

Asian Local Markets

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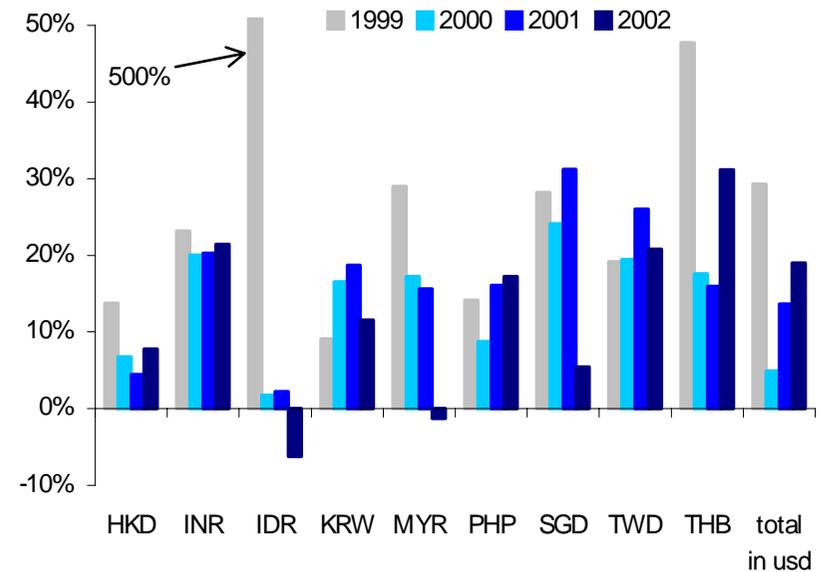
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Local Market Themes -- re-capitalisation of financial sectors and rising budget deficits have sustained healthy growth in local bond markets

- Post 98 Asian crisis leads to domestic debt transfer from the private sector to the government, especially in Korea, Indonesia, and Thailand because of re-capitalization of the financial sector
- Budget deficits resulting in government bond issuance and development of a sovereign yield curve. Pre-crisis fiscal deficit was 1% of GDP while in 2002, fiscal deficit rose to 3.9% of GDP.

Growth in market size (local currency)



Source: DB Global Markets Research

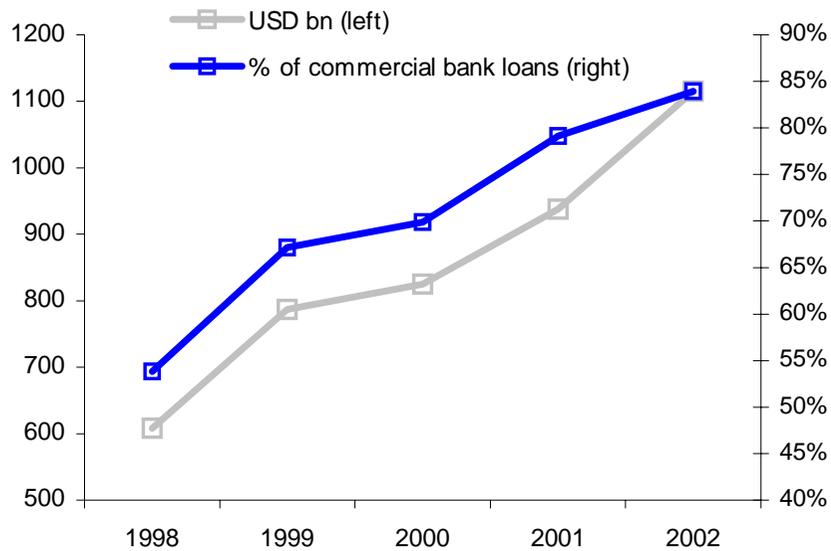


Local Market Themes -- bonds are gaining market share as a source of funding and liquidity is improving

- Governments are actively encouraging the development of fixed income market to open the sources of financing beyond the banking system and equity market. Compared to pre-crisis, the share of Asia bond market (ex-Japan) in the world bond market has doubled to about 4.2%. Asia bond market has grown by 55% since 1996 and now amounted to about 85% of bank loans.
- Capital markets development with corporate bond issuance in local currency. On average, corporate bond is now about 25% of the local bond market (except for China) although still very illiquid in the secondary market.
- The size, liquidity and transparency of the domestic debt markets have improved since the crisis, such as the consolidation of the Korean government bond market. Turnover ratios however are still very low compared to the US, for example (over 20 for the whole market and over 30 for the Treasuries), especially if T-bill and repo transactions are excluded.
- Development of domestic long term financial institutions such as insurance companies and pension funds. Except for Korea, penetration of life insurance is still very modest in Asia. Despite increased issuance at the long end, demand for duration still outstrips supply, one of the reasons why yield curves are so much flatter in Asia than in G3.

Development of the bond market -- increasing importance of bond market vs. bank loan

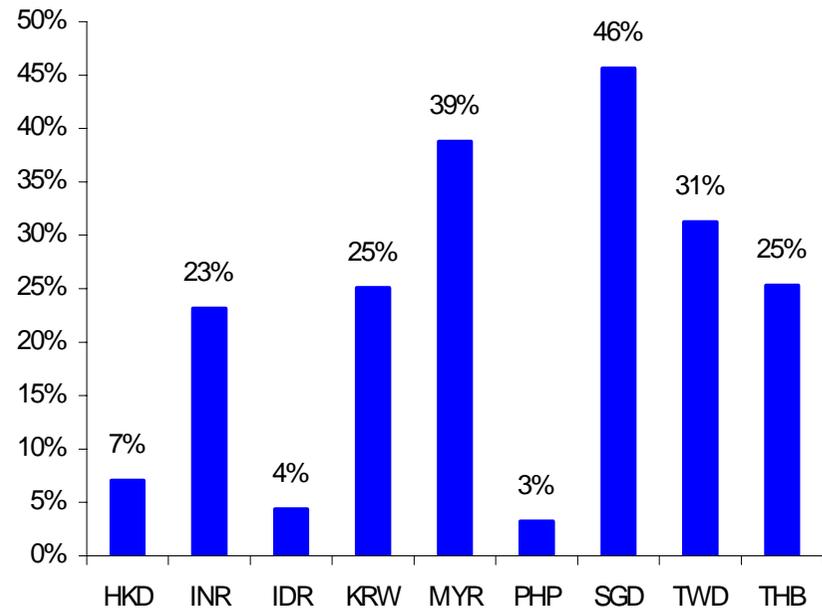
Total outstanding issuance in USD, and as a percentage of bank loans



Source: DB Global Markets Research

Note: Includes only the nine countries shaded in blue in the chart labeled "Total outstanding issuance" above.

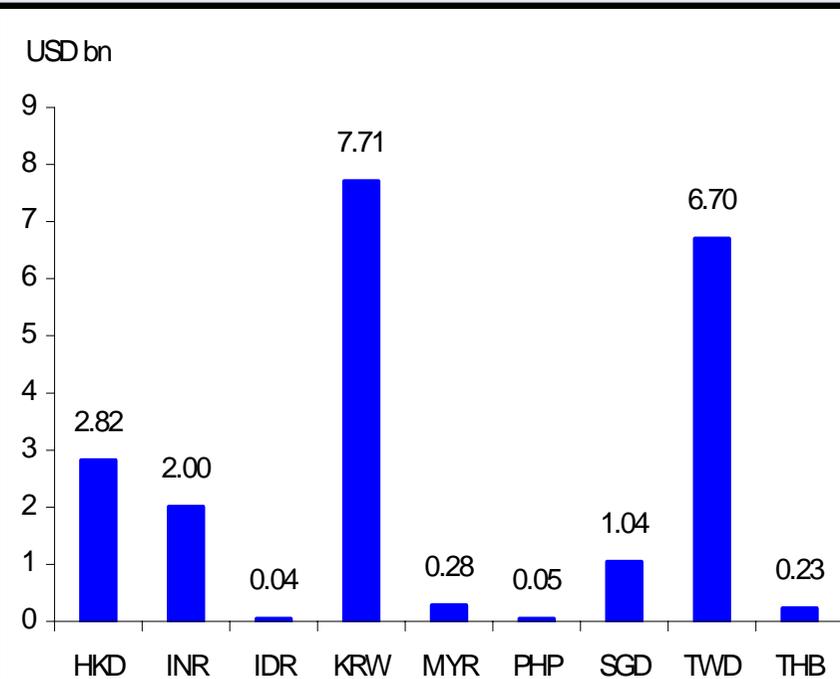
Corporate portion of outstanding domestic debt



Source: DB Global Markets Research

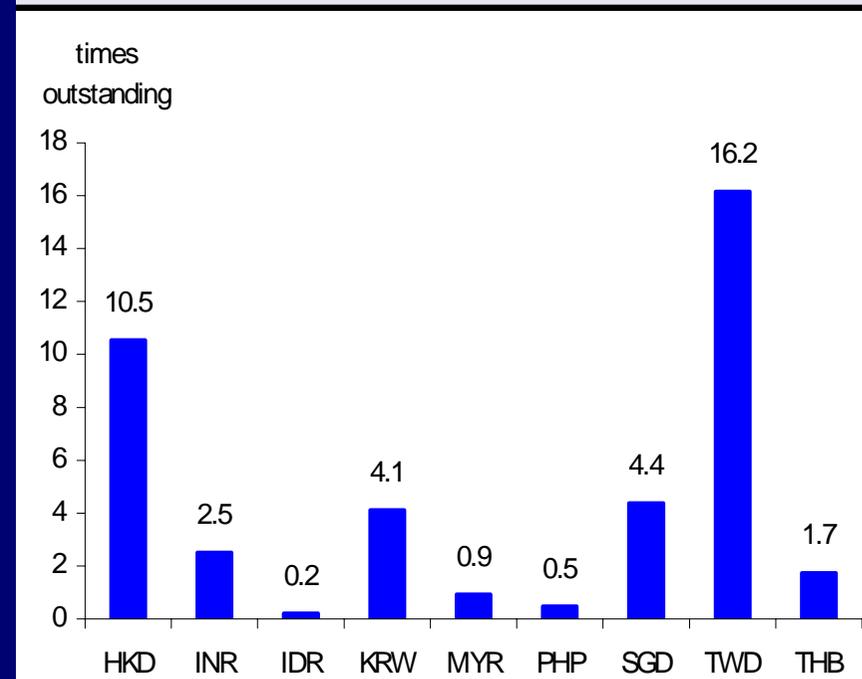
Liquidity has improved but still trailed behind developed markets especially if T-bill and repo transactions are excluded.

Average daily turnover in 2002



Source: DB Global Markets Research

Turnover ratios in 2002



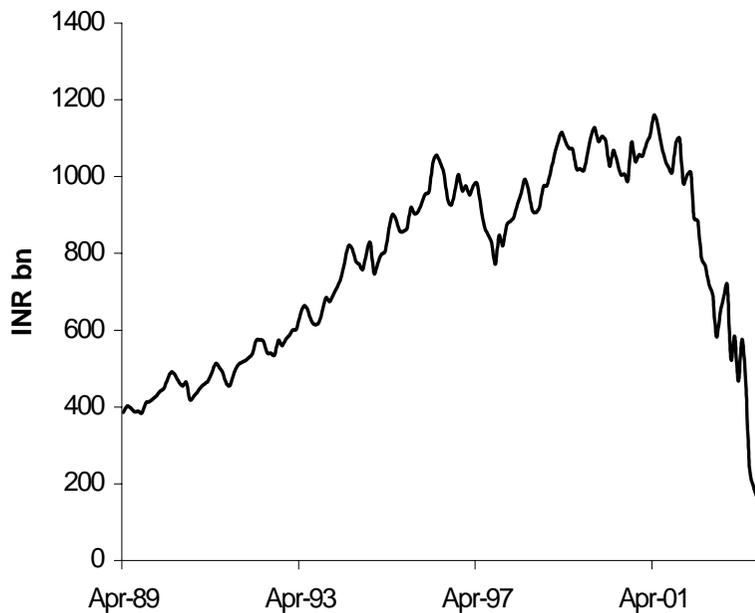
Source: DB Global Markets Research

Local Market Themes -- a long bull market on bonds may have masked some vulnerability and systematic risk

- Current account surpluses underpinning currency strength, balanced by massive sterilized FX intervention. Contrasting examples:
 - Central banks buy \$ and sell domestic currencies. To control the growth of money supplies, central banks subsequently conduct open market operations, by either selling government bonds in their inventory or issuing bonds directly.
 - Can the pace of sterilization be maintained?
 - ◆ Reserve Bank of India: dwindling inventory of government bonds and no authority to issue bonds on its own
 - ◆ Taiwan central bank: massive expansion of central bank balance sheet.
 - ◆ The cost of sterilization and associated risk, especially if USD weakness continues and domestic interest rates rise above USD interest rates
 - If the pace of sterilization is reduced, money supply growth will likely explode and so will bond yields.

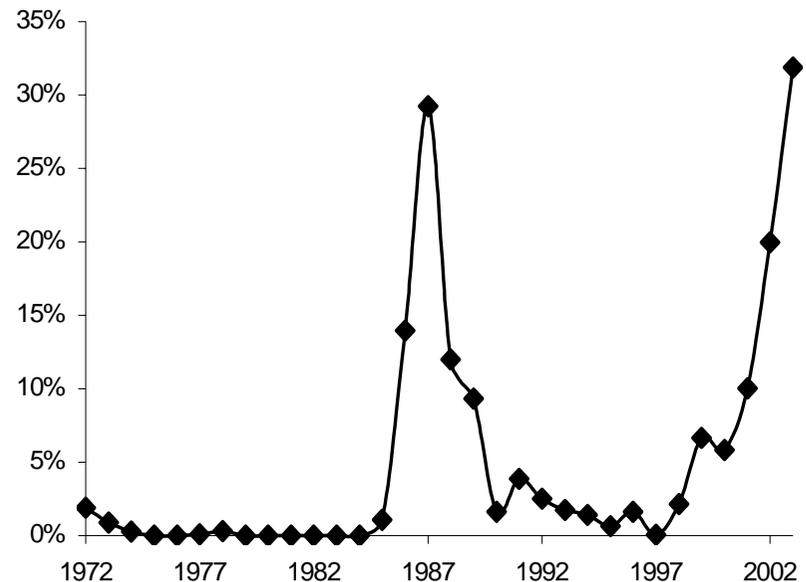
Impact of sterilisation on the balance sheets of India and Taiwan central banks

Government securities held by the RBI



Source: DB Global Markets Research

Sterilization of CBC: outstanding NCD/ CD as a % of GDP has reached the peak.



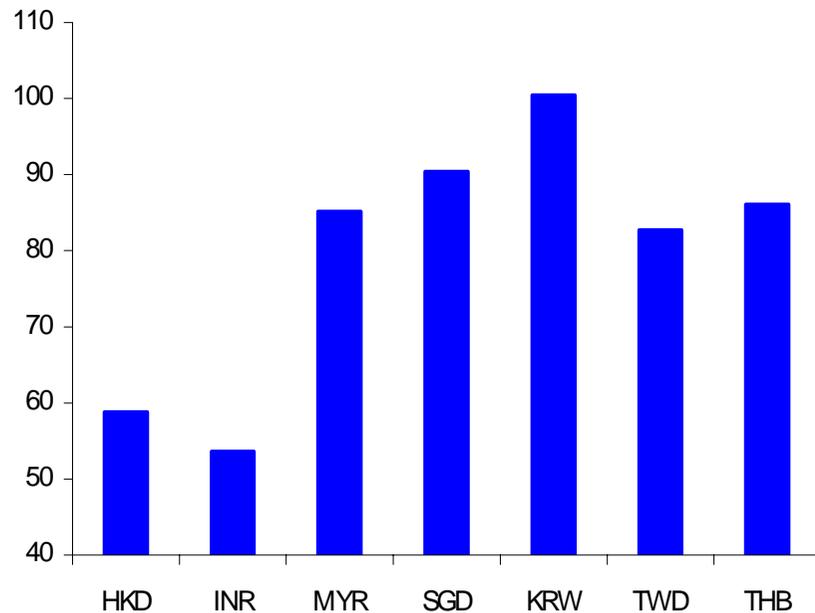
Sources: DB Global Markets Research and CEIC

Local Market Themes -- a long bull market on bonds may have masked some vulnerability (continued)

- A liquidity driven rally may be coming to an end. Record-low loan-to-deposit ratios mean heavy concentration in government bonds in banks' portfolios. For example, Indian banking system collectively holds over 40% of its total liability in government securities vs. the central bank requirement of 25%. Investors complacency in the bond market may have been encouraged by the assumption of a central bank "put".
- Mark-to-market discipline is not uniformly enforced, especially as the size of bond funds explodes. The lack of secondary trading in corporate securities provides too much discretion to fund managers in marking these bonds. For example, in Taiwan, bond funds prefer to hold corporate bonds as the lack of transparency allows more discretion in marking corporate bonds. Government bond yields even "trade" above some corporate bond yields due to such preference. Such practices create vulnerability in the market if yields rise rapidly and redemption picks up as well.

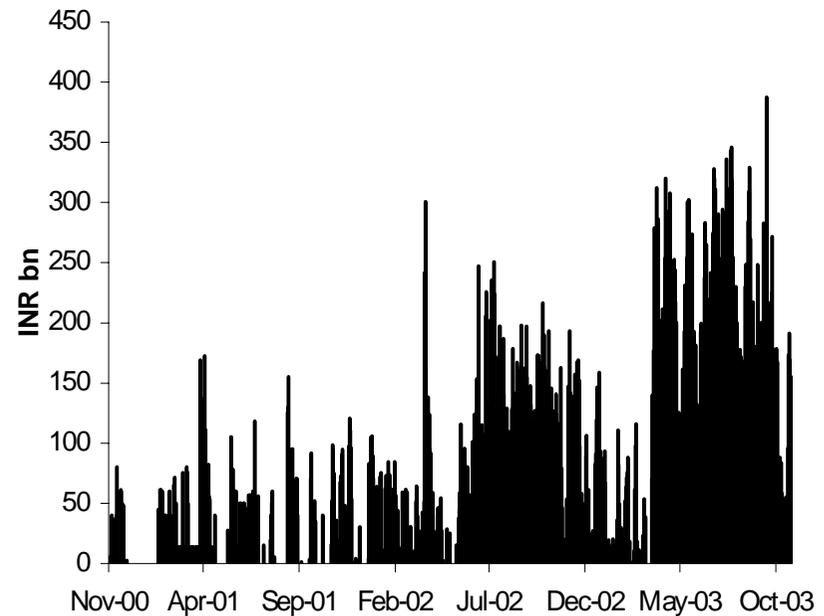
Record-low loan-to-deposit ratios and massive liquidity overhang in the repo facilities with central banks

Loan/deposit ratios



Source: DB Global Markets Research

Overnight repo lent to the RBI



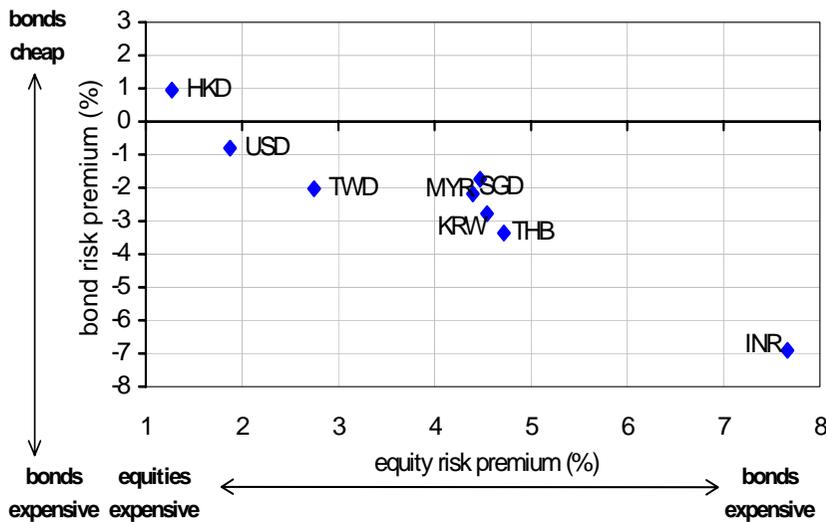
Source: DB Global Markets Research

Local Market Themes -- analysis in equity risk premium (ERP) and bond risk premium (BRP)

- Our ERP and BRP analysis indicates that government bonds are expensive in the region compared to consensus inflation and growth expectation.
 - ERP = real equity yield - real bond yield
 - BRP = 10Y bond yield - (per capita GDP growth expectations + long-term inflation expectations)
 - Except for Hong Kong, BRPs are all negative in the region and also more negative than BRP of the US BRP.
 - The apparent overvaluation of bonds seems to be driven by duration demand from life insurance companies, flush liquidity in banking systems, and most importantly, complacency regarding Asia's inflation outlook.
 - ◆ Negative real rates in India: 5Y swap rate at 4.6% while real GDP growth is expected to be > 6.5% and inflation around 5%.
 - Bonds are also vulnerable to asset allocation into equities.
- Local yield curves are very flat, especially in light of the steepness of the G3 yield curves. As a result, forwards are pricing in somewhat unrealistic relationship between local interest rates and G3 interest rates in the future.

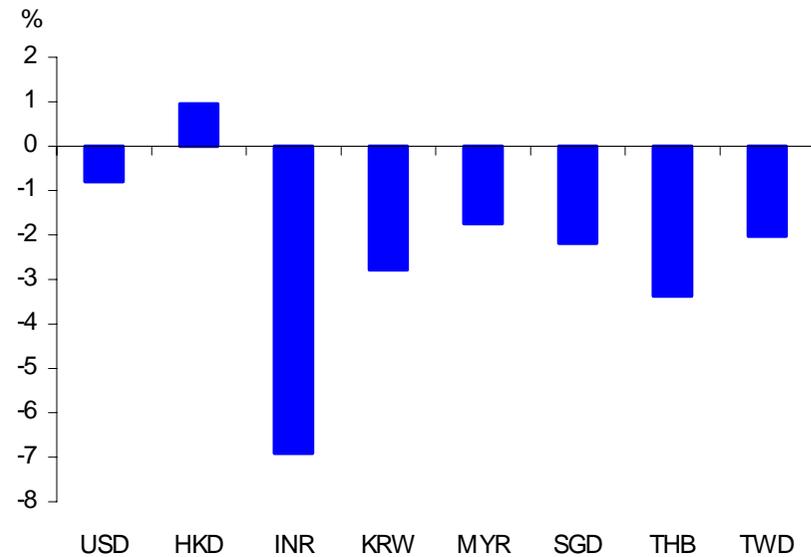
Bond risk premium and equity risk premium

Long-term measures of value for Asian bond markets suggest that most are expensive



Source: DB Global Markets Research

Bond risk premiums today

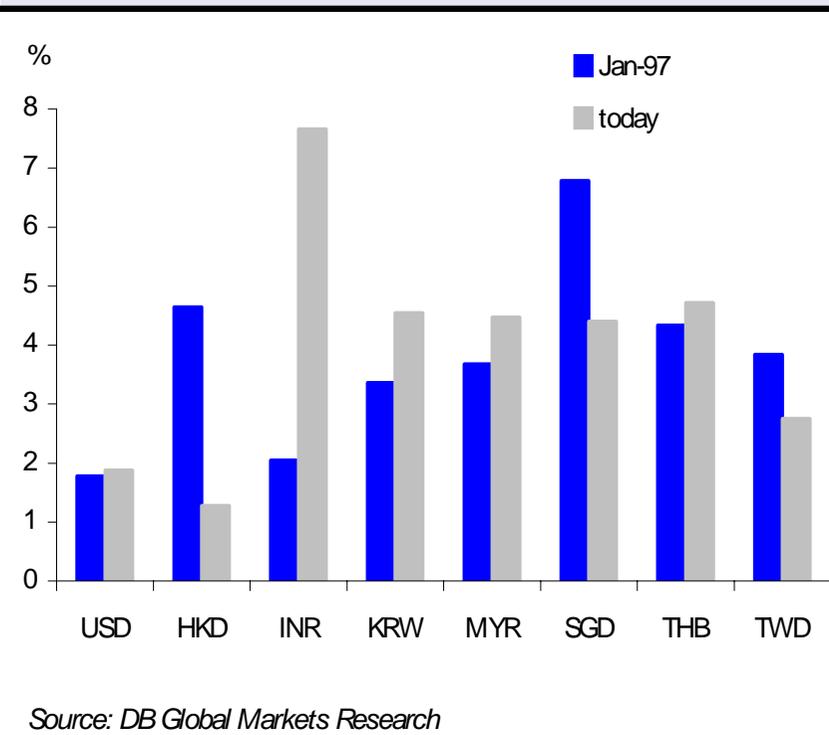


Source: DB Global Markets Research

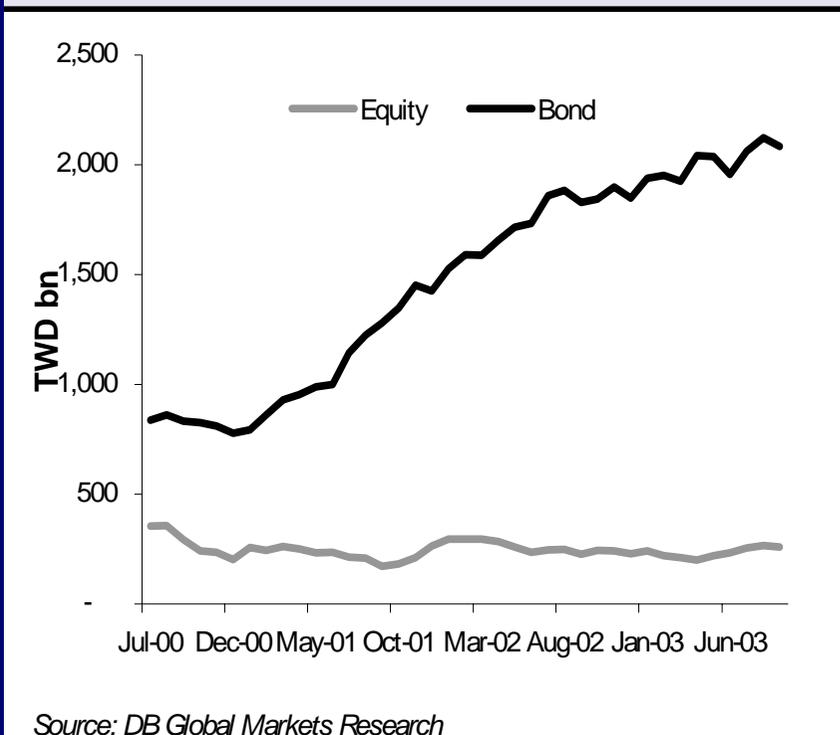
Note: BRP = 10Y bond yield – (consensus 2004 nominal growth forecasts)

The risk of asset reallocation from bonds to equities

Pre and post-crisis ERPs



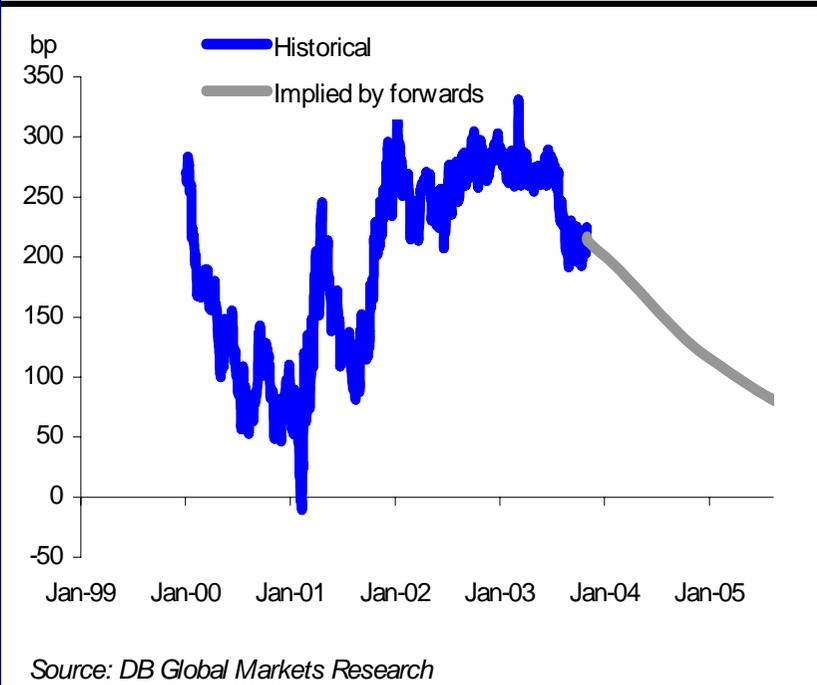
Size of bond funds and equity funds in Taiwan



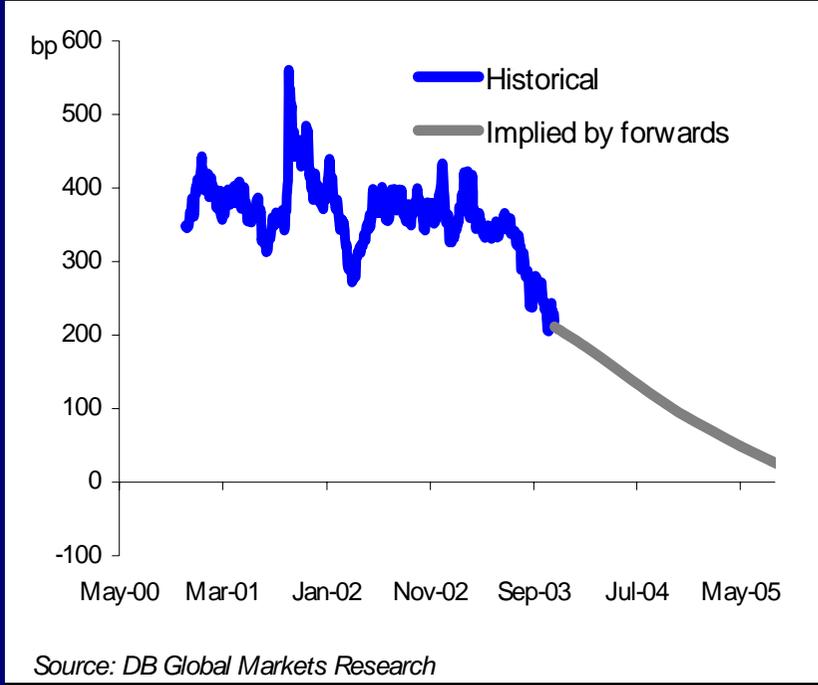


Forwards are implying further convergence between local and G3 yield curves

2Y KRW-USD swap rate difference



2Y INR-USD swap rate difference

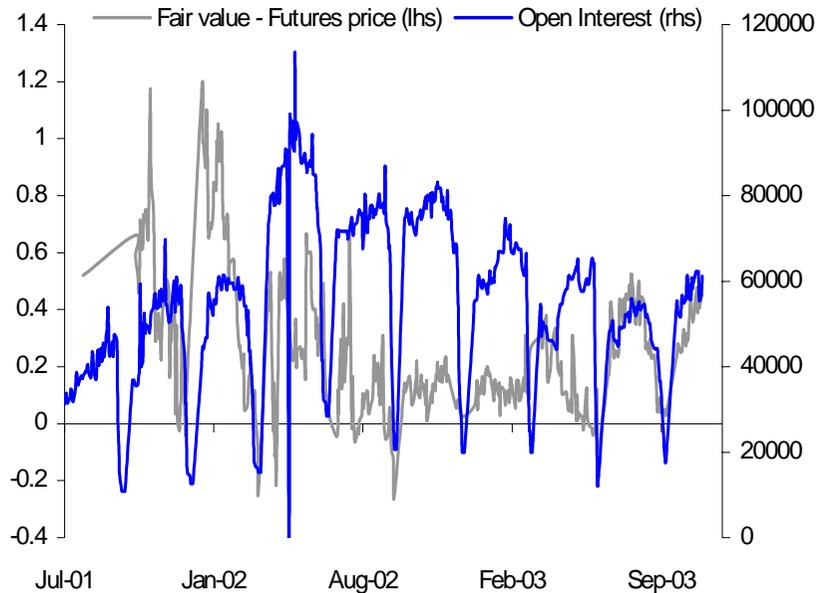


Local Market Themes -- the efforts to develop a liquid bond futures market has been mixed with Korea as the main success story

- KTB 3yr, Singapore 5Y and Malaysia 5Y bond futures
 - Each contract series has a pre-specified basket of government bonds
 - On settlement date, the yields of the basket bonds are determined from a poll of specified dealers at a specified time (usually Primary Dealer group in market)
 - Underlying instrument of the futures contract is then priced to the settlement yield (either simple or weighted average of the basket bonds)
 - This is the final settlement price against which all open positions are valued
 - The inability to short bonds in Korea means it is difficult to arbitrage cash vs. futures when futures are cheap -- so futures are perennially cheap to fair value.
- Hong Kong 3Y bond futures -- the only physical delivery bond futures in the region
- Korea bond futures are extremely liquid, often becoming the leading indicator for the cash market. Foreign participation accounts for about 10-30% of the total open interest but it is often closely monitored by investors as foreign investors are often viewed as more sophisticated. In fact net position of foreign investors in the futures market is highly correlated to the direction of the futures market.

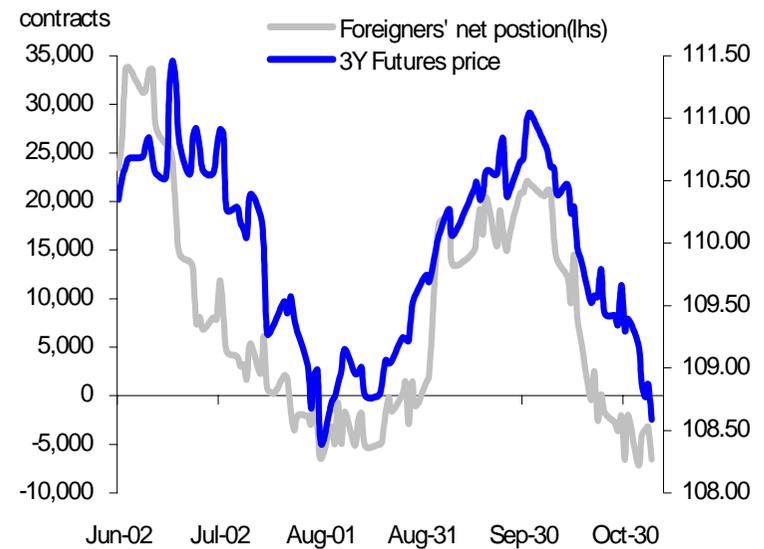
KTB bond futures and SGX bond futures

KTB Bond Futures



Source: DB Global Markets Research

Foreigner participation is often the driving factor in Korean bond future

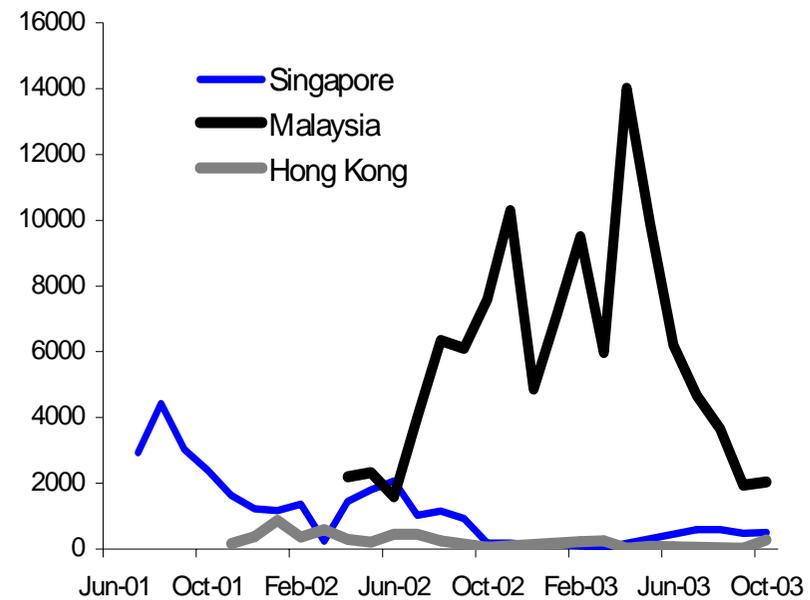


Source: DB Global Markets Research

Local Market Themes -- other bond futures are far less successful

- Singapore and Hong Kong bond futures haven't taken off probably due to their highly transparent and liquid cash and swap markets and the availability of short-selling. Foreign interest in these futures is very limited so far.
- The capital market of Malaysia, relative to Korea, has much less foreign interest. The sharp decline in the open interest of its bond futures is probably related to the sell off lately in the bond market as dealers are unable to hedge the risk effectively.

Open interest of bond futures



Source: DB Global Markets Research

Local Market Themes -- Indian 10Y government bond futures

- Initiated in June 2003 but has since seen little investors interest
- Also cash settled.
- The unique feature is that the final settlement price will be based on the value of the notional bond determined using the zero coupon yield curve computed by the National Stock Exchange (NSE).
- While the NSE publishes the zero-coupon curve everyday, the model is considered “black box” to average investors.
- The basis risk between the NSE zero coupon curve and the cash prices could be very substantial and unpredictable.
- Market conditions are ripe for bond futures in India if the product design can be improved. Cash market is deep. Hedging demand is growing. Offshore interest is also strong.

Local Market Themes -- interaction between derivative market and cash market

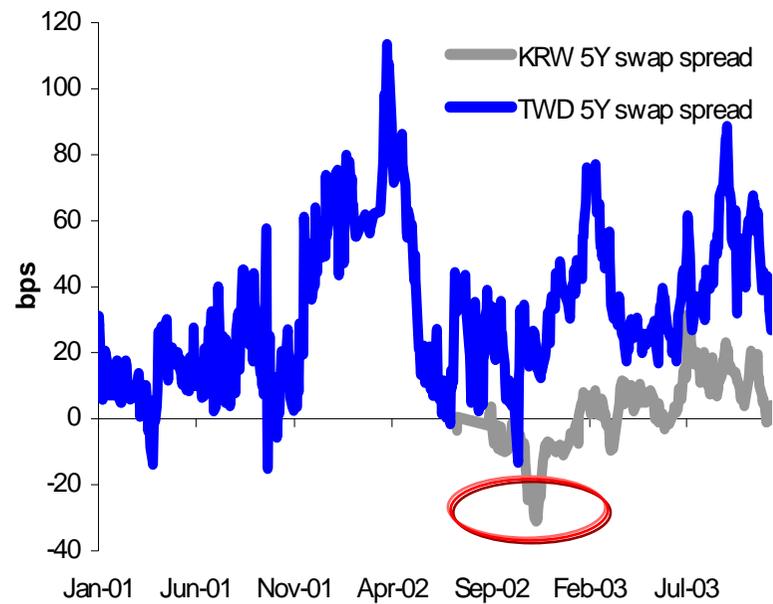
- Despite significant progress in the liquidity of bond and derivative markets, capacity to hedge and absorb derivatives remain limited in many markets. Sudden rise in the use of derivatives, for example, can cause significant misalignment in pricing.
 - Swap spread = swap rate - government yield, is a general risk indicator of the banking system and is normally positive.
 - Negative swap spreads in Korea in late 2002 was due to strong demand in structured notes and the inability of dealers to hedge the swap spread exposure
 - ◆ Structured products became very popular in early 2002 as investors tried to monetise a very steep KRW yield curve then.
 - ◆ Dealers were left with significant exposure to tightening risk in swap spreads. Eventually the demand to receive fixed in swap drove swap spreads to be significantly below zero.
 - ◆ The yield curve was extremely technical driven as these structured products left dealers with significant curve risk as well.
 - ◆ The inability to short bonds means much of the hedging was not precise.

Local Market Themes -- interaction between derivative market and cash market (continued)

- Due to the lack of duration and low yields in domestic bond markets, domestic investors, especially in Korea and Taiwan, have been buying offshore credits and subsequently swapping them into domestic currencies to create synthetically higher-yielding local currency denominated paper.
- Strong demand for receiving interest in USD/local ccy cross currency swap (CCS) has driven CCS rates to be significantly below interest rate swap (IRS) rates. Theoretically these two interest rates are arbitrageable but an arbitrage requires USD borrowing onshore, which is often not available at LIBOR flat due to cross border risk or other technical factors.
- Compared to offshore credit spreads, more attractive pricing in the asset swap domestic assets for offshore investors

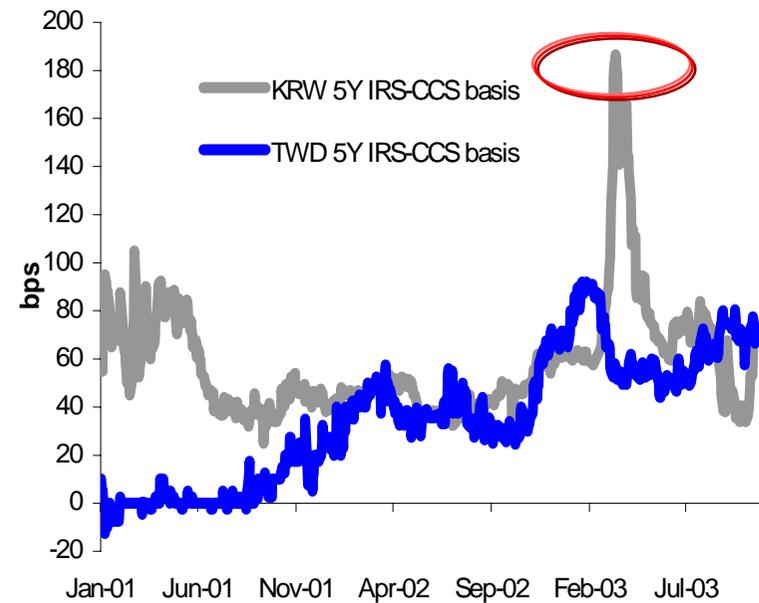
Swap spreads and basis swap in Korea and Taiwan

KRW and TWD swap spreads



Source: DB Global Markets Research

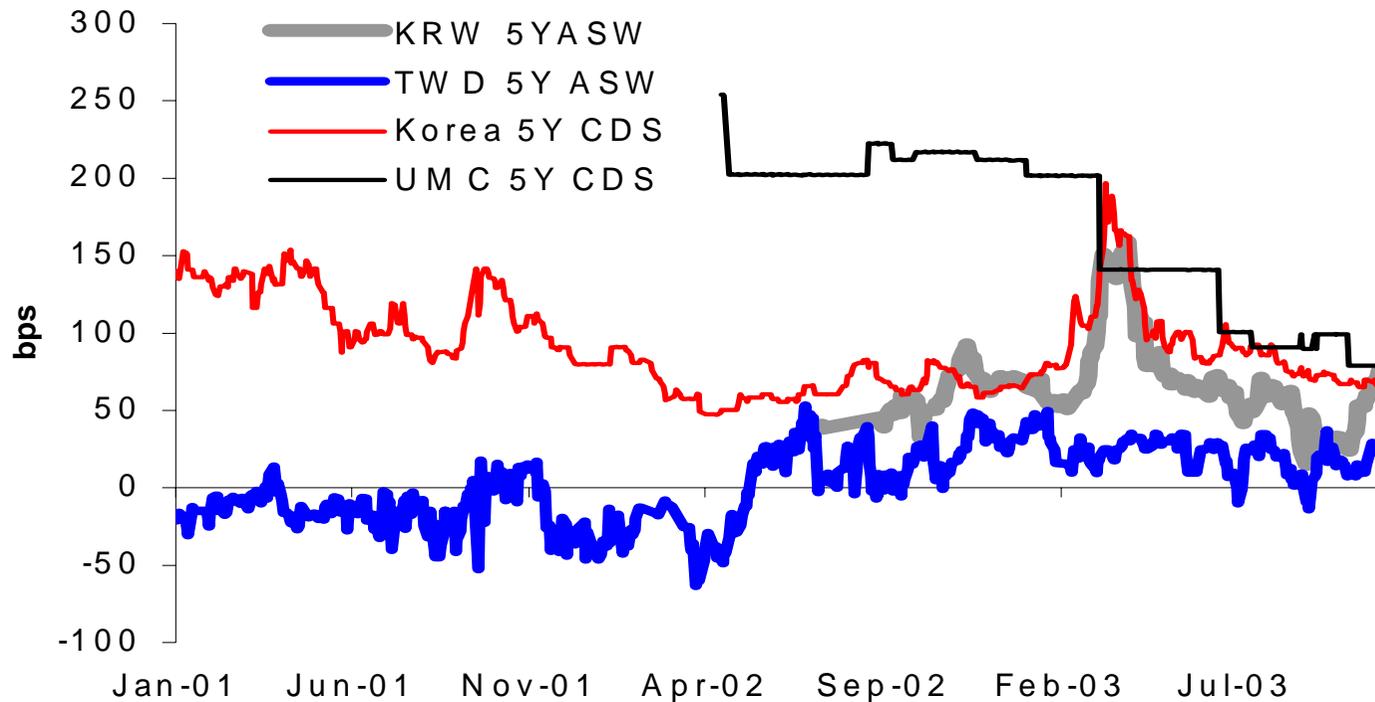
KRW and TWD IRS-CCS basis



Source: DB Global Markets Research

Asset swap spreads of Korea and Taiwan government bonds vs. offshore CDS

Onshore vs offshore credit spreads



Source: DB Global Markets Research



Market Access

- Direct market access still patchy across most countries
- Tax, legal & regulatory issues can be a deterrent
- Custody issues cumbersome for infrequent investors
- Synthetic access is the way forward for opportunistic investors



Market Access

- Deutsche Bank has always been able to extend duration and liquidity in local swap markets.
- Hedge solutions for MNCs have to be compliant domestically however tax efficient avenues can be pursued.
- Receivables, payables, inter-company financing, capital hedging, cross border risk hedging can definitely be accommodated.
- DB's underwriting capacity in local markets allows alternative financing solutions to be pursued. Especially useful for local registered subsidiaries/JVs.

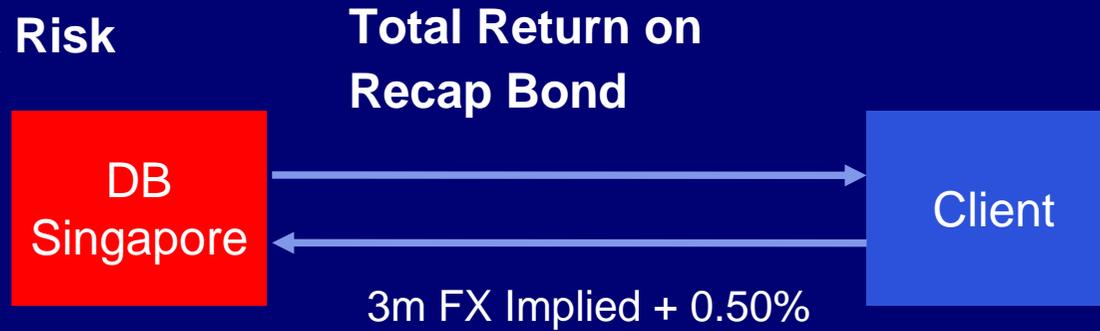
Synthetic Access to Local Markets - Indonesia

- WHT of 20% on foreign investors but onshore branches of foreign banks exempt from WHT on the Recap bonds.
- Total return swaps on specific recap bonds can be executed with DB Singapore.
- Required view
 - Bullish view on Indonesian onshore interest rates.
 - Could be structured with an exchange rate view
 - ◆ Funding charged in IDR terms - Minimal FX Risk
 - ◆ Funding charge in USD terms - Short USD/IDR
- Advantages
 - No WHT on the TRS executed with DB Singapore.
 - Operationally convenient and lower transaction costs.

Recap Bond Total Return Swap

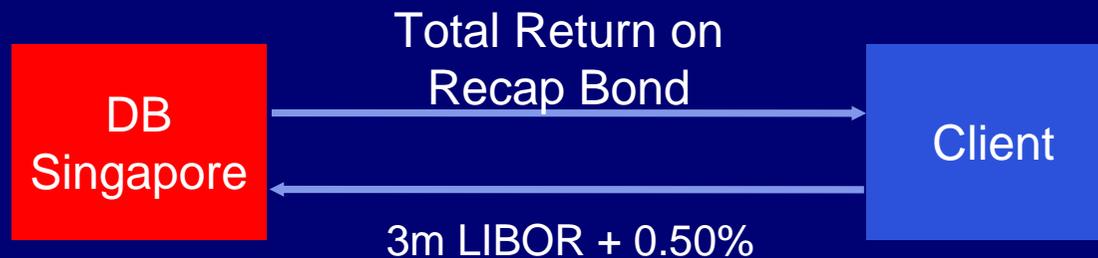
Scenario I

Minimal FX Risk



Scenario II

Short USD/IDR



Synthetic Access to Local Markets - Philippines

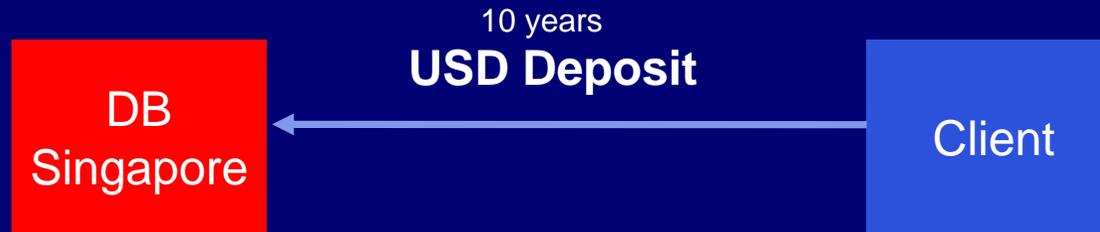
- Prohibitive WHT of 20% on Local Government Bonds
- Synthetic Peso denominated asset with ROP as the underlying credit to take an uniform view on Philippines.
- Required View
 - Peso appreciation or outperformance of the Forward curve
 - ◆ Could be structured with either USD or JPY as the base currency.
 - Expectation of Philippine Peso interest rates to head lower.
 - Bullish View on ROP external credit.
- Relative Value
 - Offers a 250 bps pick up over domestic credit before WHT savings.
- Advantages
 - No WHT on an offshore synthetic asset.
 - ²⁷Operationally convenient.





Synthetic Peso Denominated Asset

Initial Exchange



Interim Payments



Final Exchange



Calculated on the Peso equivalent of the initial USD deposit.



Synthetic Access to Local Markets

- Prohibitive forex hedging requirements for foreign investors.
- Hedging of forex exposure from trade related activities allowed only up to one year.
- For clients requiring longer term hedges, a synthetic onshore and offshore mix of interest rate swaps, cross currency swaps can be employed.

Synthetic Access to Local Markets

Interest rate swap



Onshore 1Y basis swap



Offshore forward starting non deliverable swap*



*4y basis swap starting 1y from now to be rolled over year at the same rate with initial and final exchange and net settled in USD.



Interest rate derivatives

DEDERIVATIVES	Thailand	Thailand	Korea	Korea	Singapore	Singapore
	1998	current	1998	current	1998	current
Cross Currency Swaps	5y	12Y	5y	12y	5y	15y
Interest Rate Swap	5y	12Y	5y	12y	5y	15y
Interest Rate Options	No	Yes	No	Yes	No	Yes
90 Day Futures	No	Yes	No	Yes	No	Yes
Bond Futures	No	Yes	No	Yes	No	Yes
Repo	No	2 Clients	No	Q1 02'	No	Yes
Structured Finance	No	Yes	No	Yes	No	WIP
Synthetic Market Access	No	Yes	Yes	Yes	No	Yes
Integrated Credit Trading	No	Bilateral	No	Bilateral	No	Bilateral
Structured Transaction	No	Inverse Floater, CMT Products, Range accruals	No	Bond Options, Inverse Floaters, CMT Floaters	No	Inverse Floaters, Range Accruals

Interest rate derivatives

	India	India	Malaysia	Malaysia	Taiwan	Taiwan
	1998	current	1998	current	1998	current
Cross Currency Swaps	5y	10y	Yes before peg	with approval	7Y	10Y
Interest Rate Swap	No	10y	5y	10y	7Y	10Y
Interest Rate Options	No	No	No	yes	No	Yes
90 Day Futures	No	No	Yes before peg	yes	No	No
Bond Futures	No	No	No	launch in Mar 02	No	No
Repo	yes	yes	No	yes	Yes	Yes
Structured Finance	No	No	Limited	Limited	No	Limited
Synthetic Market Access	No	Yes	Yes	Yes	No	Yes
Integrated Credit Trading	No	No	No	Bilateral	No	Bilateral
Structured Transaction	No	CMT	No	Bond options	No	Bond Options

Interest rate derivatives

	Philippines	Philippines	Indonesia	Indonesia	HongKong	HongKong
	1998	current	1998	current	1998	current
Cross Currency Swaps	no	7y	10y	10y	10y	10y
Interest Rate Swap	no	7y	7y	10y	10y	10y
Interest Rate Options	no	no	no	limited	yes	yes
90 Day Futures	no	no	No	No	yes	yes
Bond Futures	no	no	No	No	No	yes
Repo	no	WIP	No	WIP	yes	yes
Structured Finance	no	yes	No	Yes	No	yes
Integrated Credit Trading	no	Bilateral	No	Bilateral	No	Bilateral
Structured Transaction			No	Exchangable Depo, Target Buying, CLD	Inverse Floaters, range accruals,exch angable deposits, bond options	Inverse Floaters, range accruals,exch angable deposits, bond options

Issues, Constraints and Alternatives

■ Issues

- **Credit interest confined to top names - onshore credit still weak**
- **Tremendous fixed income rally - declining local currency yields**
- **Asset-Liability mismatch - short on duration vs liabilities (e.g. Korea)**

■ Constraints

- **FX regulations in Malaysia, Singapore, Taiwan, India, Thailand and China**
- **Long end liquidity absent in most swap markets**
- **Withholding taxes and constraints on repatriation of profits**
- **Regulatory restrictions on assets**

■ Alternatives

- **Structured interest rate and credit assets**
- **Repackaging to swap higher rated assets to local currency**
- **Customised solutions for investment routing and repatriation**

Hong Kong / China



State of the Markets

- Sporadic pressure on the HKD peg. Recent appreciation in HKD was largely due to unwinding of long USD/HKD positions offshore.
- Active domestic capital markets
 - **Domestic corporate bond, equity and offshore issuers**
- HKD swaption vols a popular method to hedging emerging markets exposure
- Structured assets linked to interest rates and equity popular
- Experience with Insurance
 - **Primarily USD based fixed income investors**
 - **Credit spread product in USD**
 - **Buyers of high grade corporate new issues in HKD**
 - **Target buying of long dated government bonds**
 - **Long dated callable and interest rate structured notes of high grade issuer**
 - **Agency structured notes in USD**

Hong Kong

- Due to HK's currency board system, HK's monetary policy closely tracks US rates
- HK's fiscal deficit expected to reach 6% of GDP for 2002/03.
- HKD curve is likely to steepen against USD curve due to local economy weakness
- Onshore/offshore spreads average about 8bps
- Current 10Y yield is trading at around 4.50%
- We think that HK should abandon the HKD peg and adopt a managed floating rate system, with initial devaluation of 10-20%

China

- Monetary policy expected to be neutral as consumer price deflation decelerates
- Fiscal policy is slightly contractionary - falling from -2.9% (2002) of GDP to -2.5% in 2003
- The China 08 sovereign bond is trading at around T + 45bps
- PCBC (Central Bank) restates the objective of maintaining stable exchange rate
- We view that China could withstand an appreciation of CNY around 2-3% and China should move from de-facto peg system to a flexible exchange rate regime



Trade Opportunities

- Fixed Income
 - HKD government bond and corporate bond trading
 - Primary offshore issuer bonds in HKD
 - Structured interest rate assets - USD and HKD
 - Options on EFNs, Treasuries and corporate new issuance
- Swaps and Currency Forwards
 - Bid ask spreads fairly tight (5-10 bps)
 - USD/HKD and USD/RMB currency peg plays - bullish or bearish
 - USD / HKD interest rate spread trades and swaptions
- Credit
 - Yankee and Eurobonds of sovereign and corporates
 - Convertible bonds and offshore credit asset swaps; credit default swaps
 - CDOs and Portfolio Swaps - Asian, European and US

Our Capabilities

- **Fixed Income**
 - **Primary dealer in government bonds**
 - **Largest bond options and swap options book; axed to sell volatility**
 - **RMB license in place**
- **Swaps and Currency Forwards**
 - **Among the big market makers in USD/HKD forwards and HKD swaps**
 - **FX Options in USD/HKD and USD/RMB**
 - **Liquidity - upto 10 years**
- **Credit**
 - **Origination and trading of Yankees and Eurobonds**
 - **Origination and trading of HKD denominated credit - domestic and offshore**
 - **Convertible bond assets swaps and credit default swaps - straight and leveraged**
 - **Securitisation and Repackaging of credit**

Korea



South Korea

- Due to weak domestic consumption, BoK likely to reduce rates one more time this year.
- Fiscal policy to remain neutral, with slight expansionary bias
- Onshore/offshore spread is very tight around 1 - 2bps
- 5-year Treasury is trading around 4.65%
- KRW is expected to strengthen to around 1125 against USD by end of 2003



State of the Markets

- Government bond markets have been choppy. Interest rates have been fairly volatile
- Currency fairly stable on trade surpluses and capital flows
- Corporate paper liquidity only in the 3 year bucket
- 3y KTB futures very liquid with large volumes
- Consistent buying of Korean credit in G3 from onshore
- JPY/KRW viewed as relative value opportunity
- Trend towards asset liability management increasing long end activity
- Equity and credit derivative product popular among onshore players
- Interest rate structures being explored



Experience with Insurance

- Buyers of domestic KRW credit and offshore credit asset swaps
 - **USD denominated issues swapped into floating rate**
- Active buyers of structured credit products
 - **First to default baskets and credit linked notes**
- Asset swaps of Korean credit into KRW
 - **Sovereign and corporate bonds**
 - **Structured credit linked notes**
- Long dated KRW interest rate structures
 - **Callable notes**
 - **Exploring inverse floaters and range accruals**
- JPY/KRW carry trade
 - **Outright and range accrual structures**

Trade Opportunities

- **Fixed Income**
 - **Korean paper swap into KRW cheaper than domestic issues, periodically**
 - **Options on government and KDB bonds, Options on interest rates**
 - **CD and bond futures trading, arbitrage and directional trades**
- **Swaps and Currency Forwards**
 - **Bid ask spreads fairly tight (10 bps) and liquidity is vastly improved**
 - **More opportunities for interest rate plays; several benchmarks - Treasury, CD and KDB yields**
 - **Onshore and offshore currency forwards and options**
- **Credit**
 - **Yankee and Eurobonds of sovereign and corporates**
 - **Offshore credit default swaps and illiquid, distressed loans**
 - **Convertible and straight bonds asset swaps**
 - **CDOs and Portfolio Swap structures - swapped or otherwise**



Our Capabilities

- **Fixed Income**
 - **One of the larger players in the bond market**
 - **First and largest bond options and swap options book**
 - **Irish vehicle for tax efficient access to the market**
 - **Futures execution capability**
- **Swaps and Currency Forwards**
 - **Market maker in KRW derivatives offshore and onshore**
 - ◆ **Interest Rates and Currency**
 - **Liquidity provider - up to 10 years**
- **Credit**
 - **Yankee and Eurobond origination and trading**
 - **Credit default swaps on sovereign and corporates - G3 and KRW**
 - **Domestic securitisation and offshore structured credit products**
 - ◆ **Including KRW ABS and CDOs**

Taiwan





State of the Markets

- Improved outlook due to tech rebound in the US
- Interest rates still very low; currency under appreciating pressure
- Government deficits being financed by bond issuance
- Corporate and Bank issuance on the upswing
- Limits on offshore investment imposed by CBC and insurance regulators (though the ceiling has been raised)
- China relations - major factor
- Experience with Insurance
 - **Frequent buyers of USD (and to some extent TWD) structured assets and USD Agency callables**
 - **Both USD and TWD denominated Credit Linked Notes/Deposits**
 - **Onshore government bond trading**
 - **Onshore corporate credit and equity**

Taiwan

- Expect CBC to keep money market rates below policy rate for a while (slightly expansionary monetary policy)
- Fiscal policy expected to remain neutral around -2.1% of GDP
- Onshore/offshore spread is very tight around 1 - 2bps
- 10-year Treasury is trading around 2.80%
- USD/TWD to trade range bound with slight downside bias, expected to reach 33 by year end from current level of 34

Trade Opportunities (I)

- **Fixed Income**
 - **Government bond trading - volatile and tight bid asks**
 - **Options on government bonds**
 - **Corporate credit and bank paper - Commercial Paper / BA, sub debt**
 - **USD fixed income - cash and derivatives**
 - **TWD denominated structured notes and deposits**
 - **Structured assets linked to interest rates, foreign exchange, equity and hybrid**
- **Swaps and Currency Forwards**
 - **Bid ask spreads around 20-25 bps**
 - **Offshore and onshore - spread opportunities (less extent)**
 - **Spread between government yield and TWD swap rates as well as the basis swap**

Trade Opportunities (II)

■ Credit

- Limited supply of credit from Taiwan; convertible bonds asset swaps popular
- TWD denominated Credit Linked Deposit (limited)
- Spread between onshore and offshore market (in terms of credit)
- CDOs and Portfolio Swaps - various tranches

Our Capabilities

- **Fixed Income**
 - **Very capable at trading government bonds**
 - **Bond options and swap options**
 - **Structured note issuance - interest rate and equity linked**
- **Swaps and Currency Forwards**
 - **Among the big market makers in USD/NTD offshore non-deliverable forwards and swaps**
 - **Onshore and offshore USD/NTD options**
 - **USD/NTD linked long dated structured notes**
 - **Liquidity - upto 5 years**
- **Credit**
 - **Corporate bond origination and underwriting capabilities onshore**
 - **Convertible bond assets swaps**
 - **CDOs and Portfolio Swaps - various tranches**

Singapore



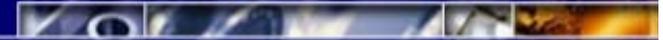


State of the Markets

- Very weak economic conditions
- Government effort to develop capital markets resulting in government issuance and development of sovereign yield curve
- Fixed income rally, declining yields across the curve
- Corporates and quasi sovereign entities encouraged to tap capital markets; offshore issuers allowed
- Restrictions on onshore interest rate and currency swaps diminishing; improving liquidity
- Currency has seen some volatility lately on economy weakness
- Attempting to challenge HK as capital markets center for Asia

Singapore

- Monetary policy remains neutral with key interest rates expected to stay around current levels
- Fiscal policy recently announced by the government also remains neutral.
- 10-year Government Bond yields around 4.10%
- Onshore/Offshore spread is very tight, around 1 - 3bps
- Both SGD/USD and SGD/NEER is expected to be stable with downside bias towards a stronger SGD



Experience with Insurance

- Credit spread buyers
 - Offshore credit of primarily Asian names in asset swaps
 - Primary issuances in SGD of domestic and offshore issuers
- Asset swaps of offshore credit into SGD
 - Asian and high grade US and European names
- Long dated interest rate structured assets
 - SGD callable notes
 - Exploring variations of inverse floaters and range accruals



Trade Opportunities

■ Fixed Income

- Good volatility in government bond and swap markets; bond swap spreads trading
- Options on government and some corporate bonds, on interest rates
- Corporate bond spreads to government still fairly wide

■ Swaps and Currency Forwards

- Bid ask spreads relatively tight (5-10 bps)
- Interesting opportunities in the long dated forwards
- Onshore FX Options, restrictions on offshore USD/SGD options

■ Credit

- Limited credit offerings from Singapore; alternative Asian names
- Convertible bonds asset swaps
- CDOs and Portfolio Swaps - various tranches

Our Capabilities

- Fixed Income
 - Ability to trade government and corporate bonds; primary dealer
 - Largest bond options and swap options book
 - Structured notes issuance - interest rate and equity linked
 - Futures execution capability
- Swaps and Currency Forwards
 - Among the Top 3 market makers in SGD derivatives
 - Liquidity - 10 years and beyond
- Credit
 - Origination and trading of SGD bonds of domestic and offshore issuers
 - Origination and trading of Asian credits - straight and convertible
 - Credit default swaps and notes - straight and leveraged
 - Securitisation and portfolio swaps repackaging - G3 and SGD

Thailand



Thailand

- Monetary policy is quite accommodative, expecting rate increases to lag the rise in CPI
- Fiscal policy is expansionary - budget deficit rising from -1.7% (2002) to -2.9% of GDP in 2003
- 3 month Onshore/Offshore spread is quite high, around 20bps
- Benchmark 10-year Government Bond is trading around 2.91%
- USD/THB expected to be stable, reaching 39.5 by year-end from current level of 39.9



State of the markets

- Creation of sovereign curve on heavy issuance; out to 20 years
- Economy still weak; interest rates have rallied tremendously
- Currency remains vulnerable
- Bond market extremely volatile - yield changes of 100bps have been witnessed at the long end on several occasions this year
- Restrictions on buying offshore assets and on profit repatriation
- BoT approval required for most structured trades
- Consistent buying of offshore bonds by onshore
- Onshore credit derivative market in evolutionary stages



Experience with Insurance

- Government bond trading
- Primary purchase of domestic credit
- Largest user of interest rate structures
 - Callable notes, inverse floaters and range accruals
 - Equity index linked notes being marketed
- Target buying of government bonds
- Bond repo and lending
- Asset swaps of offshore bond into THB (subject to regulatory approval)



Trade Opportunities

- Fixed Income
 - Government bond trading - directional trading
 - Options on government bonds
 - Repo and securities lending
 - Structured notes issuance - interest rates and equity linked
- Swaps and Currency Forwards
 - Onshore and offshore swap differential, arbitrage trades
 - Onshore and offshore FX options
 - Bid ask spreads getting tighter (5-10 bps) and liquidity improving
- Credit
 - Onshore corporate bonds
 - Limited supply of offshore USD paper on onshore buying
 - Credit default swaps and notes - G3 and THB



Our Capabilities

- Fixed Income
 - One of the larger players in the government bond market
 - First and largest bond options and swap options book
 - ◆ **Large set of benchmarks - CMT, THBFIX, MLR**
 - Extensive range of vanilla and exotic options structures
 - Also, linked to SET onshore
- Swaps and Currency Forwards
 - Top market maker in THB derivatives offshore and onshore
 - Big liquidity provider - upto 10 years
- Credit
 - Onshore corporate bonds - origination and secondary trading
 - Offshore straight and convertible asset swaps
 - Distressed Thai corporate paper
 - Onshore and offshore credit default swaps and notes

India



India

- Rapid FX reserves accumulation puts the RBI on a dilemma; allow the INR to appreciate or adopt further monetary policy easing
- Fiscal consolidation expected to continue, budget deficit expected to be at -4% of GDP in 2003 from -4.4% previously
- 12-year Government bond is yielding about 5.05%
- 3-month onshore/offshore spread is about 10bps
- USD/INR expected to be stable around 45-46 as RBI is likely to continue sterilising any inflows

State of the Markets

- One of the most liquid government bond markets in Asia
- Secular trend toward curve flattening along with declining yield levels across the curve
- Onshore investors not permitted to buy offshore assets
- FX derivatives permitted for hedging only
- Structured assets linked to rates and equity gaining acceptance among the investor community
- Experience with Insurance
 - Active government bond trading
 - Exploring structured INR assets with embedded interest rate views
 - Newcomers to asset backed securities



Trade Opportunities

- Fixed Income
 - Government bond and corporate bond trading
 - Structured interest rate swaps - CMT, MIBR linked
 - Options and forwards on government bonds
- Swaps and Currency Forwards
 - Non deliverable forwards and options - onshore and offshore spreads
 - Cross currency swaps - curve shape
- Credit
 - Domestic corporate paper - wide spreads to government bonds
 - Yankee and Eurobonds of corporates
 - Asset backed securities



Our Capabilities

- Fixed Income
 - Primary dealer in government bonds
 - Ability to trade local currency bond options and structured assets
 - CMT linked and overnight rate linked swaps
- Swaps and Currency Forwards
 - Among the big market makers in USD/INR forwards and swaps
 - Liquidity - upto 10 years
- Credit
 - Origination and trading of domestic corporate credit
 - Structured securities and ABS
 - Offshore default swaps and notes - straight and leveraged

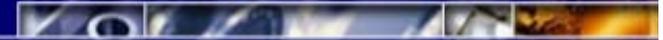
Malaysia





State of the Markets

- Currency controls still in place though some capital controls relaxed
- Economy is still weak and vulnerable
- Currency competitive edge eroding if not eroded
- Government and quasi government issuance strong
- Capital markets fairly active on account of domestic corporate issuance with a developed credit curve
- Experience with Insurance
 - Buyers of primary corporate and quasi sovereign in MYR
 - Term repos and target buying of government bonds
 - Long dated callable notes and deposits



Trade Opportunities

- Fixed Income
 - Government and quasi government bonds
 - Bond options and lending
- Swaps and Currency Forwards
 - Limited opportunities in FX
 - Swaps limited liquidity
- Credit
 - Yankees and Eurobonds of the sovereign and corporates
 - MYR denominated corporate paper
 - Spread plays between Malaysia and Thailand, Petronas and Thailand etc.
 - Credit default swaps - G3 and MYR



Our Capabilities

- Fixed Income
 - One of the major government bond trading house onshore
 - Bond borrowing and lending and options
 - Structured interest rate issuance
 - ◆ **Callables, range accruals etc**
- Swaps and Currency Forwards
 - Basically onshore swaps and forwards
- Credit
 - Origination and trading of Malaysian credits Yankee and Eurobond
 - Origination and trading of corporate credits in MYR
 - Credit default swaps - G3 and MYR
 - Islamic securities

Philippines



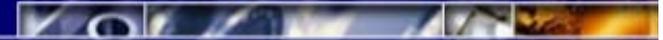
Philippines

- Monetary policy expected to be contractionary due to weakening PHP
- 2002 Fiscal deficit of 5.4% was highest on record, but modest improvement expected in 2003
- Debt/GDP ratio now is the highest in Asia
- 3-month Onshore/Offshore spread is very wide, about 330bps
- 10-year Government Bond yield is around 11%
- Poor investors sentiment towards PHP expected to drive the currency lower, forecast PHP/USD 55.5 in a year's time



State of the Markets

- One of the weakest links in Asean, economy remains weak
- Large budget deficits and huge government borrowing in the offshore and onshore markets
- Domestic rates and offshore credit spreads remain high
- Currency has been fairly weak and volatile lately
- Still fairly vulnerable to external shocks
- Experience with Insurance
 - Government bond trading
 - Asset swaps of offshore bonds of RoP into PHP
 - Domestic corporate credit



Trade Opportunities

- Fixed Income
 - Government bond trading - big interest rate moves
 - Options on government bonds
 - 20% withholding tax - major issue
- Swaps and Currency Forwards
 - Still a high yielding currency - double digits
 - Onshore and offshore spread arbitrage
 - Liquidity is limited to under 1 year, some upto 3-5 year
- Credit
 - Yankees and Eurobonds of the sovereign and corporates
 - Some high yield plays too from telecom
 - Offshore credit default swaps



Our Capabilities

- **Fixed Income**
 - One of the major government bond trading house
 - Government bond options
- **Swaps and Currency Forwards**
 - Among the big market makers in USD/PHP offshore non-deliverable forwards and swaps
 - Onshore interest rate and basis swaps
 - Liquidity - up to 5 - 7
- **Credit**
 - Origination and trading of Philippine Yankee and Eurobond
 - Asset swaps of offshore bonds into PHP (PAEA)
 - Credit default swaps and notes - straight and leveraged

Indonesia





State of the Markets

- Economic growth growing at a reasonable pace (3.5% in 2002), supported by strong domestic consumption
- Political uncertainty likely to increase ahead of the 2004 Presidential Election
- Currency has been very stable lately, trading in the range of 8800 - 9000
- Key Interest Rates (SBI) trending down due to lower inflation rate
- Recap Bonds Maturity Reprofileing - easing pressure on Government budget
- Experience with Insurance
 - Indonesia Exchange Offer Loans and Recap bond trading
 - Long dated USD structured assets
 - Target buying of Recap bonds



Trade Opportunities

- Fixed Income
 - Government bills (SBI) onshore and Recap bonds
 - Exchange Offer Loans
 - Newly issued T-Bills and T-Bonds
- Swaps and Currency Forwards
 - Highest yielding currency and relatively stable for the past 6 months
 - Good liquidity only up to 3 years, but trades up to 10 years albeit at wide bid-ask spread
 - Onshore and offshore NDF spread - opportunistic
- Credit
 - Yankees and Eurobonds of the sovereign and select corporates
 - Illiquid loans and distressed assets of sovereign and corporates
 - Credit default swaps and notes
 - Domestic corporate bonds



Our Capabilities

- Fixed Income
 - One of the largest government bond traders
 - Recap bonds, Exchange Offer Loans
 - Options on Recap bonds (Target buying)
 - Long-dated USD funding collateralised by Recap Bonds
- Swaps and Currency Forwards
 - Market maker in offshore swaps and forwards
- Credit
 - Sovereign Yankee and Eurobond trading
 - Loans and distressed assets (NPLs)
 - Credit default swaps - G3 and IDR
 - Origination and trading of domestic corporate credit

Vietnam



All in One

- Very closed economy; rudimentary financial system
- Trade Opportunities
 - Limited to T-Bills and deposits
 - USD Brady bonds
 - USD/VND NDFs
- DB has presence in Vietnam
 - Deposit taking and loan making capacity in VND and USD
 - Spot and short term forwards in USD/VND - onshore upto 6 months
 - USD/VND NDFs offshore upto 1 year
 - Small T-Bill market
 - Vietnam Brady bonds sourcing and trading
- Experience with Insurance
 - Cash collection and management services
 - Limited FX onshore