August 31, 2011

Review of the Debt Consolidation Program

The Philippines' Bureau of Treasury has conducted 6 bond exchanges since 2006, establishing benchmark bonds from 3 to 25 years in tenor. Holders of eligible bonds were invited to submit offers to exchange existing bonds to the new benchmark securities. The bond exchanges are part of Domestic Debt Consolidation of the Republic to manage its liabilities. Table 1 summarizes the recent results of bond exchanges conducted since 2006.

Table 1: Debt Consolidation Program Results

Issue Date	Tenor	Size in billions
March 2006	3, 5, 7- year	PHP 122
August 2006	10 - year	PHP 54
February 2007	3 and 5- year	PHP 97.5
January 2009	5 and 7 - year	PHP 144.5
December 2010	10 and 25 - year	PHP 199.5
July 2011	10 and 20 - year	PHP 323.5

Source: Bureau of Treasury

The two most recent bond exchanges, which were held in the past eight months, created new benchmark 10y, 10.5y, 20y and 25y government securities with significantly large issue sizes. Preference for the longer tenors at the offer was evident as shown in table 2.

Table 2: Debt Consolidation Program Results

Issue Date	Tenor	Coupon Rate	Maturity Date	Size in billions
December 16, 2010	10 years	5.875%	December 16, 2020	PHP 33.45
	25 years	8.125%	December 16, 2035	PHP 166.00
July 19, 2011	10.5 years	6.375%	January 19, 2022	PHP 67.61
	20 years	8.000%	January 19, 2031	PHP 255.83

Source: Bureau of Treasury

In its Press Release for the recently concluded bond swap, the Bureau of Treasury disclosed that the transaction achieved cashflow and debt service relief of Php152.6 Billion in the medium term, which the Republic may channel to its infrastructure and socio-economic projects. The bond swap extended the average maturity of the portfolio of eligible bonds by 37.9% or approximately 2.08 years with the extension of average maturity of accepted bonds from 5.48 years to 18.01 years. These bonds together with the 25-year bonds issued last December 2010, will serve as benchmarks for long term financing in line with government initiatives to promote public-private partnerships ("PPP") in infrastructure projects and the development of capital markets.

While previous bond exchanges in 2006, 2007 and 2009 have created large-size benchmark bonds with tenors 3y to 10y, these last two bond exchanges have significantly changed the maturity profile of the outstanding government securities by increasing the greater than 10y tenors. Table 3 illustrates the distribution of maturities for year-end 2009, 2010, June 30, 2011 and August 18, 2011:

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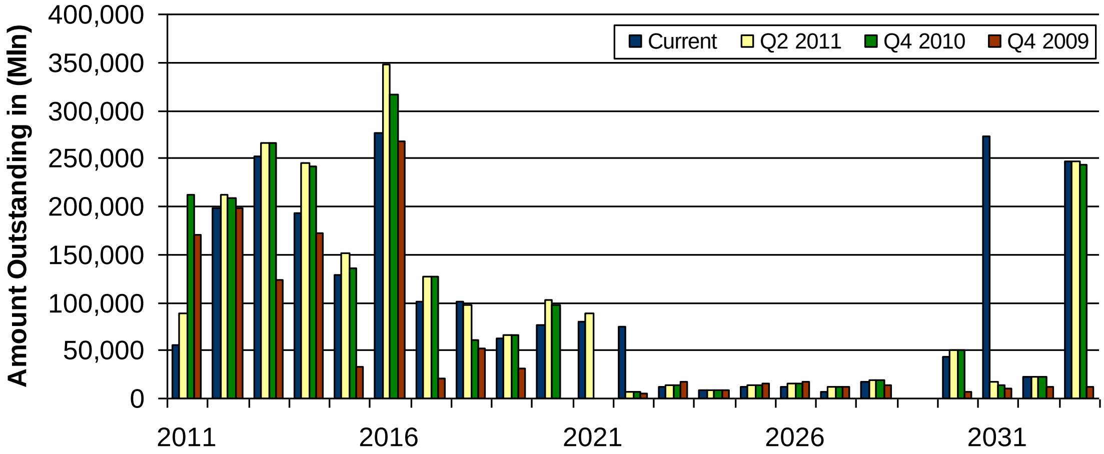
Table 3: Debt Distribution of Philippine Government Securities



Source: Bloomberg

In 2009, the Philippine government securities were heavily concentrated in the 1 to 7 year tenors, with very minimal debt beyond 10 years. After the debt exchange in December 2010, there was a significant increase after the issuance of the 25-year bond. As of August 2011, the outstanding amount of debt greater than 10 years has significantly increased with the issuance of the 10.5-year and 20-year bonds.

The benchmark bonds created by the bond exchanges have proved to be amongst the most liquid and highly traded securities in the Philippine Bond Market. These are the most accessible securities due to their inherent size. In terms of Turnover ratio[1] these securities have had above average ratios as shown in table 4:

Table 4: Turnover Ratio of Benchmark Securities

Benchmark Security	Maturity	2008	2009	2010	1H 2011
FXTN5-62	3/3/2011	6.64	1.65	-	-
FXTN5-65	2/21/2012	4.38	2.13	0.69	-
FXTN7-43	3/3/2013	7.62	3.78	2.44	0.30
FXTN5-67	1/27/2014	-	13.94	10.15	1.98
FXTN7-48	1/27/2016	-	7.08	4.91	0.68
FXTN10-42	9/4/2016	3.19	1.24	4.71	1.67
FXTN10-52	12/16/2020	-	-	-	0.80
FXTN25-08	12/16/2035	-	-	-	0.60
Market		**0.82**	**1.03**	**2.01**	**0.60**

Source: Volume Data from Philippine Dealings and Exchange Corporation

[1] Turnover Ratio is a measure of bond market liquidity. The ratio shows the extent of trading in the secondary market relative to the amount of bonds outstanding. The higher the turnover ratio, the more active the security.