



Overview of Emerging Corporate Bond Markets in East Asia

Vivek Goyal
Managing Director
Head, Business Development Asia Pacific

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The First APEC Public – Private Sector Forum on Bond Market Development





Agenda

1. The Size of the East Asia Bond Markets
2. Stage of Development
3. Fitch Ratings experience in assisting with the development of local currency bond markets



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1. The Size of the East Asia Bond Markets

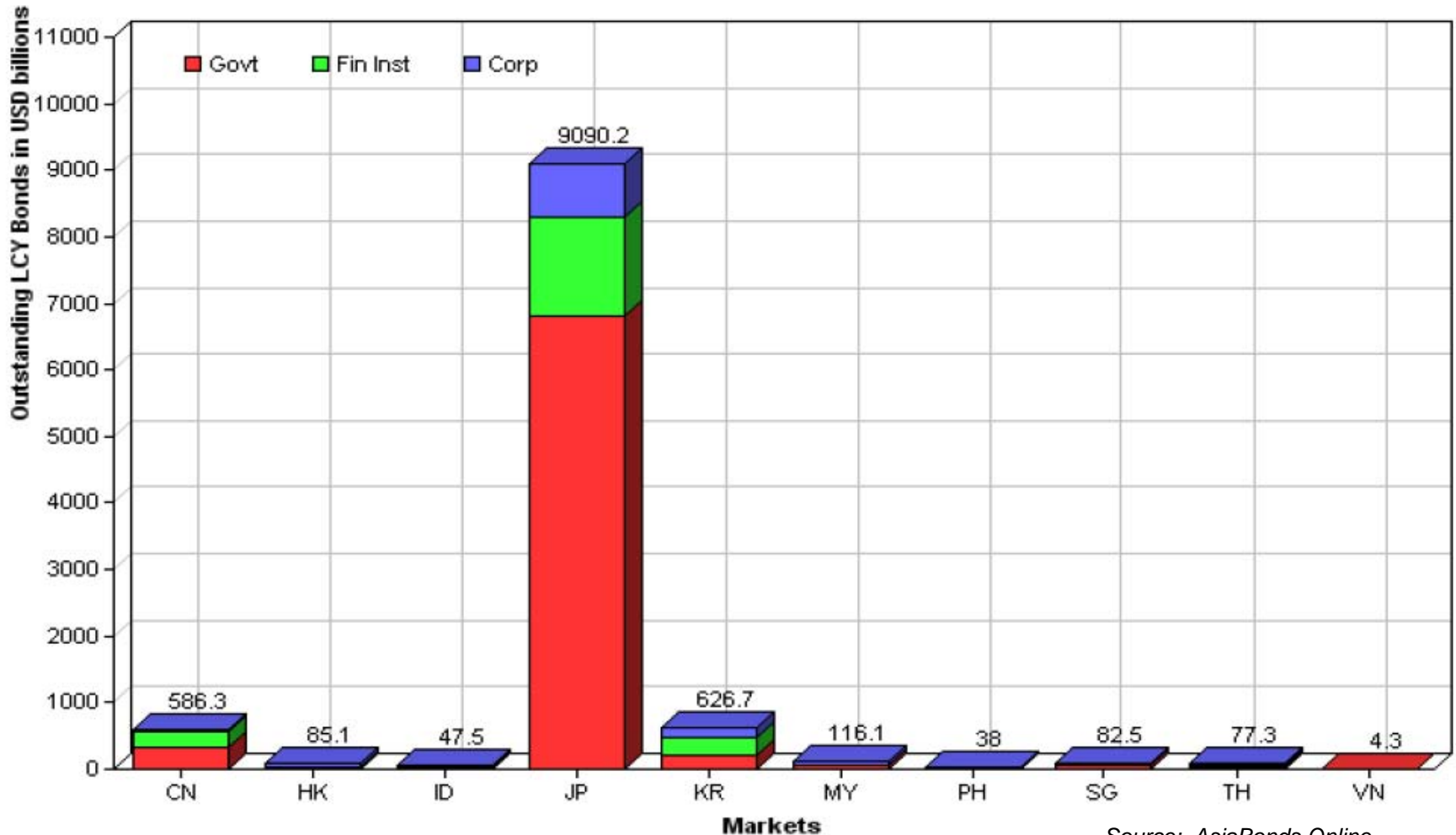
2. Stage of Development

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Asian Bond Market Size

Local Currency Bonds in USD



Source: AsiaBonds Online



Rank by Market Capitalization of the Local Currency and USD Bond Markets in Asia

Local Currency Markets

Country	Currency	Market Cap (MM)	Market Cap USD (MM)
Korea	KRW	255,976,160	274,186
China	CNY	1,914,587	248,454
Taiwan	TWD	3,323,867	99,824
India	INR	3,316,697	80,541
Malaysia	MYR	221,977	64,682
Singapore	SGD	72,699	47,684
Thailand	THB	1,474,494	45,009
Hong Kong	HKD	150,201	19,204
Philippines	PHP	742,451	15,598
Indonesia	IDR	25,690,496	2,827

USD Bond Markets

Country	Market Cap USD (MM)
Korea	24,185
Philippines	22,509
Hong Kong	22,217
Malaysia	14,861
China	11,125
Indonesia	9,978
Singapore	8,577
India	3,502
Thailand	2,750
Pakistan	1,359
Vietnam	822

Source: HSBC Markets Information
provided by Zhang Zhi Ming



Asian Bond Market Size

- > Indonesia: 47.5 Bln
 - growing steadily, offering a more diversified array of debt instruments to cater to a broader investor base.
 - government is the major issuer in the market and has actively issued international bonds since 2004
 - March 2006, Indonesia issued its largest single global bond worth USD2 billion
 - Ministry of Finance offered its first ever 3-year retail bonds 17 July 2006
 - corporate bond activities, using conventional and Islamic bond offerings, accelerated significantly in 2003, and have maintained momentum since.

- > Malaysia: 116.1 Bln
 - more developed bond markets in the region
 - increasing market size, active issuance and trading of government and corporate issues, the introduction of new instruments (such as asset-backed securities), and improvements to the regulatory structure
 - both government and corporate bond markets are active markets for both conventional and Islamic bonds.
 - domestic and foreign investors can buy and sell conventional and Islamic debt instruments through the exchange and over-the-counter markets.



Asian Bond Market Size

- > Philippines: 38 Bln
 - underdeveloped compared with its bank lending and equity sectors
 - primarily composed of government bonds and long-term commercial papers issued by prime local corporations.
 - government issues dominate the market with minimal alternative for other debt instruments.
 - corporate bond sector is less developed in terms of product range, profile of issuers, and investor base

- > Singapore: 82.5 Bln
 - has become an important, open capital market in Asia over the past decade - it has grown considerably in terms of size, depth, and liquidity.
 - sovereign bonds and statutory board bonds are a vital feature
 - Singapore Government Securities (SGS) are issued primarily to stimulate market activity and to provide a benchmark for corporate issues.
 - Statutory Board fixed income securities, issued by autonomous government agencies, are considered the most liquid among debt instruments on the Singapore corporate bond market.
 - Special Purpose Vehicles (SPVs) are the major issuers of corporate debt securities in the market
 - structured debt is a large portion of SGD-denominated issues
 - structured products include equity-linked notes, convertible bonds, credit-linked notes, and asset securitization transactions.
 - Monetary Authority of Singapore (MAS) began internationalizing SGD in 1998, with foreign entities allowed to issue SGD-denominated bonds.



Asian Bond Market Size

- > Thailand: 77.3 Bln
 - has developed significantly since the 1997–98 Asian financial crisis,
 - increased bond issuance and an active local trading market
 - both the government and corporate issuers are actively using bonds for raising capital
 - The Ministry of Finance (MOF) has stepped up issuance of government bonds for its financing requirements and to build a reliable yield curve to develop the market.
 - Government bonds dominate the market
 - with the introduction of regulations governing corporate bond issuance, a variety of issuers have entered the market, including multinationals, supranationals, and local companies
 - both government and corporate bonds are available to foreign investors.



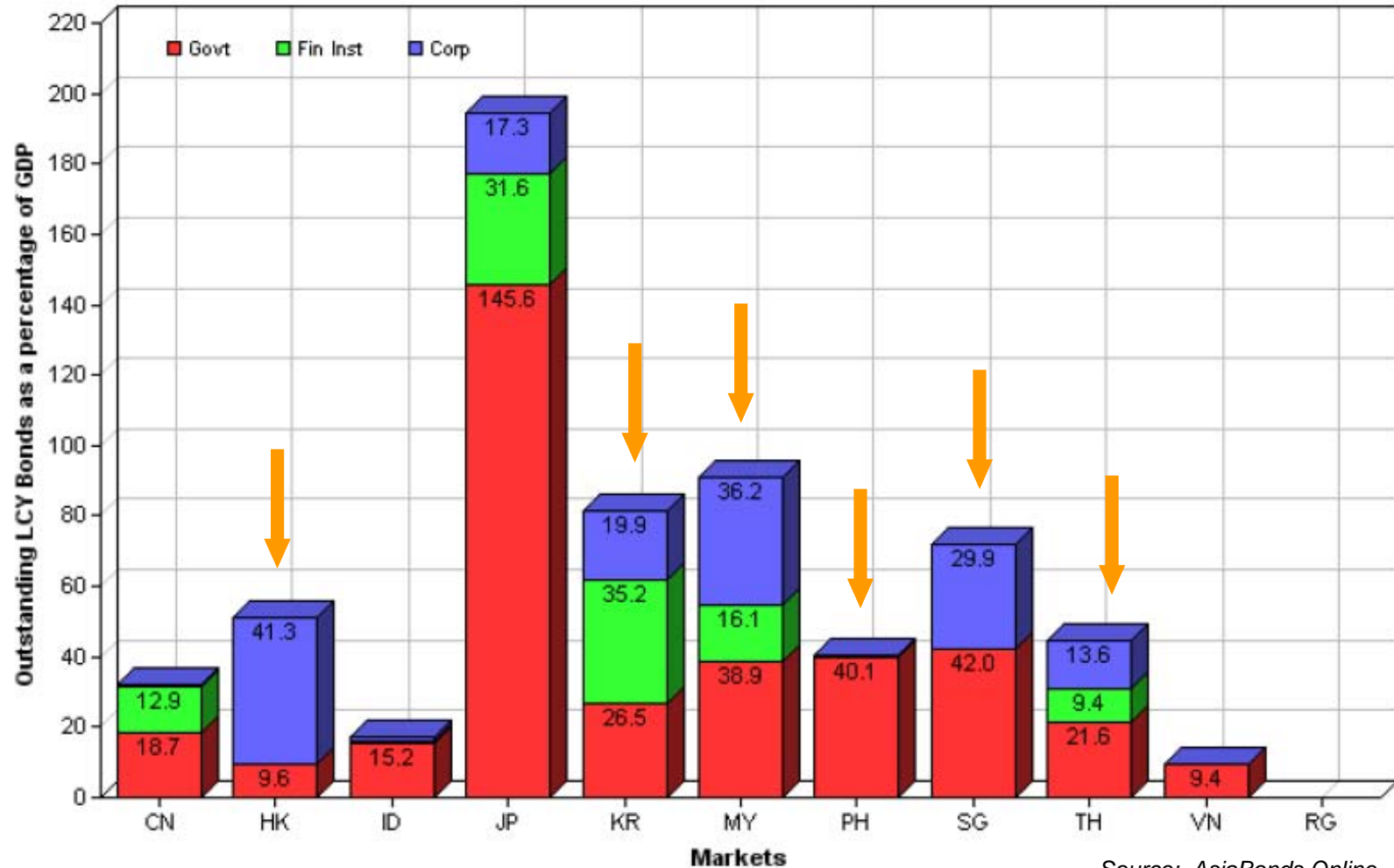
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Asian Bond Market Size

Local Currency Bonds as a Percentage of GDP

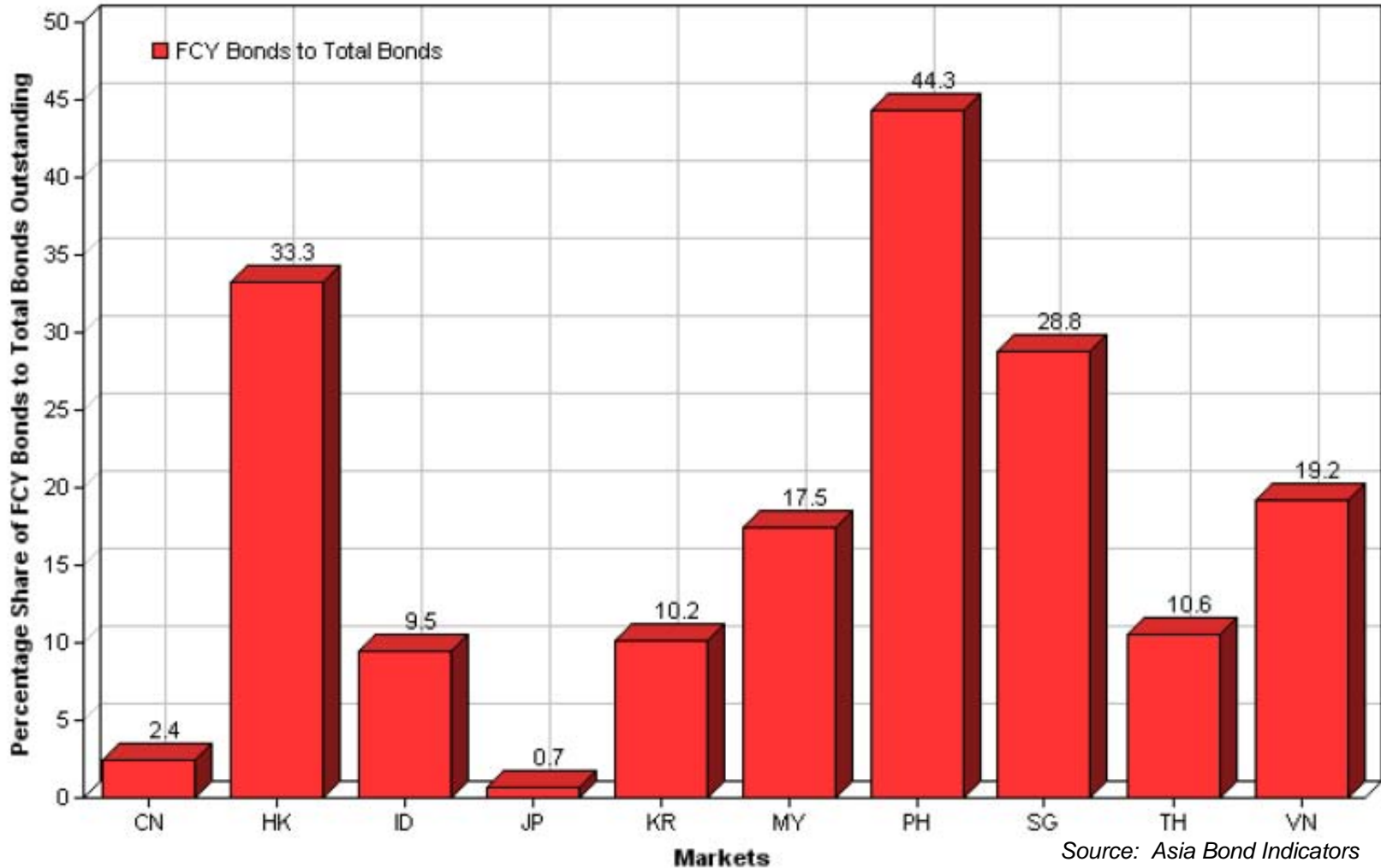


Source: AsiaBonds Online



Asian Bond Market Size

Share of Foreign Currency Bonds to Total Bonds





Asian Bond Market: Stage of Development

- > Since 1997, there has been a significant development of local bond markets across several countries in Asia primarily driven by greater financial stability and funding diversification

- > Asia's bond markets remain relatively small and underdeveloped

- > Issues that need to be addressed to further stimulate the bond markets:
 - Increasing secondary market liquidity
 - Improving price correlation to ratings
 - Deregulate and open markets further particularly to foreign investors
 - Develop market infrastructure

- > Transparency in the markets helps retain a broad pool of investors and this can be done by
 - Better financial disclosure , accounting standards
 - Corporate governance

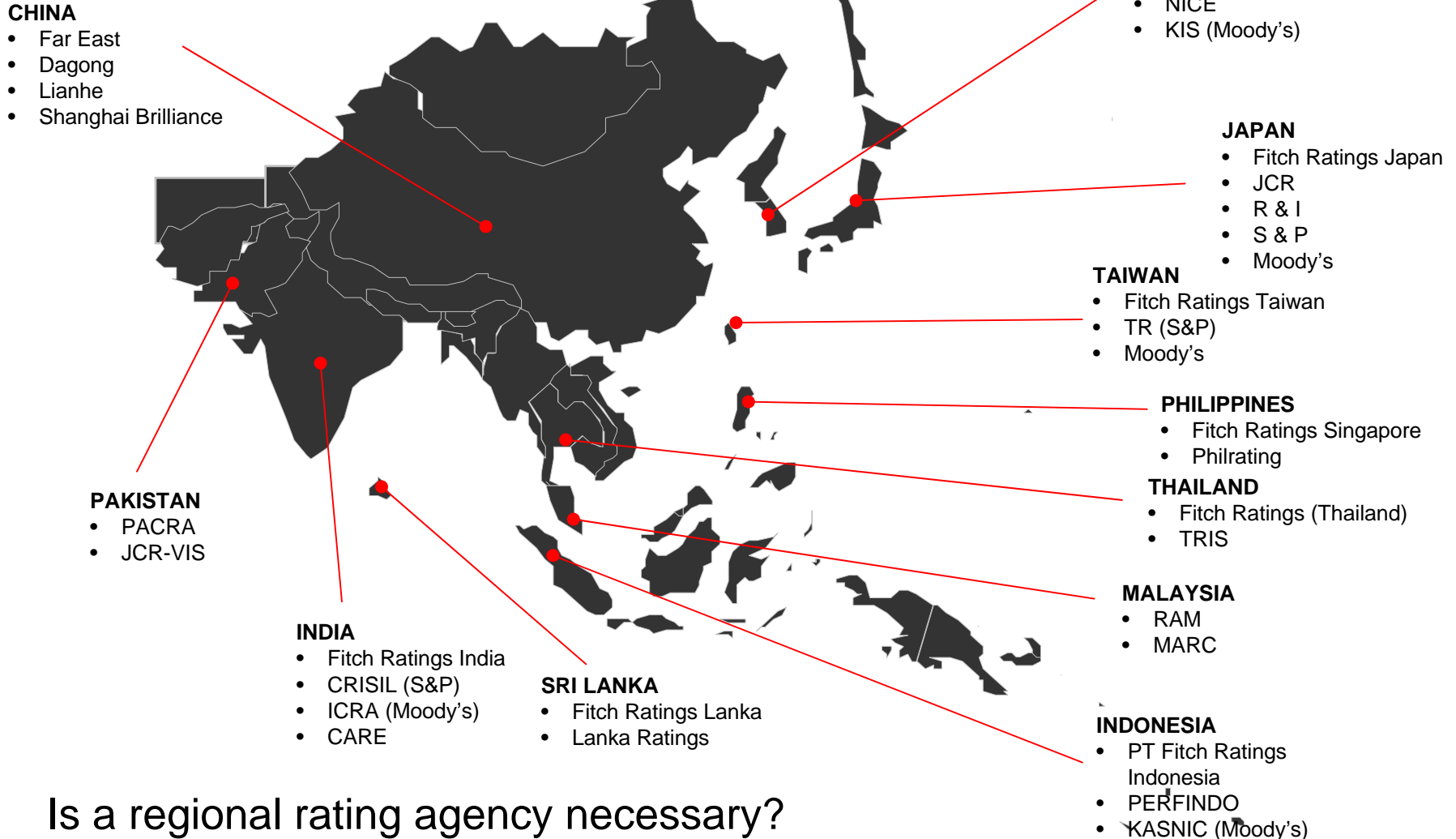


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Credit Rating Agencies in Asia



Is a regional rating agency necessary?



Fitch Ratings: Mapping National and International Ratings (Confidential & Not for External Use)

National Ratings

- > In certain markets, Fitch Ratings provides National Ratings, which are an assessment of credit quality relative to the rating of the “best” credit risk in a country.
- > This “best” risk will normally, although not always, be assigned to all financial commitments issued or guaranteed by the sovereign state.
- > National Ratings are not intended to be internationally comparable and are denoted by a special identifier for the country concerned. For eg. AAA (country), AA (country), A (country) etc.

International Ratings

- > Short- and long-term Issuer Default Ratings (IDRs) may be assigned to entities for certain sectors, including Corporate, Financial Institution and Sovereign entities, which reflect the ability of an entity to meet financial commitments on a timely basis. Similar to other ratings, these are drawn from the International Long-term and Short-term ratings scales and are identified as IDRs.
- > The long-term IDR is assigned to issuers and counterparties, reflecting their ability to meet all of their most senior financial obligations on a timely basis over the term of the obligation. The long-term IDR, therefore, is effectively a benchmark probability of default rating.

Country X	
National	International
AAA	BB+
AA+	
AA	
AA-	BB
A+	
A	BB-
A-	
BBB+	B+
BBB	
BBB-	B
BB+	
BB	B-
BB-	
B+	CCC+
B	CCC
B-	CCC-
C	CC/C
D	D



International and National ratings assigned by Fitch Ratings across sectors in six Asian countries

March-07

Country	India		Taiwan		Thailand		Philippines		Sri Lanka		Indonesia		Total
	International Ratings	National Ratings	International Ratings	National Ratings	International Ratings	National Ratings	International Ratings	National Ratings	International Ratings	National Ratings	International Ratings	National Ratings	
Financial Institutions	35	63	58	60	16	24	13	4	4	39	12	12	340
Corporates	8	100	7	6	2	24	2	2	1	9	13	14	188
Structured Finance	0	176	0	40	0	13	1	0	0	4	0	3	237
Bond Funds & Asset Management	0	10	0	3	0	2	0	0	0	0	0	0	15
Insurance	0	1	0	4	0	0	0	0	0	1	0	0	6
Public Finance & Project Finance	0	19	0	0	0	0	0	0	0	0	0	0	19
Total	43	369	65	113	18	63	16	6	5	53	25	29	805

Entities where international and national ratings are assigned are counted under both International Ratings and National Ratings



National Ratings Coverage by Local Rating Agencies

Thailand

	Rating Agency	
	Fitch	TRIS
Financial Institutions	24	22
Corporates	24	57
Structured Finance	13	0
Insurance	0	0
Total:	61	79

Indonesia

	Rating Agency		
	Fitch	KASNIC	PEFINDO (S&P)
Financial Institutions	13	11	34
Corporates	14	20	49
Structured Finance	3	1	0
Insurance	0	1	1
Total:	30	33	84



National Ratings Coverage by Local Rating Agencies

Philippines

	Rating Agency	
	Fitch	PhilRatings
Financial Institutions	4	6
Corporates	2	11
Structured Finance		1
Total:	6	18

Malaysia

	Rating Agency	
	MARC#	RAM
Financial Institutions	10	33
Corporates	15	95
Structured Finance	72	60
Insurance	7	0
Total:	104	188

#As at 31 March 2007, MARC has the following debt ratings :

252 Islamic Debt Securities issues

323 Corporate Debt Ratings



An example of how Fitch mentions both national and international ratings in one credit analysis report.

International

National

Telecommunications/
Philippines
Credit Analysis

Globe Telecom, Inc.

Ratings

Security Class	Current Rating	Previous Rating	Date Changed
Globe Telecom, Inc			
Foreign Currency IDR*	BB	NR	May 2003
Senior Unsecured	BB	NR	May 2003
Rating Outlook			Stable
Local Currency IDR*	BB+	NR	May 2005
Rating Outlook			Positive
National			
Long-Term	AAA (ph)	NR	June 2006
Rating Watch			None

* IDR – Issuer Default Rating, NR – Not Rated

Analysts

Jonathan Comish
+852 2263 9901
jonathan.comish@fitchratings.com

Priya Gupta
+65 6884 5085
priya.gupta@fitchratings.com

Profile

Globe Telecom, Inc. (“Globe”) is the second largest telecom operator in the Philippines and the only credible challenger to the incumbent in terms of footprint and diversified services. However, much of the company’s earnings are still dependent upon cellular services, which contributed 89% of Globe’s PHP58.7 billion net operating revenues in FY05. Globe is effectively controlled by two shareholders – Ayala Corp and Singapore Telecom.

Rating Rationale

Globe’s ratings take into account its robust business position in an industry that is characterised by few financially secure operators, neutral regulatory policy but sound growth. The company has an estimated 36% share of cellular subscribers - combined with PLDT their market share is c.97%. Globe’s share of fixed-line subscribers is estimated at 11%. Its robust market position and growth (despite moderating) has enabled Globe to sustain positive free cash flow (“FCF”) and a very sound financial profile compared to many similarly rated entities. At FYE05, net adjusted leverage was 1.5x with FFO to gross interest cover of 7.7x.

Fitch expects the momentum Globe has built up over the past two quarters to be sustained over the course of FY06 resulting in further improvement in its financial profile. However, the agency does not anticipate further significant strengthening beyond FY07, although Globe benefits to an extent from operational and financial support from its primary shareholders. Any additional cash flow in later years is likely to be returned to shareholders – as was the case in FY05 when Globe executed a share buyback totalling PHP7.7bn.

The ratings also take into account the risks associated with Globe having substantially all its operations in the Philippines. In this regard, the foreign currency (“FC”) IDR, which takes into account foreign currency transfer and convertibility risk, is constrained by the sovereign FC IDR.

Recent Developments

Acute competition plus the purge of most inactive users (from the SIM swap campaigns) led to negative cellular subscriber growth at Globe in FY05. It faces the prospect of slower subscriber growth (relative to prior years) and ARPU pressure due to competition and rising penetration rates, although recent results (particularly Q106) were sharply improved from FY05. In December 2005, Globe



Examples of Entities with both National and International Ratings

Indonesia

	Issuer Default/ Long Term Rating	Individual Rating	National Long- Term Rating		Issuer Default/ Long Term Rating	National Long- Term Rating
Banks				Corporates		
Bank Buana Indonesia	BB-		AA+ (IDN)	P.T. Ciliandra Perkasa	B+	A- (IDN)
Bank Central Asia	BB-		AA (IDN)	P.T. Telekomunikasi Selular (Telkomsel)	BB	AAA (IDN)
Bank Danamon Indonesia	BB-		AA- (IDN)	PT Arpeni Pratama Ocean Line Tbk	BB-	A+ (IDN)
Bank Lippo	BB-		A+ (IDN)	PT Berau Coal	B+	A (IDN)
Bank Mandiri	BB-		AA (IDN)	PT Excelcomindo Pratama	BB-	AA (IDN)
Bank Negara Indonesia	BB-		A+ (IDN)	PT Lippo Karawaci TBK	B+	BBB+ (IDN)
Bank Nisp	BB-		AA+ (IDN)	PT Perusahaan Gas Negara Tbk	BB-	AA (IDN)
Bank Rakyat Indonesia	BB-		AA+ (IDN)	PT. Fajar Surya Wisesa Tbk	B+	BBB+ (IDN)
PT Bank Internasional Indonesia Tbk	BB-		AA- (IDN)	PT. Pakuwon Jati Tbk	B	BBB- (IDN)

Philippines

	Issuer Default/ Long Term Rating	Individual Rating	National Long- Term Rating		Issuer Default/ Long Term Rating	National Long- Term Rating
Banks				Corporates		
China Banking Corporation	BB		AA-(PHL)	Globe Telecom, Inc	BB+	AAA(PHL)
Development Bank of the Philippines	BB		AA+(PHL)	Philippine Long Distance Telephone Company (PLDT)	BB+	AAA(PHL)
Land Bank of the Philippines	BB		AA(PHL)			
Security Bank Corporation	BB		AA-(PHL)			

Sri Lanka

	Issuer Default/ Long Term Rating	Individual Rating	National Long- Term Rating		Issuer Default/ Long Term Rating	National Long- Term Rating
Banks				Corporates		
Bank of Ceylon		D/E	AA(LKA)	Sri Lanka Telecom	BB-	AAA(LKA)
Commercial Bank of Ceylon		D	AA+ (LKA)			
People's Bank (Sri Lanka)		E	A- (LKA)			
Sampath Bank		D/E	AA- (LKA)			



What has changed over the last 5 years for local markets?

- > Global CRAs are entering local markets
- > Fitch Ratings has entered markets in development stage and set up local agencies
- > Fitch Ratings understands local markets and encourages local analyst participation for international transactions
- > Fitch Ratings developing local markets: Uniform rating process and methodology available on www.fitchratings.com or www.fitchratingsasia.com. This is more transparent
- > Disclosure has improved



What are the road blocks for local CRAs?

- > Ratings not comparable across countries though Fitch has “industry comparables” across global markets
- > International CRAs may prefer to exercise a high degree of oversight over the analytical process
- > Fitch Ratings prefers to control the “analytical process” to ensure consistency in application of methodology



Who We Are

Fitch Ratings is a leading global rating agency committed to providing the world's credit markets with independent and prospective credit opinions, research and data. Built on a foundation of organic growth and strategic acquisitions, Fitch has grown rapidly during the past decade, gaining market presence throughout the world and across all fixed income markets.

Fitch Ratings is dual-headquartered in New York and London, operating offices and joint ventures in more than 50 locations and covering entities in over 100 countries. In October 2006, Fitch established Derivative Fitch, a rating agency dedicated to providing a suite of ratings and comprehensive services for the CDO and credit derivative markets. Another wholly-owned Fitch subsidiary is Fitch Training, a leading provider of analytical training for financial professionals.

Fitch Ratings and Derivative Fitch are part of Fitch Group, a majority-owned subsidiary of Fimalac, S.A., which is headquartered in Paris, France. Hearst Corporation acquired a 20% stake in Fitch Group in 2006.



Worldwide Market Presence

Sovereign, Financial Institutions, Corporates & Municipals

- > 5,776 banks/financial institutions
 - > 3,078 banks
 - > 2,589 insurance companies
- > 1,417 Corporates ratings
- > 101 Sovereign ratings
- > 84,923 U.S. municipal transactions under surveillance
- > 144 sub-sovereign ratings

Source: Fitch Ratings as of 1 Feb 2007.



Ratings Coverage in Asia-Pacific

In Asia Pacific, Fitch has assigned over 1,600 ratings to a broad cross section of issuers which represents in depth coverage across the credit spectrum

	Number of ratings assigned
Sovereigns	17
Banks, Securities & Finance companies	409
Insurance companies	55
Corporates	403
CDOs	152
ABS/MBS	532
Public Finance & Public Finance entities	59
Bond Funds & Asset Management	17
Total	1,644

As of 30 March 2007



Contact the Fitch Ratings Asia-Pacific Team

The Business Development Group, Asia Pacific is responsible for the agency's business development, fee negotiation, issuer, investor relationship management, information and communication with market participants and media. If you have any questions or to discuss a particular rating situation, please feel free to contact one of the following located in Fitch's Asia offices:

Business Development Group, Asia-Pacific

Group Head	Vivek Goyal	+65 6336 6064	vivek.goyal@fitchratings.com
Structured Finance	Marjan van der Weijden	+65 6225 3621	marjan.weijden@fitchratings.com
Insurance	Simon Hu	+65 6334 2463	simon.hu@fitchratings.com
Corporates	Joyce Seidl-Tan	+65 6334 2813	joyce.tan@fitchratings.com
Australia	Bhasker Nair	+61 2 8256 0355	bhasker.nair@fitchratings.com
Korea	Jay Kim	+82 2 784 6884	jay.kim@fitchratings.com
Japan	Nishiura, Sadateru	+81 3 3288 2657	sadateru.nishiura@fitchratings.com
Thailand	Thanaphat Torsampham	+662 655 4767	thanaphat.torsampham@fitchratings.com
India	R Jayakumar	+91 22 40001710	r.jayakumar@fitchratings.com

Investor Development

Asia	Wayne Li	+852 2263 9915	wayne.li@fitchratings.com
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Media Relations and Corporate Communications

North Asia	Lisa Lim	+65 6336 0095	lisa.lim@fitchratings.com
South Asia	Shivani Sundralingam	+65 6336 6801	shivani.sundralingam@fitchratings.com

Products & Services

South Asia	Ng Sing Chan	+65 6337 5629	singchan.ng@fitchratings.com
Greater China	Ted Wong	+852 2263 9926	ted.wong@fitchratings.com
Australia	Vickie Brumwell	+61 2 8256 0300	vickie.brumwell@fitchratings.com
Japan	Noriko Sakaba	+81 3 3288 2715	noriko.sakaba@fitchratings.com
Korea	Young O. Ha	+822 784 6884	young.ha@fitchratings.com



Rating Group Heads Asia-Pacific

Sovereigns	James McCormack	+852 2263 9797	james.mccormack@fitchratings.com
Financial Institutions	David Marshall	+852 2263 9911	david.marshall@fitchratings.com
Corporates	Tony Stringer	+852 2263 9559	tony.stringer@fitchratings.com
Global Infrastructure & Project Finance	William Streeter	+65 6339 0441	william.streeter@fitchratings.com
Structured Finance			
~ Australia	Ben McCarthy	+61 2 8256 0388	ben.mccarthy@fitchratings.com
~ Hong Kong	Stan Ho	+852 2263 9668	stan.ho@fitchratings.com
~ Japan	Masaaki Kudo	+81 3 3288 2630	masaaki.kudo@fitchratings.com
Derivative Fitch	Rachel Hardee	+852 2263 9918	rachel.hardee@fitchratings.com

Key Country Contacts

Australia	Andrew Smith	+61 7 3222 8616	andrew.smith@fitchratings.com
China	Larry Lee	+8610 6533 0678	larry.lee@fitchratings.com
Hong Kong	David Marshall	+852 2263 9911	david.marshall@fitchratings.com
Indonesia	Baradita Katoppo	+62 21 526 7826	baradita.katoppo@fitchratings.com
India	Amit Tandon	+91 22 4000 1750	amit.tandon@fitchratings.com
Japan	Keiichiro Hashimoto	+81 3 3288 2656	keiichiro.hashimoto@fitchratings.com
Korea	Jay Kim	+82 2 784 6884	jay.kim@fitchratings.com
Singapore	Vivek Goyal	+65 6336 6064	vivek.goyal@fitchratings.com
Taiwan	Daniel Ho	+8862 2514 7164	daniel.ho@fitchratings.com
Thailand	Vincent Milton	+ 66 2 655 4755	vincent.milton@fitchratings.com



Vivek Goyal
Managing Director



Vivek Goyal is a managing director at Fitch Ratings in Singapore where he is responsible for Fitch's Singapore office. He is also Head of the Asia Pacific, Business Development Group. The group, located in 8 countries, manages the agency's fee negotiation, issuer, banker and investor relationships, as well as information and communication with market participants and the media.

A 14-year veteran of the Asian capital markets business, Vivek's primary focus on recent ratings development activity at Fitch has been targeted at promoting relationships with a cross section of market participants :Issuers , Bankers and fixed income investors across the Asia Pacific region .

Vivek represents Fitch as a member on the Board of Fitch Ratings India, Fitch Ratings Thailand, Fitch Ratings Sri Lanka and Fitch Ratings Singapore.

Prior to joining Fitch in 1998, Vivek was head of Issuer Services, Asia Pacific, at HSBC, where he had worked since 1987. Vivek received a BA (honours) from St. Stephens College, University of Delhi, India and an MBA from the Asian Institute of Management, Manila, Philippines. He has lived and worked in Hong Kong, Manila , Singapore, and India.



Fitch Ratings

www.fitchratings.com
www.fitchratingsasia.com

New York

One State Street Plaza
New York
NY 10004
USA
+1 212 908 0500
+1 800 75 FITCH

London

Eldon House
2 Eldon Street
London EC2M 7UA
UK
+44 207 417 4222

Singapore

7 Temasek Blvd.
#11-04/05
Suntec Tower One
Singapore 038987
+65 6336 6801

Hong Kong

28th Floor
Tower Two, Lippo Centre
89 Queensway
Hong Kong
+852 2263 9963