Size and Composition

*Growth rates in Asia’s local currency bond markets stabilized in the first quarter of 2009 after a decline in the previous quarter as governments implemented fiscal stimulus packages to offset economic slowdowns, while central banks began to issue for broader monetary management purposes and corporate issuance recovered.*

The emerging East Asian bond market grew by 1.4% (on an LCY basis) in 1Q09 compared with the last quarter of 2008. It expanded by 10.7% on a year-on-year basis.

The strongest improvements in bond market growth rates came out of Indonesia (9.5%); Hong Kong, China (8.6%); Thailand (6.8%); and the Republic of Korea (Korea) (5.9%). We note that the bond market growth rate for the Philippines was only 0.1% in 1Q09 (on an LCY basis), but that a robust 11.9% growth rate for the Philippine corporate bond market offset a modest decline in the government bond growth rate of -0.9%. Malaysia's q-o-q growth was also significant at 3.3%. This upward trend in bond market growth rates was driven by the government sector in most countries, although LCY basis growth rates for corporate bonds were modestly positive in Korea, Malaysia, and Thailand.

The People’s Republic of China’s (PRC) bond market reported continued strong growth on a y-o-y basis in 1Q09, but its q-o-q growth rate was modestly negative due to a 2.9% decline in the PRC’s government bond segment (Table 1). State-owned enterprises are still active issuers in the PRC. MTN bonds outstanding more than doubled on a q-o-q basis in 1Q09, and PRC banks have stepped up their bond issues, mostly in the form of subordinated bonds, to support their capital base while they have been expanding their loan activity this year (Figure 1). The first quarter of 2009 saw two large issues by China Construction Bank of CNY28 billion and CNY12 billion. More recently, the Agricultural Bank of China issued three large subordinated debt bonds totaling CNY50 billion (USD7.3 billion). As a consequence of these developments, the PRC’s corporate bond market grew 14.7% q-o-q in 1Q09 (on an LCY basis), and by more than 63% on a y-o-y basis.

The ratio of LCY bonds to GDP in emerging East Asia stood at 54% at the end of 1Q09, down from 54.6% at the end of 2008 and 59.6% at the end of 1Q08 (Table 2).

Bills-to-Bonds Ratios

*Emerging East Asia’s stock of treasury bills and central bank bills rose in the first quarter as central banks and monetary authorities aggressively participated in the issuance of bills.*

The value of LCY treasury bills reached USD138.3 billion (up 9.3% q-o-q on an LCY basis), while central bank bills were recorded at about USD449.6 billion (up 5.0% q-o-q on an LCY basis) at the end of 1Q09. Table 3 shows that the stock of treasury bonds and central bank bonds declined modestly in 1Q09, resulting in a slight rise of the bills-to-bonds ratios in most markets in 1Q09 from 4Q08.
Bond Issuance

LCY bond issuance in 1Q09 rose by 14% q-o-q (on an LCY basis), reflecting revival of issuance in equal measure in both the government and corporate sectors.

The distribution of this growth rate between government and corporate issuance was astonishingly identical, with government and corporate sector issuance each rising by 14% q-o-q (on an LCY basis) (Table 4). The more rapid growth in issuance occurred in the Philippines (151.5%); Republic of Korea (89.6%); Hong Kong, China (74.3%); and Malaysia (56.7%). As we mentioned earlier, issuance in the PRC declined substantially in 1Q09. The most rapid increase in issuance came out of the Philippines, where t-bond issuance in 1Q09 jumped to PHP168 billion from PHP6.2 billion in the previous quarter, while t-bill issuance remained at a relatively high level of PHP130 billion. Philippine corporate issuance in 1Q09 rose to PHP33.5 billion from PHP22.6 billion in 4Q08, while issuance from the PRC’s government sector fell on both a q-o-q and y-o-y basis.

New issues of G3 currency bonds have reached USD23.4 billion, with another USD500 to USD800 million still in the pipeline. This compares favorably with only USD17.6 billion for all of 2008, reflecting the emerging East Asia’s improved access to global capital markets.

The largest individual issues to date in G3 currencies have been the USD2 billion bonds issued by KDB (Korea Development Bank) and Kexim (The Export Import Bank of Korea) in January, and the 10-year USD2 billion Indonesian sovereign issued in March (Table 5). The outstanding features of the G3 currency bonds issued this year, as compared to G3 currency bonds issued in 2008, include:

- Much larger issue size—averaging USD1 billion or more;
- Trend toward longer maturities—five of the issues completed to date have had 15-year maturities, an impressive accomplishment in what is still an uncertain market;
- Product innovation—Kookmin (Korea’s largest commercial bank) issued the first covered bond (based on the pfandbriefe model) and the Indonesian sovereign successfully issued its USD650 million sukuk;
- Petrochina issued a domestic USD1 billion bond in the PRC; and,
- Viet Nam is creating a domestic USD bond trading platform.

Yield Curves

Most government bond yield curves in the region have steepened and are still wider than they were at the end of December 2008 (Figure 2).

This reflects lingering economic and financial market uncertainty, as well as market concern about further bond issuance to finance economic stimulus programs. The rapid recovery of the region’s equity markets in recent months may have put pressure on government bond markets as well. The only two cases where the government bond yield curve has clearly shifted downward below end-December levels are Viet Nam and Indonesia, where bonds with maturities under 14 years are now below their end-December levels. Elsewhere, the best outcome is that the shorter end of the
government bond curve has moved below end-December levels, resulting in an overall steepening for most bond yield curves in the region.

**Foreign Holdings of LCY Bonds**

*Foreign holdings of Asian LCY government bonds have fallen in most markets as investors reduce their exposure to high-yielding assets.*

Foreign investors substantially reduced their holdings of LCY government bonds in most Asian markets in 4Q08 and 1Q09, as compared to 1Q08 (*Figure 3*). The proportionally largest decline was in Malaysia. While foreign holdings declined in the Indonesian market, they still comprise more than 14% of the total Indonesian market, the highest level in any Asian market. The only market to register an increase of foreign holdings was Thailand, where foreign holdings rose above 2% of the total market. This is still lower, however, than the approximately 4% market share of Thai domestic bonds that foreign investors held in September 2008.
Table 1: Size and Composition of Emerging East Asian LCY Bond Markets

<table>
<thead>
<tr>
<th></th>
<th>Amount 2008 (USD billion)</th>
<th>% share</th>
<th>Amount 2008 (USD billion)</th>
<th>% share</th>
<th>Amount 2009 (USD billion)</th>
<th>% share</th>
<th>Growth Rate (%)</th>
<th>Growth Rate (%)</th>
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<td>691</td>
<td>46.7</td>
<td>665</td>
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Notes:
1. For Singapore, corporate bonds quarterly figures are based on AsianBondsOnline estimates.
2. Corporate bonds include issues by financial institutions.
3. Bloomberg LP end-of-period LCY/USD rates are used.
4. Growth rates are calculated from LCY base and do not include currency effects.
5. Total Emerging East Asia growth figures are based on end-March 2009 currency exchange rates and do not include currency effects.

Sources: People's Republic of China (ChinaBond); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Indonesia Stock Exchange and Bank Indonesia); Republic of Korea (Bank of Korea and KoreaBondWeb); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury and Bloomberg LP); Singapore (Monetary Authority of Singapore and Bloomberg LP); Thailand (Bank of Thailand); Viet Nam (Bloomberg LP); and Japan (Japan Securities Dealers Association).
Table 2: Size and Composition of Emerging East Asian LCY Bond Markets (% of GDP)

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<tr>
<th>Country</th>
<th>1Q08</th>
<th>4Q08</th>
<th>1Q09</th>
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<td>6.7</td>
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<td></td>
</tr>
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<td>168.4</td>
<td>153.1</td>
<td>139.9</td>
</tr>
<tr>
<td>Corporate</td>
<td>18.8</td>
<td>17.2</td>
<td>15.9</td>
</tr>
</tbody>
</table>

Note
1. GDP data are from CEIC. 2008 annual GDP was used for the calculation of bonds outstanding as a percentage of GDP for 1Q09 and 4Q08; 2007 annual GDP was used for 1Q08.

Sources:
People’s Republic of China (ChinaBond), Hong Kong, China (Hong Kong Monetary Authority), Indonesia (Indonesia Stock Exchange and Bank Indonesia), Republic of Korea (Bank of Korea and KoreaBondWeb), Malaysia (Bank Negara Malaysia), Philippines (Bureau of the Treasury and Bloomberg LP; Singapore (Monetary Authority of Singapore and Bloomberg LP); Thailand (Bank of Thailand); Viet Nam (Bloomberg LP); and Japan (Japan Securities Dealers Association).
| Region                  | 1Q08 Total | 2Q08 Total | 3Q08 Total | 4Q08 Total | 1Q09 Total | 2Q09 Total | 3Q09 Total | 4Q09 Total | 1Q10 Total | 2Q10 Total | 3Q10 Total | 4Q10 Total | 1Q11 Total | 2Q11 Total | 3Q11 Total | 4Q11 Total | 1Q12 Total | 2Q12 Total | 3Q12 Total | 4Q12 Total | 1Q13 Total | 2Q13 Total | 3Q13 Total | 4Q13 Total | 1Q14 Total | 2Q14 Total | 3Q14 Total | 4Q14 Total | 1Q15 Total | 2Q15 Total | 3Q15 Total | 4Q15 Total | 1Q16 Total | 2Q16 Total | 3Q16 Total | 4Q16 Total | 1Q17 Total | 2Q17 Total | 3Q17 Total | 4Q17 Total | 1Q18 Total | 2Q18 Total | 3Q18 Total | 4Q18 Total | 1Q19 Total | 2Q19 Total | 3Q19 Total | 4Q19 Total | 1Q20 Total | 2Q20 Total | 3Q20 Total | 4Q20 Total | 1Q21 Total | 2Q21 Total | 3Q21 Total | 4Q21 Total | 1Q22 Total | 2Q22 Total | 3Q22 Total | 4Q22 Total | 1Q23 Total | 2Q23 Total | 3Q23 Total | 4Q23 Total | 1Q24 Total | 2Q24 Total | 3Q24 Total | 4Q24 Total | 1Q25 Total | 2Q25 Total | 3Q25 Total | 4Q25 Total |
|------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
### Table 4: LCY-denominated Bond Issuance (Gross)

<table>
<thead>
<tr>
<th>Country</th>
<th>LCY billion</th>
<th>USD billion</th>
<th>LCY billion</th>
<th>USD billion</th>
<th>LCY billion</th>
<th>USD billion</th>
<th>Growth rate (LCY-base %)</th>
<th>Growth rate (USD-base %)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1Q09</td>
<td>% share</td>
<td>1Q09</td>
<td>% share</td>
<td>1Q09</td>
<td>% share</td>
<td>Q-o-Q</td>
<td>Y-o-Y</td>
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<tr>
<td>China, People's Rep. of China</td>
<td>1,047</td>
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<td>153</td>
<td>100.0</td>
<td>(21.4)</td>
<td>(54.2)</td>
<td>(21.5)</td>
<td>(53.0)</td>
</tr>
<tr>
<td>Government</td>
<td>672</td>
<td>64.2</td>
<td>98</td>
<td>64.2</td>
<td>(29.6)</td>
<td>(68.4)</td>
<td>(29.7)</td>
<td>(67.6)</td>
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<tr>
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<td>375</td>
<td>35.8</td>
<td>55</td>
<td>35.8</td>
<td>(0.6)</td>
<td>143.3</td>
<td>(0.7)</td>
<td>149.7</td>
</tr>
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<td>Hong Kong, China</td>
<td>662</td>
<td>100.0</td>
<td>85</td>
<td>100.0</td>
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<td>93.1</td>
<td>74.3</td>
<td>93.9</td>
</tr>
<tr>
<td>Government</td>
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<td>92.1</td>
<td>79</td>
<td>92.1</td>
<td>71.5</td>
<td>89.6</td>
<td>71.5</td>
<td>90.4</td>
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<td>7.9</td>
<td>7</td>
<td>7.9</td>
<td>116.2</td>
<td>145.5</td>
<td>116.2</td>
<td>148.5</td>
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<td>40</td>
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<td>22.3</td>
<td>(46.3)</td>
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<td>(57.7)</td>
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<td>99.5</td>
<td>40</td>
<td>99.5</td>
<td>23.3</td>
<td>(46.1)</td>
<td>19.4</td>
<td>(57.6)</td>
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<td>(74.0)</td>
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<td>83.7</td>
<td>41.3</td>
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<td>23</td>
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<td>(15.5)</td>
<td>48.7</td>
<td>(29.9)</td>
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<tr>
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<td>83.5</td>
<td>19</td>
<td>83.5</td>
<td>81.2</td>
<td>(5.1)</td>
<td>72.0</td>
<td>(16.9)</td>
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<td>16.5</td>
<td>4</td>
<td>16.5</td>
<td>(7.0)</td>
<td>(45.6)</td>
<td>(11.8)</td>
<td>(52.3)</td>
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<td>Philippines</td>
<td>331</td>
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<td>7</td>
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<td>151.5</td>
<td>99.2</td>
<td>147.1</td>
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<td>6</td>
<td>89.9</td>
<td>172.9</td>
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<td>10.1</td>
<td>0.7</td>
<td>10.1</td>
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<td>45.4</td>
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<tr>
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<td>35</td>
<td>96.7</td>
<td>23</td>
<td>96.7</td>
<td>7.9</td>
<td>20.0</td>
<td>1.8</td>
<td>8.8</td>
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<tr>
<td>Corporate</td>
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<td>3.3</td>
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<td>545.7</td>
<td>(64.8)</td>
<td>423.3</td>
<td>(68.1)</td>
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<tr>
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<td>2,809</td>
<td>93.7</td>
<td>79</td>
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<td>5</td>
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<td>(87.4)</td>
<td>(94.2)</td>
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<td>2,600</td>
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<td>100.0</td>
<td>(87.1)</td>
<td>(93.6)</td>
<td>(87.3)</td>
<td>(94.2)</td>
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<tr>
<td>Corporate</td>
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<td>0.0</td>
<td>0.0</td>
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<td>0.0</td>
<td>100.0</td>
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<tr>
<td>Total Emerging East Asia</td>
<td>503</td>
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<td>14.0</td>
<td>(20.3)</td>
<td>11.7</td>
<td>(26.2)</td>
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<tr>
<td>Government</td>
<td>411</td>
<td>81.6</td>
<td>14.0</td>
<td>(28.9)</td>
<td>11.6</td>
<td>(34.0)</td>
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<tr>
<td>Corporate</td>
<td>92</td>
<td>18.4</td>
<td>14.0</td>
<td>71.8</td>
<td>12.1</td>
<td>55.1</td>
<td></td>
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</tr>
<tr>
<td>Less PRC:</td>
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<td></td>
<td></td>
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<td></td>
<td></td>
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</tr>
<tr>
<td>Total</td>
<td>350</td>
<td>100.0</td>
<td>42.0</td>
<td>17.7</td>
<td>37.1</td>
<td>(1.6)</td>
<td></td>
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<tr>
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<td>312</td>
<td>89.3</td>
<td>41.6</td>
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<td>36.9</td>
<td>(1.8)</td>
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<tr>
<td>Corporate</td>
<td>38</td>
<td>10.7</td>
<td>45.2</td>
<td>20.2</td>
<td>38.4</td>
<td>(0.1)</td>
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</tr>
<tr>
<td>Japan</td>
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<td>427</td>
<td>100.0</td>
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<td>(3.1)</td>
<td>7.4</td>
<td>(2.7)</td>
</tr>
<tr>
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<td>89.4</td>
<td>382</td>
<td>89.4</td>
<td>16.0</td>
<td>(3.7)</td>
<td>6.0</td>
<td>(3.2)</td>
</tr>
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<td>Corporate</td>
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<td>10.6</td>
<td>45</td>
<td>10.6</td>
<td>32.0</td>
<td>2.0</td>
<td>20.7</td>
<td>2.6</td>
</tr>
</tbody>
</table>

Notes:
1. Corporate bonds include issues by financial institutions.
2. Bloomberg LP end-of-period LCY/USD rates are used.
3. For LCY-base, total Emerging East Asia growth figures are based on end-March 2009 currency exchange rates and do not include currency effects.

Sources: People’s Republic of China (ChinaBond); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bloomberg LP); Republic of Korea (Bank of Korea); Malaysia (Bloomberg LP); Philippines (Bloomberg LP); Singapore (Bloomberg LP); Thailand (Bank of Thailand); Viet Nam (Bloomberg LP); and Japan (Japan Securities Dealers Association).
Table 5: G3 Currency Bond Issuance

<table>
<thead>
<tr>
<th>Issuer</th>
<th>Size USDm</th>
<th>Issuer</th>
<th>Size USDm</th>
<th>Issue Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rep. of Korea</td>
<td>7,715</td>
<td>Rep. of Korea</td>
<td>16,193 - 16,393</td>
<td></td>
</tr>
<tr>
<td>of which: Policy Banks</td>
<td>3,333</td>
<td>KOGAS</td>
<td>500</td>
<td></td>
</tr>
<tr>
<td>KDB 5.3% 2011</td>
<td>1,000</td>
<td>KORAIL</td>
<td>300-500</td>
<td></td>
</tr>
<tr>
<td>KDB JPY19 Bn FRNs 2010</td>
<td>174</td>
<td>KDB FRNs 2011</td>
<td>Issued</td>
<td></td>
</tr>
<tr>
<td>KDB FRNs 2011</td>
<td>150</td>
<td>In Pipeline</td>
<td></td>
<td></td>
</tr>
<tr>
<td>KDB JPY15 Bn 3.22% 2018</td>
<td>144</td>
<td>Korea Sovereign 5.75% 2014</td>
<td>1,500</td>
<td>16-Apr-09</td>
</tr>
<tr>
<td>KEXIM EUR750 Mn 5.75% 2013</td>
<td>1,158</td>
<td>Korea Sovereign 7.125% 2019</td>
<td>1,500</td>
<td>16-Apr-09</td>
</tr>
<tr>
<td>KEXIM JPY15 Bn 3.24% 2018</td>
<td>143</td>
<td>KDB 8.0% 2014</td>
<td>2,000</td>
<td>23-Jan-09</td>
</tr>
<tr>
<td>KEXIM FRNs 2009</td>
<td>145</td>
<td>KEXIM 8.125% 2014</td>
<td>2,000</td>
<td>20-Jan-09</td>
</tr>
<tr>
<td>KEXIM FRNs 2014</td>
<td>100</td>
<td>IBK 7.125% 2014</td>
<td>1,000</td>
<td>23-Apr-09</td>
</tr>
<tr>
<td>IBK FRNs 2013</td>
<td>200</td>
<td>KOOKMIN Covered Bd 7.25% 2014</td>
<td>1,500</td>
<td>14-May-09</td>
</tr>
<tr>
<td>PRC</td>
<td>600</td>
<td>PETROCHINA - Dom. USD Bond* 2.0825% 2012</td>
<td>1,000</td>
<td>12-May-09</td>
</tr>
<tr>
<td>NDPAPER 7.875% 2013</td>
<td>300</td>
<td>Others</td>
<td>4,193</td>
<td></td>
</tr>
<tr>
<td>Hong Kong, China</td>
<td>2,975</td>
<td>PRC</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Philippines</td>
<td>850</td>
<td>PETROCHINA - Dom. USD Bond* 2.0825% 2012</td>
<td>1,000</td>
<td>12-May-09</td>
</tr>
<tr>
<td>SM Investments 6.75% 2013</td>
<td>350</td>
<td>KDB FRNs 2011</td>
<td>Issued</td>
<td></td>
</tr>
<tr>
<td>Indonesia Sovereign 6.375% 2032</td>
<td>500</td>
<td>Hong Kong, China</td>
<td>750</td>
<td>18-May-09</td>
</tr>
<tr>
<td>Indonesia Sovereign 6.75% 2013</td>
<td>250</td>
<td>Indonesia Sovereign 2.25% 2013</td>
<td>2,500</td>
<td>07-Jan-09</td>
</tr>
<tr>
<td>Indonesia Sovereign 6.625% 2018</td>
<td>1,000</td>
<td>PSALM 7.25% 2019</td>
<td>1,000</td>
<td>19-May-09</td>
</tr>
<tr>
<td>Indonesia Sovereign 6.75% 2014</td>
<td>300</td>
<td>Philippine</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EXCELCOMINDO 7.125% 2013</td>
<td>250</td>
<td>Indonesia Sovereign 10.375% 2014</td>
<td>3,650</td>
<td>04-Mar-09</td>
</tr>
<tr>
<td>Malaysia</td>
<td>250</td>
<td>Indonesia Sovereign 11.625% 2013</td>
<td>2,000</td>
<td>04-Mar-09</td>
</tr>
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<td>Thailand</td>
<td>674</td>
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<td>650</td>
<td>23-Apr-08</td>
</tr>
<tr>
<td>Singapore</td>
<td>100</td>
<td>OLAMSP 1.2821% 2013</td>
<td>123</td>
<td>02-Mar-09</td>
</tr>
<tr>
<td>Grand Total</td>
<td>17,614</td>
<td>Grand Total</td>
<td>24,216 - 24,416</td>
<td></td>
</tr>
</tbody>
</table>

* - Issued in domestic market.
Sources: Compilation from newspaper and wire reports.
Figure 1: Banks Subdebt Issuance: year to date

Source: Based on data from Bloomberg LP.
Figure 2: Benchmark Yield Curves—LCY Bonds

Source: Based on data from Bloomberg LP.
Figure 3: Foreign Holdings of LCY Government Bonds

Note:
* - Data for Republic of Korea, Japan, and Malaysia are as of Dec 2008.

Sources: National Sources.