

CreditSights
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GLOBAL INSTITUTE OF
CREDIT PROFESSIONALS

APAC Financials: Understanding Bank Capital

Summer Learning Program
'NEW TO CREDIT'

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2025

Summer Learning Program

Live “Office Hour” Webinars:

- Credit Market Themes & Trends
- Introduction to GICP
- Career Opportunities in Fixed Income
- How to Pitch Trades & Case Study Tips
- APAC Financials: Understanding Bank Capital
- East Asia Credit: Themes in the EV Space
- S&SEA Corporates: Credit Fundamental Analysis
- Ask us Anything!

On-demand Modules:

Unit 1: Foundations of Fixed Income

- Market Overview
- Terms to Know
- Yields & Spreads
- Components of Return
- How the Markets Work: Buy-side, Sell Side & Market Participants

Unit 2: Credit Quality & Market Fundamentals

- Issuers and Sectors
- Ratings and IG vs. HY
- Fallen Angels & Rising Stars
- Default Risk
- IG Market Fundamentals
- HY Market Fundamentals

Unit 3: Analyzing Credit Markets

- Industry Analysis
- Financial Analysis
- Financial Modeling
- Capital Structure
- Relative Value

Unit 4: Market Technicals and New Issues

- Technical Considerations: Ownership & Demand
- Technical Considerations: Supply, Maturities, and Coupon Cost
- IG New Issue Overview
- HY New Issue Overview
- New Issue from POV of a Journalist

Unit 5: Related Markets & Products

- Related Products
- Leveraged Loans vs. HY Bonds
- Introduction to CLOs
- Private Credit
- ETFs

Unit 6: How to Analyze a Credit

- Macroeconomic Data for Credit Investors
- US Treasuries and Rates
- AI Primer
- China Market
- EM Sovereign Credit

Basel 3 Rules

Background

- Put together by a group of 27 regulators, called the Basel Committee for Banking Supervision, based out of Basel, Switzerland
- They determine the rules for internationally active banks worldwide
- Decided that Basel 2 rules were not fit for purpose as a result of the Global Financial Crisis in 2007-09

Key Rules

Liquidity	<ul style="list-style-type: none">• Banks have to fund assets > 1 year with > 1 year funding (Net Stable Funding Ratio)• Banks should keep 1 month of liquidity assuming they cannot access any new funding, and their existing clients will draw on liquidity lines (Liquidity Coverage Ratio)
Capital	<ul style="list-style-type: none">• Banks need to have more common equity to absorb losses• Bank capital instruments need to be loss absorbing
Leverage	<ul style="list-style-type: none">• The (Total Tier 1) / (Total on and off-balance sheet assets) ratio should be above a certain %

Bank Capital Structure Overview

Non Capital

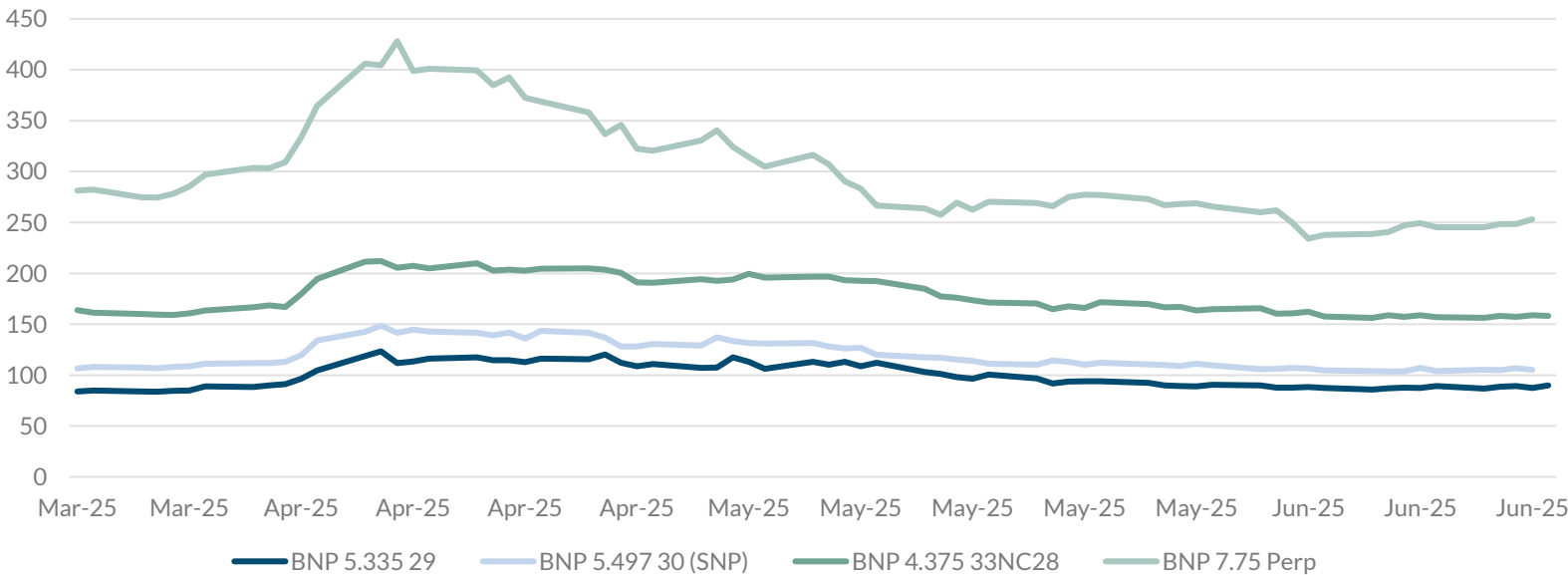
Structure	Description	Key Features
Deposits	Top liability	<ul style="list-style-type: none"> Dated Deposits up to a certain amount covered by deposit guarantee schemes
Senior Debt	Senior debt, mandatory coupons	<ul style="list-style-type: none"> Dated Junior to Deposits, Senior to T2, AT1 and equity Loss absorption only at resolution Coupons are mandatory (must pay)
TLAC HoldCo / Senior Non Preferred	Bail-in senior debt	<ul style="list-style-type: none"> New class of debt for Total Loss Absorbing Capacity (TLAC) eligible purposes Subordination can be achieved through a Statutory, Contractual or Structural route In Asia, issued in Japan and HK, China to start soon
Tier 2	Subordinated debt, bonds with mandatory coupons	<ul style="list-style-type: none"> Dated (Bullet or Callable) Junior to senior liabilities and depositors, senior to AT1 and equity Loss absorption at Point of Non Viability (PONV) Coupons are mandatory (must pay)
Additional Tier 1	Preferred shares, CoCos with discretionary coupons	<ul style="list-style-type: none"> Perpetual (callable) Junior to Tier 2, Senior liabilities and depositors, pari passu with other AT1 instruments, senior to equity In certain jurisdictions, loss absorption in the form of conversion to equity, temporary or permanent write down, trigger where CET1 falls below 7% or 5.125% or at PONV Fully discretionary, non-cumulative distributions
Common Equity Tier 1	Ordinary shares, Retained earnings	<ul style="list-style-type: none"> Perpetual Junior to all other capital, absorbs first and proportionally greatest share of losses Fully discretionary distributions

Capital

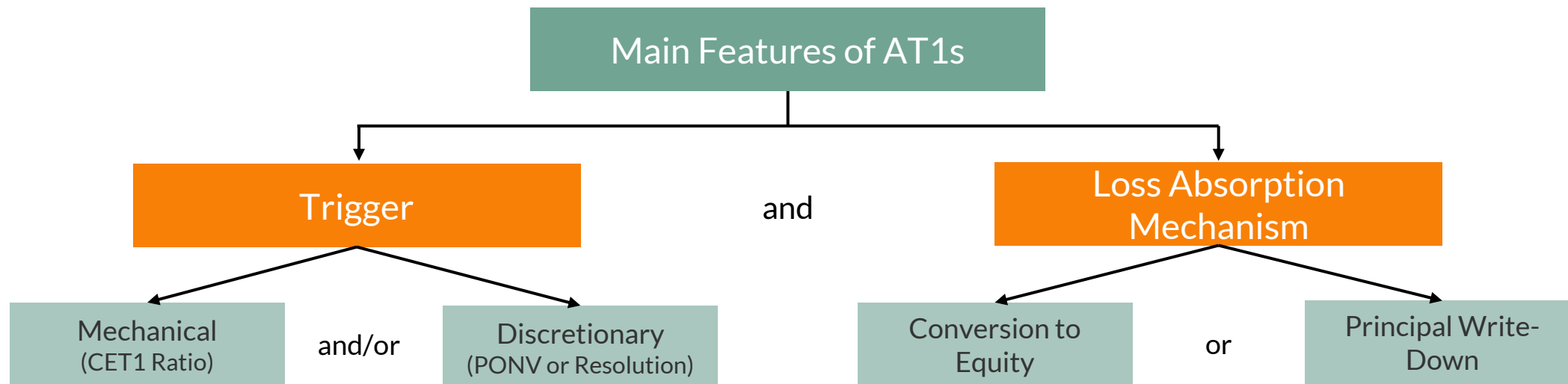
Risk & Return: Down the Capital Structure

Investors are compensated for the risk that they take

Structure	BNP
Senior (Preferred)	'29NC'28: +85
Senior TLAC	'30NC'29: +100
Tier 2	'33NC'28: +155
Additional Tier 1	PerpNC'29: +265 / 6.4%



Additional Tier 1: Terms & Conditions



Coupon Cancellation

Issuers can cancel coupon payments if they wish to, or if directed by the regulator

Dividend Stopper

However, if they cancel a coupon then they can't make dividend payments (for non EU and UK instruments)

Call Risk & Coupon Reset

If not called on the first call date, AT1 coupons reset to the yield of the benchmark (e.g. 5Y UST) + the spread at the time of issuance

Additional Tier 1: Terms & Conditions (contd..)

APAC Banks: AT1 Issues Terms Comparison							
Country	NC yrs	Subsequent call frequency	Conversion /write-off	Loss part/full	Loss permanent /temporary	CET1 trigger	Dividend stopper
AU	10	Every 5yr	Conversion	Partial/full	Permanent	Y, 5.125%	Y
CN	5	Pre-2021: Annual 2021 onwards: Semi annual	Pre-Nov 19: Conversion Nov 19 onwards: Write-off	Partial/full	Permanent	pre-Nov 19: Y, 5.125% Nov 19 onwards: N	Y
HK	5	Semi-annual	Write-off	Partial/full	Permanent	N	Y
ID	5	Semi-annual	Write-off	Partial/full	Permanent	N	Y
IN	5	Semi-annual	Write-off	Partial/full	PONV trigger: Permanent CET1 trigger: Temp	Y, 6.125%	Y
KR	5	Semi-annual	Write-off	Full	Permanent	N	Y
PH	5	Semi-annual	Write-off	Partial/full	Permanent	N	Y
SG	5	Semi-annual	Write-off	Partial/full	Permanent	N	Y
TH	5	Semi-annual	Write-off	Partial/full	Permanent	Y, 5.15%	Y

Source: Deal OCs, Bloomberg, CreditSights

Additional Tier 1: Credit Suisse Perp Features



Write-down

Following the occurrence of a Write-down Event, a Write-down will occur and the full principal amount of the Notes will automatically and permanently be written-down to zero on the Write-down Date.

A trigger event can either be a Contingency Event (when the CET1 ratio falls below 7%) or a Viability Event which occurs if:

- (1) the Regulator has notified CSG that it has determined a write-down of the Notes
- (2) customary measures to improve CSG's capital adequacy at the time becomes inadequate and CSG has received an irrevocable commitment of extraordinary support from the Public Sector that has, or imminently will have, the effect of improving CSG's capital adequacy and without which, in the determination of the Regulator, CS would have become insolvent/bankrupt/unable to pay material part of debt.

Additional Tier 1: Framework Considerations

Contractual vs statutory structure

- Contractual framework - Scenario where equity is still positive, shareholders' rights/ownership remains but AT1 holders are wiped out.

Example: India's Yes Bank in March 2020 as CET1 ratio was below the trigger of 6.125%; Credit Suisse PONV where the AT1's were written off

- Statutory framework – In case of resolution, typically first the shareholders get wiped out, then AT1 holders and then Tier 2 bondholders.

Example: Spain's Banco Popular in June 2017



Additional Tier 1: Selection Criteria

1. Capital Levels

- What capital levels does the bank have and how much is the buffer above the minimum requirement?

2. Business Model

- Is the business model predictable and more diversified?
- What is the dependence on the markets business?

3. Profitability

- How does the RoE stack up?

4. Liquidity

- Are funding sources diversified?
- Granularity of deposits

5. Extension Risk

- The higher the coupon reset, the higher the likelihood of the AT1s getting called on the first call date
- System considerations
- Local market alternatives

6. Price Volatility

- More stable or more volatile?

7. Authority Support

- Is there a history of support for the banks such that capital instruments are not affected?
- China, Japan, South Korea

8. Regulatory Oversight

- How tough is regulatory oversight of the banking sector? So that the probability of bank failure is low?

APAC AT1 Bonds – Current Buy List

Bank	Coupon	First Call Date	Reset Formula	Issue Ratings (M/S/F)	YTC (%)
Westpac (Australia)	5.00	21-Sep-27	5Y USD Swap Rate + 288bp	Baa2/BBB/BBB	5.70%
Macquarie (Australia)	6.125	08-Mar-27	5Y USD Swap Rate + 370bp	Baa3/BBB-/NR	6.20%
HDFC Bank (India)	3.70	25-Aug-26	5Y UST + 292.5bp	Ba3/NR/NR	6.95%
Woori Bank (S Korea)	6.375	24-Jul-29	5Y UST + 227.7bp	NR/BBB-/NR	6.00%
SMFG (Japan)	6.60	05-Jun-34	5Y UST + 228.3bp	Baa3/BB+/NR	6.60%

APAC Tier 2 Bonds (including Insurance Perps) – Current Buy List

Bank	Coupon (%)	First Call Date	Reset Formula	Issue Ratings (M/S/F)	YTC (%)	Spread
Kasikornbank (Thai)	3.343	2-Oct-2026	5Y UST + 170bp	Ba1/NR/BB+	5.70%	G+180bp
Asahi Life (Japan)	6.90	26-Jan-2028	5Y UST + 424bp	NR/NR/BBB	6.00%	G+230bp
Dah Sing Bank (HK)	7.375	15-Nov-2028	5Y UST + 295bp	Baa2/NR/BBB-	5.70%	G+200bp
ANZ NZ (New Zealand)	5.898	10-Jul-2029	5Y UST + 150bp	A3/A/NR	5.21%	G+145bp
Hanwha Life (S Korea)	6.30	24-Jun-2030	5Y UST + 229bp	A3/NR/A-	5.67%	G+185bp
Nippon Life (Japan)	6.50	30-Apr-2035	5Y UST + 319bp	A3/A-/NR	6.13%	G+185bp

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