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Fixed Income
Credit Commentary

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CMBI Credit Commentary

Bank Capital Papers: Opportunities in AT1 and T2

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Asian AT1 & T2 offer higher return predictability

In Asian AT1 space, we maintain buy on **NOMURA 7 Perp**. At the same time, we initiate buy on **BBNIIJ 4.3 Perp** which, in our view, offers good relative value in the space. In Asian T2 space, we maintain buy on **BBLTB 3.466 09/23/36**, **BBLTB 6.056 03/25/40**, **CHIYBK 5.75 04/07/32** and **KBANK 3.343 10/02/31** on more appealing risk-return profiles.

On the other hand, we changed recommendations on CHIYBK 8 Perp, KBANK 4 Perp, SHINFN 2.875 Perp, and WSTP 5 Perp to neutral from buy. The changes are more of valuation considerations instead of concerns on non-call. See Table 1 and 2 for the summary of our latest recommendations on Asian AT1s and T2s.

As we have been arguing, capital papers of European banks offer better YTC but capital papers of Asian banks offer more predictable return through higher certainty of call and coupon distributions. Overall, we believe that our Asian AT1 and T2 picks offer more attractive yield and high predictability of return, given the issuers' solid capital adequacy, stable dividend policy, as well as track records of call on the first call dates and payments of scheduled distributions. The return predictability is even higher for T2s as they are more senior in the capital structure. Additionally, the annual capital amortization of 20% in the last five years to maturity provides an extra incentive for the banks to call.

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Table 1: Our AT1 picks

Security name	ISIN	Region	Amt o/s (USD mn)	Ask px	YTC	Mod dur	Issue rating	First call date	Loss absorption trigger
Initiate buy									
BBNIIJ 4.3 Perp	XS2385923722	ID	600	97.9	6.0%	1.3	Ba3/-/-	24 Mar'27	Discretionary
Maintain buy									
NOMURA 7 Perp	US65535HCC16	JP	1000	102.6	6.3%	3.8	Ba3/-/BB	15 Jul'30	CET 1 at 5.125%
Change to neutral									
CHIYBK 8 Perp	XS2543377068	HK	200	105.0	5.2%	1.8	Unrated	26 Oct'27	Discretionary
KBANK 4 Perp	XS2371174504	TH	350	98.8	5.1%	1.1	Ba2/-/-	10 Feb'27	Discretionary
SHINFN 2.875 Perp	USY7749XAY77	KR	500	99.2	4.5%	0.5	Baa3/-/-	12 May'26	Discretionary
WSTP 5 Perp	US96122UAA25	AU	1250	100.5	4.7%	1.7	Baa2/BBB/BBB	21 Sep'27	CET 1 at 5.125%

Source: Bloomberg.

Table 2: Our T2 picks

Security name	ISIN	Region	Amt o/s (USD mn)	Ask px	YTC	Mod dur	Issue rating	First call date	Loss absorption trigger
Maintain buy									
BBLTB 3.466 09/23/36	US059895AV49	TH	1000	91.4	5.2%	5.1	Baa3/-/-	23 Sep'31	Discretionary
BBLTB 6.056 03/25/40	USY0616GAA14	TH	1000	103.1	5.6%	7.0	Baa3/-/-	25 Mar'35	Discretionary
CHIYBK 5.75 04/07/32	XS2460522555	HK	200	100.3	5.5%	1.3	Unrated	7 Apr'27	Discretionary
KBANK 3.343 10/02/31	XS2056558088	TH	800	98.6	5.1%	0.8	Ba1/-/BB+	2 Oct'26	Discretionary

Source: Bloomberg.

BBLTB

We maintain buy on **BBLTB 6.056 03/25/40** (first call in Mar'35), which offers YTC of 5.6% at 103.1. Its YTC ranks among the highest in the Asian IG T2 space and trades at a similar level to the longer-dated SUMIBK 5.796 07/08/2046 (first call Jul'45). We also maintain buy on **BBLTB 3.466 09/23/36**, which offers YTC of 5.2% at a lower cash price of 91.4. We expect that Bangkok Bank will continue to redeem its subordinated bonds on the first call date, consistent with its track records. The most recent first-call redemption was BBLTB 5 Perp on 23 Sep'25.

As of Dep'25, Bangkok Bank is the largest bank in Thailand by total assets with presence in 14 international markets. We view its loan book is more diversified than its local peers geographically, its international loans accounted for 23% of its total loan book and that is higher than its peers KBANK (5%) and KTBTB (2%). Bangkok Bank also has the largest exposures to corporate and lowest exposures to SME and retails compared to its local peers.

Bangkok Bank's 9M25 results show resilient profitability, stable asset quality and strong capital adequacy. In 9M25, NIM declined to 2.81% from 3.05% in 9M24, in line with the lower rate environment. The BOT policy rate dropped to 1.5-2% during 9M25 compared to 2.5% in 9M24. The cost-to-income ratio fell to 44.7% from 46.3% over the same period on disciplined cost management. Bangkok Bank's profitability improved despite the margin pressure, with ROA/ROE increased to 1.12%/8.99% in 9M25 from 1.03%/8.54% in 9M24, respectively, as supported by higher investment gains and disciplined costs.

We view Bangkok Bank's asset quality stabilized in 3Q25 amid softened tourism and trade-policy uncertainty. The 3Q25 credit costs down to c1.5% from c1.6% in 2Q25, as per our estimate. Bangkok Bank's gross NPL ratio rose to 3.3% as of Sep'25 from 3.2% as of Jun'25, mainly due to shrink in loan book size. During 3Q25, non-performing loan declined to THB103bn as of Sep'25 from THB106bn as of Jun'25. NPL coverage ratio at 294% as of Sep'25 was at a high level compared to regional peers, albeit lower than that of 334% as of Dec'24. We take comfort in Bangkok Bank's comparatively diversified loan book by geography and by industry compared to its local peers, which should mitigate concentration risk.

Bangkok Bank's capital buffers remain ample with standalone/consolidated CET1 ratio at 19.6%/18.0% as of Sep'25, respectively, well above the regulatory minimum requirement of 8.0%, despite the redemption of USD750mn AT1 during 3Q25. In our view, Bangkok Bank's capital position should be sufficient to absorb further asset-quality normalization. Furthermore, we view Bangkok Bank has diverse funding sources onshore and offshore, demonstrated by loan to deposit ratio of 82.1% as of Sep'25, as well as issuance of USD1bn T2 bonds in Mar'25.

BBNIIJ

Despite limited USD AT1 call precedent in Indonesia, we view **BBNIIJ 4.3 Perp** (first call in Mar'27) offers good relative value, supported by Bank Negara Indonesia (BNI)'s state ownership and solid capital adequacy. BBNIIJ 4.3 Perp is BNI's first USD AT1 issue as well as the first AT1 issued in Indonesia. At 97.9, BBNIIJ 4.3 Perp is trading at YTC of 6.0%. As a state-owned bank, we see BNI and Indonesian government to have a strong incentive to redeem the AT1 at the first call to preserve USD bond market access and to avoid premium for future issuance across the Indonesian banking sector.

Additionally, based on current UST rate, the coupon of BBNIIJ 4.3 Perp will be reset to 5yrUST+3.466%, i.e. 7.1%, on the first call date, notably increase from the current 4.3%. We expect BNI to refinance the perp with a lower cost alternative onshore or offshore, given its access to diverse funding channels.

BNI is 60% government-owned, D-SIB and ranks the fourth largest bank in Indonesia by total assets. BNI reported solid capital adequacy and stable profitability in recent years. As of Sep'25, BNI's CET1 ratio was 18.5% that was well above the regulatory minimum requirement of 8.5%. In 9M25, BNI's NIM was 3.8%, dropped from 4.2% in 9M24, due to softening loan yields and higher funding costs from elevated competition for deposits. The lower NIM trend is consistent with other Indonesian banks due to policy rate cut by Bank Indonesia which has cut 125bps YTD and bringing the benchmark rate to its lowest level since Oct'22. BNI's ROA and ROE down to 2.2% and 14.1% in 9M25, respectively, from 2.5% and 16.4% in 9M24. We expect the earnings growth of BNI should be slower in 2026 due to continuous margin compression.

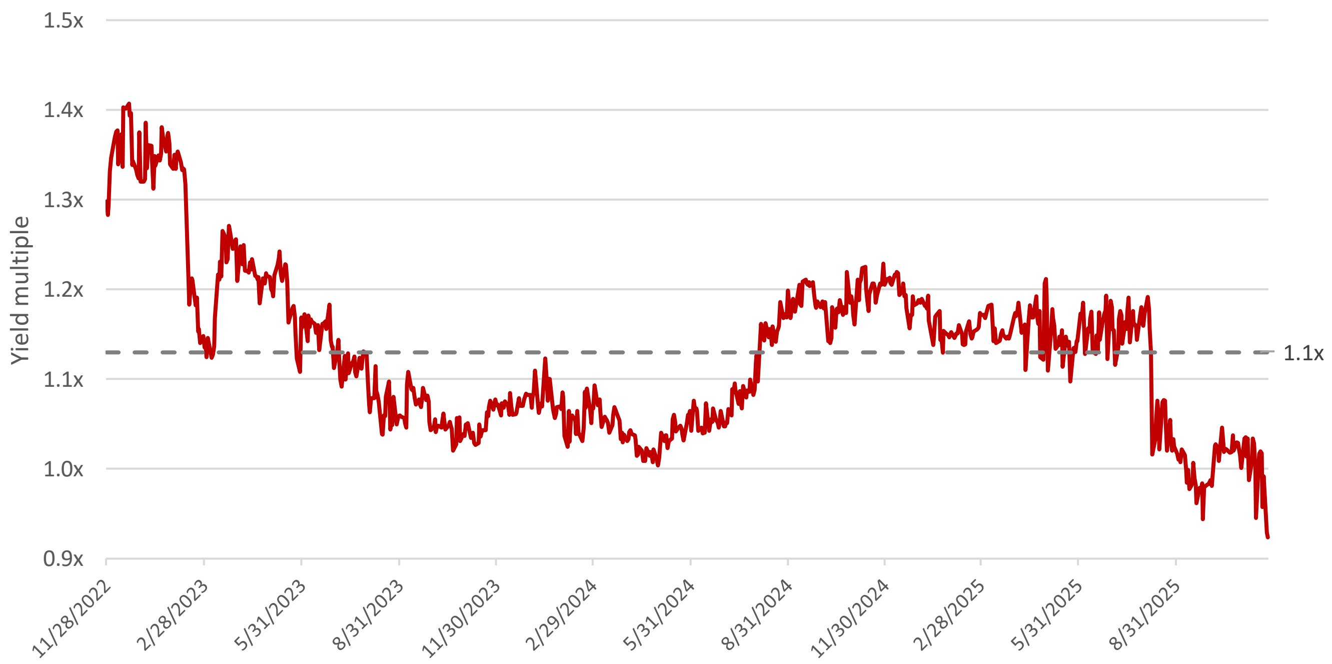
We view BNI's asset quality was broadly stable. NPL ratio increased slightly to 1.96% as of Sep'25 from 1.97% as of Dec'24, at a level in between its peers Bank Mandiri (1.03%) and Bank Rakyat Indonesia (3.29%). The loan-at-risk ratio was 10.3%-10.4% as of Sep'25 and Dec'24. NPL coverage ratio was 222.7% as of Sep'25. In May'25, Fitch upgraded BNI's rating to BBB from BBB- with stable outlook, reflecting high systemic importance and the government's strategic ownership, as exemplified by the transfer of the state's ownership in the bank to the sovereign wealth fund Danantara.

CHIYBK

We also maintain buy on **CHIYBK 5.75 04/07/32** (first call in Apr'27), trading at YTC of 5.5% at 100.3, for its yield pick-up over its local peers BNKEA 4.875 04/22/32 (Baa3/BBB-/-, first call Apr'27, YTC of 4.8%) and SHCMBK 6.375 02/28/33 (Baa2/BBB-/BBB-, first call YTC of 4.9%). The weaker credit profile of Chiyu Bank, in terms of lower profitability, weaker asset quality, and smaller business scale compared with its peers, is compensated by the higher YTC of CHIYBKs.

Meanwhile, we turned neutral on CHIYBK 8 Perp (first call in Oct'27). At 105.0, CHIYBK 8 Perp is trading at YTC of 5.2%. We view the conviction is now lower in view of the perp compressed from YTC of 7.8% since our initiation of buy recommendation in Nov'24 and now is c4pts higher. Within CHIYBK curve, we also view the CHIYBK 5.75 04/07/32 offers better risk-adjusted return than CHIYBK 8 Perp at current valuation, the yield multiple of the perp over its T2 compressed to 0.9x from 3-year average of 1.1x.

Chart 1: Yield multiple of CHIYBK 8 Perp over CHIYBK 5.75 04/07/32



Source: Bloomberg.

The profitability of Chiyu Bank improved in 1H25. ROAA and ROAE increased to 0.4% and 3.5%, respectively, from 0.1% and 0.6% in 1H24, attributable to higher net interest income and fee income while the cost-to-income ratio down to 48.0% in 1H25 from 57.0% in 1H24. As of Jun'25, Chiyu Bank's impaired loan ratio was 3.9%, down from 4.5% as of Dec'24. However, we view the level remained high as compared to its historical range at 0.4%-4.5% in past five years and compared to its local peers. The coverage of collateral against impaired loans also decreased to 182% as of Jun'25 from 224% as of Dec'24, due to lower market value of the collateral.

That said, we take some comfort on Chiyu Bank's effort in lowering exposures in property-related loans to 7.1% of total loans as of Jun'25, from 7.4% as of Dec'24. We also saw the impaired loan coverage ratio increased to 30.7% from 19.2% over the same period, reflecting more prudent in provisioning.

KBANK

We maintain buy on **KBANK 3.343 10/02/31** (first call in Oct'26) which is trading at 98.6 and offering YTC of 5.1%. Similar to Bangkok Bank, Kasikornbank (KBank) has track records of first-call redemption, and we expect KBank to continue to call its subordinated bonds on the first call dates in view its track records and sufficient capital buffer. The most recent first-call redemption was KBANK 5.275 Perp on 14 Oct'25.

In 9M25, KBank's NIM fell to 3.31% from 3.64% in 9M24, reflecting a lower-rate environment. Net fee income increased, led by international trade services. Insurance revenue and gains from financial instruments at FVTPL and investment securities also rose. Cost-to-income ratio increased slightly to 42% in 9M25 from 41% in 9M24. Profitability softened on margin pressure, with ROA/ROE declined to 1.19%/9.16% in 9M25 from 1.20%/9.63% in 9M24, respectively.

KBank's asset quality slightly improved as of Sep'25, NPL ratio down to 3.19% from 3.20% as of Dec'24 while NPL coverage increased to 166% from 152% over the same period. Meanwhile, KBank's standalone/consolidated CET1 ratio at 17.8%/18.7% as of Sep'25, respectively, well above the regulatory minimum requirement of 8.0%. KBank's standalone/consolidated Tier 1 ratio at 18.8%/19.6% as of Sep'25, respectively, were also higher than the regulatory minimum requirement of 9.5%. We view KBank's capital position sufficient and the risk of a non-viability event appears low.

NOMURA

We maintain buy on **NOMURA 7 Perp** (first call in Jul'30) for its higher yield and better trading liquidity in the Asian AT1 universe, and better risk-return profile within the NOMURA curve. At 102.6, NOMURA 7 Perp is trading at YTC of 6.3%.

Nomura's 1HFY26 results show stronger profitability with stable capital and improving earnings quality. Net revenue rose 11% yoy to JPY1.0tn and ROE increased to 10.9%, above its 8-10% medium-term target. The revenue mix shifted towards more stable fee income stream with record-high recurring revenue assets in wealth management and record AUM in investment management.

We expect asset quality to remain stable given its risk appetite, and reduced reliance on principal risk as fee businesses are expanding. As of Sep'25, Nomura had ample capital buffer with CET 1 ratio at 12.9% which is higher than the regulatory minimum requirement of 7.7%. Nomura expects the CET 1 ratio to decline by c0.7% from 12.9% after the acquisition of US asset management business, with a target range of CET 1 ratio at 11-14%. Besides, we consider the impact from Basel III finalization effective from 1 Jan'25 on Nomura's CET1 ratio was manageable, in view of the decline to 14.5% as of Mar'25 from 16.3% as of Dec'24. Furthermore, we view the chance of the NOMURA 7 Perp to be written down due to non-viability or going concern is low in the near-term.

Turn neutral from buy on KBANK 4 Perp, SHINFN 2.875 Perp and WSTP 5 Perp

We turn neutral from buy on lower yield bonds at current valuation, i.e. KBANK 4 Perp at YTC of 5.1% (up c3pts YTD) and SHINFN 2.875 Perp at YTC of 4.5% (up c2pts YTD). We also turn neutral on WSTP 5 Perp. We view the certainty of being called is even higher following the Australian Prudential Regulation Authority (APRA)'s framework to phase out the uses of AT1s starting from Jan'27. These changes are more of relative valuation considerations instead of concerns on non-call.

Table 3: Key financials of our picks

USD mn	BBLTB	BBNIIJ	CHIYBK	KBANK	NOMURA
Region	TH	ID	HK	TH	JP
As of	Sep'25	Sep'25	Jun'25	Sep'25	Sep'25
Total assets	140,063	76,177	24,191	136,921	408,166
NIM	2.81%	3.76%	N/A	3.31%	N/A
ROA/ROAA	1.12%	2.17%	0.40%	1.19%	N/A
ROE/ROAE	8.99%	14.11%	3.47%	9.16%	10.9%
NPL	3.30%	1.96%	3.86%	3.19%	N/A
NPL coverage	294.2%	222.7%	30.7%	166.4%	N/A
CET 1 ratio	19.6%	18.5%	14.7%	17.8%	12.9%
CET 1 ratio requirement	8.0%	8.5%	7.3%	8.0%	7.7%

Source: Company filling, CMBI Research.

Basel III finalization's impact to be limited

The Basel III finalization introduces an "output floor", that requires bank using internal models to raise RWAs to at least 72.5% of the amount calculated under standardized approaches. While this floor aims to reduce cross-bank variability in RWAs, the resulting higher RWAs lower banks' capital ratios. We view the overall impact on banks in APAC regions as limited, as they have generally adopted more conservative approaches and rely less on internal models.

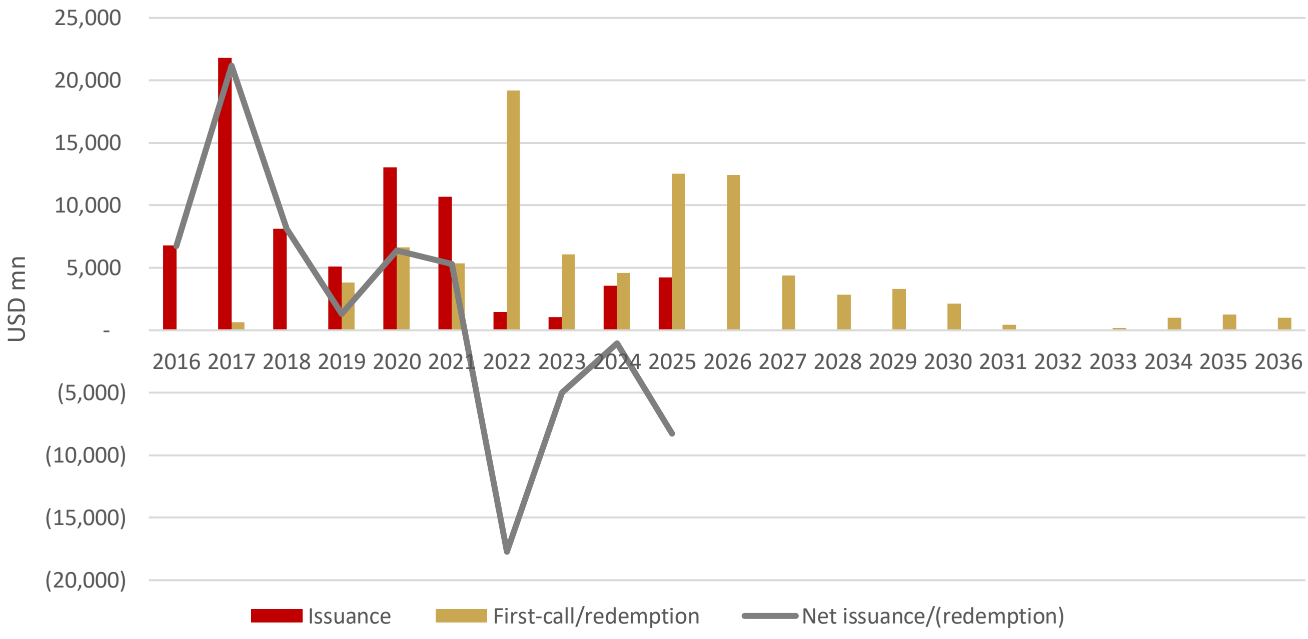
The international timeline for the Basel III finalization proposes a transition period starting 1 Jul'25 with full compliance by 1 Jul'28. Banks will phase in new capital requirements during this three-year period. Among our picks, Chiyu Bank and Nomura adopted the Basel III finalization starting from 1 Jan'25. We view the impact on Chiyu Bank was immaterial as it has been using standardized approach for RWA calculation. Chiyu Bank's CET 1 ratio even increased to 14.7% as of Mar'25 from 14.6% as of Dec'24. The change for Nomura was a 1.8% decline in CET 1 ratio, which we view as manageable given its strong capital base. Furthermore, we view the impact on Bangkok Bank, BNI and KBank to be limited, in view of their uses of the standardized approach in calculating their RWAs.

Net redemptions likely to continue in 2026

In 2025, the net redemptions for Asian AT1s was USD8.3bn, and there will be USD11.4bn AT1s first callable in 2026. On Asian T2s, the net redemptions in 2025 was USD3.1bn, and T2s of USD8.2bn will be first callable or will mature in 2026. We expect most of the Asian banks to call their AT1s and T2s on their first call dates, and issuers could refinance part of the calls through onshore funding channels. Hence, there is a high chance that the Asian AT1s and T2s will continue to experience net redemptions in 2026, and this should support the positive technical of the segment.

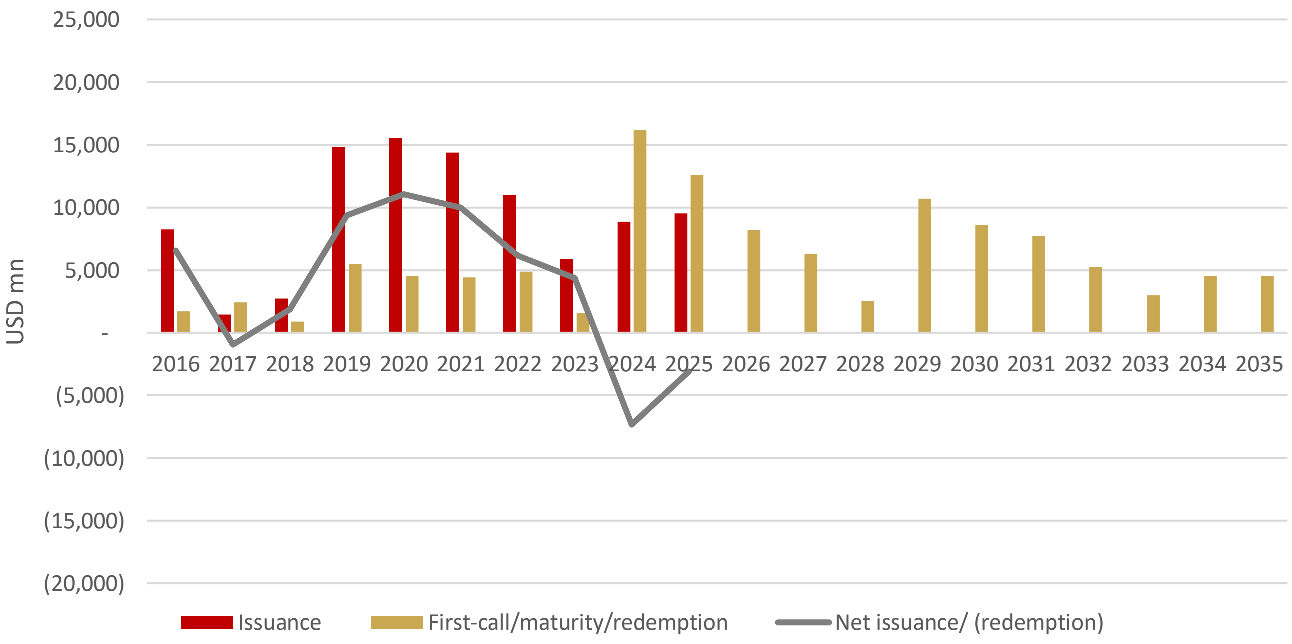
In particular, we expect Aussie banks to continue to issue T2s to refinance the callable T2s and maturing T2s (legacy non-callable T2s), as well as to replenish their capital given APRA to phase out AT1s starting from Jan'27. That said, we expect Aussie banks to tap onshore market to fulfill part of the refinancing and capital replenishment requirements to lower forex risk.

Chart 2: Net redemption of Asian AT1



Note: First-call/redemption include AT1 next callable.
Source: Bloomberg.

Chart 3: Net redemption of Asian T2



Note: First-call/maturity/redemption include T2 next callable.
Source: Bloomberg.

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