



ASEAN Bond Market

Developing Long-Term Finance for Growth

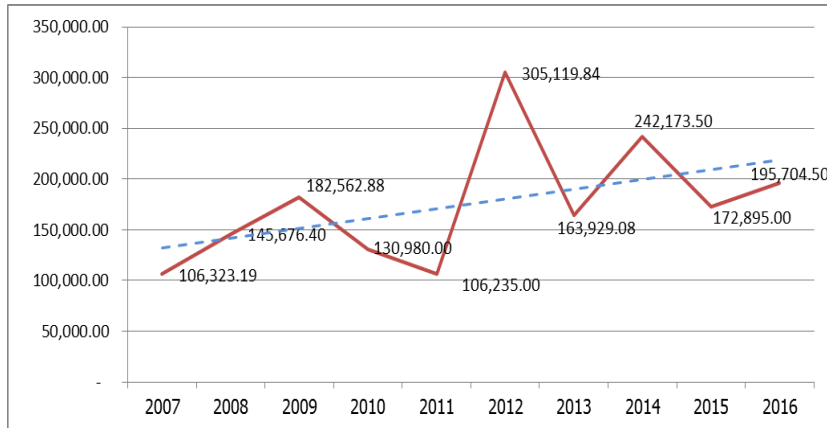
September 2016

Section 1

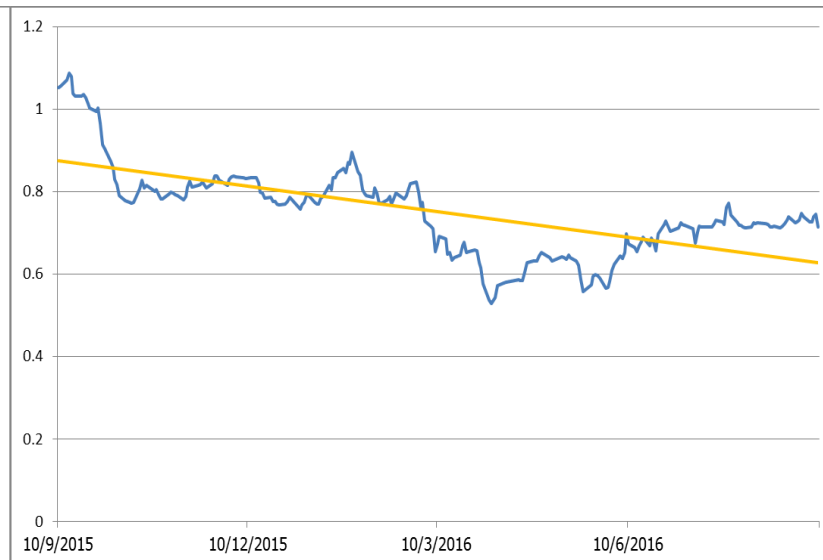
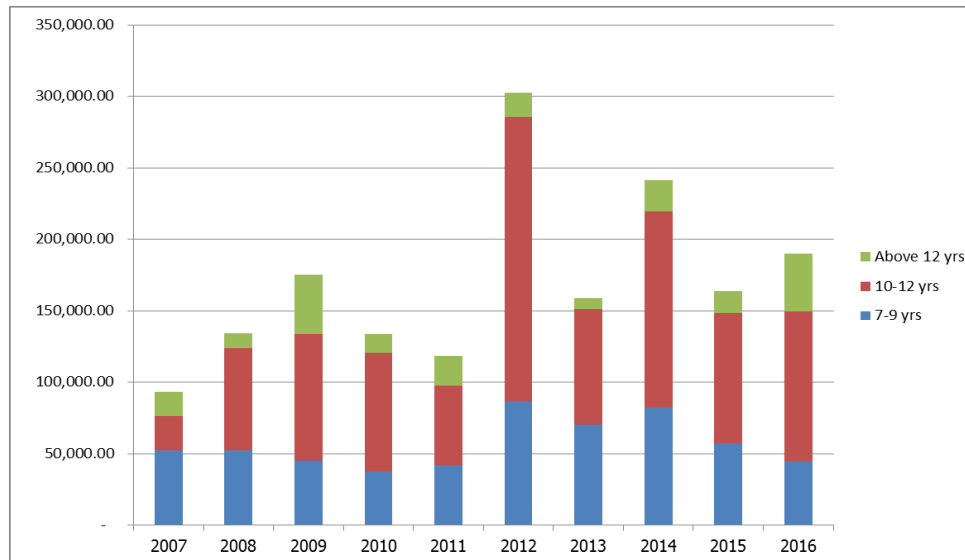
Long-Term Fixed income Overview

THB Long-term Fixed Income Market Outlook (Supply)

Longer than 5 Years Corporate Bonds



- Increasing trend for long-term issuance
- Changing in combination 10 – 12 years become major for the long end and above 12 gain more share
- Narrower tenure spread compare to 2015



Target Investors

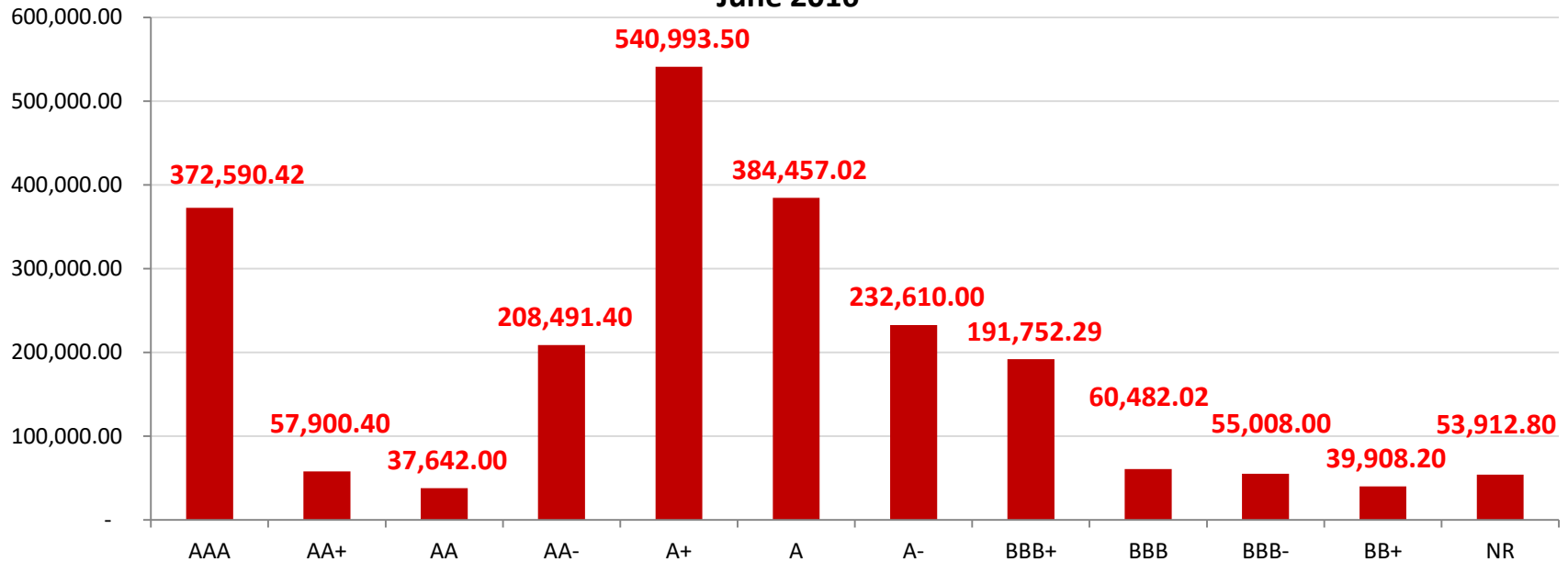
Thai institutional investors can be categorized into 4 different groups with different investment preferences:

- ❖ **Mutual / Private Funds:** Usually invest in shorter end of the curve with their investment horizon up to 5-year tenors (however most of them looking for 3-year tenors).
- ❖ **Saving / Co-op:** Usually invest in longer tenor with main focus on 5 – 7 years tenors
- ❖ **Banks / Financial Institutions:** Usually invest up to 7-year tenors depending on risk/return profile of their investments
- ❖ **Issuance Companies:** Focus on long tenor investment (7-year and above) to match their asset profile and gain high absolute return

| Investor Groups | Mutual / Private Funds | Saving / Co-op | Banks / Financial Institutions | Issuance Companies |
|------------------|------------------------|----------------|--------------------------------|--------------------|
| Preferred Tenors | Up to 5 years | 5 – 7 years | Up to 7 years | 7 years and above |
| | | | | |

Corporate Bond Market

Volume of each Rating
June 2016



| | | | | | | | | | | | | |
|---------------------------------------|---------|--------|--------|---------|---------|---------|---------|---------|--------|--------|--------|--------|
| Number of issuers | 11 | 5 | 4 | 13 | 16 | 13 | 21 | 16 | 14 | 15 | 5 | 52 |
| Summary of Outstanding Value (THB mn) | 372,590 | 57,900 | 37,642 | 208,491 | 540,994 | 384,457 | 232,610 | 191,752 | 60,482 | 55,008 | 39,908 | 53,913 |

Target Investors

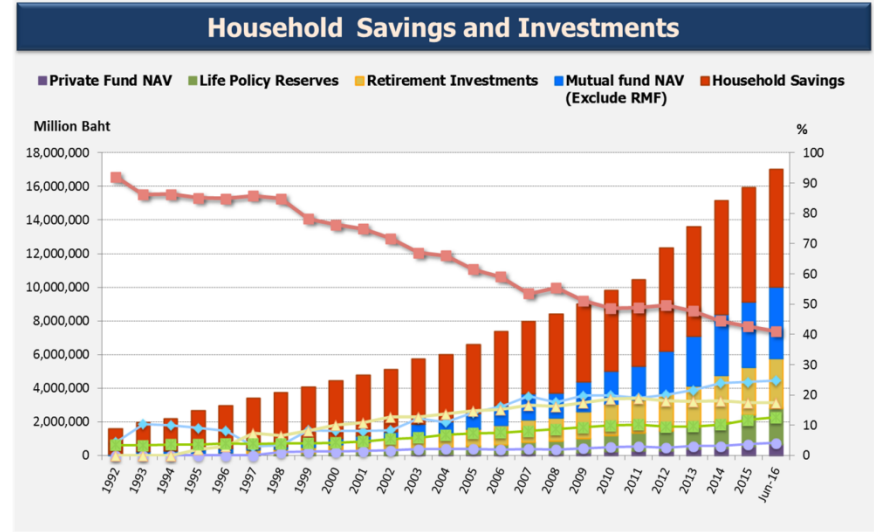
Thai investors would typically make their investment decisions based on parameters defined in their investment mandate:

- ❖ Institutional Investors: Usually invest in investment grade: AAA, AA, A, BBB.
- ❖ Retail Investors: Usually invest in investment grade and some non – investment grade: BBB, BB
- ❖ Hedge Funds: Focus on high yields so usually invest in non – investment grade and default: B, C, D

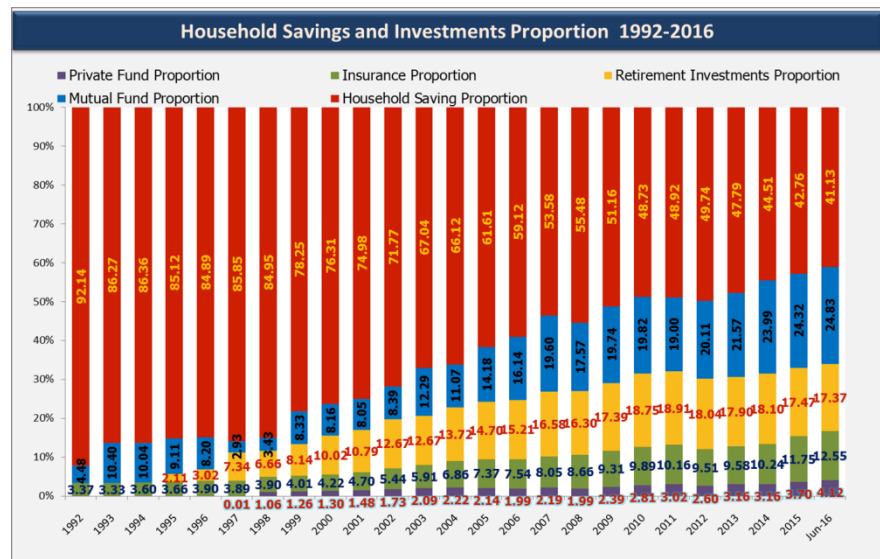
| Credit Rating | Preferred Grade | Investor Groups |
|---------------|------------------------|-------------------------|
| AAA | Investment Grade | Institutional Investors |
| AA | | |
| A | | |
| BBB | | |
| BB | Non – Investment Grade | Retail Investors |
| B | | |
| C | | Hedge Funds |
| D | Default | |

THB Long-term Fixed Income Market Outlook (Demand)

- Total saving still growth
- Household saving continuously growth at the decreasing rate
- Life policy reserve continue to gain higher portion and have strong growth in 2015



- Lifer is a major player for the long end fixed income market
- House hold become yield seeker

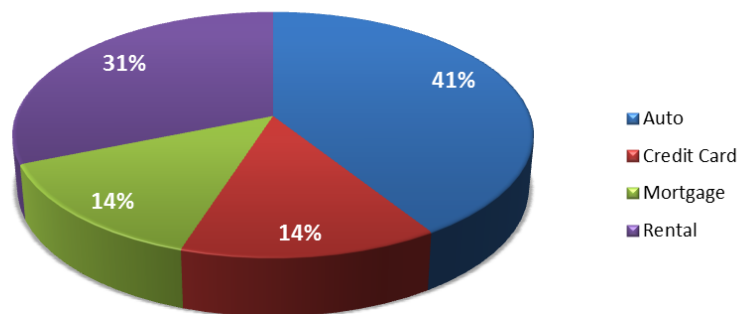


Section 2

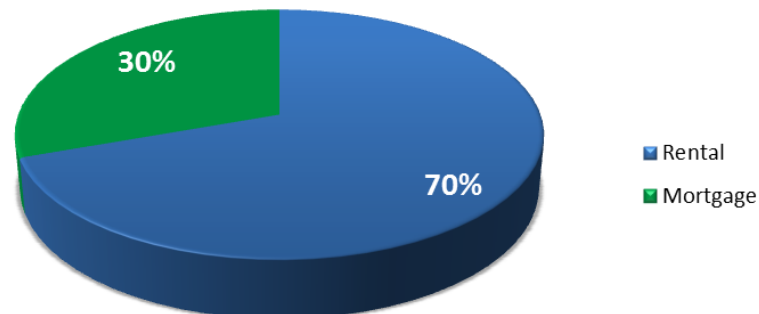
Alternative Investment Via Securitization

Securitization History

Total Issuance



Total Outstanding

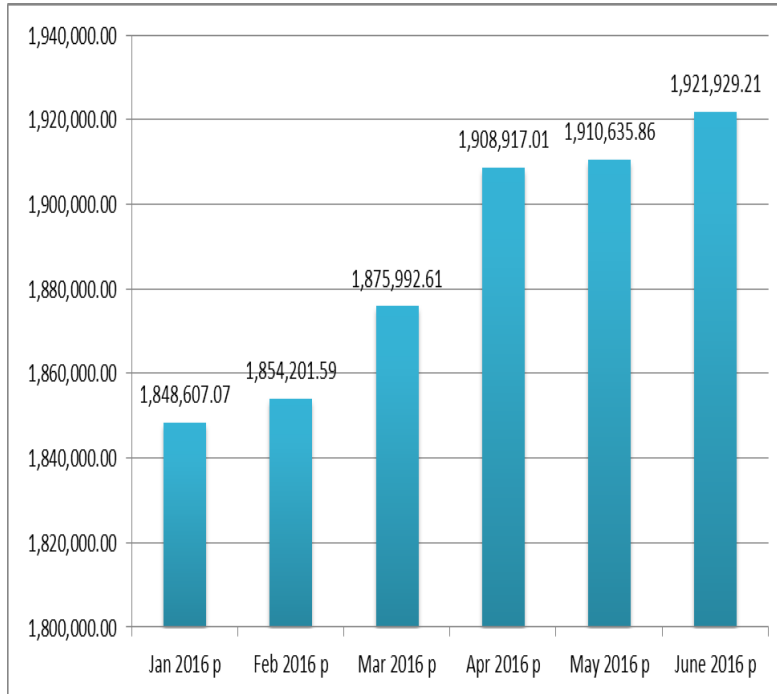


| | Total | Outstanding |
|-------------|-----------|-------------|
| Auto | 31,540.00 | - |
| Credit Card | 10,775.00 | - |
| Mortgage | 10,660.00 | 8,975.14 |
| Rental | 23,999.90 | 20,499.90 |

- Total issuance are around THB80 bil.
- Auto loan enjoy biggest portion from past.
- Only rental and mortgage deal outstanding publicly present in the market (credit card deal is private sell to parent company)
- Only 2 issuers in the market DADSPV and SMC

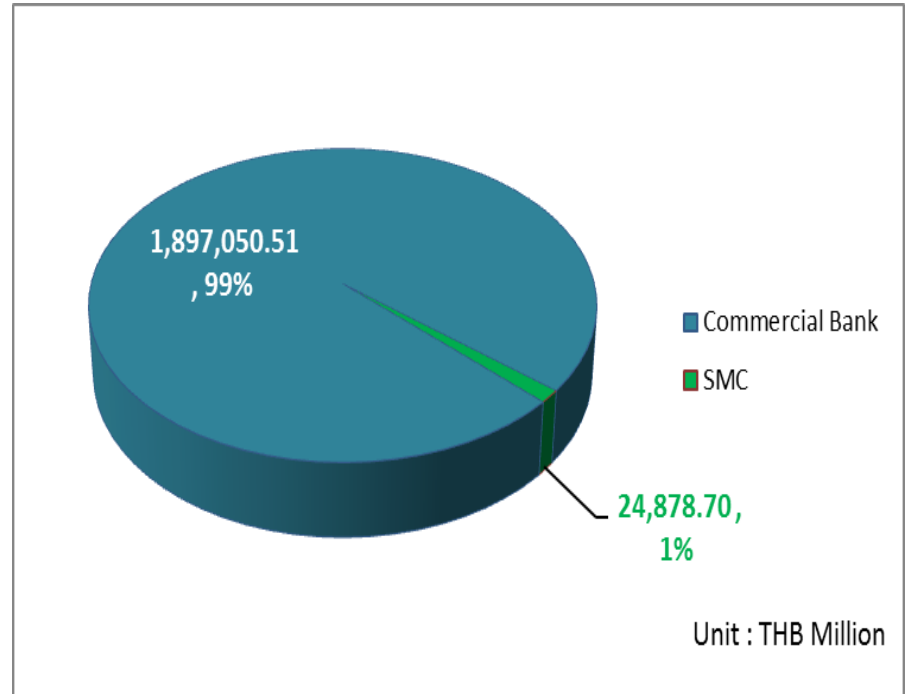
Residential Mortgage Loan and Secondary Mortgage Opportunities

Residential Mortgage Loan Outstanding



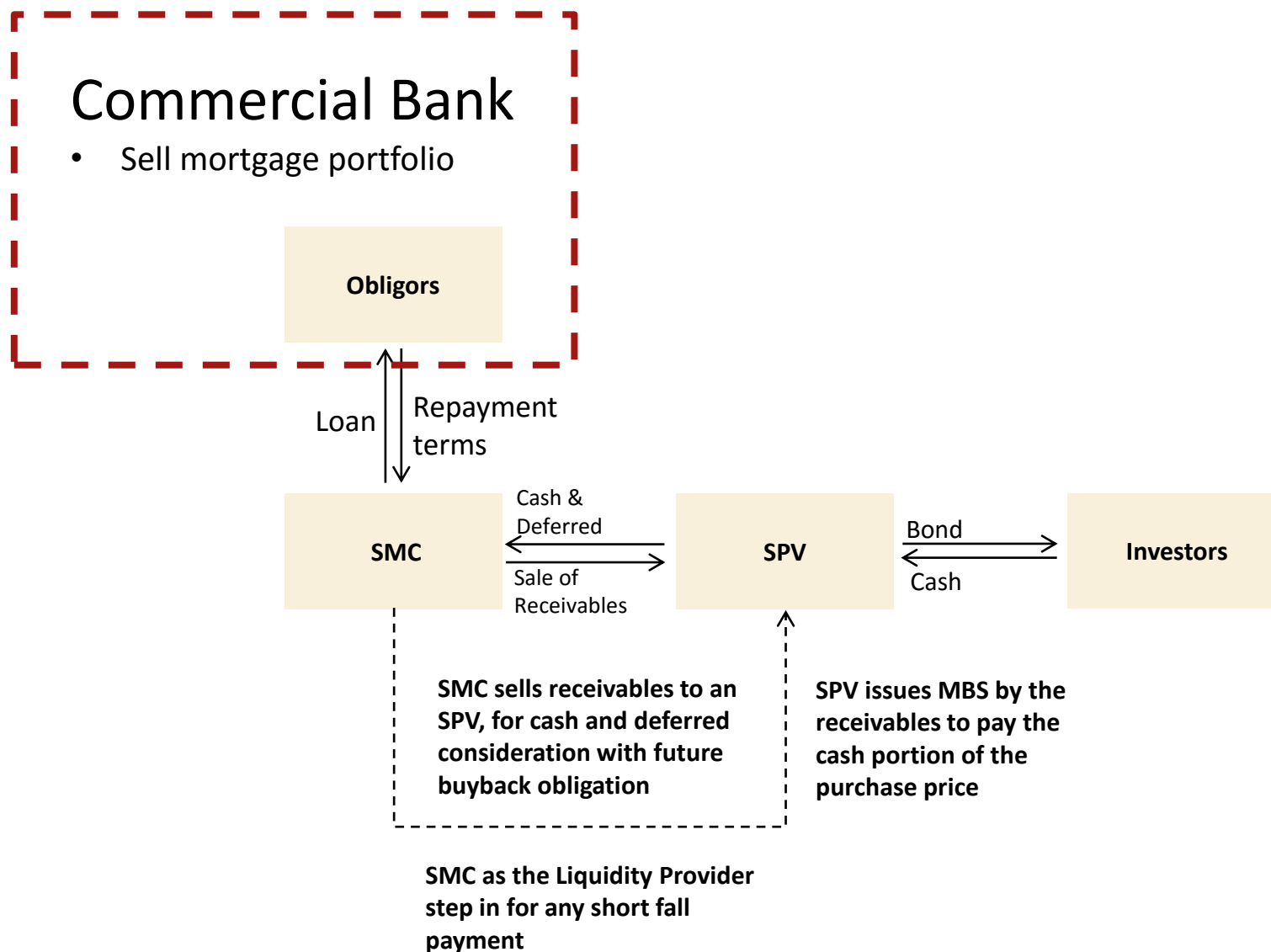
Source: Bank of Thailand

Residential Mortgage Loan compare to SMC's portfolio



Source: Bank of Thailand, SMC

Transaction Structure – Set Up



Past Securitization Obstacles

Pricing for the first transaction is high compare to plain vanilla bond.

Thai investors do not familiar with complex structure i.e. Fully Pass-through

No investor for the equity tranche.

The potential issuers (commercial banks) focused on asset growth strategy.

High set-up cost i.e. Legal fee

Changing Credit RWA Principle

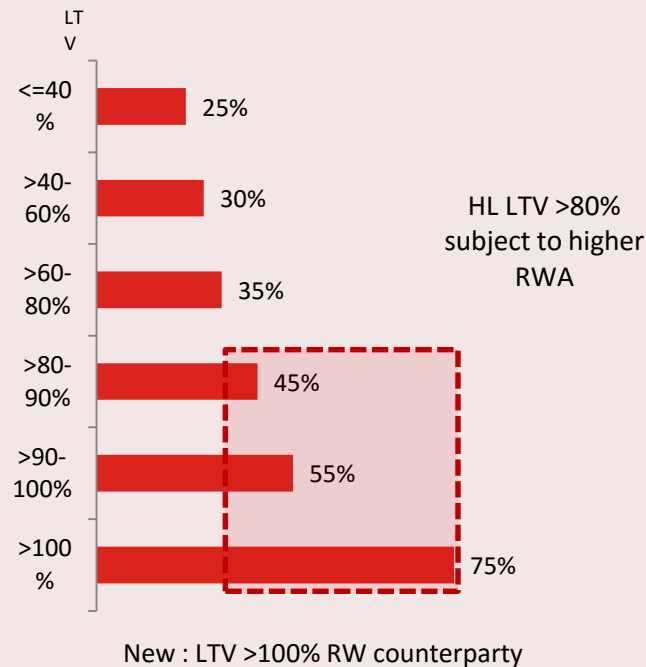
Unused Credit Line, High LTV Home Loan & Equity Require More Capital

New BASEL Framework for Home Loan

Higher RWA of “Home Loan”

Key message:

“Low LTV, low risk



- Home loan with LTV >80% are subjected to higher %RWA
- %RWA from origination date

Securitization Development

Regulatory

- Introducing of new regulatory will encourage commercial banks to sell down their assets
- Upcoming Trust Law will allow transaction more flexible

Market

- Investors become yield seeker in very low interest environment
- Market adoption (securitization will become more regular over time)

Assets

- Variety of asset classes
- Enlarge Assets Pool in term of tenure and diversification

Cost

- Repeated transaction will allow cost to come down

Case study SMC MBS

| ThaiBMA Symbol | Rating | Issue Date | Spread on Issue Date | Issue Size (THB mln) | Issue Term (Yrs.) | Coupon (%) |
|-------------------|---------|---------------|-------------------------|-------------------------|----------------------|---------------|
| MBSC16DA | AA-(sf) | 25-Dec-13 | 130 | 1,500.00 | 3 | 4.28 |
| MBSD199A | AA-(sf) | 23-Sep-14 | 126 | 3,200.00 | 5 | 4.25 |
| MBSE20NA | AA-(sf) | 24-Nov-15 | 110 | 5,000.00 | 5 | 3.35 |

- Longer tenure
- Larger issue size
- Tighter Spread
- Schedule Amortization

Market trend

- Longer tenure support by larger asset pool
- Larger amortization portion due to longer issuing term
- Tighter Spread overtime
- Fully Pass-through structure
 - Have to develop proper MTM model for Institution Investor
 - HNW investors are potential investors but need to improve their knowledge

Summary:

- Long-term fixed income issuance growing both size and longer tenure mix.
- Long-term investors still have liquidity and willing to expose to longer tenure and/or more sophisticated assets to seek for return.
- Alternative investments i.e. Securitization, MBS etc. still have structural premium, but the trend is improving.
- With the new regulatory framework, commercial banks are encouraging to reconsider selling out some of their assets which will be a benefit for securitization instruments.
- Low interest rate environment and credit concentration in Thai bond market are positive factors for securitization paper.