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Banking supervision
And Accounting issues Unit
The Director

Paris, October 1st 2010

FBF comments on the BCBS Consultative Paper n°174 on loss absorbency of regulatory capital at the point of non-viability

Dear Sir,

The French Banking Federation (FBF) is the professional body representing over 430 commercial, cooperative and mutual banks operating in France. It includes both French and foreign-based organizations.

The FBF is pleased to take this opportunity to comment on the proposal to ensure the loss absorbency of regulatory capital at the point of non-viability (BCBS Consultation Paper 174). The FBF welcomes the initiative of the BCBS to enhance the criteria for inclusion in the regulatory capital and to propose three options to ensure Tier 1 and Tier 2 instruments are capable of absorbing loss.

The FBF agrees on both the purpose of CP 174 and the principles exposed in the document, but thinks that these issues cannot be addressed separately from the larger issue attached to the banks' resolution regime.

Consequently, in the first part of its response, the FBF exposes the principles of a possible efficient resolution framework, and in the second part, presents its detailed comments on the proposal.

Mr Stefan WALTER
Secretary General of the Basel Committee
on Banking Supervision
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You will find in the attached annex our detailed comments on the absorption mechanism, on different options to exit a bail-in, and on the potential conflicts between regulatory objectives, corporate law and insolvency laws.

The French Banking Federation wants to see the instigation of healthy competitive conditions and believes the only way to do is to establish appropriate regulations. The FBF remains at your disposal for any further discussion on these matters.

Yours sincerely,

Jean-Paul Caudal

FBF RESPONSE TO THE BCBS CONSULTATIVE PAPER N°174 ON LOSS ABSORBSENCY OF REGULATORY CAPITAL

GENERAL COMMENTS ON BANKS' RESOLUTION REGIME

EXECUTIVE SUMMARY

The Consultation of the Basel Committee on its "proposal to ensure loss absorbency of regulatory capital at the point of non viability" is particularly timely. It raises fundamental questions that, we believe, cannot be addressed in isolation of the wider issue attached to the banks' resolution regime. We will then take the liberty to expose firstly to the Committee our conception of a possible efficient resolution framework, which would most probably need to include the measures contemplated in the BCBS CP 174, and then answer, more briefly to the CP itself.

Press releases suggest to tackle the so called "too big to fail" issue through various concepts or processes: capital surcharges, contingent capital, bail-in debt, resolution funds and resolution regimes. Actually authorities have to assure the stability of the financial system and hence avoid the activation of a systemic crisis. This is a much wider issue, the roots of which have nothing to do with the size of the banking institutions and the remedies of which cannot be addressed, even in the interest of expediency or convenience, through a specific incremental layer of capital surcharge, the existence of specific financial instruments or finally a resolution fund that would always be too small to handle systemic situations and which would actually reward the bad practices of certain banks at the expense of the well managed ones. The answers are quite straightforward and are actually being addressed even though they are at different stages of elaboration:

1. **Every financial institution must be strong enough to withstand serious shocks**. The new capital framework that multiplies at least four times the banks' resilience capacity through the combination of tightened risk measurement and stricter capital definition, not to mention the new liquidity requirements, should definitely reassure the authorities and the market on this point.
2. **Every financial institution must be well managed and adequately supervised**. A strengthened and skilled supervision is one of the most effective protections against emerging weaknesses in this regard. Supervisors should be entitled to direct changes in the bank's practices with the appropriate combination of tools at their disposal. Their ability to adjust the minimum capital requirements to the bank's actual risk profile is one of them. Sanctions can also be considered to deter conscious misbehaviour or to sentence incompetence.
3. **The financial system infrastructure must be very robust**. Many decisions have been made to operationally strengthen the exchanges between financial institutions and reduce the counterparty interdependency through, for example, the development of Central Clearing Platforms. The extension of the scope of regulation to all the financial institutions in order to encompass the shadow banking system is also a critical move that must encouraged.

4. **The tax payer must not have to bear the burden of banks in distress**, should this situation nevertheless appear. Once all private solutions have dried up, institutions, the failure of which cannot trigger a systemic risk, must fail and be liquidated according to the bankruptcy laws or an ad hoc termination regime that would handle unusual cases[1]. The other ones must be restructured within a specific administrative resolution regime with a triple objective:

    A. Restore the solvency position of the institution through the conversion of the subordinated debts into equity to protect the tax payer from bail out losses;

    B. Keep the institution or the systemic-important part of the institution alive for the restructuring period. This objective implies a funding assistance from the central bank; this funding can be considered as safe as losses would have been absorbed already by subordinated creditors and, as we suggest it, should benefit from a super senior status;

    C. Restructure the activities in order to turn the core businesses of the institution into a viable firm. This may involve downsizing and, in particular, selling of activities.

    This "administrative restructuring" implies specific and controlled powers to be granted by law to the resolution authority. Many legal obstacles need to be addressed without depriving any stakeholders of their most basic property rights. This regime should be construed as a one–off process that is not supposed to be renewed for the same institution.

    Such a framework would have to be shared and implemented in a coordinated way at a worldwide level in order to handle in a consistent manner the cross border bank cases and to keep even the level playing field.

Actually, the resolution regime is the last stage but also probably the most effective and decisive component of the reform. Its design and insertion in the corporate and bankruptcy legal environment is critical. As part of it, the bail-in concept must be carefully crafted as it would have a significant impact on the debt market and would not necessarily fit in with the current legal framework of many countries. In this respect, we would like to underline that we have a lot of sympathy with the BCBS objective to make sure that all the regulatory capital instruments can actually absorb losses outside of bankruptcy proceedings and just before they have to be triggered. At the same time, we do not share its pessimism on the implementation difficulties, so long the rules are kept relatively simple and flexible to accommodate the differences in the market structures and legal framework across the world.

A. Implementing an administrative restructuring regime is possible and indispensable to the adoption of any bail-in system

While we agree that aligning all the bankruptcy regimes around the world is rather utopian, designing a banks' specific restructuring regime for viable but temporarily distressed institutions is possible and, by the way, already exists at different stages of elaboration in some countries. The challenge is mainly to set the common basic principles of the desired architecture and to make the existing systems converge to the agreed target.

[1] Extreme cases like Anglo-Irish Bank and similar institutions are of a different nature: much more than a general issue of systemic contagion, they are due to an exceptional accumulation of errors both in management and in supervision. They should be dealt with using ordinary resolution procedures or a specific termination regime that would be deemed necessary by the national authorities to expedite the matter.

Without such administrative powers granted to the resolution authorities, there are no functional resolution actions possible, including bail-in measures. There cannot be a contractual approach to bail-in. The diversity of clauses cannot be envisaged; the conversion trigger cannot be imposed by a third party (the resolution authority) and on unknown bases; applications for judicial review would impede if not stop the restructuring process; cross default provisions would be extremely difficult to be made inoperative; new issues could not be concerned in any way by the mechanism.

This regime must clearly be construed as exceptional and restricted to banks and must not be a substitute of the normal bankruptcy legislation that may eventually apply.

B. This exceptional administrative regime should not be in conflict with the basic property rights and be kept under the control of an oversight body

The legitimacy of the regime requires that fundamental rights are not challenged. Appeal actions have to remain possible but their outcome must be restricted to economic indemnities in order to rule out any invalidation of the resolution authority decisions; the ranking of claims must be kept untouched; the specific situation of non joint stock and mutual companies must be addressed[2]; the loss absorbency imposed to debt and preference share instruments must be appropriately indemnified, and particularly through equity conversion; the application to the outstanding issues would require a specific transition mechanism and must be construed formally as a non default event by law; the decisions of the resolution authority must be clearly justified and compliant with the relevant rules of the regime; an oversight body including representatives of the central bank, the ministry of finance and the judicial authority should verify the appropriateness of the main decisions.

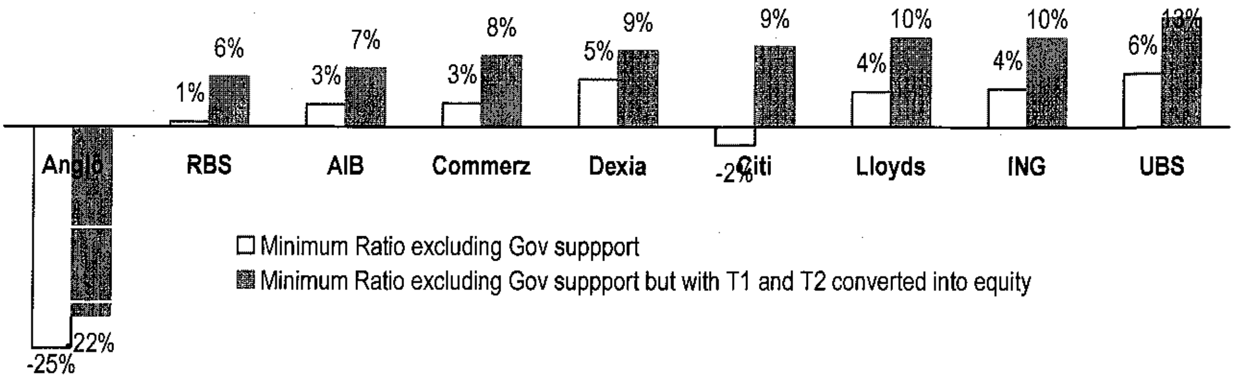
This loss absorption procedure should not lead to investors' final proceeds being less than it would have been in the case of liquidation. Actually, creditors should understand that their economic position could even be enhanced. In order to minimise to the full extent possible any risk of litigation from any stakeholder on the basis that his most basic property rights would have been violated, the resolution regime should accept to indemnify creditors who demonstrate that this objective has not been met while the authority decisions may not be invalidated.

C. The new regulatory capital is strong enough to easily absorb the unexpected losses of effectively supervised institutions

A recent research study[3] shows that, even on the current Basel II basis, the loss absorbency of hybrid regulatory capital would have restored the solvency position of almost all the banks that required state capital injections (see chart below based on the core tier 1 ratios at end of June 2010), with Anglo Irish Bank as the main exception in this particular sample.

[2] French mutual and cooperative banks will discuss this issue in a separate response to BCBS 174 made by the Groupement National de la Coopération

[3] See BNP Paribas study in appendix



This demonstration would be even more conclusive with the new capital definition and requirements as set recently by the Basel Committee. A conversion restricted to subordinated debts and preference shares recognized as regulatory capital amply suffices to restore the banks solvency situation. It is also worth mentioning that supervisors do keep the possibility to adjust the capital required, and consequently the needed amount of subordinated debt, according to their assessment of the bank's financial strength as already mentioned above. Such subordinated debt instruments and preference shares, which may have different characteristics and seniorities, would be deemed to be all eligible to bail-in by law.

D. The extension of the bail-in concept to senior debts would raise inextricable legal issues and most probably would have undesirable effects.

As stated above, any administrative regime would have to comply with the basic property rights. One of them forbid to breach the equal treatment between creditors of same seniority while it is widely recognized that keeping the rescued institution as a going concern during the "administrative restructuring" implies current operations and non-guaranteed deposits to unwind and to be renewed as normal.

Including unsecured senior debts in the bail-in scope would create such an uncertainty that many investors would stop buying bank debts or, at least, restrict their exposure and lead them to step away from such investments at the first sign of weakness or even rumour of weakness. A crisis of confidence would then be triggered on what is likely very thin information and certainly accelerate a downward spiral for the institution that the derivative market would even more amplify.

Finally, debt markets do not have the same depth and psychology in the different parts of the world and we believe that the European one would be particularly affected by such an extensive conception of the bail-in features.

DETAILED COMMENTS ON LOSS ABSORBSENCY OF REGULATORY CAPITAL

A. Options

With respect to the three proposed options to ensure that regulatory capital absorbs losses at the point of non viability, we strongly support the first option (To develop a resolution regime) for the fundamental reasons presented in the Executive Summary.

B. Absorption mechanism

The CP 174 refers to the issuance of shares in replacement of regulatory capital instruments as a mere means to compensate investors. We consider that the issue of shares in replacement of the claim of regulatory capital instruments' holders (be it Tier-1 debt, preference shares or Tier-2 debt) is critical to keep to the seniority order principle in the capital structure. We strongly support for any bail-in loss absorption mechanism to preserve as much as possible the traditional waterfall. This is essential not only to limit the impact on the hierarchy of pricing between the various classes of subordinated debt but also to reduce the potential litigation risk that may arise in case one class of investors claims it is treated in an unfair manner.

Basic option: bail-in loss absorption by simple conversion (issuance of ordinary shares only)

Once the institution has reached point of temporary non-viability, the regulator decides how much loss absorption is required. That amount is allocated to the most subordinated instruments first. Within a class of instruments everybody is pari passu.

The allocation is made by a simple conversion, in part or in full as may be necessary, of the original claim from the holders (Tier-1 debt and preference shares, and then Tier-2) into ordinary shares.

The advantages of this approach are

a. its relative simplicity ;
b. the respect of original regulatory capital investors' seniority among themselves when absorbing losses.

The limitation of this approach is that, when the institution is completely wound down or when it returns to financial health in a reshaped format, all regulatory capital investors existing at the time of bail-in will be treated pari passu as shareholders, which is a major breach of the original seniority order of each class of investors. It also possibly provides previous non Common Equity holders with a value higher than their initial claim.

Advanced option: bail-in loss absorption by conversion (issuance of ordinary shares) and issuance of warrants

To address the limitation of the approach described above, the loss absorption mechanism should be devised in such a way that it can satisfy 4 key objectives (even if it entails a higher degree of complexity):

1) the respect of original regulatory capital investors' seniority among themselves when absorbing loss ;
2) the respect of original regulatory capital investors' seniority when the institution is wound down ;
3) the respect of original regulatory capital investors' seniority in case of return to financial health ;
4) the value that previous non Common Equity holders can receive is capped to their original claim

With this in mind, we have reflected upon the advanced option described below which involves using warrants issuance as a complement to shares issuance. This may be not be the only way to satisfy the objectives as there may be alternative mechanisms to achieve the same result.

Once the institution has reached point of temporary non-viability, the regulator decides how much loss absorption is required. That amount is allocated to the most subordinated instruments first. Within a class of instruments everybody is pari passu. The basic option principles remain valid.

The allocation of losses within the regulatory capital instruments is made as follows:

1) Existing shareholders receive specific "Warrants Ordinary" (the purpose of which is presented below).
2) Tier-1, preference shares and subordinated debts, is converted into ordinary shares, which strongly dilutes existing ordinary shareholders. The number of shares delivered is equal to the original par amount of the securities divided by the current share price of the company. Tier-1 investors receive specific "Warrants Tier-1" (the purpose of which is presented below).
3) Tier-2, in part or in full depending on the amount of required loss absorption, is also and simultaneously converted into ordinary shares, which strongly dilutes existing ordinary shareholders. The number of shares delivered is equal to the original par amount of the securities (or the portion of it if only partial loss absorption is required) divided by the current share price of the company. Tier-2 investors also receive specific "Warrants Tier-2" (the purpose of which is presented below).

The warrants: The warrants will only be redeemable in new shares. It cannot be repurchased nor does it pay any dividend or interest. The ability to exercise each type of warrants and the amount of shares received at exercise of each type of warrants will depend on the liquidation or value of the bank or the one resulting from the successful restructuring. The consequence will be to fully replicate the expected waterfall across each category of regulatory capital investors, by allocating the liquidation value or the one resulting from the successful restructuring in the same manner that in a liquidation regime first to Tier-2 investors up to their original claim, then to Tier-1 investors up to their original claim, and eventually to ordinary shareholders for the entire remaining value, if any.

Allocation of liquidation value, if any, when the wind down is about to be completed and that all other creditors have been redeemed would be as follows.

All warrants are exercised simultaneously but each type of warrant would provide a different number of shares. The number of shares provided by each type of warrant will depend on (1) the liquidation value, (2) the amount of original Tier-2 claims, and (3) the amount of original Tier-1 claims. As a consequence, the allocation of shares between previous holders of Tier-2, previous holders of Tier-1 and former shareholders, will fully replicate the expected waterfall across each category of regulatory capital investors.

Illustrative example :

	Amount of originial Tier-2 claims	150
	Amount of originial Tier-1 claims	100
Residual company value	Scenario 1	100
	Scenario 2	200
	Scenario 3	500

	Liquidation Value	Allocation	previous T2 holders		previous T1 holders		former shareholders	
			Ownership	Value	Ownership	Value	Ownership	Value
Scenario 1	100	full allocation to previous T2 holders	100%	100	0%	0	0%	0
Scenario 2	200	allocation to previous T2 & T1 (partially) holders	75%	150	25%	50	0%	0
Scenario 3	500	allocation to previous T2 & T1 holders, any excess being for former shareholders	30%	150	20%	100	50%	250

The same principle is fully applicable to the allocation of value resulting from a successful restructuring.

Conflicts between regulatory objective and corporate law

Any of the two options above will raise several corporate law issues in many jurisdictions, which would be best addressed in a specific banks' resolution regime based on statutory powers. As an example, the ability to issue shares without shareholders pre-emptive rights might be subject to legal limits, to a prior approval of shareholders, or to the requirement for a shareholders meeting to be held whereas in order to convert regulatory capital into ordinary shares the institution might have to double, triple or more the number of existing shares. The threat of such dilution is actually very supportive of the regulatory efforts because it will prompt existing shareholders to reduce risk and raise more capital to preserve their existing investment. This preliminary observation does not prejudge the details of the required banks' specific restructuring regime and the possible necessary amendments to be brought to the national legal frameworks.

Answers to questions from the Annex

A. Would the development of effective bank resolutions schemes be a better approach to ensuring gone-concern loss absorbency?

Yes, it would and we strongly support this approach. See our general comments

B. Would it be simpler to de-recognise Tier 2?

De-recognising Tier 2 is not an appropriate approach. We believe that keeping different types of solvency ratios has its merits. Besides, the market and the banks will need the flexibility of various levels of risks and, hence, of seniority, even though all the subordinated debt would be subject to conversion measure within the resolution regime.

C. Will this not impose unnecessary costs on small banks?

We do not think this is a matter of size. A small bank may have systemic characteristics that would lead supervisors to use the restructuring regime. It must also be pointed out that eventually the resolution regime is deemed to be more efficient than a judicial liquidation, a factor that should be taken into account by the market.

D. Would the proposal change the investor base?

Yes, this will inevitably reduce the investor base and increase the cost of the regulatory capital instruments eligible to bail-in. With sufficient protection built in, investors should recognise that the conversion would allow them to ultimately receive at least as much as they would have got in liquidation. This observation should mitigate the fact that they have to accept not to enjoy anymore the protection of the implicit bail out.

The cost of Tier 2, as it is presently defined, would probably increase significantly as it is not currently seen as very much loss absorbing. Tier 1 should also increase but probably to a lesser extent.

E. What if the holders of the capital instruments are not permitted to own shares in the bank?

Some investors will need to have their mandates adapted to allow for the unlikely possibility that they may receive shares. We also believe that what matters fundamentally is economic performance (the administrative restructuring regime is deemed to be more efficient from a recovery standpoint than the judicial processs) and that some of the investor mandates could be amended to reflect the new regulatory environment. We note than in the US, the fact that debt can be swapped for shares as part of Chapter 11 restructuring, does not seem to materially impair ability of US companies to raise debt. It is however true that the investor base will also narrow as stated in the previous question. The alternative for the new shareholders would be to sell. Measures should probably be considered in order not to trigger market crashes.

F. Would it be better to have an automatic trigger for conversion/write-off linked to some market variable or regulatory ratio?

Investors and rating agencies greatly prefer observable transparent triggers compared to regulatory discretion. However, we would not expect a parametric trigger to be able to capture all the possibilities under which a bank may reach temporary non-viability.

The purpose of this measure is to ensure the full loss absorption of losses by the entire regulatory capital at this point of distress. It is most probably impossible to define a trigger that would capture such state in all circumstances (lack of capital, lack of liquidity, etc.). The trigger has to be broad and some discretion is necessary to ensure the possible application of this loss absorption measure (which, as a reminder, we support to be included in a specific administrative bank's resolution regime).

As a result, we believe that checks & balances are preferable to constraining regulatory discretion within pseudo objective criteria.

G. How would the approach apply to capital issued out of subsidiaries, could this not lead to the break up of a group?

If the financial institution at the point of temporary non viability is a subsidiary, the mother company should be called upon to recapitalise the subsidiary. If it does not, the application of this loss absorption could indeed lead to break up, separating this entity from the group.

If the financial institution at the point of non viability is the mother company, it is useful to foresee the possibility to issue shares of the mother company to avoid such break up when the objective is to achieve an orderly wind down or reorganisation.

H. Would we not be transferring the problem of a failing institution to the insurance companies and pension fund sectors that hold the bank capital?

The purpose of the suggested loss absorption regime is to ensure that existing private investors pick up their fair share of the cost of a failing bank. So if the measure is effective, there will be transfer of risk.

However, insurance companies and pension funds are used to take into account these specific risk characteristics in their investment and exposure policies. Current regulatory changes (Solvency 2) actually aim to fairly value the risk of assets and require capital accordingly. Besides, the resolution regime is construed to optimize the recovery which means that the debt holders should be better off at the end of the restructuring than at the end of bankruptcy proceedings.

I. How can we be sure that the conversion/write-off is not considered a default?

This is a fundamental element that must be addressed through a global or harmonised administrative bank's resolution regime. Clearly a limitation of the loss absorption to subordinated debt is a key asset. Most subordinated debt instrument carry no event of default clause and are not referenced in the same manner as senior obligation for cross default purposes.

J. Does conversion/write-off improve loss absorbency even though it does not bring in new money?

Yes, see general comments made on the merits of this approach.

The key improvement is that further core equity is brought to the institution which provides a much stronger cushion for the institution. However we fully recognise that funding will be critical. Therefore we believe it is essential that in parallel sufficient short term refinancing will be provided. We feel such intervention would be totally secure given the amount of loss absorbing capital that is provided by the above mechanism.

K. Could banks be encouraged to issue instruments with a conversion/write-off feature by giving some additional credit, rather than by making this feature a requirement?

Setting up a framework providing for the loss absorption at the point of temporary non viability by the entire regulatory capital / subordinated debts is an appropriate measure to address the systemic risk and more efficient than any capital surcharge. Subsequently and as stated earlier, we do not see that it could be organized outside a global and regulatory framework.

While in theory it would be nice to only encourage, we believe that the Banks which would be able to issue these instruments would have the strongest capitalisation while the weaker institutions which crucially may need these instrument the most would not be able to issue them as investors perceive the risk.

L. Could the proposal reinforce moral hazard in relation to senior debt?

The main moral hazard issue is related to the implicit state guarantee that may be taken into account by creditors. The resolution regime that we support, its co-existence with the judicial bankruptcy proceedings and the bail-in mechanism contemplated by the Consultative Paper clearly show that this implicit guarantee has disappeared and that the main stakeholders –the shareholders, the junior creditors and the management- would have to pay the price of the bank's difficulties. From this point of view, the moral hazard does not any longer exist.

BNP PARIBAS | CORPORATE & INVESTMENT BANKING

Bail-in

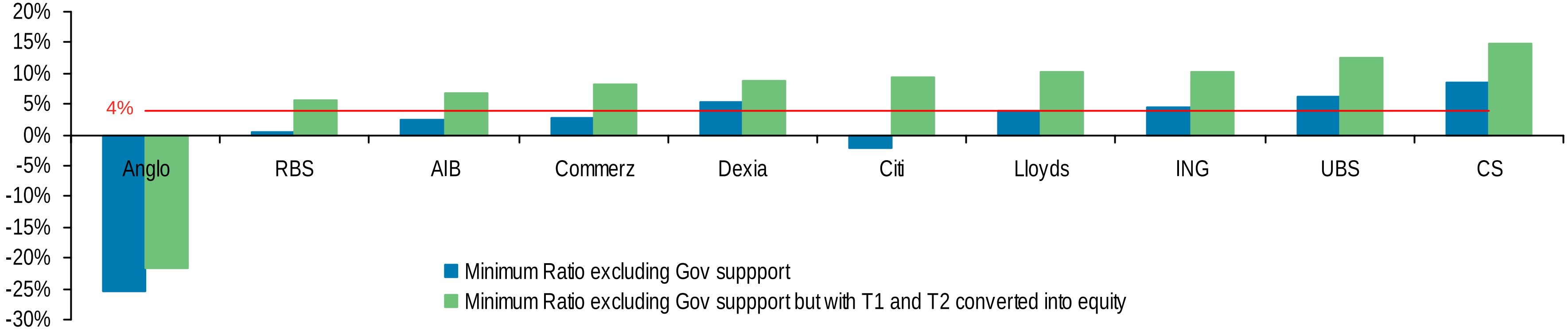
Discussion Material

21 September 2010

Lessons from the crisis – How critical were government capital injections?

Public support was critical but could have been mostly avoided by converting subordinated debt into equity

Minimum Core Tier 1 without Government Support – With and without Tier 1 and Tier 2 instruments conversion in equity



	Anglo	RBS	AIB	Commerz	Dexia	Citi	Lloyds	ING	UBS	CS
Min Ratio ex. Gov Support	-25.4%	0.5%	2.5%	2.7%	5.4%	-2.1%	4.0%	4.3%	6.1%	8.6%
Min Ratio ex. Gov Support but with T1 & T2 Converted in Equity	-21.7%	5.6%	6.7%	8.1%	8.7%	9.2%	10.2%	10.2%	12.5%	14.8%
Total Reg Initial Cap (A)	9.3	55.5	14.1	25.5	15.3	134.1	49.5	41.6	45.8	45.1
Government Capital Injected (B)	22.9	45.2	3.5	18.2	6.4	45.0	19.9	10.0	6.0	0.0
B / A	245%	81%	24.8%	71.5%	41.7%	33.6%	40.3%	24.1%	13.1%	0.0%

Source: Company reports, BNP Paribas

- Our analysis suggests that only two banks (Anglo and Citi) would have had a negative Core Tier 1 ratio if public capital had not been injected. A number of other banks would have seen their capital position eroded to such an extent that it could have endangered their survival due to lack of market confidence.
- However, when assuming that Tier 1 and Tier 2 instruments could have been used to create Core Tier 1 Capital through conversion into equity, all banks except Anglo would have maintained a Core Tier 1 ratio above 4% without government support.

Bail-in analysis – Key take-aways

- The recent financial crisis has caused major losses for most financial institutions, leading to the default or drastic restructuring of several banks.

- Government capital injections were deemed necessary for some institutions in order to shore-up depleted capital positions as well as restore confidence in the financial system.
  - Our sample has an average of government capital injected to pre-crisis Total Capital of 58%
  - Figures range from 245% at Anglo Irish Bank to 0.0% at Credit Suisse

- At the same time, private capital raising and other capital management actions (sale of assets, hedging, etc.) helped banks maintain adequate solvency buffers.
  - For example, our analysis on UBS shows a cumulative solvency destruction of CHF 46bn from Q3 2007 to Q3 2009. However, UBS managed to keep solid – and rising - solvency ratios as it managed to raise privately CHF 33.4bn of Tier 1 capital while shrinking their RWAs (excl. gov scheme) by CHF 159bn, or c. 40% of initial RWAs.

- Effectively, when looking at the worst point for each bank, only two institutions exhibit negative ratios if government capital is excluded from their regulatory capital base.

- If one assumes that Tier 1 and Tier 2 instruments could have been used to absorb losses by converting into equity, then only one bank, Anglo Irish Bank, would have failed. The rest of our sample would have maintained some margin above minimum capital requirements.

- This analysis suggests that for most of our sample, imposing the conversion of subordinated notes into equity would have been sufficient to ensure banks' solvency in the absence of government support.
  - Had public support not been available and subordinated debt converted into equity, senior debt haircutting would have been necessary to maintain adequate solvency levels for Anglo Irish Bank only.

Calculation details – RBS

£m	31-Dec-07	31-Dec-08	31-Dec-09	30-Jun-10
Stock of Fixed Income RegCap				
Hybrid Tier 1	14,704	23,091	14,037	10,398
Tier 2	29,450	29,361	22,320	18,668
Total	44,154	52,452	36,357	29,066
Regulatory Capital Position (Net of Deductions)				
Core Tier 1	19,596	34,041	48,151	49,744
Hybrid Tier 1	14,704	23,083	14,747	10,886
Total Tier 1	34,300	57,124	62,898	60,630
Tier 2	21,248	25,072	8,422	5,220
Total Capital	55,548	82,196	71,320	65,850
Risk Weighted Assets	490,000	577,800	438,200	473,900
Core Tier 1 Capital Ratio	4.0%	5.9%	11.0%	10.5%
Tier 1 Capital Ratio	7.0%	9.9%	14.4%	12.8%
Total Capital Ratio	11.3%	14.2%	16.3%	13.9%
Government Capital Injections		20,000	25,222	-
Government Capital Injections (cum)		20,000	45,222	45,222
Govt RWA relief		-	127,600	123,400
Core Tier 1 capital excluding government stake	19,596	14,041	2,929	4,522
RWAs excluding government protection	490,000	577,800	565,800	597,300
What would RBS' Core Tier 1 ratio be excluding government support?	4.0%	2.4%	0.5%	0.8%
Core Tier 1 capital ex govt but with Tier 1 hybrid into equity	34,300	37,132	16,966	14,920
…ratio to RWAs ex govt protection	7.0%	6.4%	3.0%	2.5%
Core Tier 1 capital ex govt but with Tier 1 hybrid and Tier 2 into equity	63,750	66,493	39,286	33,588
…ratio to RWAs ex govt protection	13.0%	11.5%	6.9%	5.6%
Core Tier 1 ratios:	**31-Dec-07**	**31-Dec-08**	**31-Dec-09**	**30-Jun-10**
Inc government support	4.0%	5.9%	11.0%	10.5%
Ex government support	4.0%	2.4%	0.5%	0.8%
Ex government support but with Tier 1 into equity	7.0%	6.4%	3.0%	2.5%
Ex government support but with Tier 1 and 2 into equity	13.0%	11.5%	6.9%	5.6%

Source: Company reports, BNP Paribas

Calculation details – Lloyds

£m	HBOS 31-Dec-07	Lloyds 31-Dec-07	**HBOS+Lloyds 31-Dec-07**	HBOS 31-Dec-08	Lloyds 31-Dec-08	**HBOS+Lloyds 31-Dec-08**	**LBG 31-Dec-09**	**LBG 30-Jun-10**
Stock of Fixed Income RegCap								
Hybrid Tier 1	6,028	3,063	**9,091**	10,771	5,135	**15,906**	**7,595**	**5,817**
Tier 2	16,141	7,898	**24,039**	19,960	10,280	**30,240**	**22,643**	**23,097**
Total	22,169	10,961	**33,130**	30,731	15,415	**46,146**	**30,238**	**28,914**
Regulatory Capital Position (Net of Deductions)								
Core Tier 1	17,703	10,482	**28,185**	21,848	9,542	**31,390**	**39,804**	**41,869**
Hybrid Tier 1	6,028	3,063	**9,091**	10,771	4,159	**14,930**	**7,595**	**5,817**
Total Tier 1	23,731	13,545	**37,276**	32,619	13,701	**46,320**	**47,399**	**47,686**
Tier 2	10,127	2,130	**12,257**	14,093	5,428	**19,521**	**13,547**	**14,284**
Total Capital	33,858	15,675	**49,533**	46,712	19,129	**65,841**	**60,946**	**61,970**
Risk Weighted Assets	309,173	142,600	**451,773**	328,023	170,500	**498,523**	**493,307**	**463,196**
Core Tier 1 Capital Ratio	5.7%	7.4%	6.2%	6.7%	5.6%	6.3%	8.1%	9.0%
Tier 1 Capital Ratio	7.7%	9.5%	**8.3%**	9.9%	8.0%	**9.3%**	**9.6%**	**10.3%**
Total Capital Ratio	11.0%	11.0%	**11.0%**	14.2%	11.2%	**13.2%**	**12.4%**	**13.4%**
Government Capital Injections						**11,300**	**8,639**	**-**
Government Capital Injections (cum)						**11,300**	**19,939**	**19,939**
Govt RWA relief	-	-	-	-	-	-	-	-
Core Tier 1 capital excluding government stake	17,703	10,482	28,185	21,848	9,542	20,090	19,865	21,930
RWAs excluding government protection	309,173	142,600	451,773	328,023	170,500	498,523	493,307	463,196
What would Lloyds' Core Tier 1 ratio be excluding government support?	5.7%	7.4%	6.2%	6.7%	5.6%	4.0%	4.0%	4.7%
Core Tier 1 capital ex govt but with Tier 1 hybrid into equity	23,731	13,545	37,276	32,619	14,677	35,996	27,460	27,747
…ratio to RWAs ex govt protection	7.7%	9.5%	8.3%	9.9%	8.6%	7.2%	5.6%	6.0%
Core Tier 1 capital ex govt but with Tier 1 hybrid and Tier 2 into equity	39,872	21,443	61,315	52,579	24,957	66,236	50,103	50,844
…ratio to RWAs ex govt protection	12.9%	15.0%	13.6%	16.0%	14.6%	13.3%	10.2%	11.0%
Core Tier 1 ratios:	**31-Dec-07**	**31-Dec-07**	**31-Dec-07**	**31-Dec-08**	**31-Dec-08**	**31-Dec-08**	**31-Dec-09**	**30-Jun-10**
Inc government support	5.7%	7.4%	6.2%	6.7%	5.6%	6.3%	8.1%	9.0%
Ex government support	5.7%	7.4%	6.2%	6.7%	5.6%	4.0%	4.0%	4.7%
Ex government support but with Tier 1 into equity	7.7%	9.5%	8.3%	9.9%	8.6%	7.2%	5.6%	6.0%
Ex government support but with Tier 1 and 2 into equity	12.9%	15.0%	13.6%	16.0%	14.6%	13.3%	10.2%	11.0%

Source: Company reports, BNP Paribas

Calculation details – Anglo Irish Bank

€m	30-Sep-07	30-Sep-08	30-Sep-09	30-Jun-10
Stock of Fixed Income RegCap				
Hybrid Tier 1	2,757	2,504	605	642
Tier 2	2,561	2,487	1,696	1,661
Total	5,318	4,991	2,301	2,303
Regulatory Capital Position (Net of Deductions)				
Core Tier 1	4,020	5,068	4,569	6,996
Hybrid Tier 1	2,757	2,133	271	278
Total Tier 1	6,777	7,201	4,840	7,274
Tier 2	2,549	3,117	2,961	2,987
Total Capital	9,326	10,318	7,801	10,249
Risk Weighted Assets	78,677	85,798	73,055	62,600
Core Tier 1 Capital Ratio	5.1%	5.9%	6.3%	11.2%
Tier 1 Capital Ratio	8.6%	8.4%	6.6%	11.6%
Total Capital Ratio	11.9%	12.0%	10.7%	16.4%
Government Capital Injections			12,300	10,580
Government Capital Injections (cum)			12,300	22,880
Govt RWA relief	-	-	-	-
Core Tier 1 capital excluding government stake	4,020	5,068	- 7,731	- 15,884
RWAs excluding government protection	78,677	85,798	73,055	62,600
What would Anglo's Core Tier 1 ratio be excluding gove	5.1%	5.9%	-10.6%	-25.4%
Core Tier 1 capital ex govt but with Tier 1 hybrid into eq	6,777	7,572	- 7,126	- 15,242
…ratio to RWAs ex govt protection	8.6%	8.8%	-9.8%	-24.3%
Core Tier 1 capital ex govt but with Tier 1 hybrid and Ti	9,338	10,059	- 5,430	- 13,581
…ratio to RWAs ex govt protection	11.9%	11.7%	-7.4%	-21.7%
Core Tier 1 ratios:	**30-Sep-07**	**30-Sep-08**	**30-Sep-09**	**30-Jun-10**
Inc government support	5.1%	5.9%	6.3%	11.2%
Ex government support	5.1%	5.9%	-10.6%	-25.4%
Ex government support but with Tier 1 into equity	8.6%	8.8%	-9.8%	-24.3%
Ex government support but with Tier 1 and 2 into equity	11.9%	11.7%	-7.4%	-21.7%

Source: Company reports, BNP Paribas

€m	30-Sep-07	30-Sep-08	30-Sep-09	30-Jun-10
Stock of Fixed Income RegCap				
Hybrid Tier 1	2,757	2,504	605	642
Tier 2	2,561	2,487	1,696	1,661
Total	5,318	4,991	2,301	2,303
Regulatory Capital Position (Net of Deductions)				
Core Tier 1	4,020	5,068	4,569	6,996
Hybrid Tier 1	2,757	2,133	271	278
Total Tier 1	6,777	7,201	4,840	7,274
Tier 2	2,549	3,117	2,961	2,987
Total Capital	9,326	10,318	7,801	10,249
Risk Weighted Assets	78,677	85,798	73,055	62,600
Core Tier 1 Capital Ratio	5.1%	5.9%	6.3%	11.2%
Tier 1 Capital Ratio	8.6%	8.4%	6.6%	11.6%
Total Capital Ratio	11.9%	12.0%	10.7%	16.4%
Government Capital Injections			12,300	10,580
Government Capital Injections (cum)			12,300	22,880
Govt RWA relief	-	-	-	-
Core Tier 1 capital excluding government stake	4,020	5,068	- 7,731	- 15,884
RWAs excluding government protection	78,677	85,798	73,055	62,600
What would Anglo's Core Tier 1 ratio be excluding gove	5.1%	5.9%	-10.6%	-25.4%
Core Tier 1 capital ex govt but with Tier 1 hybrid into eq	6,777	7,572	- 7,126	- 15,242
…ratio to RWAs ex govt protection	8.6%	8.8%	-9.8%	-24.3%
Core Tier 1 capital ex govt but with Tier 1 hybrid and Tie	9,338	10,059	- 5,430	- 13,581
…ratio to RWAs ex govt protection	11.9%	11.7%	-7.4%	-21.7%

Core Tier 1 ratios:	**30-Sep-07**	**30-Sep-08**	**30-Sep-09**	**30-Jun-10**
Inc government support	5.1%	5.9%	6.3%	11.2%
Ex government support	5.1%	5.9%	-10.6%	-25.4%
Ex government support but with Tier 1 into equity	8.6%	8.8%	-9.8%	-24.3%
Ex government support but with Tier 1 and 2 into equity	11.9%	11.7%	-7.4%	-21.7%

Source: Company reports, BNP Paribas

Calculation details – Dexia

€m	FY 06	FY 07	FY 08	FY 09	H1 10
Stock of Fixed Income RegCap					
Hybrid Tier 1	1423	1,423	1,421	1,421	1,423
Tier 2	3,323	3,820	3,610	3,385	3,447
Total	4,746	5,243	5,031	4,806	4,870
Regulatory Capital Position (Net of Deductions)					
Core Tier 1	11,605	13,126	14,705	16,152	16,793
Hybrid Tier 1	1,423	1,423	1,421	1,421	1,423
Total Tier 1	13028	14,549	16,126	17,573	18,216
Tier 2	726	796	1,951	2,678	2,491
Total Capital	13,754	15,345	18,077	20,251	20,707
Risk Weighted Assets	133369	159,383	152,837	143,170	149,254
Core Tier 1 Ratio	8.7%	8.2%	9.6%	11.3%	11.3%
Tier 1 Capital Ratio	9.8%	9.1%	10.6%	12.3%	12.2%
Total Capital Ratio	10.3%	9.6%	11.8%	14.1%	13.9%
Government Capital Injections			6400		
Government Capital Injections (cum)	0	0	6400	6400	6400
Govt RWA relief					
Core Tier 1 capital excluding government stake	11,605	13,126	8,305	9,752	10,393
RWAs excluding government protection	133,369	159,383	152,837	143,170	149,254
What would Dexia Core Tier 1 ratio be excluding government support?	8.7%	8.2%	5.4%	6.8%	7.0%
Core Tier 1 capital ex govt but with Tier 1 hybrid into equity	13,028	14,549	9,726	11,173	11,816
…ratio to RWAs ex govt protection	9.8%	9.1%	6.4%	7.8%	7.9%
Core Tier 1 capital ex govt but with Tier 1 hybrid and Tier 2 into equity	16,351	18,369	13,336	14,558	15,263
…ratio to RWAs ex govt protection	12.3%	11.5%	8.7%	10.2%	10.2%
Core Tier 1 ratios:	**FY 06**	**FY 07**	**FY 08**	**FY 09**	**H1 10**
Inc government support	8.7%	8.2%	9.6%	11.3%	11.3%
Ex government support	8.7%	8.2%	5.4%	6.8%	7.0%
Ex government support but with Tier 1 into equity	9.8%	9.1%	6.4%	7.8%	7.9%
Ex government support but with Tier 1 and 2 into equity	12.3%	11.5%	8.7%	10.2%	10.2%

Source: Company reports, BNP Paribas

Calculation details – UBS

CHF m	FY 06	FY 07 restated	FY 08	FY 09	H1 10
Stock of Fixed Income RegCap					
Hybrid Tier 1	5633	6387	7,393	7,223	6,964
Tier 2	9,836	14,071	13,380	11,281	11,149
Total	15,469	20,458	20,773	18,504	18,113
Regulatory Capital Position (Net of Deductions)					
Core Tier 1	34,895	27,714	25,761	24,575	26,721
Hybrid Tier 1	5,633	6,387	7,393	7,223	6,964
Total Tier 1	40528	34,101	33,154	31,798	33,685
Tier 2	9,836	11,696	12,213	9,143	8,181
Total Capital	50,364	45,797	45,367	40,941	41,867
Risk Weighted Assets	341892	374,421	302,273	206,525	204,848
Core Tier 1 Ratio	10.2%	7.4%	8.5%	11.9%	13.0%
Tier 1 Capital Ratio	11.9%	9.1%	11.0%	15.4%	16.4%
Total Capital Ratio	14.7%	12.2%	15.0%	19.8%	20.4%
Government Capital Injections			6000		
Government Capital Injections (cum)	0	0	6000	6000	6000
Govt RWA relief			21,000	21,000	21,000
Core Tier 1 capital excluding government stake	34,895	27,714	19,761	18,575	20,721
RWAs excluding government protection	341,892	374,421	323,273	227,525	225,848
What would UBS Core Tier 1 ratio be excluding government support?	10.2%	7.4%	6.1%	8.2%	9.2%
Core Tier 1 capital ex govt but with Tier 1 hybrid into equity	40,528	34,101	27,154	25,798	27,685
…ratio to RWAs ex govt protection	11.9%	9.1%	8.4%	11.3%	12.3%
Core Tier 1 capital ex govt but with Tier 1 hybrid and Tier 2 into equity	50,364	48,172	40,534	37,079	38,834
…ratio to RWAs ex govt protection	14.7%	12.9%	12.5%	16.3%	17.2%

Core Tier 1 ratios:	**FY 06**	**FY 07**	**FY 08**	**FY 09**	**H1 10**
Inc government support	10.2%	7.4%	8.5%	11.9%	13.0%
Ex government support	10.2%	7.4%	6.1%	8.2%	9.2%
Ex government support but with Tier 1 into equity	11.9%	9.1%	8.4%	11.3%	12.3%
Ex government support but with Tier 1 and 2 into equity	14.7%	12.9%	12.5%	16.3%	17.2%

Source: Company reports, BNP Paribas

Calculation details – AIB

€m	FY 06	FY 07	FY 08	FY 09	H1 10
Stock of Fixed Income RegCap					
Hybrid Tier 1	1702	1,638	1,361	375	379
Tier 2	3,539	3,464	3,662	4,450	4,292
Total	5,241	5,102	5,023	4,825	4,671
Regulatory Capital Position (Net of Deductions)					
Core Tier 1	8,414	8,853	8,576	8,295	6,361
Hybrid Tier 1	1,702	1,638	1,361	375	379
Total Tier 1	10116	10,491	9,937	8,670	6,740
Tier 2	3528	3,607	4,116	3,645	3,360
Total Capital	13,644	14,098	14,053	12,315	10,100
Risk Weighted Assets	123034	139,386	133,899	120,380	112,679
Core Tier 1 Ratio	6.8%	6.4%	6.4%	6.9%	5.6%
Tier 1 Capital Ratio	8.2%	7.5%	7.4%	7.2%	6.0%
Total Capital Ratio	11.1%	10.1%	10.5%	10.2%	9.0%
Government Capital Injections				3,500	
Government Capital Injections (cum)	0	0	0	3500	3500
Govt RWA relief					
Core Tier 1 capital excluding government stake	8,414	8,853	8,576	4,795	2,861
RWAs excluding government protection	123,034	139,386	133,899	120,380	112,679
What would AIB Core Tier 1 ratio be excluding government support?	6.8%	6.4%	6.4%	4.0%	2.5%
Core Tier 1 capital ex govt but with Tier 1 hybrid into equity	10,116	10,491	9,937	5,170	3,240
…ratio to RWAs ex govt protection	8.2%	7.5%	7.4%	4.3%	2.9%
Core Tier 1 capital ex govt but with Tier 1 hybrid and Tier 2 into equity	13,655	13,955	13,599	9,620	7,532
…ratio to RWAs ex govt protection	11.1%	10.0%	10.2%	8.0%	6.7%
Core Tier 1 ratios:	**FY 06**	**FY 07**	**FY 08**	**FY 09**	**H1 10**
Inc government support	6.8%	6.4%	6.4%	6.9%	5.6%
Ex government support	6.8%	6.4%	6.4%	4.0%	2.5%
Ex government support but with Tier 1 into equity	8.2%	7.5%	7.4%	4.3%	2.9%
Ex government support but with Tier 1 and 2 into equity	11.1%	10.0%	10.2%	8.0%	6.7%

Source: Company reports, BNP Paribas

Calculation details – CS

CHF m	FY 06	FY 07	FY 08	FY 09	H1 10
Stock of Fixed Income RegCap					
Hybrid Tier 1	2167	4,136	12,140	12,198	12,222
Tier 2	13,320	11,425	39,361	10,358	13,655
Total	15,487	15,561	51,501	22,556	25,877
Regulatory Capital Position (Net of Deductions)					
Core Tier 1	32,980	30,601	22,068	24,009	25,768
Hybrid Tier 1	2,167	4,136	12,140	12,198	12,222
Total Tier 1	35147	34,737	34,208	36,207	37,990
Tier 2	11617	10,365	11,882	9,521	12,804
Total Capital	46,764	45,102	46,090	45,728	50,794
Risk Weighted Assets	253676	312,068	257,467	221,609	232,964
Core Tier 1 Ratio	13.0%	9.8%	8.6%	10.8%	11.1%
Tier 1 Capital Ratio	13.9%	11.1%	13.3%	16.3%	16.3%
Total Capital Ratio	18.4%	14.5%	17.9%	20.6%	21.8%
Government Capital Injections					
Government Capital Injections (cum)	0	0	0	0	0
Govt RWA relief					
Core Tier 1 capital excluding government stake	32,980	30,601	22,068	24,009	25,768
RWAs excluding government protection	253,676	312,068	257,467	221,609	232,964
What would CS Core Tier 1 ratio be excluding government support?	13.0%	9.8%	8.6%	10.8%	11.1%
Core Tier 1 capital ex govt but with Tier 1 hybrid into equity	35,147	34,737	34,208	36,207	37,990
…ratio to RWAs ex govt protection	13.9%	11.1%	13.3%	16.3%	16.3%
Core Tier 1 capital ex govt but with Tier 1 hybrid and Tier 2 into equity	48,467	46,162	73,569	46,565	51,645
…ratio to RWAs ex govt protection	19.1%	14.8%	28.6%	21.0%	22.2%

Core Tier 1 ratios:	**FY 06**	**FY 07**	**FY 08**	**FY 09**	**H1 10**
Inc government support	13.0%	9.8%	8.6%	10.8%	11.1%
Ex government support	13.0%	9.8%	8.6%	10.8%	11.1%
Ex government support but with Tier 1 into equity	13.9%	11.1%	13.3%	16.3%	16.3%
Ex government support but with Tier 1 and 2 into equity	19.1%	14.8%	28.6%	21.0%	22.2%

Source: Company reports, BNP Paribas

Calculation details – Citi

$m	FY 07	FY 08	FY 09
Stock of Fixed Income RegCap			
Hybrid Tier 1	23,594	94,563	22,539
Tier 2	26,690	24,791	24,242
Total	50,284	119,354	46,781
Regulatory Capital Position (Net of Deductions)			
Core Tier 1	65,632	24,195	104,495
Hybrid Tier 1	23,594	94,563	22,539
Total Tier 1	89,226	118,758	127,034
Tier 2	44,895	37,640	38,949
Total Capital	134,121	156,398	165,983
Risk Weighted Assets	1,253,321	996,247	1,088,526
Core Tier 1 Ratio	5.2%	2.4%	9.6%
Tier 1 Capital Ratio	7.1%	11.9%	11.7%
Total Capital Ratio	10.7%	15.7%	15.2%
Government Capital Injections		45000	
Government Capital Injections (cum)	0	45000	45000
Govt RWA relief			
Core Tier 1 capital excluding government stake	65,632	- 20,805	59,495
RWAs excluding government protection	1,253,321	996,247	1,088,526
What would Citi Core Tier 1 ratio be excluding government support?	5.2%	-2.1%	5.5%
Core Tier 1 capital ex govt but with Tier 1 hybrid into equity	89,226	73,758	82,034
…ratio to RWAs ex govt protection	7.1%	7.4%	7.5%
Core Tier 1 capital ex govt but with Tier 1 hybrid and Tier 2 into equity	115,916	98,549	106,276
…ratio to RWAs ex govt protection	9.2%	9.9%	9.8%
Core Tier 1 ratios:	**FY 07**	**FY 08**	**FY 09**
Inc government support	5.2%	2.4%	9.6%
Ex government support	5.2%	-2.1%	5.5%
Ex government support but with Tier 1 into equity	7.1%	7.4%	7.5%
Ex government support but with Tier 1 and 2 into equity	9.2%	9.9%	9.8%

Source: Company reports, BNP Paribas

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