

Debt market update

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1. Introduction

VinaCapital's Fixed Income and Treasury division:

1. VinaCapital Vietnam Fixed Income Fund (VFIF)

- Incorporated May 2008.

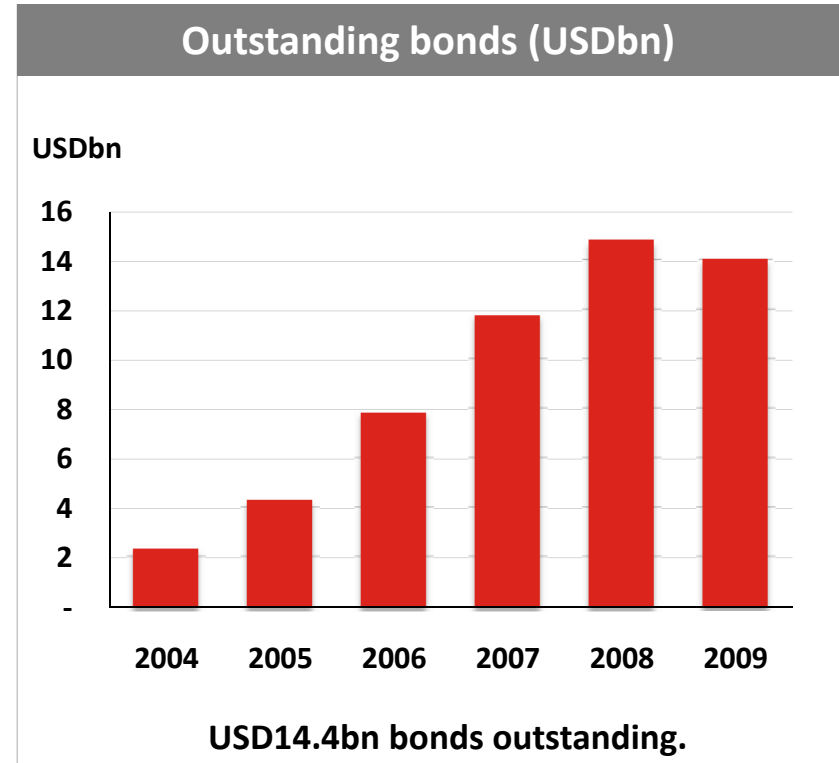
2. Treasury – for all funds.

- **Debt financing**, raising debt at fund and/or project levels.
- **Cash management**, ensuring efficient and optimal cash deployment.
- **FX management**, managing USD and VND currency risk.

2. Vietnam bond market

Vietnam's debt market is growing rapidly.

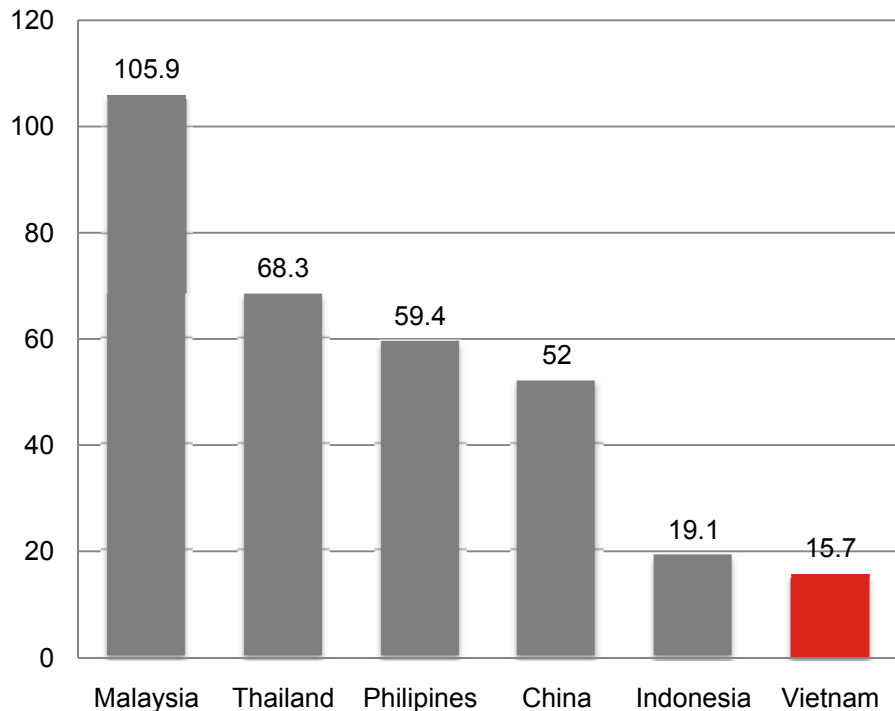
- Total market reached 15.7% of GDP in 2009.
- Total government and corporate bonds outstanding were USD14.4bn.
- Most market participants are Vietnamese enterprises.
- Commercial banks are the dominant players in the market.



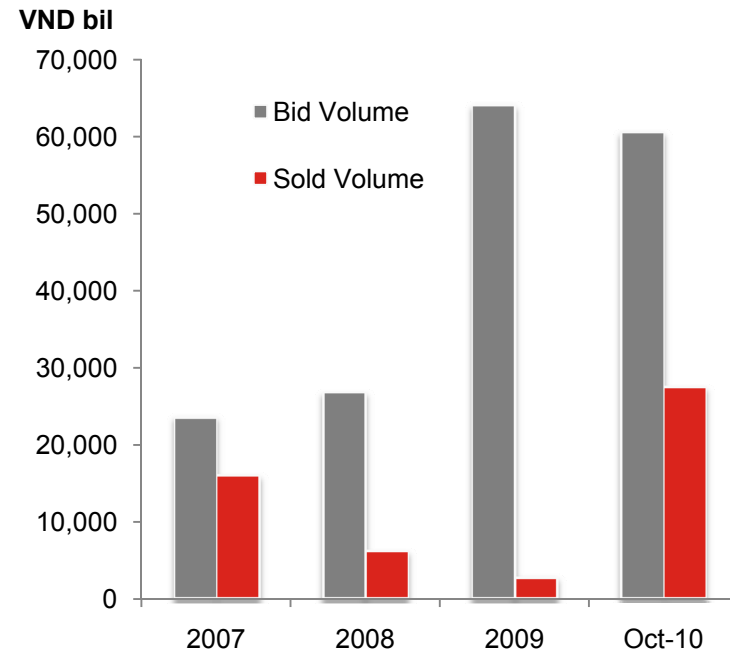
Source: ADB, 2010

Bond market comparative indicators

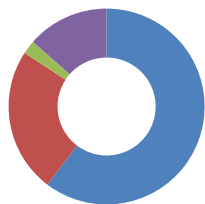
Debt market to GDP, 2009 (%)



Primary bond market activity



Issuers by type:



- 60%** State
- 24%** Vietnam Development Bank
- 14%** Corporations
- 2%** Municipal governments

Market dominated by G-bonds, with low take-up in 2009.

Straight bonds

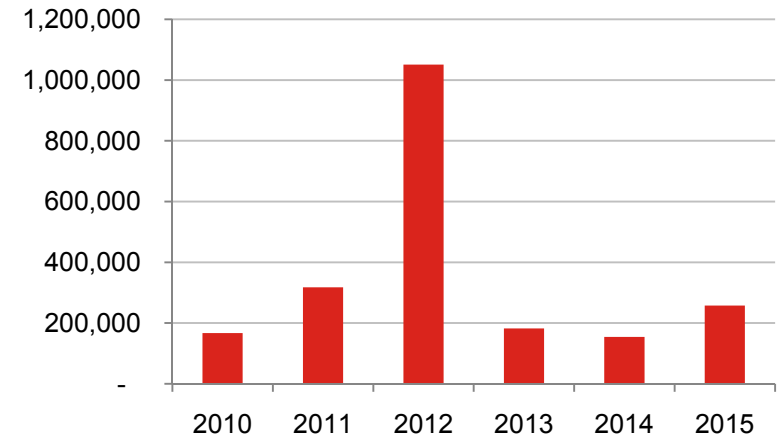
- Traditional form of bond issuance.
- About VND42.4trn (USD2.17bn) has been issued, accounting for 82.2% of all corporate bonds.
- Average coupon rates at 12%. Highest coupon rates 16.3% (on 3-yr Son Ha bond, May 2010).

Convertible bonds

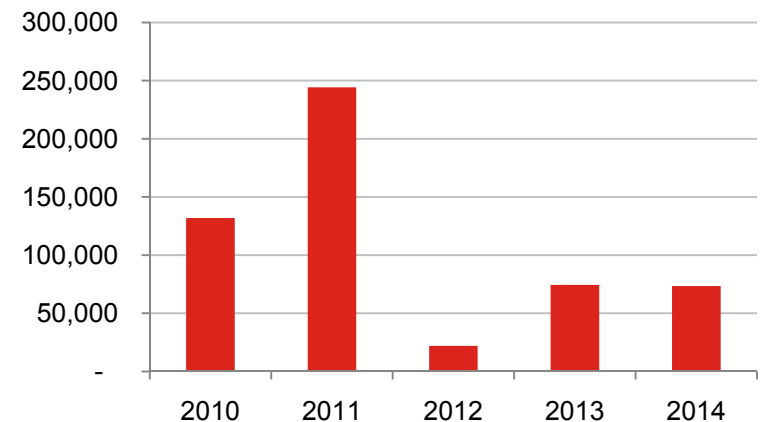
- Convertible bonds issued more widely in recent period.
- About VND9.2trn (USD472.5m) of CBs have been issued, or 17.8% of all corporate bonds.
- Average coupon rates at 8%. Highest rates 12.0% (on 1-yr MCG bond, Dec 2009). Lowest rates at 0% (on 1-yr HAG and HPG bond).

Source: Bloomberg

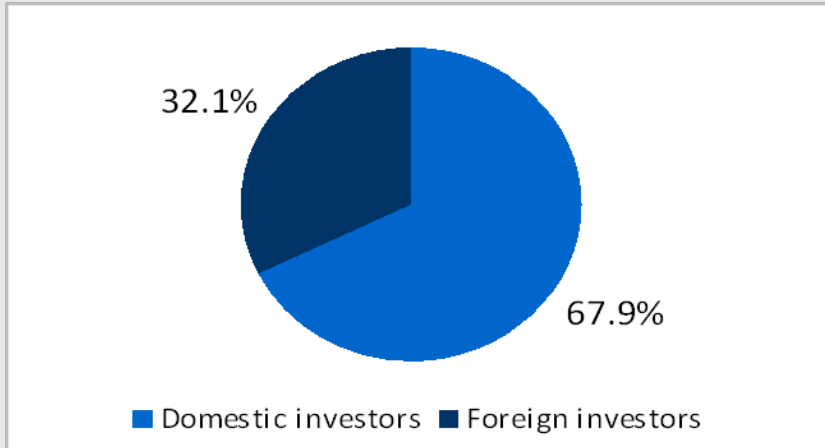
Straight bonds by maturity (USD'000)



Convertible bonds by maturity (USD'000)



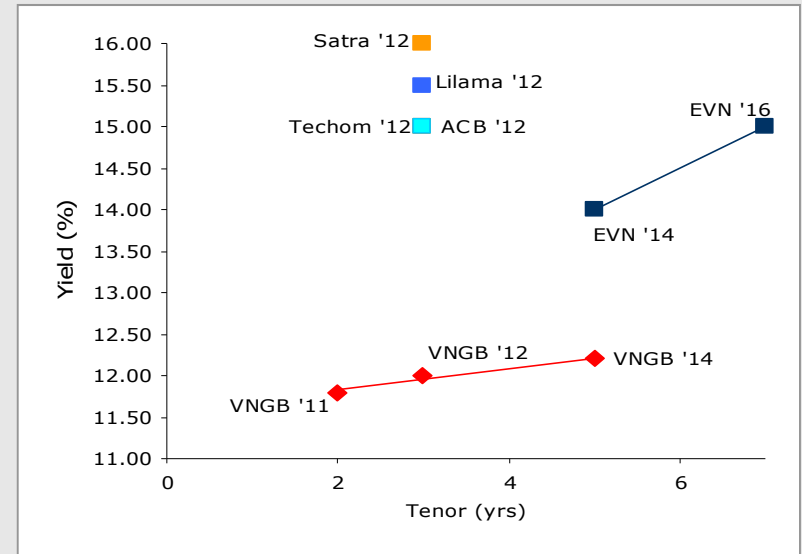
Investor participation in secondary VND bond market



- Domestic investors major traders in secondary VGB market, accounting for 67.9% of daily avg. volume of VND115.4b;
- Foreign investors show modest activity; cautious given depreciating trend of VND currency.

Source: HNX 2009

Corporate vs. Government bond yields

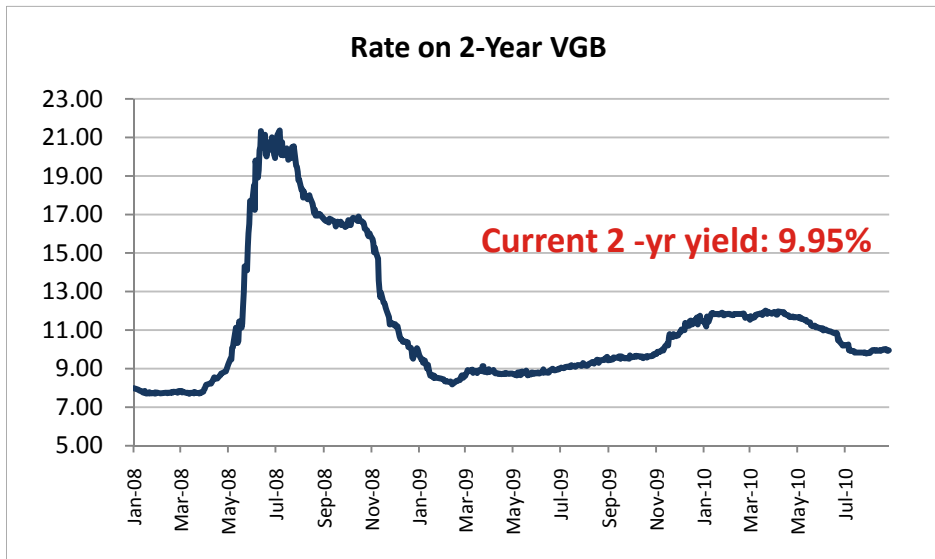


- Pricing of VND corporate bonds in secondary market is benchmarked against G-bond yields of the same maturity, plus a spread of 2.5-4.0%

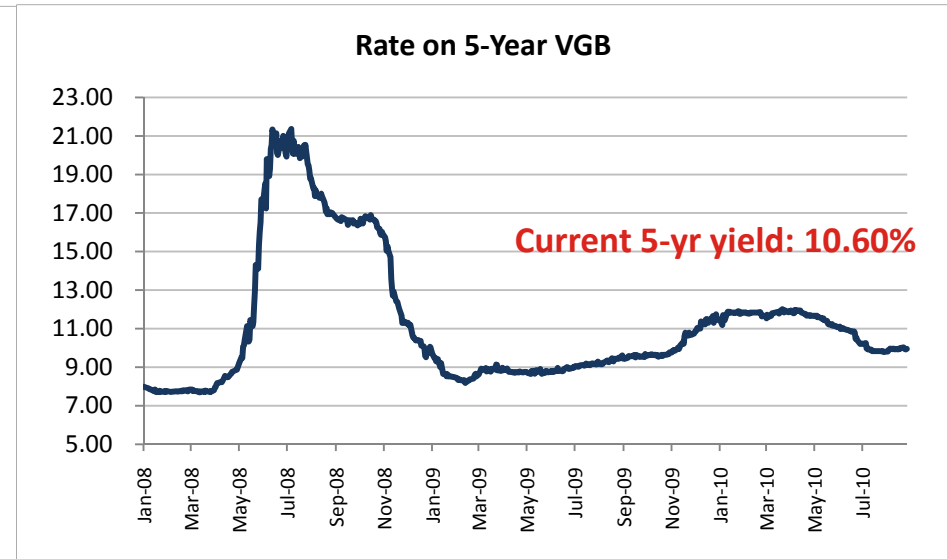
Source: Bloomberg 2009

Secondary market dynamics

- Recent yields of VND 2-yr and 5-yr bonds are moving in parallel with a flat pattern;
- This suggests yields may have peaked and stabilized to a lower level of yield.



Source: Bloomberg
Sept 2010



Source: Bloomberg
Sept 2010

3. Bond market outlook

VND bond yields will rise:

- Inflationary pressure increases during last quarter and around Tet lunar new year;
- In recent auction, yield decrease is facing resistant.

USD Vietnam-issued bond yields will continue to tighten:

- Vietnam 2016 and 2020 maturities yielding 4.0 and 5.0 percent, respectively.
- Should continue to tighten due to cash inflow into EM.

VND will depreciate slightly vs. USD:

- USD/VND is forecast at 20,000 by Dec 2010 and 20,500 by Q1 2011;
- Foreign currency credit growth is 3x that of VND;

4. VFIF performance update

Vietnam Fixed Income Fund – Track record

VFIF summary

- Inception: **May 2008**
- Total asset value as at 30 September 2010: **USD10 million**

Performance highlights

	31 Dec 2008	31 Dec 2009	31 Sept 2010
Asset value growth (y-o-y)	10.79%	11.28%	10.08%
Asset value growth since inception	10.79%	23.29%	33.89%

Benchmarking with competitors

Unit: USD	Pub'd NAV	As of	YTD	2009	2008	Size
VinaCapital Vietnam Fixed Income Fund	125.05	30 Sept 10	7.50%	8.9%	N.A.	10.0m
Dragon Capital VN Debt Fund "A" Class	1,023.72	30 Sept 10	2.40%	8.0%	-7.4%	12.0m
Dragon Capital VN Debt Fund "B" Class	1,267.89	30 Sept 10	1.00%	6.0%	18.5%	20.0m
Peer Group Average			3.60%	7.6%	5.5%	14.0m

Source: LCF Rothschild Emerging Market Funds Weekly 19 Oct 10

5. Treasury update

	Currency		Average lending rates	
			Short term (% p.a.)	Medium and long term (% p.a.)
Group of state-owned commercial banks	VND	Ordinary loans	13–14.0	13.5–14.5
		Loans for agriculture and export	11–12.5	12.5–13.5
	USD		5.5-6.0	6.0-7.0
Group of joint-stock commercial banks	VND	Ordinary loans	13.5-14.5	14-15.5
		Loans for agriculture and export	11.5 -13	13.5-14.5
	USD		5.5-6.5	6.5-8.0

- **CAR has recently been increased to 9%.**
- **Banks are still lending but selectively.**
- **Bank Lending rates range between 13% ~ 16%.**

Treasury – Deposits

Quoted mobilising rates	Currency	Demand (% p.a.)	Below 1month (%p.a)	3 months (% p.a.)	6 months (% p.a.)	12 months (% p.a.)	Above 12 months (% p.a.)
Group of state-owned commercial banks	VND	2.4–3.0	7.5-10.5	11-11.2	11-11.2	11-11.2	10.5-11.2
	USD (applicable to economic institutions)	0.2-0.3	1.0	1.0	1.0	1.0	1.0
	USD (applicable to individuals)	0.2-0.3	3.5-3.7	3.7-3.9	4.0-4.5	4.4-5.0	4.2-5.2
Group of joint-stock commercial banks	VND	2.4-4.2	7.8-11	11-11.2	11-11.2	11-11.2	10.5-11.2
	USD (applicable to economic institutions)	0.2-0.5	1.0	1.0	1,0	1.0	1.0
	USD (applicable to individuals)	0.25-1.0	3.6-4.2	3.9-4.6	4.2-5.0	4.2-5.2	4.5-5.3

Source: SBV, Weekly Information on Banking Activities (Oct 1 – 7, 2010)

- **VND Deposit rate is staying around 11%.**
- **Unless it is lowered, lending rate will stay around 13-16%.**

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