RBS
The Royal Bank of Scotland

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

Asian Borrowers Forum 2010

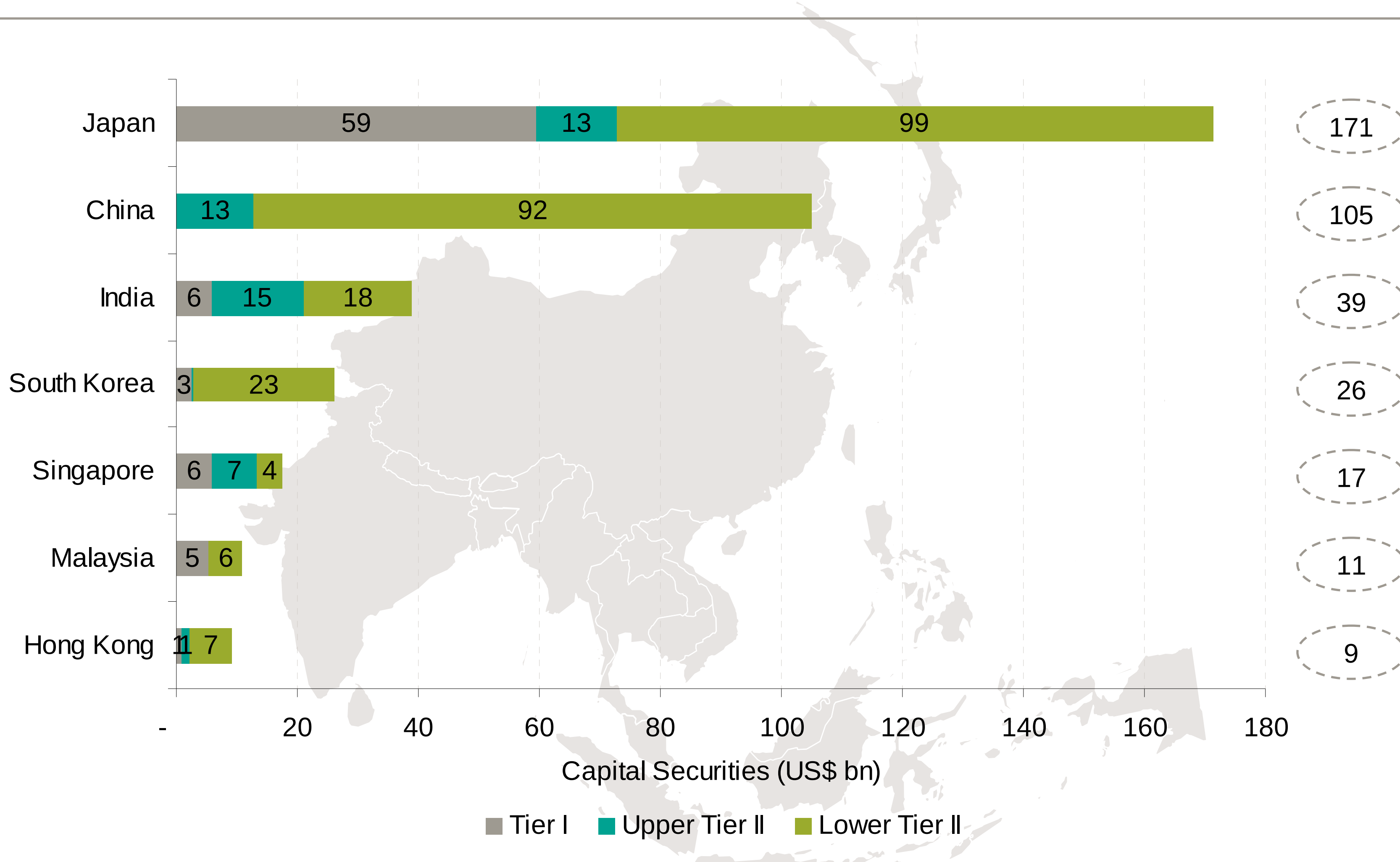
23 September 2010

Paul McWilliam
Head of FI Capital Solutions APAC

Christy Hajiloizou
Credit Strategist

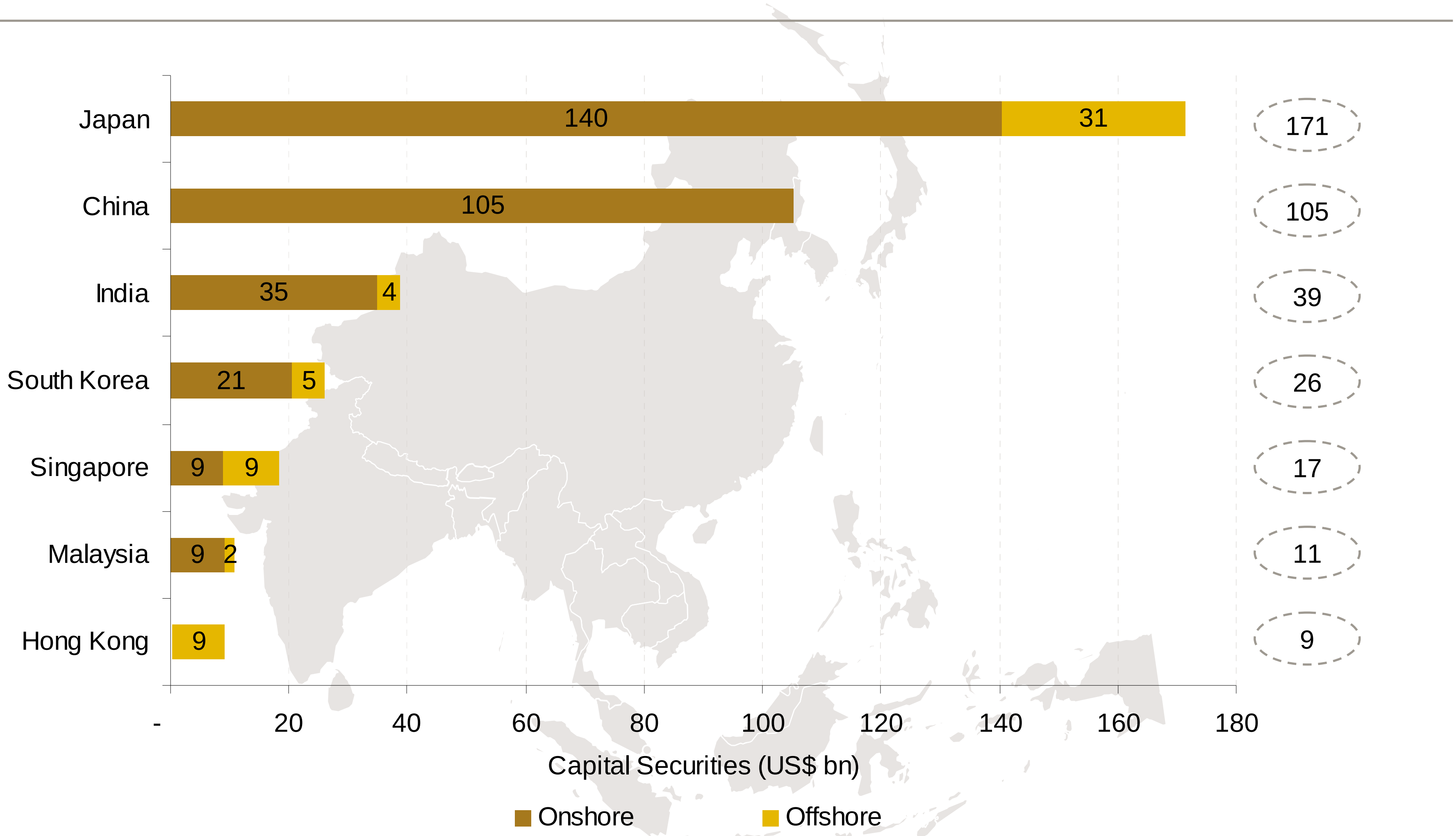
The Royal Bank of Scotland

Asian Bank Capital Securities Outstanding By Tier



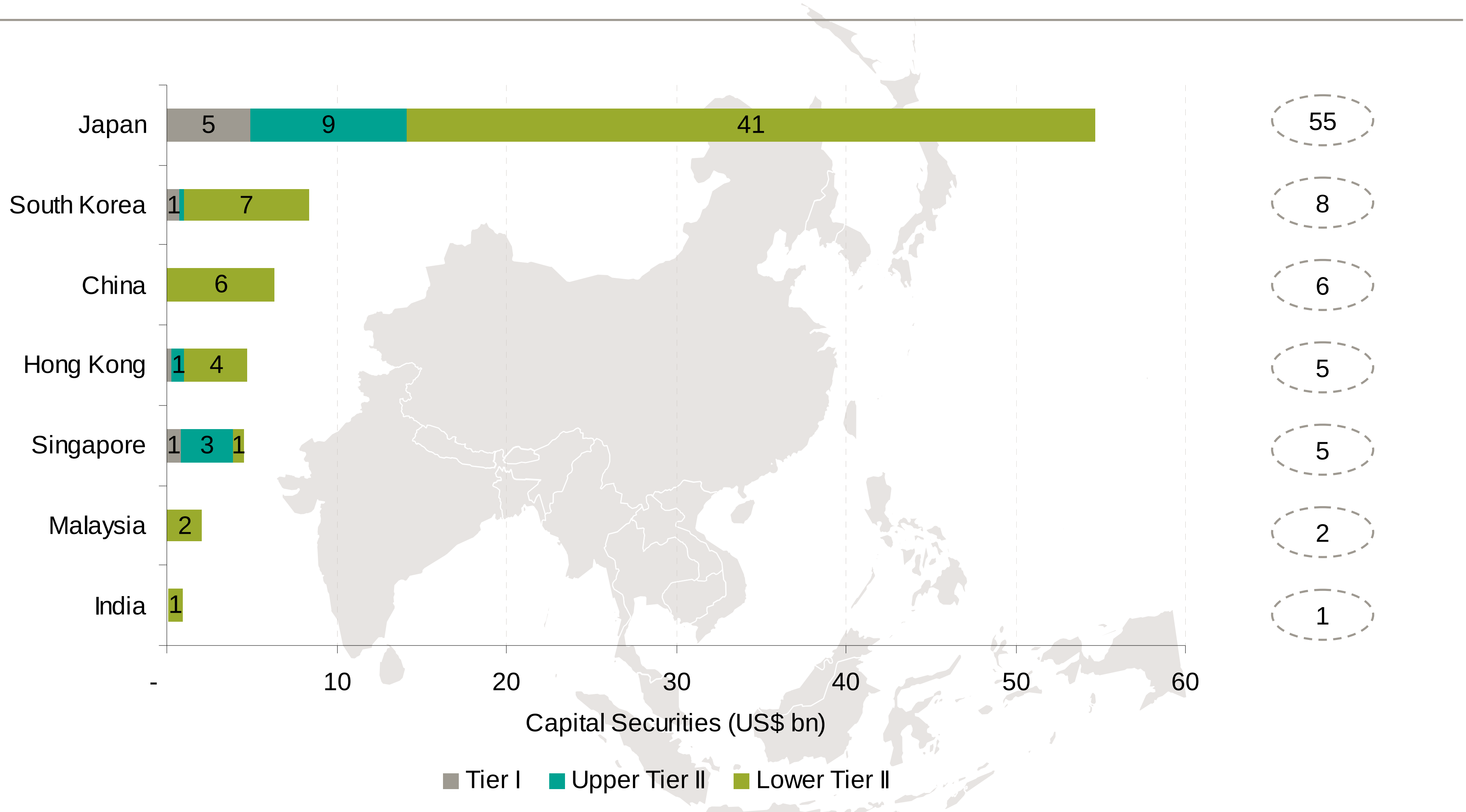
Source: Bloomberg as at 16 September 2010

Asian Bank Capital Securities Outstanding By Currency



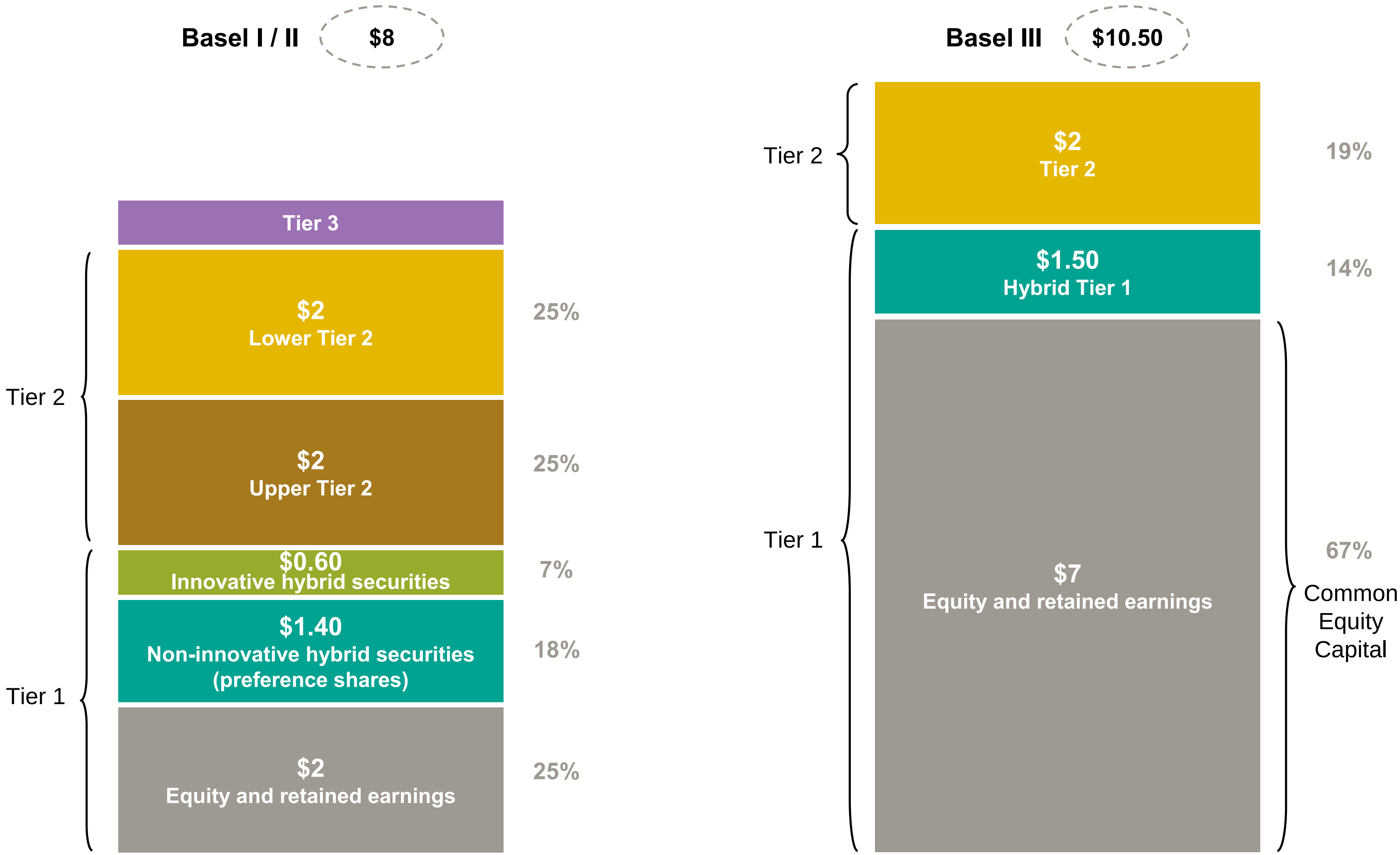
Source: Bloomberg as at 16 September 2010

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	Tier 1
• Subordinated to general creditors • Original maturity ≥ 5 years • Callable only after 5 years • No coupon step-up or other incentive to call	• 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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