

Date: ?

To: **Contact Person, Bank Name**

From: **Name of Person, XYZ Consulting**

**Subject: Proposal and Roadmap for Managing Bank Name Credit Rating Application to Enter the Chinese Panda Bond Market.**

Dear **Bank Name or Contact Person,**

We understand that your institution has expressed great interest in considering the option of entering the Chinese Panda bond market. In order to achieve a favorable outcome, **(Name of Consultant)** and his team of veteran business consultants at **XYZ Consulting**, will provide your bank with the necessary expertise that can manage the lengthy and arduous process of applying for the credit rating portion of the bond issuance. Gaining access to the Panda bond market is an extremely lucrative opportunity for **Bank Name** since it has only been made available to non-Chinese investors since 2015. At the moment, the Panda bond market is predominantly made up of domestic Chinese investors. This creates enormous growth potential for your bank in multiple areas.

First, the lack of non-Chinese investors allows for a significantly larger pool of potential investors and the opportunity to raise capital rapidly. Second, it provides your bank with the opportunity to access a pool of international bond investors in the Panda bond market without having to conduct another rating and application process in a separate bond market. After all, it is anticipated that a large portion of international investors would remain in the Panda bond market as it matures and grows stronger in popularity. In addition, the Panda bond market creates a lucrative venue for **Bank Name** to grow and expand its presence in Mainland China, as many domestic Chinese investors are under-allocated in bond investments compared to other types of assets. Domestic Chinese wealth investors are open to investing in foreign institutions and your bank can provide them with both familiarity and name recognition as **Bank Name** grows its presence and visibility inside Mainland China.

These are lucrative opportunities for your bank since the Panda bond market is in its early stages prior to massive growth and an influx of international bond investors. The process of receiving approval to issue the Panda bonds is a lengthy and highly technical process that requires the expertise that **XYZ Consulting** offers to banks such as yours. We offer a highly capable team of professionals with several decades of experience that can smoothly manage this credit rating process within a six-week timeframe. With that said, it will be of the utmost importance to thoroughly prepare for the upcoming rating by one of the major Chinese credit rating agencies with the necessary due diligence. Your team at **XYZ Consulting** will assist **Bank Name** at every step of the preparatory process and help your bank receive the AAA approval rating that it deserves.

**XYZ Consulting** will be your one-stop shop for everything regarding your bank's Panda bond issuance process. Our experienced and talented team of professionals will handle everything regarding the credit rating exercise, legal and regulatory issues, and the handling of

both the credit rating agency and Underwriter in Mainland China. We look forward to helping you receive a smooth transition into the Chinese Panda bond market.

### **Goals and Expectations:**

Conducting the necessary due diligence will be of the utmost importance for **Bank Name** to thoroughly prepare for its upcoming credit rating by one of the major Chinese rating agencies. There will be several due diligence steps that will need to be taken in order to achieve the desired results. Due diligence steps performed by **XYZ Consulting** will consist of the following:

- Coordinate with accounting and legal firms in China in order to convert **Bank Name's** financials to International Financial Reporting Standards (IFRS). This will help update your bank to the latest global accounting standards and will enable a smooth transition to issuing Panda bonds;
- Working with legal counsel in China in order to ensure regulatory compliance throughout every step of the credit rating application process. Being updated with the necessary compliance standards will be a crucial element that will help achieve a favorable credit rating for your bank's Panda bond issuance;
- Screening for investment banks that will serve as the Underwriter of the Panda bond while working with legal counsel at a domestic Chinese law firm.
- Reclassifying **Bank Name's** loan portfolio in both sectors and quality in order to correlate with Chinese rating standards. This will help minimize counterparty risk, create accounting transparency, and show that **Bank Name** is adhering to both Chinese rating and regulatory standards.
  - Emphasizing loan and deposit strength via the deposits by senior individuals that are related to ruling family members. This also indicates the government backing and emphasis on loans to governments with good credit ratings;
- Working with authorities to grant an expedition for funds to be converted back into dollars and repatriated to **Bank Name's** home country; and
- Developing a hedging program in order to eliminate currency risks.

### **Project Details and Responsibilities:**

Your team at **XYZ Consulting** will work with **Bank Name** to ensure that the process of obtaining a credit approval-rating goal of AAA from one of the qualified Chinese agencies is done in a timely and efficient manner. **XYZ Consulting** will manage the entire preparatory process and ensure efficient coordination of all required parties. The team will work with the respective credit rating agencies to get detailed specifics on rating criteria, accounting requirements, regulatory requirements, and legal concerns. In addition, **XYZ Consulting** will ensure that the executives of **Bank Name** will only have a minimal involvement in terms of time

obligation. In other words, XYZ Consulting will handle the most time-consuming steps and also serve as a source of objective advice to your bank's executives.

The following details and responsibilities regarding our services, management, and coordination of the credit rating approval process is as follows:

### **Preliminary Work: Information Gathering and Analysis**

In order to prepare for your credit rating process, our team will initiate the collection of all the necessary information and data that will help us form a big picture strategy. Conducting the research and due diligence processes at an early stage will be a priority at the outset of becoming your advisor. It will help us in managing the successful outcome of receiving an AAA credit rating as well.

The team at XYZ Consulting will review all the necessary data regarding your bank and analyze how it can be applied to the credit rating and bond issuing preparation processes. We will look at areas such as:

- Ownership and corporate governance structures;
- Management and business strategy;
- Financial performance;
- Capital, asset quality, liquidity, and profitability;
- Regulatory information pertaining to Bank Name; and
- Market position.

Although we plan on conducting a majority of the preliminary work ourselves, XYZ Consulting will anticipate the occasional need to communicate with Bank Name management for additional and follow up information. This process would be conducted via interview sessions and informal meetings with Bank Name managers.

### **Credit Rating Pre-Assessment**

We will assess the likely outcome of a credit rating process and provide your bank with the best advice on raising your debt capital. We will work closely with a Chinese accounting firm to help us measure our assessment.

We will conduct a preliminary (indicative) assessment of your financial institution's financial strength on a stand-alone basis. For the purpose of assessing your bank's ability to meet its debt obligations, we will be incorporating a modified version of the CAMEL rating approach that is used in China.

## **CAMEL Rating Approach**

CAMEL stands for Capital, Asset Quality, Management, Earning and Liquidity. This approach captures both qualitative and quantitative factors and our team anticipates that the qualified Chinese rating agency will be incorporating this model since it has been implemented by every bank and credit union in the United States and by various banking supervisory regulators throughout the world. This is a widely used international rating system by a variety of organizations and entities that include credit rating agencies, investors, and many other types of financial and lending institutions. We will weigh all the common factors and indicators that will help us in our credit rating pre-assessment. In addition, the indicative rating assessment process is conducted with your bank and includes involvement of management and relevant departments.

The aim of this process is to:

- Collect all information required for a rating process (questionnaire and list of necessary financial statements and regulatory reports will be provided in advance);
- Analyze this information with reference to the Chinese-modified version of the CAMEL rating approach that is used by rating agencies;
- Discuss rating results and key rating issues with **Bank Name** management;
- Conduct informal meetings with potential rating agencies; and
- Make a clear and detailed recommendation on what the likely rating outcome will be and what can be done to optimize the rating outcome before launching a formal rating process.

## **IFRS Conversion of Bank Financials**

IFRS stands for International Financial Reporting Standards and **XYZ** Consulting will help your bank convert its financials to meet these global accounting requirements. We will utilize a domestic Chinese accounting firm to help us ensure a timely rating process is feasible as well as coordination and assistance wherever necessary. Any requested financials would be provided as required, and the **XYZ** Consulting team would work closely with the local Chinese accounting firm to ensure an efficient conversion.

## **Updating Regulatory Compliance Requirements**

Our team will work with legal counsel in China to ensure that **Bank Name** is updated with the necessary regulatory compliance requirements. This will be extremely crucial to the success of your preparation process as it will help ensure that your bank's current risk controls and protocols are adequate for the regulatory requirements of the Panda bond market. In addition, we will seek-out a domestic Chinese law firm that exhibits a great deal of local experience in preparing and keeping your bank updated on the latest Chinese compliance regulations. Compliance regulations in the market are constantly evolving and establishing **Bank**

**Name** with adequate regulatory compliance protocols will help secure its long-term presence in the Chinese bond market.

### **Screening Potential Banks in China for Panda Bond Underwriting**

While working jointly with a selected core team from your institution, our team will be responsible in coordinating the search for a suitable Underwriter with the help of a local Chinese law firm. This step will be crucial as the bank chosen to serve as the Underwriter of the Panda bonds will play a crucial role in acting as the middleman that contributes to a successful reselling of the issued bonds to the investors. The selection of the Underwriter will depend on the size and complexity of the structure, outcome of the credit rating, timing concerns, and your institution's goals for the offering (if any issues you want to promote through the offering such as local investors have the opportunity to participate in the primary offering, etc.).

The expected timeframe for the selection and execution of the Underwriting process is as follows:

- **Week 1: Preparation for Request for Proposals for Underwriter Service.**
  - Writing the request in a way that allows comparing and ranking Underwriters.
- **Week 2: Distribution of the Request to Potential Underwriters.**
  - Developing a list of potential Underwriters.
  - Specifying response deadline and submission details.
  - Distribution of the Requests.
- **Week 3: Review/Evaluation and selection of Underwriter.**
  - Determining evaluation criteria.
  - Holding interviews.
  - Determining selection committee.
  - Scoring and ranking.
  - Selecting and notifying the selected Underwriter.
- **Week 4: Contracting/Negotiating Terms and Conditions with the selected Underwriter.**
  - Defining deal parameters and structure.
  - Negotiating fees and terms with the Underwriter.

While screening potential banks for underwriting the bond issuance, the team at **XYZ** Consulting will pay great attention to assessing the Underwriting team, qualifications and roles, marketing plan/marketing strategy, and the compensation. These will include the following assessments of:

- Relevant experience of the Underwriter including analytical capability of investment bankers;

- A description of the Underwriter’s capacities and its ability to access both retail and institutional investors;
- Demonstration of the Underwriter’s understanding of the issuer’s financial situation, including the bond structure, credit rating, and investor marketing strategy;
- Demonstrate the knowledge of local, political, economic, and legal issues;
- Access to current market information regarding bond pricing; and
- The amount of capital available and the ability to purchase the entire offering of the issuer, if necessary.

### **Loan Portfolio Reclassification and Loan and Deposit Strength Emphasis**

Reclassifying **Bank Name’s** Loan Portfolio and emphasizing on loan and deposit strength will help correlate your data to match Chinese credit rating standards. Any reclassification steps that are executed by **XYZ** Consulting would be performed as needed. Deposits by senior individuals related to ruling family members would be emphasized in the application and indicate their government backing. Loans to governments with good credit ratings would also be emphasized in order to present the strongest case for a AAA rating as possible.

### **Working with Authorities to Grant an Expedition for Funds to be Converted**

Converting proceeds from your bond issuance from RMB denominated currency into your own is possible but will require thoughtful planning to have all the details addressed well in advance. After all, the People’s Bank of China typically anticipates that net proceeds from the issuance of Panda bonds or any bonds in the Chinese bond market should be primarily used in Mainland China. However, there are exceptions that will allow your financial institution to convert your funds from RMB currency back into your domestic currency after obtaining authorization.

Your team at **XYZ** Consulting will be working and facilitating this process with the Chinese authorities in order to ensure that expedition of converted funds are fully in place prior to **Bank Name’s** entrance into the Chinese Panda bond market. Any exceptions to this authorization, such as the circumstance of newly enacted capital outflow controls would need to be carefully addressed in order to mitigate any currency risk.

### **Developing a Hedging Program to Eliminate Currency Risks**

With the issuance of RMB bonds on the Panda bond market, there are inherent currency risks that your **XYZ** Consulting team will help you address. Some foreign organizations have been hesitant to enter the bond market due to concerns regarding currency devaluation as well as policies regarding capital outflow restrictions. The team will put together a well-planned hedging program to eliminate these risks. The program will address steps that will need to be taken to hedge against unforeseen capital outflow restrictions and potential currency depreciation in order

to ensure the long-term security of **Bank Name's** entrance into the Panda bond market. This may include the diversification of the bond investor base. In addition, the whole venue of the current currency Swap between China and UAE will be extensively examined to reduce cost.

### **Credit Rating Execution**

This is the stage in which we will be ready to engage with a rating agency in order to provide a smooth credit rating process that ensures the best possible outcome for **Bank Name**. This engagement includes activities from selection of a rating agency, over support during due diligence mission, and the final communication update regarding rating results to different stakeholders. Lastly, we will be helping you communicate your rating results to internal and external stakeholders.

#### **The XYZ Consulting Team:**

(**Consultant Name**) is the owner of **XYZ Consulting** and he brings to you a team of veteran business consultants that have a long track record and valued expertise in the areas of banking, finance, international relations, and business operations. Their skills and depth of experience will assist **Bank Name** with its objectives of raising funds in China by utilizing the Panda bond market.

#### **Summary:**

The team at **XYZ Consulting** will follow a series of carefully planned due diligence steps prior to submitting the credit rating application. We will ensure that **Bank Name** has the strongest application for the highest credit rating possible. The primary goal will be to achieve an AAA rating to allow it to provide the widest range of bond products on the Chinese bond market and establish investor confidence from the very beginning. (**Name of Consultant**) will carefully execute the outlined steps, along with any additional steps deemed necessary by his team, **Bank Name**, local Chinese accounting and legal firms, or the credit rating agency in Mainland China.

Following the credit rating receipt, we will begin the process of preparing for a registered offering of Panda bonds in the interbank market. This will include screening for the optimal Underwriters and submitting an application to the National Association of Financial Market Institutional Investors (NAFMII). With a focus on efficient execution and a full understanding of the requirements of the People's Bank of China and National Association of Financial Market Institutional Investors (NAFMII), (**Name of Consultant**) will simplify the process for **Bank Name** and ensure a timely entrance into the Chinese bond market in order to raise capital and establish a foothold in Mainland China.

On behalf of **XYZ Consulting**, we thank you for your consideration and look forward to being in touch.

Sincerely,

Name of Person



## Appendix-Selected Issuers in the Panda Bond Market:

- **Sovereign:**
  - Republic of Korea
  - Province of British Columbia, Canada
  - Republic of Poland
  
- **International Development Institutions:**
  - Asian Development Bank (ADB)
  - International Finance Corporation (IFC)
  
- **Financial Institution:**
  - Standard Chartered (HK)
  - Malayan Banking Berhad
  - Hong Kong & Shanghai Banking Corporation (HK)
  
- **Corporations:**
  - Daimler AG