

What will Asian bank capital bonds look like in a Basel III world?

Asian Borrowers Forum 2010

23 September 2010

Paul McWilliam

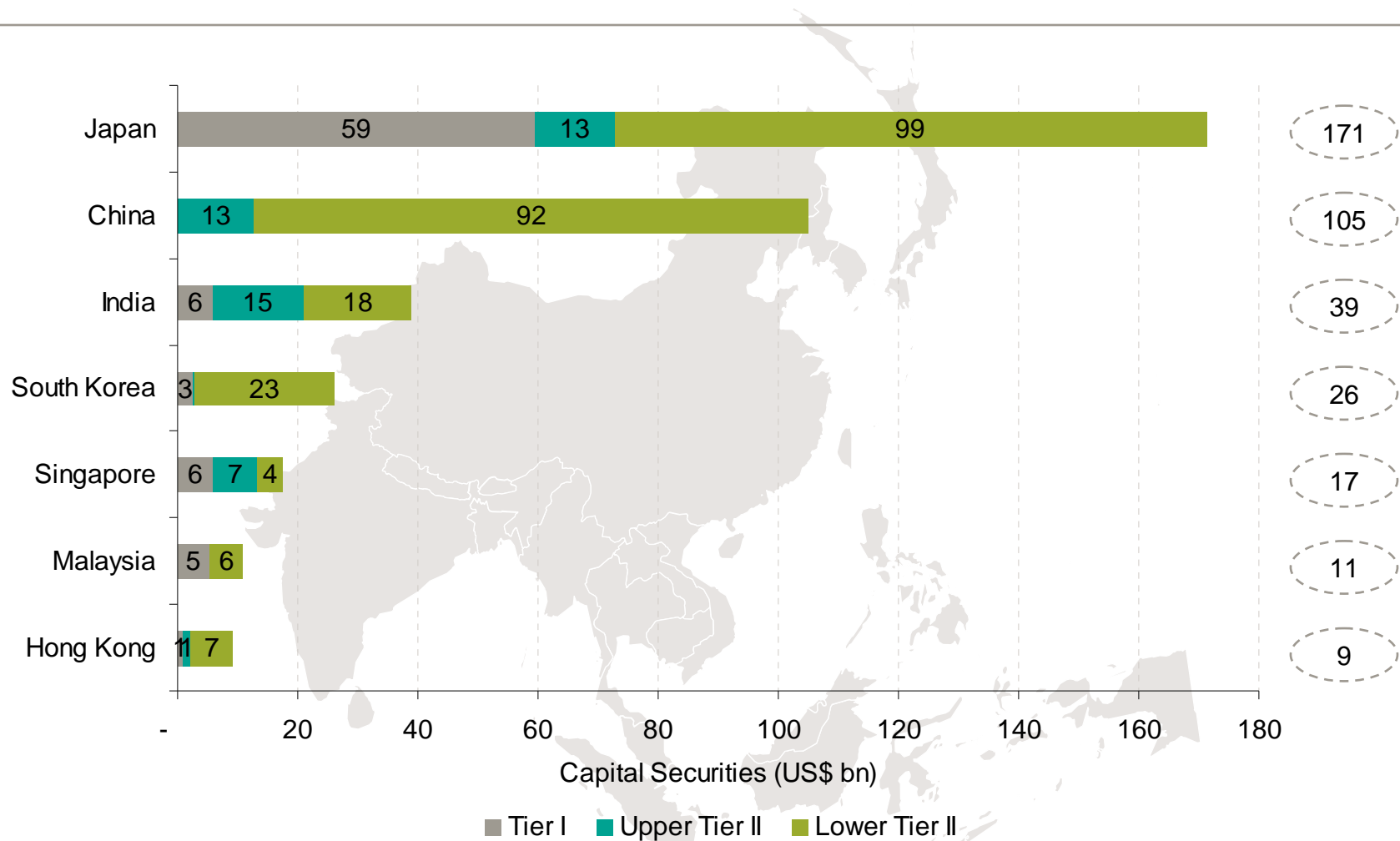
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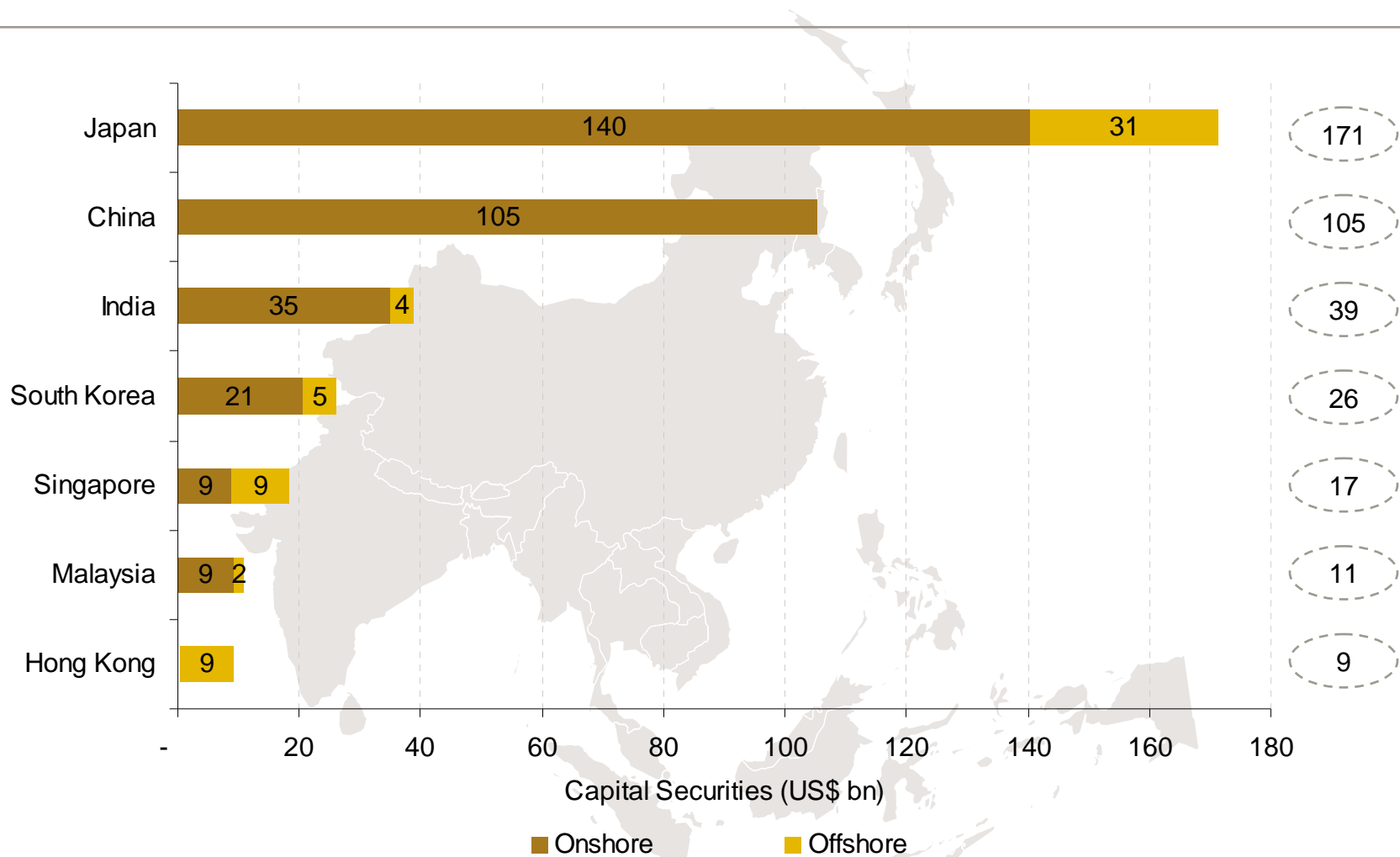
The Royal Bank of Scotland

Asian Bank Capital Securities Outstanding By Tier



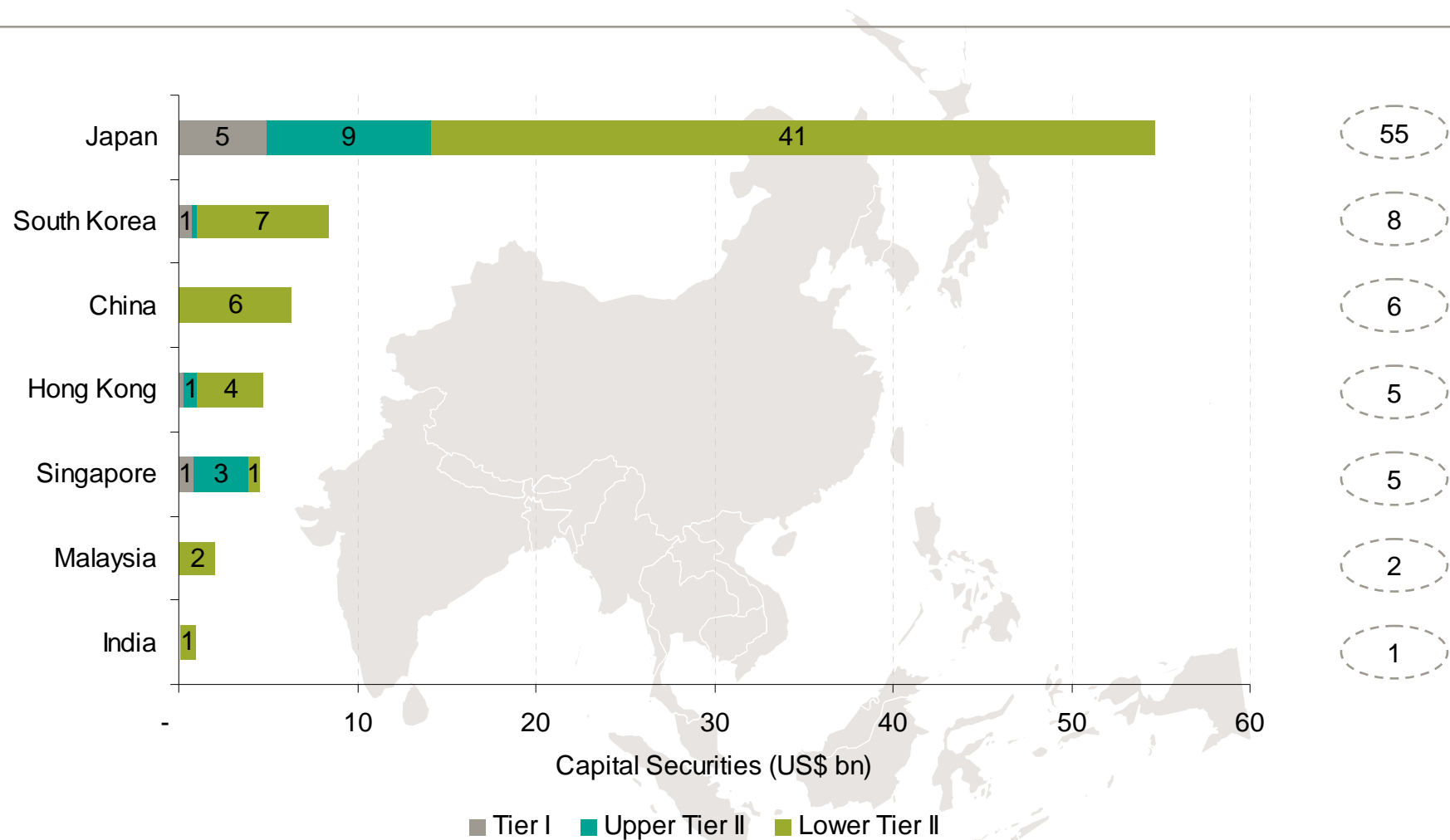
Source: Bloomberg as at 16 September 2010

Asian Bank Capital Securities Outstanding By Currency



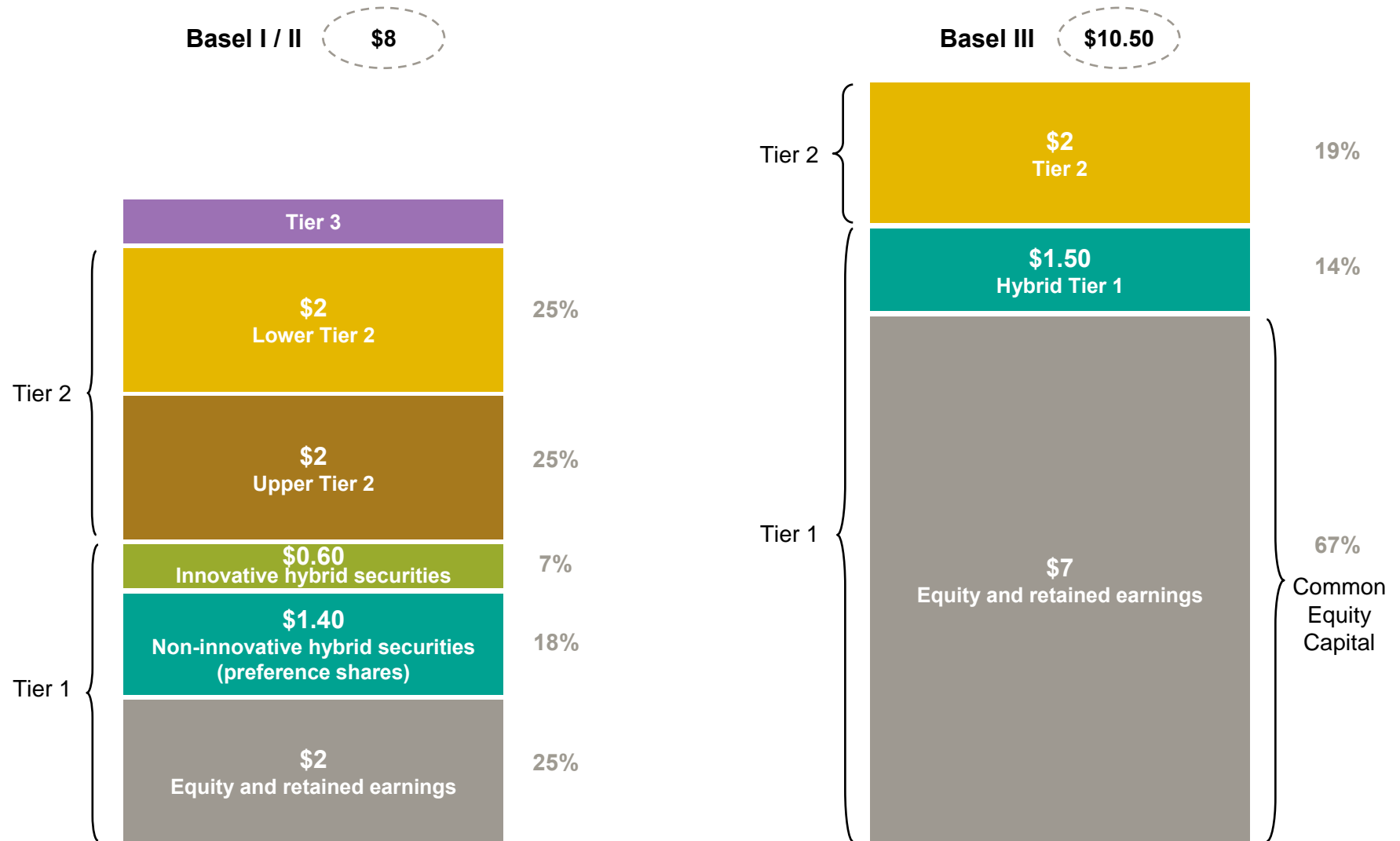
Source: Bloomberg as at 16 September 2010

Asian Bank Capital Bonds Maturing or Callable in the Next 2 Years



Source: Bloomberg as at 16 September 2010

Regulatory Capital Required for \$100 of Risk Weighted Assets



Bank Capital Bonds in a Basel 3.0 World

Tier 2

- Subordinated to general creditors
- Original maturity \geq 5 years
- Callable only after 5 years
- No coupon step-up or other incentive to call


Tier 1

- Junior subordinated
- Perpetual
- Callable only after 5 years
- No coupon step-up or other incentive to call
- Full issuer discretion to cancel coupons / dividends
- Write-down or conversion to equity at a pre-specified trigger point

The Basel Committee's August 19th 'Bombshell' – Basel 3.1?

“All non-common Tier 1 instruments and Tier 2 instruments at internationally active banks must have a clause in their terms and conditions that requires them to be written-off on the occurrence of the trigger event.”

Contingent Capital Transaction Terms

| | Lloyds Banking Group |  Yorkshire Building Society | Rabobank |
|---|--|--|--|
| Date of Issue | 17 November 2009 | 2 December 2009 | 12 March 2010 |
| Host Instrument | LT2 (non-US) and UT2/LT2 (US) | Lower Tier 2 | Senior |
| Issue Amount | GBP8.1bn equivalent | GBP100mn | EUR1.25bn |
| Rating | Ba2 / BB / BB | NR / NR / BB+ | NR / NR / NR |
| Coupon | 6.44% - 15% | 13.5% | 6.875% |
| Maturity/First Call Date | Mostly 2019 - 2024 | 2024 | 2020 |
| Conversion Trigger | Group's Core Tier 1 Ratio drops below 5% | Society's Core Tier 1 Ratio drops below 5% | Rabobank's Equity Capital Ratio drops below 7% |
| Converts To | Common Shares | Profit-Participating Deferred Shares | Cash at 25% of par |
| Current secondary level | 8.1 - 9.8% | 11.3% | 7.1% |
| Estimated Current Z-Spread over LT2 Bullet | 225 – 415 bps | 215 bps | 345 bps |

Source: RBS, Bloomberg, Euroweek

Potential Pricing for Tier 2 under Basel III for A Single 'A' Rated Bank

| Risk Parameters | 'Basel II' Lower Tier 2 | 'Basel III' Tier 2 | | |
|--|-------------------------|--------------------|--------------------------------------|---|
| | | Write-down to zero | Conversion to fixed number of shares | Conversion to variable number of shares |
| Probability of default/ trigger event | 2.6% | 5.2% | 5.2% | 5.2% |
| Loss given default/ trigger event | 74% | 100% | 80% | 20% |
| Expected loss | 2% | 5% | 4% | 1% |

Source: RBS Capital Solutions Estimates

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