



# ABI Markets & Investment Banking Conference 2013

*First experiences with capital hybrid instruments, Basel 3 compliant*

Date: 10<sup>th</sup> October 2013

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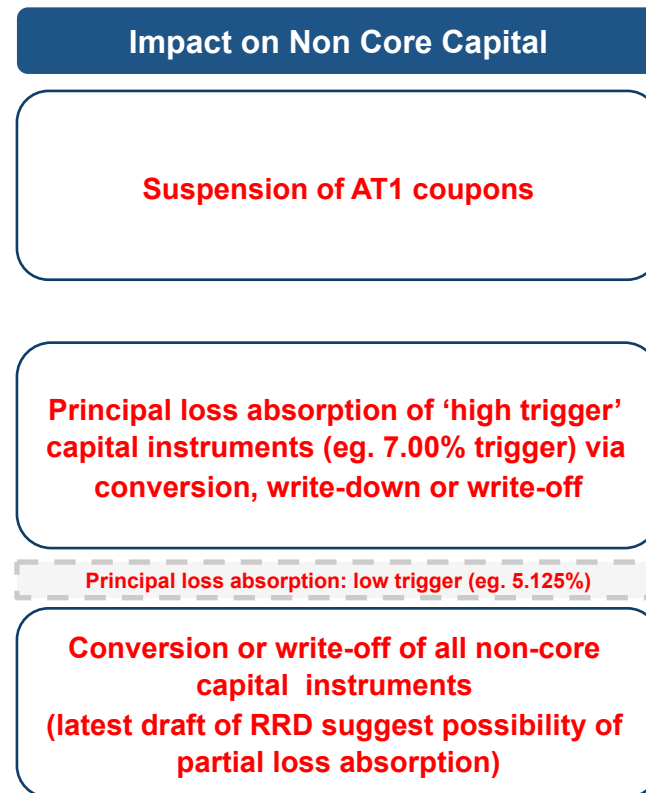
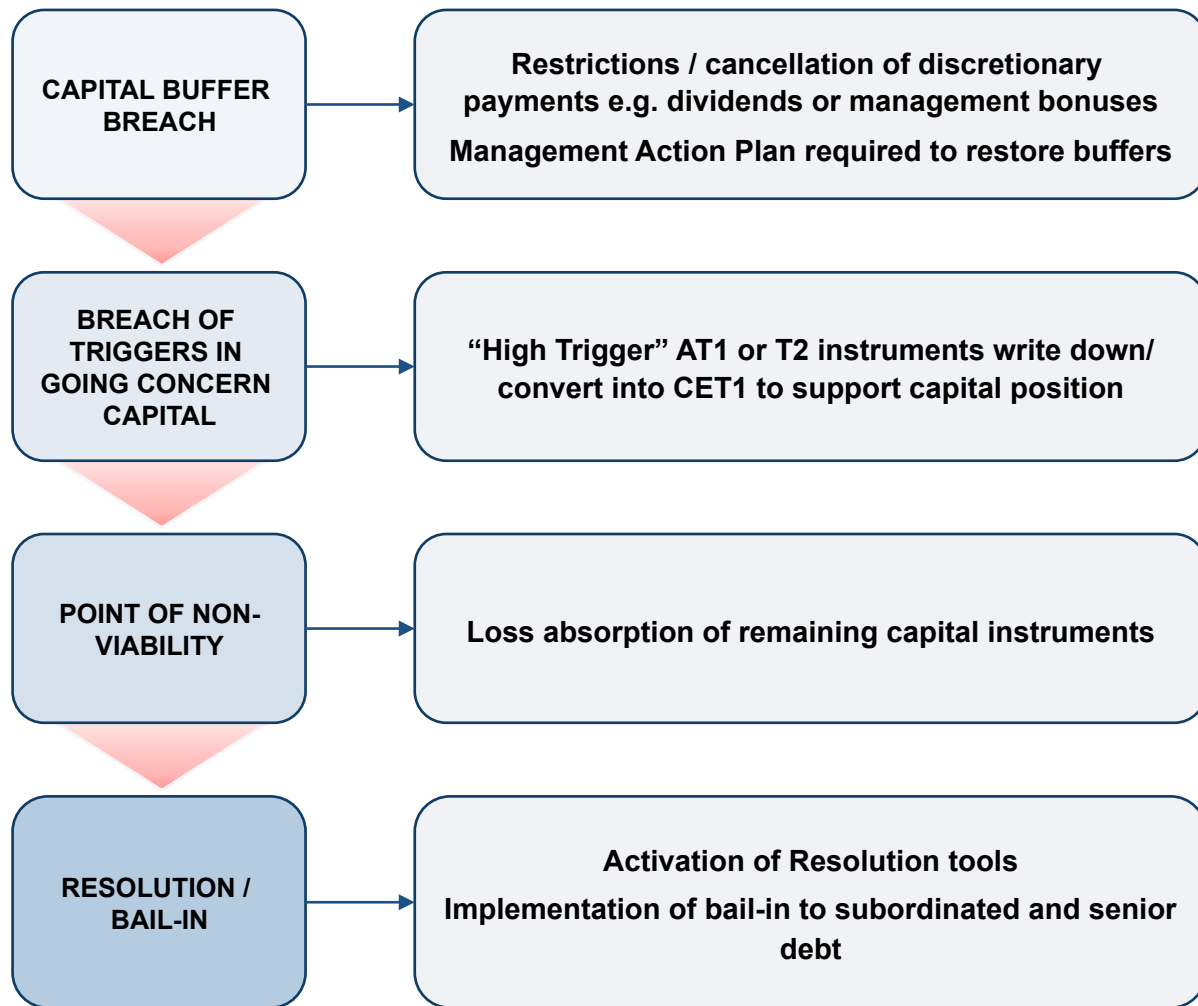
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# Understanding the Risk Profile of Capital Securities

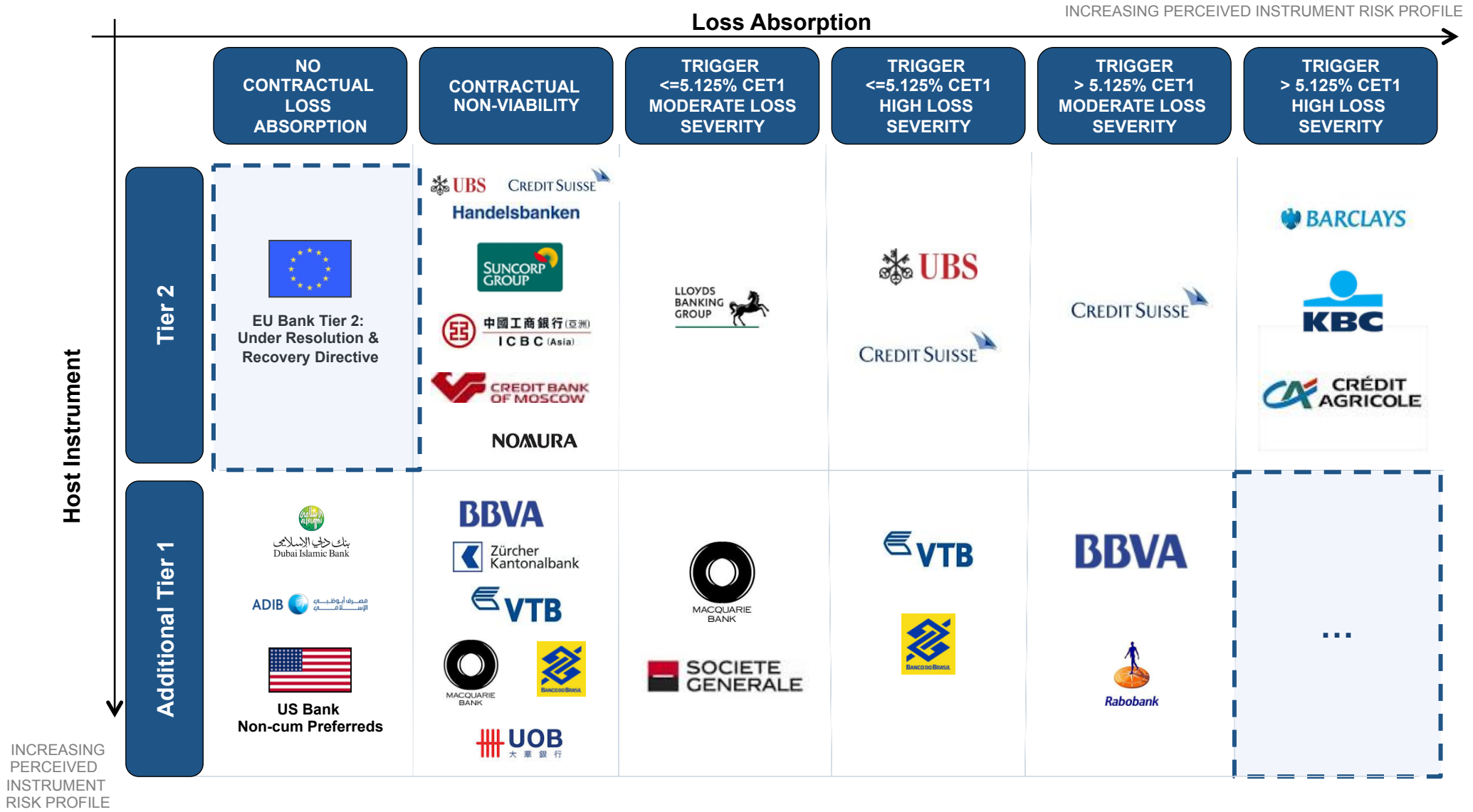
## Capital Buffers, Non-Viability and Bail-in: The Architecture

Theoretical sequence of events...



# Packaging Capital Risk

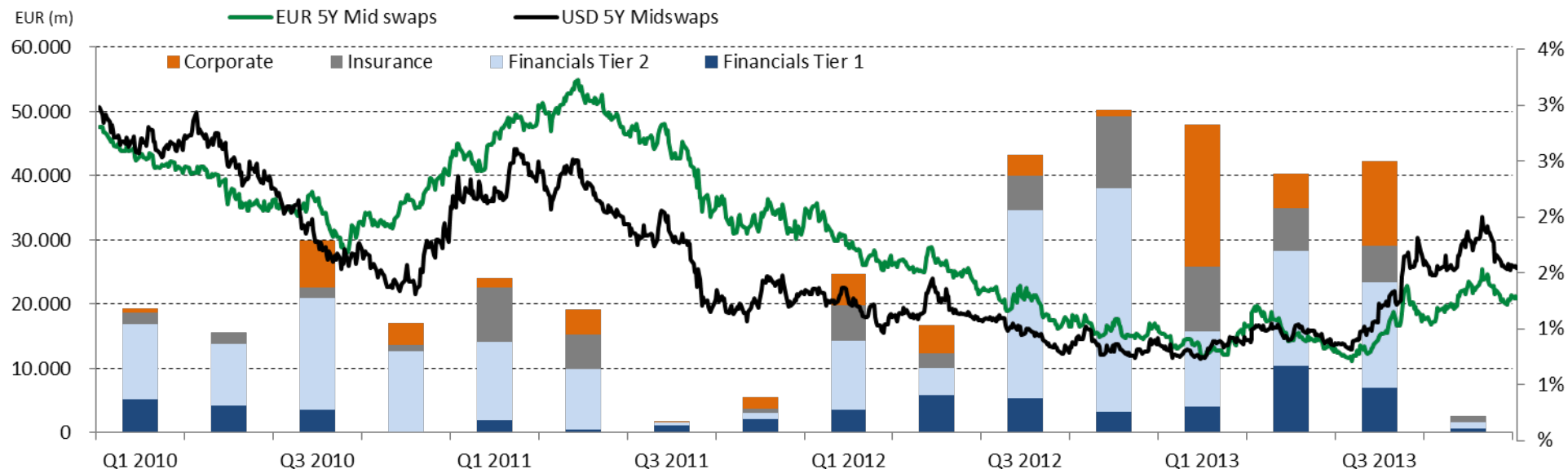
Spectrum of bank capital instruments to date...



INCREASING PERCEIVED INSTRUMENT RISK PROFILE

# Issuance Trends in Capital Securities

Volume of European Bank Capital Issues (2012 – 2013ytd)



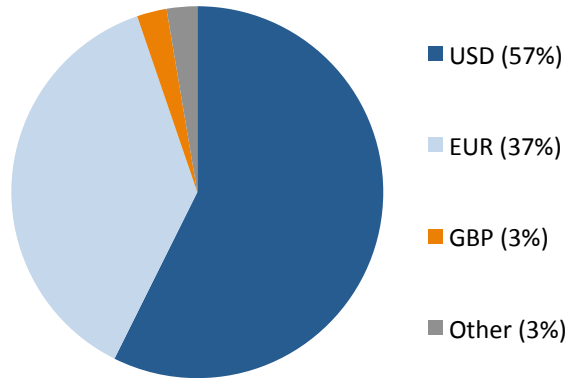
Source: Dealogic, 08 Oct 2013

- There has been strong primary market demand for hybrids instruments from European institutional investors as well as Asian Private Banks.
- Across sectors we have seen a general trend of the larger / more well know issuers opening the market followed by less well know / high risk credits as the products develop
  - Corporate hybrids have become more familiar to investors as the structures and rating methodologies have become more consistent
  - Bank Hybrids have been buoyed by emerging clarity around regulations for Basel III / CRD III and are close to being finalised, enabling issuers to access the market to build up their total capital to meet the more stringent requirements for national and European regulations
  - Insurance has been favoured over banks within the financial space due to relative stability around insurance regulations and less industry noise

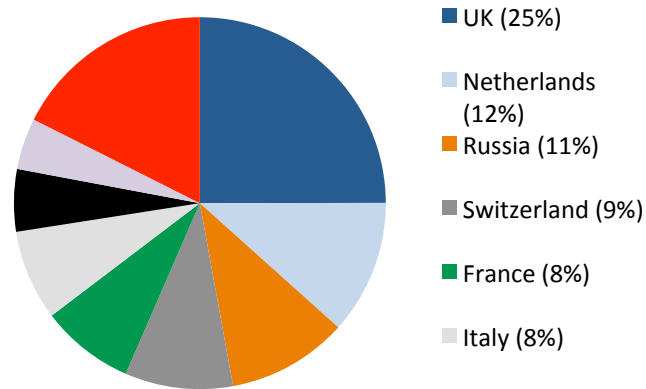
# Issuance Trends in Capital Securities (cont'd)

## Recent European Bank Capital Transactions

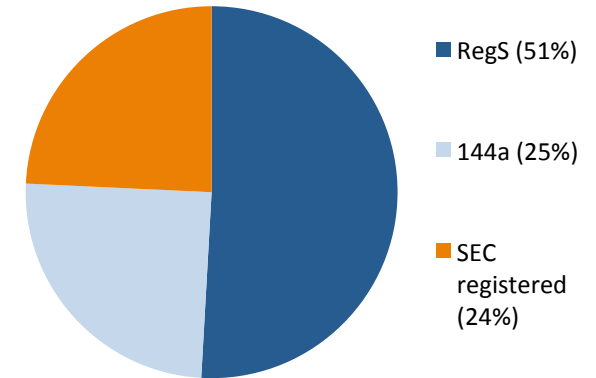
### Issue Currency



### Issuer Country



### Issue Format



- The predominant currency of issue has been US Dollar although a number of recent Tier 2 instruments from Danske, Credit Agricole have been in EUR. European institutional investors are becoming more familiar with the product and recent European transactions have been driven by institutional demand
- UK issuers have issued the most capital instruments while there has been significant issuance from countries like Netherlands, Switzerland and Russia
- RegS format has been the most popular for capital instruments with a number of issuers able to access the Asian Private Bank investor base

# Issuance Trends in Capital Securities (cont'd)

## US\$ flows

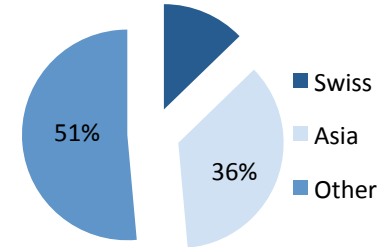
- Strong demand for US\$ denominated issuance from Asian, European and US accounts for both insurance and bank capital instruments
- Level of demand in each geography linked to instrument structure and yield

### USD capital transaction distribution profiles

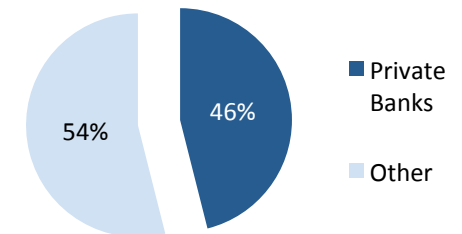
New style	Issuer	Date	Format	Yield	\$ mn
→	Credit Agricole	Sept-13	20nc5	8.125%	1,000
→	Societe Generale	Aug-13	PerpNC5	8.250%	1,250
→	Credit Suisse	Aug-13	10 yr bullet	6.500%	2,500
	CNP Ass	Jul-13	PerpNC6	6.875%	500
→	UBS	May 13	10NC5	4.75%	1,500
→	BBVA	May 13	PerpNC5	9.00%	1,500
	UniCredit	Apr 13	10NC5	6.375%	750
	La Mondiale	Apr 13	PerpNC6	7.625%	600
	AG Insurance	Mar 13	PerpNC6	6.75%	550
→	Swiss Re	Mar 13	11NC6	6.50%	750
→	AXA	Jan 13	PerpNC6	5.50%	850
→	KBC	Jan 13	10NC5	8.00%	1,000
	Prudential	Jan 13	PerpNC5.25	5.25%	700
	Allianz	Nov 12	PerpNC6	5.50%	1,000
→	Barclays	Nov 12	10NC5	7.625%	3,000
	Abu Dhabi	Nov 12	PerpNC6	6.375%	1,000
	Friends Life	Nov 12	PerpNC6	7.875%	575
	Gazprombank	Oct 12	PerpNC5.5	7.875%	1,000
	CNP Ass.	Oct 12	PerpNC6	7.500%	500
	Sberbank	Oct 12	10 yr bullet	5.125%	2,000
	Home Credit Bk	Oct 12	10 yr bullet	9.375%	500
	Erste Bank	Sep 12	10NC5.5	6.375%	500
	Danske Bank	Sep 12	25NC5	7.125%	1,000
	ABN AMRO	Sep 12	10NC5	6.250%	1,500
	Banco do Brasil	Jun 12	10 yr bullet	5.875%	750
	Aviva	Apr 12	PerpNC5.5	8.250%	650
→	Swiss Re	Mar 12	PerpNC6.5	8.250%	750
→	Banco do Brasil	Feb 12	PerpNC11	9.250%	750
→	Banco do Brasil	Jan 12	PerpNC11	9.250%	1,000
→	Zurich Cloverie	Jan 12	PerpNC6	8.250%	500
→	Credit Suisse*	Feb 11	30NC5	7.875%	2,000

### Average Distribution Profiles

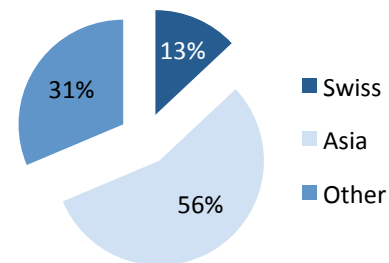
Bank distribution by geography



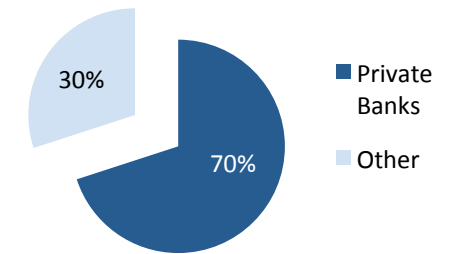
Bank distribution by investor type



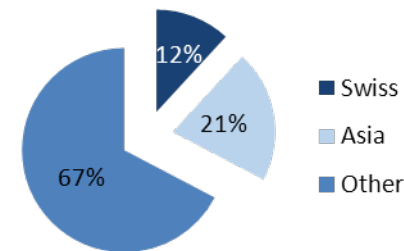
Insurance distribution by geography



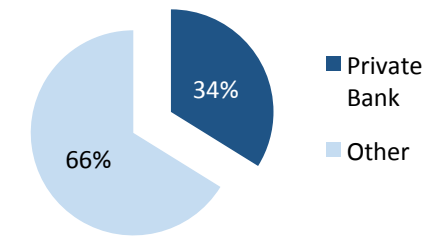
Insurance distribution by investor type



CoCo distribution by geography



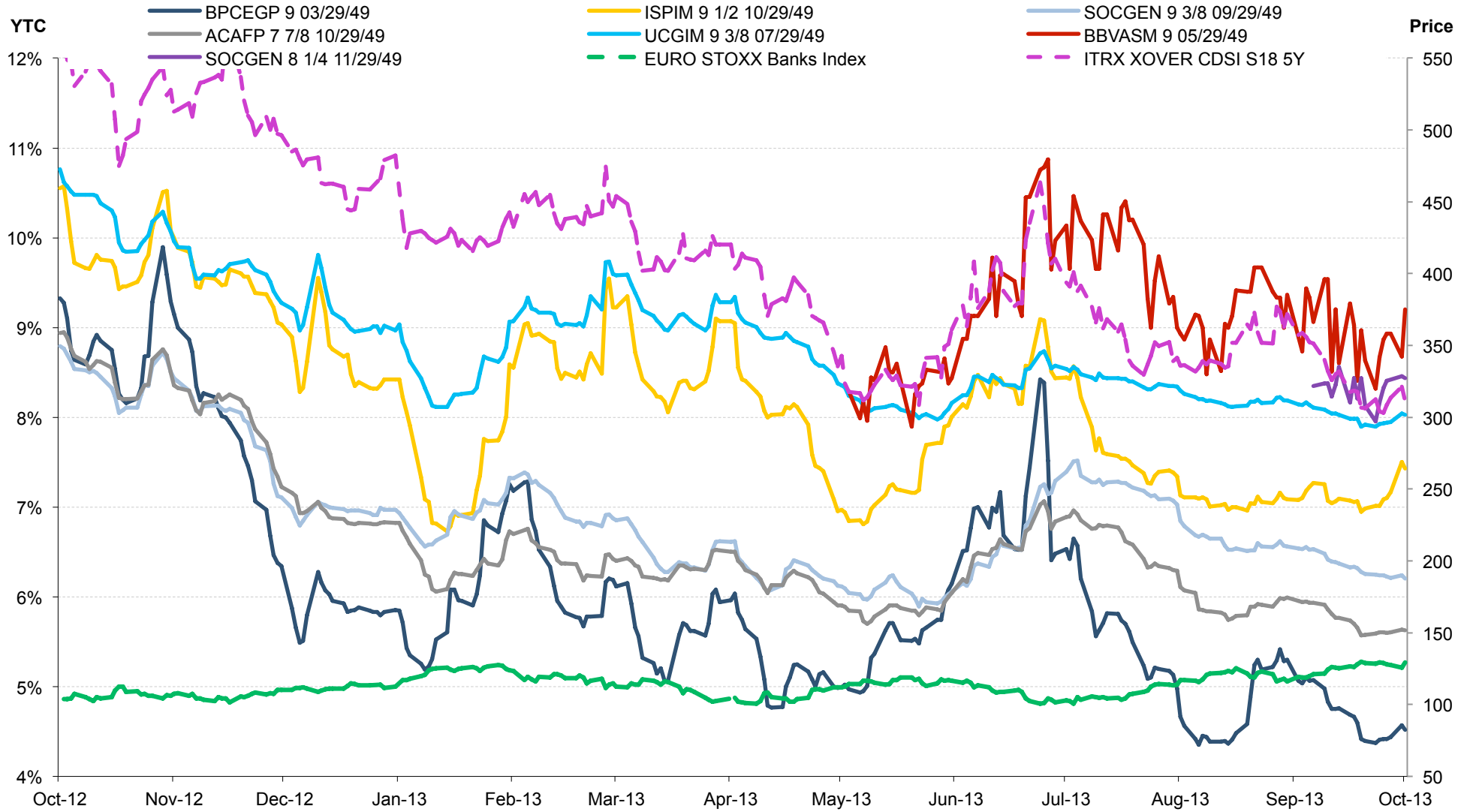
CoCo distribution by investor type



# Banks' Hybrids Performance

Strong Risk Appetite Supporting FIG Subordinated Issuance

## Tier 1 EUR FIG



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