Preferred creditors Senior unsecured, benchmark
Senior unsecured, bail-in
Subordinated, no bail-in Senior unsecured, pari passu

European Banks: Asset Volatility = 5 Percent, Capital-to-Asset Ratio = 7 Percent

Preferred creditors in percent of assets

Source: IMF staff estimates.

Note: The “senior unsecured, benchmark” line is the same as the “senior unsecured” line in Figure 3.14 and represents the yield when senior unsecured debt is junior to “preferred creditors,” but not subject to bail-in. When “senior unsecured, benchmark” bonds are de facto junior to “preferred creditors” their yield is already higher than that of “preferred creditors” and the yield when the two are ranked equally (“senior unsecured, pari passu”). In addition, applying bail-in power and converting them to equity when the bank becomes unviable will raise their yield from the “senior unsecured, benchmark” line to the “senior unsecured, bail-in” line yield. The equity buffer in this figure corresponds to the sum of equity and subordinated debt in Figure 3.14.

Assumptions: The capital-to-total-asset ratio for European banks is about 7 percent (equity plus subordinated debt). The asset volatility assumption is based on the estimate by Moody’s KMV for global systemically important banks (January 2005–June 2013), with 10 (4) percent as the highest (median) across time and banks. The average for May 2013 is 4.2 percent. For large European banks, secured debt (assessing repos on a net basis) and deposits average 17 percent and 48 percent of the assets, respectively, and 24 to 70 percent of the deposits are insured (Table 3.5).