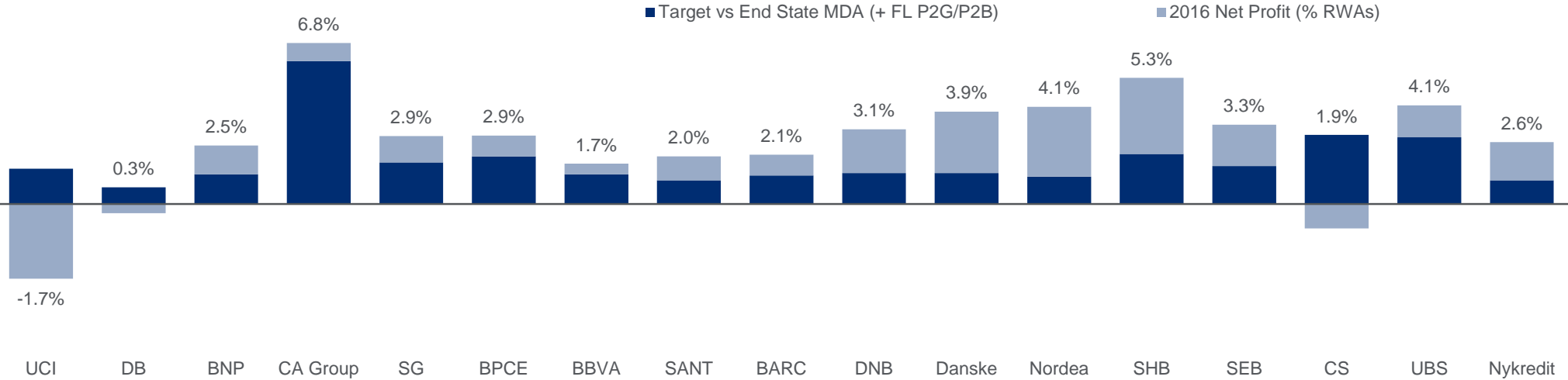
Source: iTraxx, Citi.

What's the Right Management Buffer?

Drivers of Management Buffer



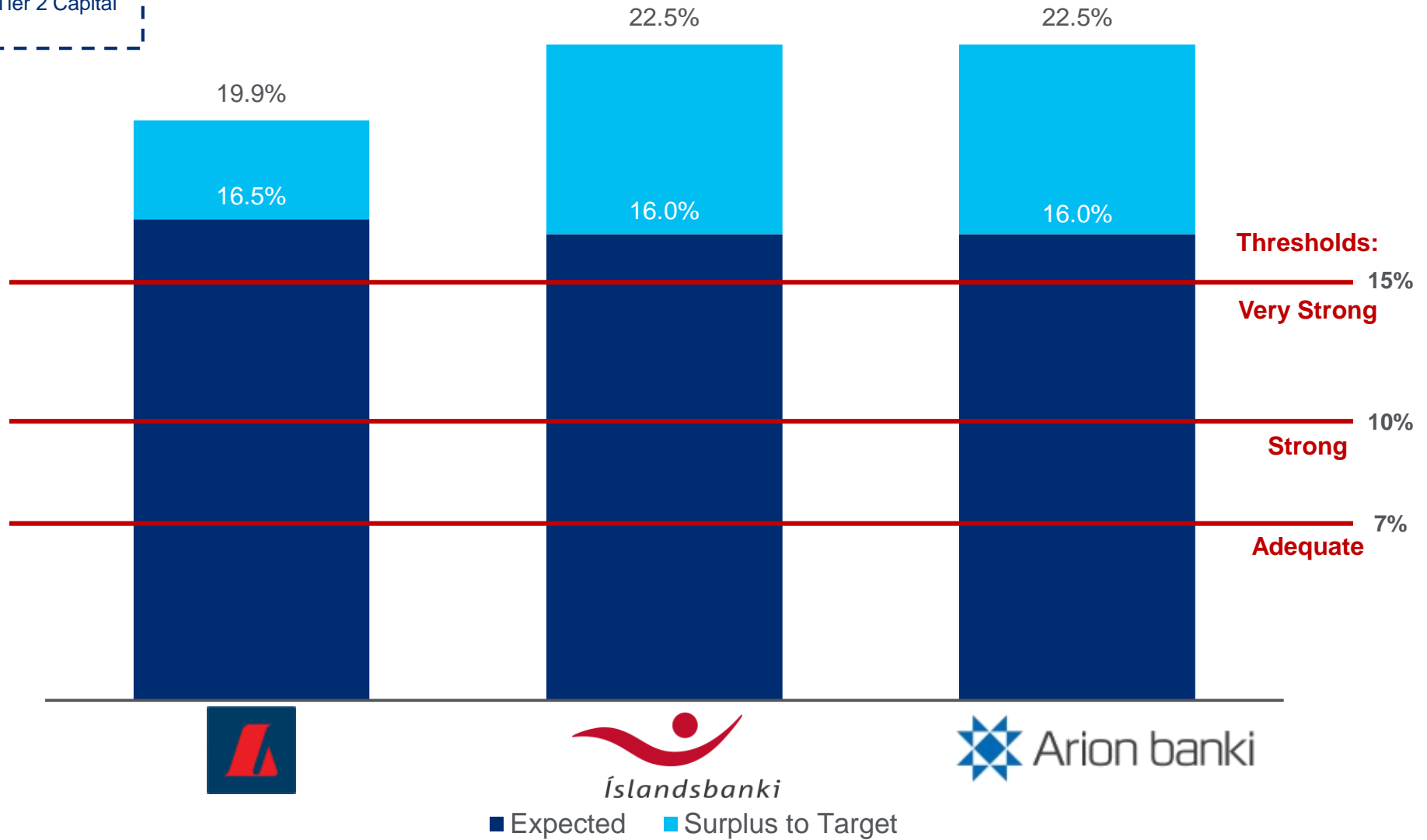
Communicated CET1 Target vs Estimated End State Requirements (including End State P2G)



Source: Company's Information

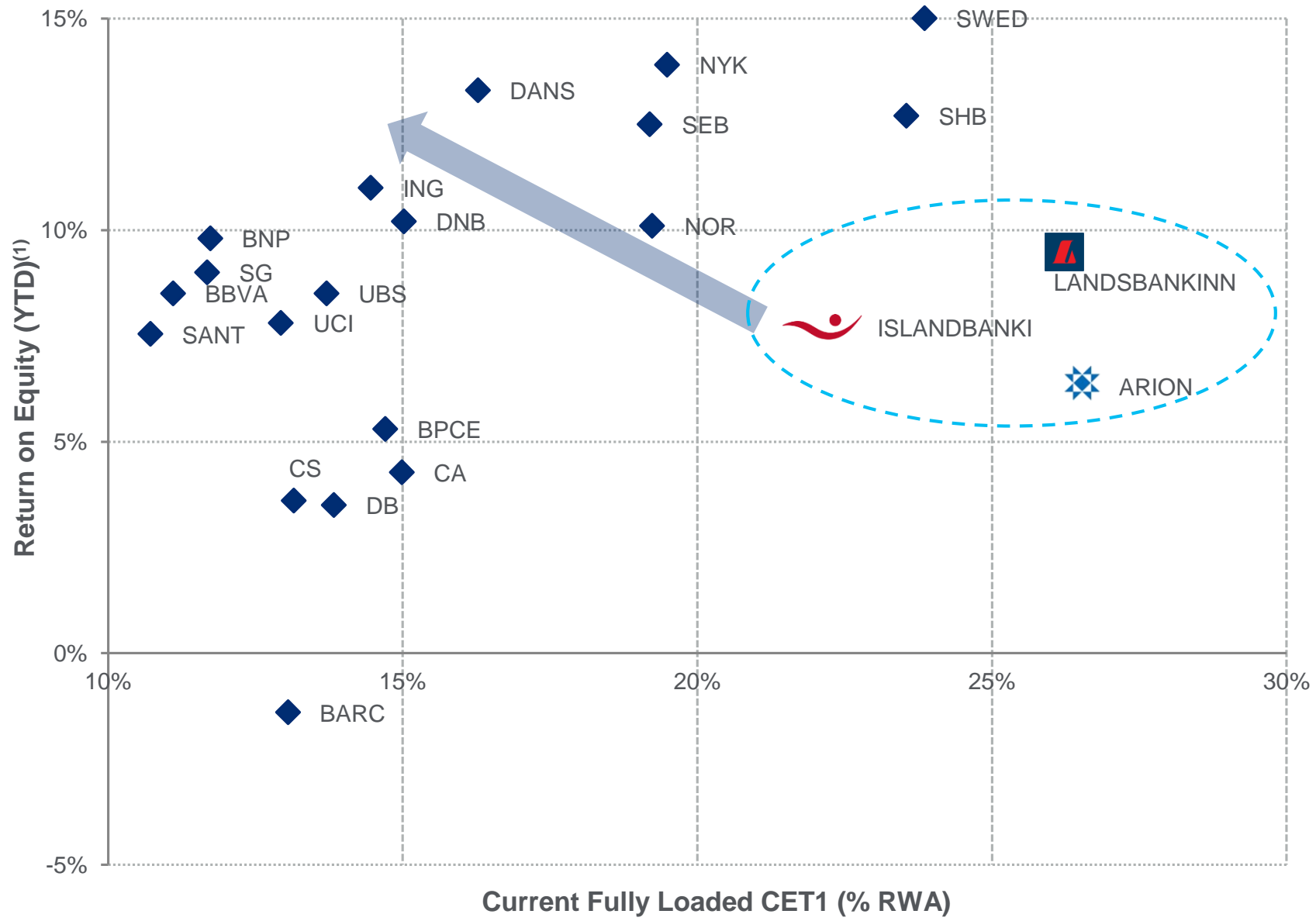
Rating Agency View – S&P Global Ratings Risk-Adjusted Capital (RAC) Ratios

RAC can include AT1 but not Tier 2 Capital



Source: S&P Rating Reports

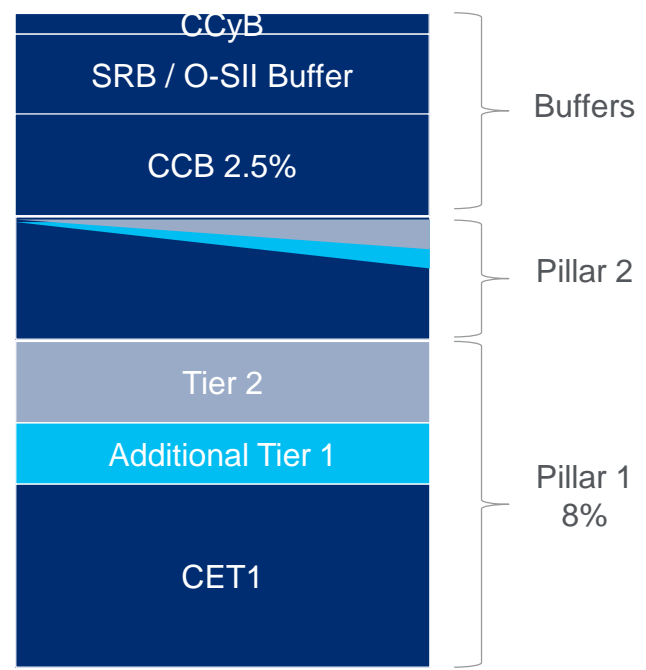
Can Banks Still Make Reasonable Returns?



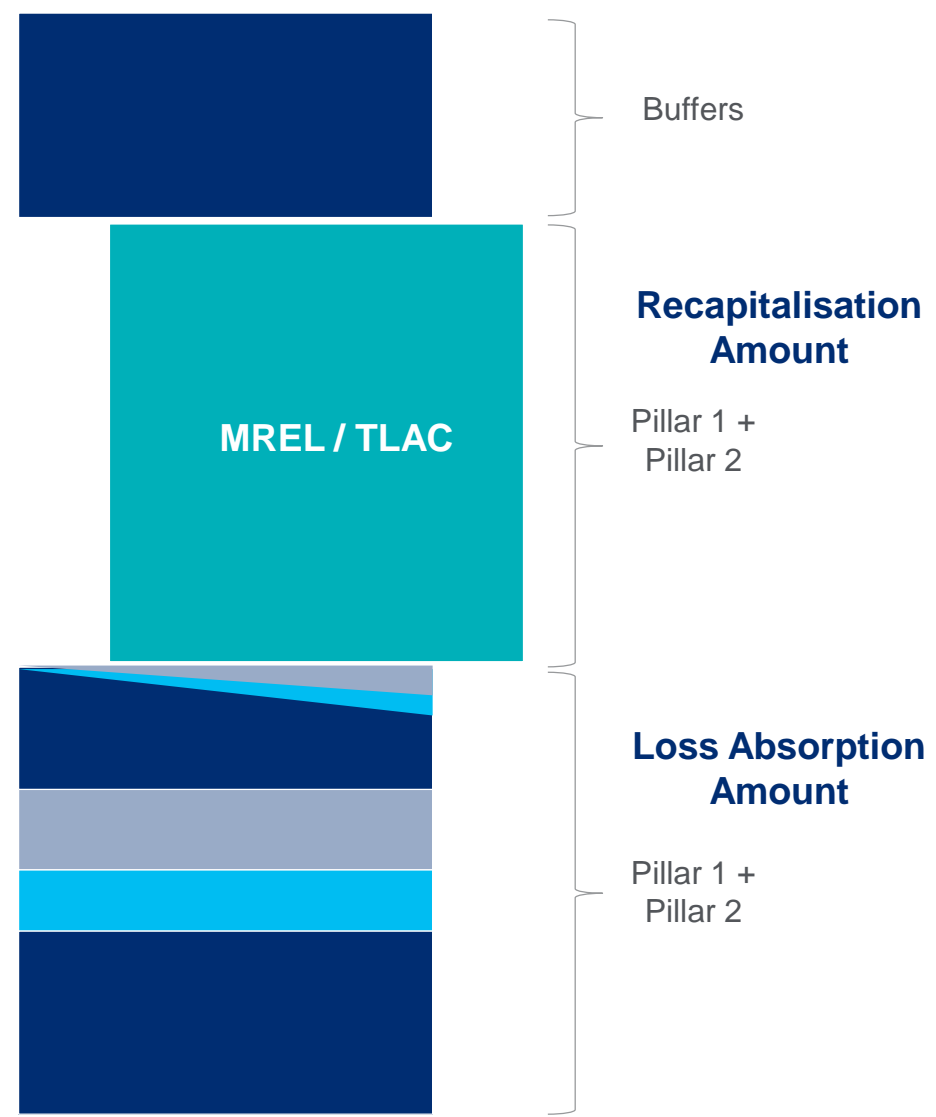
Source: Company's Information; (1) Barclays, and UCI only disclosed Return on Tangible Equity in their recent reports

MREL / TLAC – Bail-In, Not Bail-Out

New World Capital Requirements



Introducing MREL / TLAC Requirements



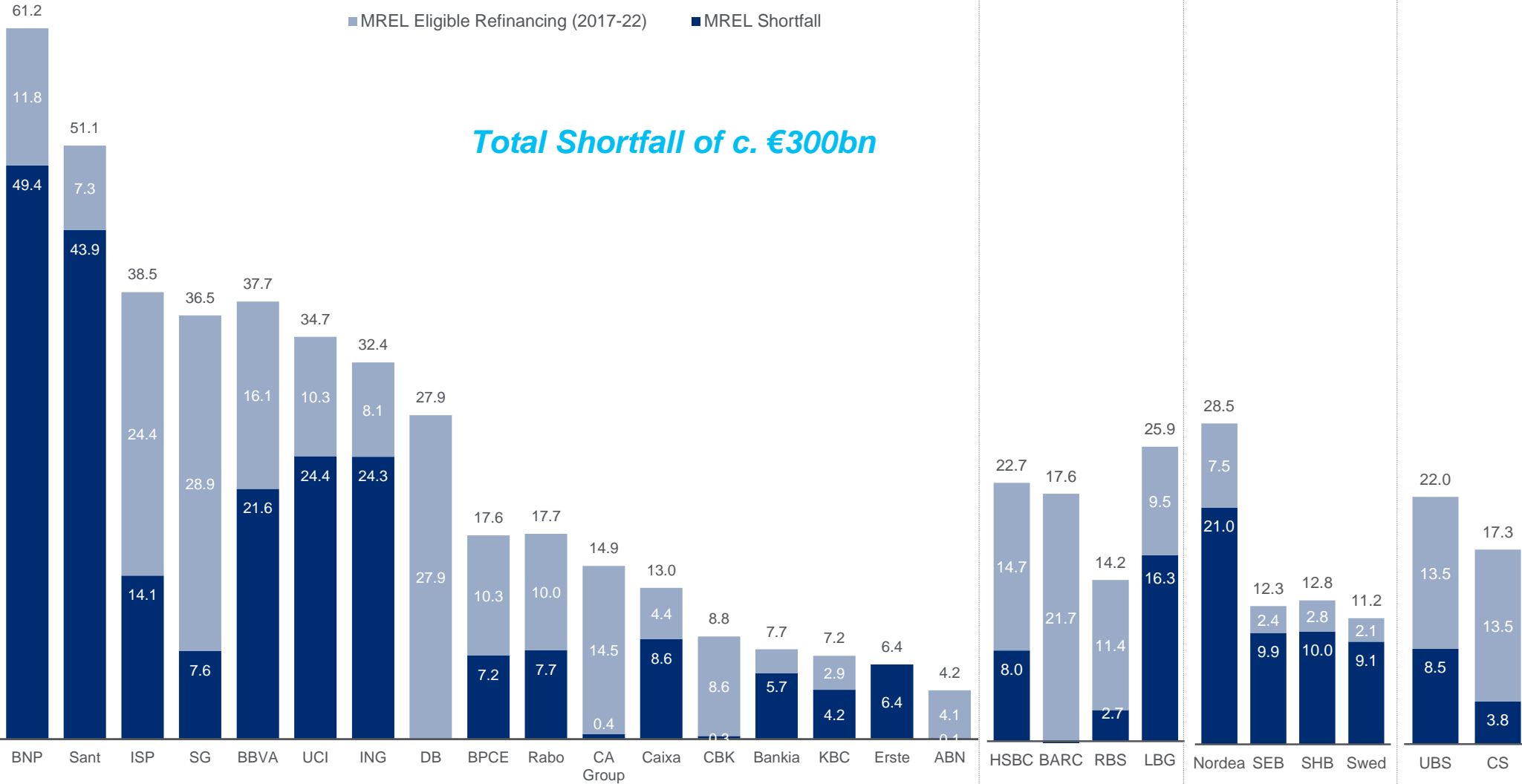
Estimated MREL Issuance



EUR bn

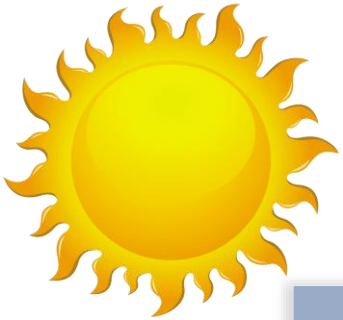
■ MREL Eligible Refinancing (2017-22) ■ MREL Shortfall

Total Shortfall of c. €300bn



Source: SRB, Company disclosure, Bloomberg, Dealogic

Banking Sector Outlook



Recapitalisation broadly complete

Banks supporting growth

Accelerating recovery / rising rates support banks

Greater clarity allows capital optimisation



Variation in profitability / business models

Legacy NPEs

Wind-down of liquidity schemes

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