



NPL Asia

Issue 10 | December 2008

Welcome to Issue 10 of *NPL Asia*, our newsletter covering the Asian non-performing loan (NPL) market.

Since our last issue in May, global financial markets have experienced a period of extraordinary turbulence. Several governments have initiated rescue efforts but financial markets are likely to remain volatile for some time.

While over the past 18 months or so the NPL market probably favoured sellers, recent events are reversing this and it is likely to be a buyers' market for the foreseeable future. Opportunities for buyers lie in upcoming NPL portfolio sales across Asia which are likely to include, the sale of Lehman Brothers' Asian assets (their NPL portfolios in Europe are already in the process of being sold), the disposal of various AIG businesses and the sale of positions held by numerous funds and investment banks needing to raise cash. Several single credit opportunities are expected to arise as businesses look to recapitalise balance sheets in an increasingly difficult economic environment.

According to market feedback, there is an increase in expectations of returns from NPL portfolio investments, at least in the short to medium term. This is due to the number of opportunities coming on to the market that offer equal or higher returns than those that are traditionally achieved from NPL portfolios. These alternative opportunities are prompting some distressed debt players to shift away temporarily from NPL portfolios. However, these players are being replaced by new participants who see Asian NPL portfolios, particularly secured portfolios, as investments that continue to offer attractive rates of return.

A number of NPL and NPA portfolios were recently brought to the market in Thailand with all but one portfolio closing unsold. We understand the main reason for the failure to transact was around bid prices being under the sellers' expectations. This further reinforces the view that the market has shifted to a buyers' market and sellers' price expectations will need to be adjusted accordingly.

In our discussions with various banks across the region, NPL sales are still in the pipeline for 2009, with sales also likely to occur in Malaysia, the Philippines and India. This edition sees our first article on Australia and New Zealand, which are likely to attract interest due to their stable legal environments. The presently weak Australian dollar is also likely to attract potential buyers.

All in all, the next 6 to 12 months are likely to yield significant opportunities for distressed debt players.

[The information contained in *NPL Asia* has been obtained from numerous sources in the market and is believed to be accurate at the time of going to print. We trust that you will continue to find this publication useful and welcome any comments you may have.]

NPL Sellers in 2008

Thailand:	BAY, SCB, SCIB, Phethai (wholly owned AMC of KBank), TMB Bank, Bank Thai
Malaysia:	Maybank, CIMB Bank Berhad, Ambank, UOB
India:	IIBI, Union Bank of India
Philippines:	UCPB, Rizal, Land Bank
Taiwan:	BOWA, Asia Trust, TCB
Korea:	IBK, Kookmin, Hana Bank

Foreign investors leaving the Chinese market

The China NPL market for foreign investors is very quiet and we expect it to remain so for some time. While there is supply and demand, only a handful of transactions have been completed this year and foreign NPL investors are leaving the market in droves. In addition, we have not noticed any new entrants to the market.

The reasons why are straightforward. Start with a difficult, unpredictable and time-consuming sales process and then add in reserve prices far in excess of what investors are willing to pay. The inevitable result is that deals are not done. Investors feel they have no choice but to direct their capital elsewhere. One experienced China NPL investor summed up the current state of the market perfectly: "I feel like I am a dog chasing my tail, around and around I go, chasing deal after deal, but never seem to be able to get anywhere." Only time will tell, but with risk-adjusted spreads being so unattractive, we expect the China NPL market to be almost non-existent in the short to medium term unless changes are made.

The above scenario is actually old news. Completing NPL deals in China has always been tough and over the past two to three years only five or six foreign investors have been committed to the market. What has changed is that now these 'committed' market participants seem to have decided to move on as well.

Where are they going? With the credit crunch impacting the entire Asia Pacific region, they have plenty of options. In particular, the secondary debt market has picked up considerably in Hong Kong and elsewhere due to the economic downturn. Foreign investors are also moving into corporate turnaround and other special situations opportunities. The market is providing them with plenty of alternatives. Whether these and other players return to the China NPL market is largely up to the asset management companies (AMCs), who will only be able to entice foreign investors back by conducting more predictable auctions with more realistic reserve prices.

The AMCs and the pipeline ahead

The AMCs do not seem to be too concerned about a dearth of deals with foreign investors. And why should they be? We see no indications that they are being pressured to sell portfolios and it seems domestic investors are buying what little they are putting up for sale.

So what will it take to get the AMCs to change their tune regarding foreign investors? We suggest new transfers of NPLs and a push from the government to move their stock more quickly. We believe foreign investors' decision to exit the China NPL market is based largely on the fact neither initiative is likely. As mentioned above, the credit crunch has hit Chinese banks and problem loans are emerging in many industries, particularly manufacturing and real estate. However, rather than be transferred to the AMCs for disposition, these newer NPLs are likely to remain on the books and be worked out by their originating banks for the near term. In addition to this, with the markets in turmoil, there would appear to be no rush to transfer the Agricultural Bank of China's estimated US\$100 billion of NPLs to the AMCs as a listing of the bank is not likely in the near term.

Our experience is that the China NPL market is expected to slow even further due to complications from the global economic downturn. With worldwide credit markets in turmoil and the impact just beginning to reach China, we expect the status quo to continue well into 2009 and perhaps beyond.

India

Transactions and reform momentum build in India

Activity was higher than usual in India for the six months ending September 2008. Four NPL portfolio auctions with an aggregate outstanding principal balance of about INR19.5 billion (US\$0.39 billion) were taken to the market.

The Government-controlled Industrial Investment Bank of India (IIBI) auctioned the largest of these NPL portfolios. With the Government closing IIBI's operations, NPL investors expected a higher success probability compared to the transaction success rate in the previous financial year. Investors responded enthusiastically to the transaction and, at time of writing, the Government is in discussions with the highest bidder. In other NPL portfolio transactions, Asset Reconstruction Company of India Ltd (ARCIL) was the successful bidder in the second round of the Union Bank of India's NPL portfolio auction. While an NPL portfolio auction by the State Bank of Patiala was unsuccessful, Punjab National Bank is pressing ahead with its auction.

On the retail side, the first half of this financial year also saw auctions of retail loan portfolios (largely auto and personal) by players such as GE Capital and Citibank. While these portfolios were not entirely non-performing, liquidity pressures and expected higher delinquency levels in retail portfolios due to the macroeconomic outlook were reportedly the driving factors. In other developments, ICICI Bank, the largest private sector bank in India, is reportedly in discussions with ARCIL on the sale of its housing loan portfolio. However, NPL investors remain concerned about transaction closures, with the value expectation gap ranking as the top reason for the failed completion of transactions. Asset reconstruction companies (ARCs) recently took up the issue of consistency in valuation and pricing of NPLs with the Indian Banks Association.

As for ARCs, ARCIL continued its fund-raising efforts and reportedly would have an equity share capital of about INR14 billion after completing its rights cum preferential issue. ARCIL is also approaching investors to raise a special situation fund of about US\$750 million. This fund would enable ARCIL to compete effectively with other NPL investors making upfront cash payments to selling banks. The International Asset Reconstruction Company (IARC), which commenced operations in 2007, also increased its equity share capital to about INR1 billion and is examining raising a special situation fund similar to ARCIL.

Meanwhile, the Reserve Bank of India (RBI) has granted licences to four other ARCs, namely Prithvi Asset Reconstruction and Securitisation Company Ltd, JM Financial Asset Reconstruction Company Ltd, Invent ARC and Phoenix ARC Private Ltd. Phoenix is sponsored by Kotak Mahindra Bank Ltd, a private sector bank and an active NPL investor in India. We understand that a few other players have also approached the RBI for ARC registration. Going forward, one expects to see increased competition for bank NPL assets.

On the investor front, the Government has not changed its guidelines on foreign investment in the equity share capital of an ARC or in security receipts issued by trusts set up by these ARCs. Maximum foreign equity may not exceed 49 per cent of the paid up equity capital of the ARC. This has limited foreign participation in NPL deals, particularly in bank auctions of NPL portfolios.

These regulations would also influence the ongoing fund-raising exercise by ARCIL, as the fund has to find matching domestic contributions. In the 2008 financial year, ARCIL limited its exercise to eligible domestic investors. The recognition of non-banking financial companies of a certain size as qualified institutional buyers (QIBs), enabling them to subscribe to security receipts issued by trusts set by ARCs, was a welcome regulatory development and should help introduce more third-party funds through the ARC route. In addition, the RBI has recently issued draft guidelines on "change in or takeover of management of business of the borrower" which should strengthen an ARC's ability to resolve NPLs. This may also help attract third party money through the ARC route.

Looking at single credit deals, the number of distressed debt transactions has been lower. Reported transactions have included ADM Capital buying out existing lenders in plywood firm Kitply; WL Ross and Co buying out convertible bonds held by Goldman Sachs in Spicejet, a low-cost airline; and Deutsche Bank investing in consumer electronics maker BPL Ltd. We also came across a couple of instances where investors reexamined transactions not considered acceptable in the first round of investments. A couple of transactions also included providing growth capital to companies that were unable to raise funds from traditional banking channels.

We find the distinctions between private equity funds, special situation funds and venture funds have become blurred. Foreign investors such as ADM Capital, Avenue, Cargill, Citigroup, Clearwater, JC Flower, JP Morgan, Spinnaker and WL Ross have all been present in India.

Continued activity and single credit opportunities likely

We see continued activity in the portfolio space and are aware of ARCIL, Bank of Baroda and State Bank of India planning to come out with NPL portfolio auctions later this financial year (which ends in March 2009 in India). While recent turmoil in the financial markets and the consequent credit crunch has affected many ongoing projects, we see a time lag before NPL ratios at Indian banks are affected. On the retail side, a few banks are experiencing an increasing number of defaults and are exploring the possibility of bilateral transactions.

Recent macroeconomic developments have affected overall sentiment and good opportunities could emerge in the single credit transaction space.

Malaysian NPL owners sit tight in dampened conditions

In the last issue of *NPL Asia*, we reported that CIMB Bank Berhad had launched its first portfolio sale of corporate loans. The conditional sale and purchase agreement was signed in August and Ministry of Finance approval was obtained in late November.

Until a few months ago, observers viewed the outlook for the Malaysian NPL market as relatively positive. These observers expected that more banks would look to sell portfolios in light of the fact transactions completed to date had set some approximate benchmark prices.

However, this expectation has cooled in recent months as the financial turmoil spread to Asia. Owners of NPLs are sitting tight in the belief that prices being offered by buyers will be too low. Investor interest has also eased due to credit pressures and buyers' expectations that sellers will be forced to accept reduced prices. This waiting game is likely to continue until the full effects of the financial crisis are played out.

Meanwhile, banks are tightening scrutiny of accounts displaying early signs of delinquency, and immediately rehabilitating or rescheduling those accounts that are in trouble. Although officially reported NPL levels are yet to rise – in fact, the three-month net NPL ratio declined marginally from 2.5 per cent in August 2008 to 2.4 per cent the following month – the market's general view is that more bad loans are bound to surface in the months to come.

Looking at the proportion of household debt, which accounts for almost half the total loan book of banks, it is reasonable to expect a sizeable portion of the NPLs in coming months to originate from this sector. Indeed, household disposable income has come under heavy pressure since early 2008 due to inflation and rising petrol prices. Recent gradual lowering of petrol prices is yet to translate into reductions in other household expenses.

With lower official GDP growth forecast for 2008 and 2009, the government recently announced a set of initiatives to reinvigorate the economy. On a positive note, asset values are yet to see a significant decline. Investors who bought distressed debt in the last two years are reportedly on track to recover their investments. We believe the Malaysian NPL market should be kept on the watch list for potential investors.

NPL ratios improve at Philippine banks

In the Philippines, a law passed to encourage banks and financial institutions to dispose of bad assets expired in May 2008. Republic Act (RA) 9343, or the special purpose vehicle (SPV) law, granted banks tax exemptions as well as registration and transfer fee reductions.

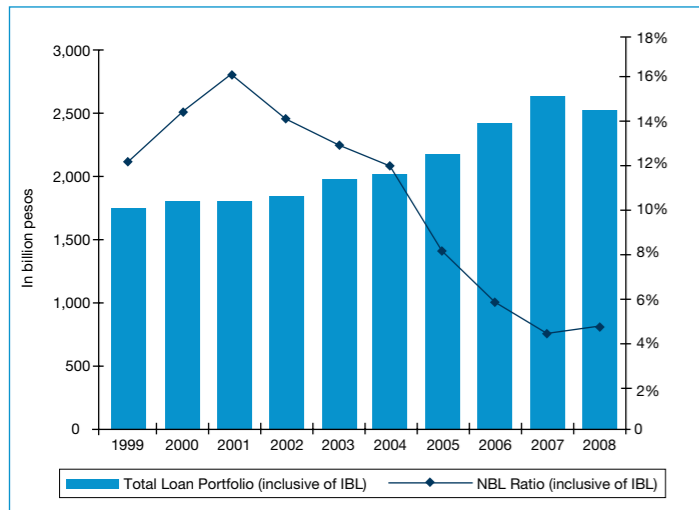
While measures to reduce banks' bad assets were initially approved for implementation from April 2004 to April 2006 through RA 9182, they were extended until May 2008 to give banks and other financial institutions more time to strengthen their positions.

RA 9343 had two important provisions. First, it extended the period for filing applications to establish and register a special purpose vehicle with the Philippine Securities and Exchange Commission. Second, the law gave banks entitlements to tax exemptions and fee privileges for specific types of sale or transfer of non-performing assets (NPAs) (comprising both NPLs and real and other properties acquired, or ROPOAs), filed between 14 May 2006 and 14 May 2008.

The Philippine central bank, Bangko Sentral ng Pilipinas (BSP), allowed an additional 30 days to give banks more time to finalise documents for the sale of their bad assets.

The graph below plots the NPL ratio of all banks against the total loan portfolio from 1999 to the first quarter of 2008.

NPL Ratio Against Total Loan Portfolio, All Banks



Source: Bangko Sentral ng Philipinas

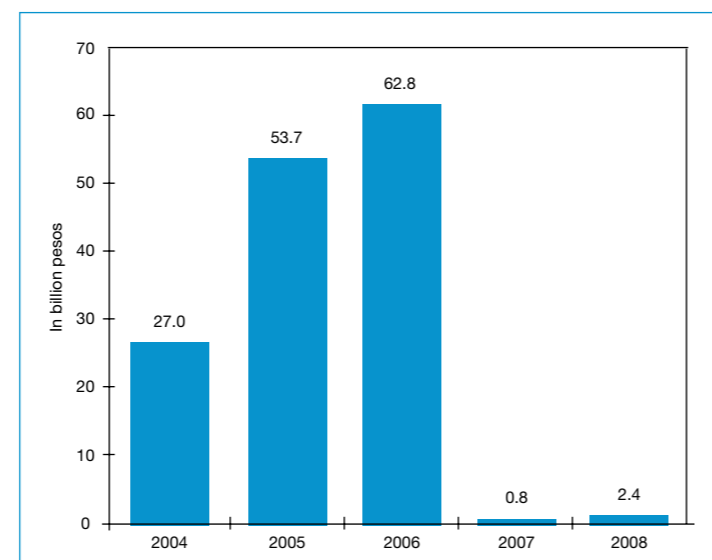
Based on a recent BSP report, the loan portfolio of universal and commercial banks had improved as of July 2008. The total NPL ratio in July 2008 was 3.9 per cent, down from 5.2 per cent in July 2007.

On a month-on-month basis, the NPL ratio improved as the reduction in NPLs of 1.6 per cent outweighed the total loan portfolio (TLP) contraction of 1.2 per cent. Collectively, in 2008, NPLs stood at PHP92.5 billion (US\$1.9 billion) while the TLP had reached PHP2.3 trillion. On the other hand, ROPOA for universal and commercial banks increased by 1.2 per cent over June 2008 to PHP147.26 billion in July 2008. This rise translated to an increase in NPAs to PHP239.8 billion. Simultaneously, the NPA to gross asset (GA) ratio rose to 5.2 per cent from 5 per cent in June 2008 as a 2.8 per cent decline in GA reinforced the increase in ROPOA. However, the NPA to GA ratio in July 2008 remained lower than the 5.63 per cent recorded in July 2007.

By July 2008, the thrift (savings) banking industry's NPL ratio had deteriorated to 6.6 per cent, slightly worse than the 6.4 per cent recorded in the previous month. This was still higher than the 7.9 per cent figure of a year ago as NPLs declined by 9 per cent while recorded loans increased from PHP270.9 billion to PHP294.8 billion. On the other hand, ROPOA to GA for July 2008 increased to 5.4 per cent from the 5.3 per cent recorded for June 2008. This was still better than the 7.3 per cent result as of July 2007, as GA grew while ROPOA declined during this period. Overall, the NPA ratio of the thrift banking industry as of July 2008 increased to 9.4 per cent from 9.2 per cent for the prior month, and down from 10.9 per cent recorded as of July 2007.

NPA disposal through SPV law

The graph below is a plot of the known NPA disposals under the SPV law from 2004 to the second quarter of 2008. During this period, banks unloaded a total of PHP146.7 billion of NPAs.



Source: Bangko Sentral ng Philipinas

Three universal banks led the disposal of NPLs during the first quarter of 2008. United Coconut Planters Bank was the top performer followed by Rizal Commercial Banking Corporation and the state-run Land Bank of the Philippines.

The table below is a summary of the NPLs disposed of during this period.

Bank	Amount (in million pesos)
United Coconut Planters Bank	915.0
Rizal Commercial Banking Corporation	810.0
Landbank of the Philippines	709.0
	2,424.0

Source: The Businessworld

Scope for improvement in loan portfolios in 2009

The SPV law expired in May 2008 and has helped to improve the quality of loan portfolios to pre-Asian financial crisis levels of 4 per cent. However, there is still opportunity to improve, especially in the thrift banking sector. The NPL ratio of thrift banks declined to 6.6 per cent as of June 2008 from the 14.4 per cent of December 1999, but the level of NPLs in absolute terms has increased to PHP19.4 billion from PHP18.4 billion in the same period.

We expect that thrift banks will look to reduce the level of NPLs to avoid holding higher capital as required by Basel II, which has been in place since July 2007. Further, there is greater pressure to do so as banks continue to remain wary of the financial crisis in the United States and Europe.



Thailand's NPL market leads the way

Notwithstanding the potential impact of the recent turmoil in financial markets, Thailand continues to host the most active NPL market in Asia.

A number of public auctions and privately negotiated deals have been finalised during 2008. At least six banks have held NPL portfolio auctions and, according to market rumour, a number of privately negotiated deals have also been consummated. In addition, the Financial Institutions Development Fund (FIDF) successfully sold its 42.1 per cent stake in Bank Thai.

Local players and servicers are also playing a major role in NPL portfolio sales in Thailand. Thai asset management companies (AMCs) are now keenly bidding for portfolios and are winning a number of deals. A number of local AMCs and companies are providing servicing options that potentially make Thailand an easier market to enter. So while we are seeing some players withdraw from the market, these are being replaced by new players attracted by the deal flow and servicing options now available.

Selected NPL transactions - Thailand 2008

Seller	Tranche	OPB THB billions	OPB US\$ millions	Date	Buyer
BAY	Corporate tranche	5.6	164.7	Jul-08	SAM
	Retail tranche	3.4	100.0	Jul-08	SAM
SCB*	SME tranche	4.3	138.0	Mar-08	Morgan Stanley**
	SME tranche	4.1	132.0	Mar-08	Morgan Stanley**
	Corporate tranche	3.0	88.2	Mar-08	GE*
	SME tranche	3.4	100.0	Jun-08	Negotiations ongoing**
SCIB	Mixed	11.1	327.0	Aug-08	BAM**
Bank Thai	SME/Corporate	10.8	317.6	May-08	BAM/SAM
	Corporate	3.0	88.2	Nov-08	Ongoing
TMB	NPLs - multiple tranches	35.3	1,038	Nov-08	Ongoing
	NPAs - multiple tranches	15.0	441.2	Nov-08	Ongoing
Phethai	NPLs	3.5	102.9	Nov-08	Ongoing
	Total	91.4	3,710.8		

*Some borrowers were removed so final sale numbers are lower than the numbers quoted above

**Rumoured and not confirmed

Source: PricewaterhouseCoopers Market Research. Please note that this information is not intended to be a full list of all sales, but rather a selection of some publicly known sales that PwC is not aware of.

Portfolios and pricing

The majority of portfolios offered in 2008 were secured NPLs, typically split into large, medium and small. However, the current TMB Bank transaction marks the first time non-performing assets (NPAs) and unsecured loans have also been included in a portfolio sale. These types of portfolios are likely to be offered in greater numbers in 2009.

Based on market feedback, historically secured portfolios have traded at relatively high prices. This is generally in the '30 per cent-plus of outstanding principal balance' range, but is reaching 50 per cent-plus for some secured housing loan portfolios. However, the recent financial market turmoil combined with ongoing political upheaval will almost certainly affect bid prices in the immediate future.

This situation was likely to be a key factor in the recent failure of three NPL portfolio auctions as outlined below

- The Bank Thai auction of two portfolios totalling approx USD88 million. Despite multiple bids from both local and foreign buyers, no deal has yet been reached (bids were due on 14 November)
- The Phethai AMC (a wholly owned subsidiary of KBank) auction of approx USD102 million. Market rumour indicates only 1 bid may have been received on 19 November and that the transaction is now on hold.

- The TMB auction of 18 tranches totalling approx USD1.5 billion and comprising of USD1 billion of NPLs and USD500 million of NPAs. Multiple bids were received on 21 November however it appears only one tranche of secured corporate and SME loans, totalling USD98 million, was allegedly sold to a local AMC. Market rumour is that TMB will invite all bidders to re-submit bids in a second round of bidding to occur in February 2009. The lengthy gap is likely aimed to allow time for the Thailand political scene to settle down and thereby improve buyer confidence resulting in increased bids.

The outlook

There are a number of factors expected to influence transactions in 2009. These include:

- bid prices on the portfolios currently offered to the market;
- the state of global and local financial markets;
- rival opportunities in the marketplace, such as single credit deals and structured finance deals offering potentially equal or in some cases higher returns than NPL portfolios. Other opportunities lie in the likely sale of portfolios and investments by hedge funds and institutions seeking to raise cash for possible redemptions; and
- the volatility of the Thailand political scene.

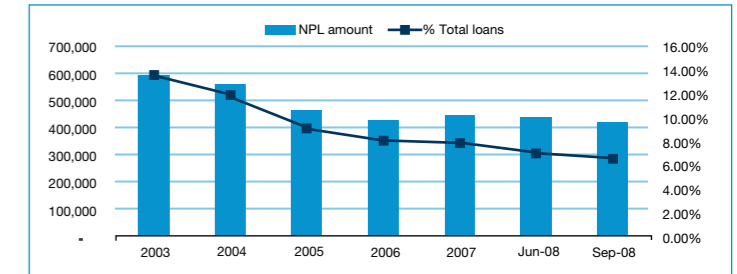
Notwithstanding the above, PwC market research indicates that a number of banks are planning sales in 2009. It is therefore likely that Thailand will offer significant deal flow in the next 12 months. The driving forces behind these sales continues to be the Bank of Thailand's desire to reduce overall NPLs, the move towards International Financial Reporting Standards that require more stringent provisioning such as including wholly owned subsidiaries' NPL numbers in capital ratio formulae, and the need for banks to free up capital.

Other opportunities likely to arise in Thailand in 2009 lie in the property sector and related industries such as steel, cement and agribusiness. Following the successful disposal of its Bank Thai shares, the FIDF is also expected to look to sell its equity positions in a number of banks, including Siam City Bank and Krung Thai Bank.

In summary, the activity of 2008 looks set to continue in 2009.

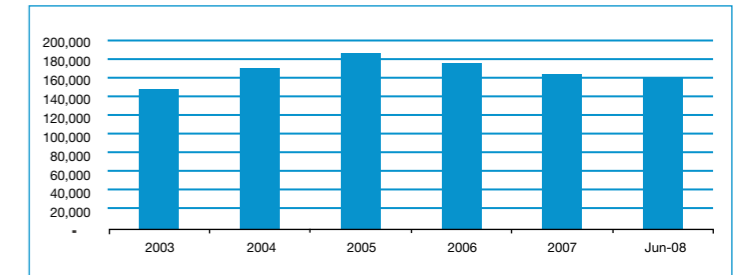
Outlined below are the latest Thailand NPL statistics spanning both commercial banks and AMCs. The statistical information also spans NPAs held by commercial banks. Outlined below are the latest Thailand NPL statistics spanning both commercial banks and AMCs. The statistical information also spans NPAs held by commercial banks.

Gross NPL - Thai commercial banks



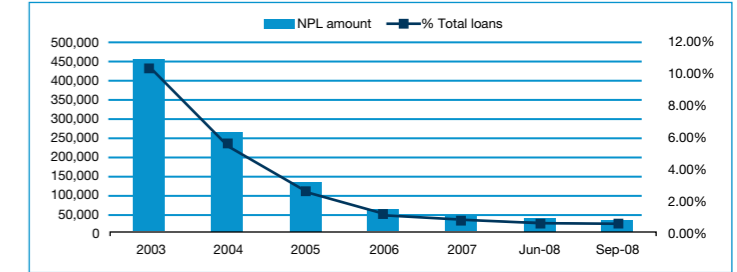
Source: Bank of Thailand web site

NPA - Thai commercial banks



Source: Bank of Thailand web site

NPA - Thai commercial banks



Source: Bank of Thailand web site

Korean NPL market set to expand

Following the Asian financial crisis in 1998, major NPL transactions in Korea have involved both secured and unsecured corporate loans. Since 2002, a large proportion of the NPL market has comprised credit card and consumer loan debts.

Between 2004 and 2006, the size of the NPL market decreased in line with the decline in large corporate NPLs. In recent times, as embattled credit card companies restructured, the volume and number of credit card receivables has decreased.

The number of NPL transactions has grown slightly since 2007. This is due to two factors: the early sale by Korean banks of loans bearing potential default risk arising from macroeconomic uncertainty, and foreign investment banks (FIBs) or funds looking to liquidate previously acquired portfolios. Those FIBs and funds to have divested include Lone Star, which sold its NPL assets and collection organisations, and Citigroup. Additional sell-offs by FIBs are expected in the near future.

We expect the number and value of NPL transactions to increase significantly. There are several reasons why the number of NPLs in the market is set to grow.

First, liquidation of special purpose companies (SPCs) is likely to increase due to the impact of International Financial Reporting Standards and Basel II.

Second, the NPL ratio is forecast to rise due to the sub-prime mortgage crisis and delayed recovery of the domestic economy.

Third, the potential default risk of mortgage and project finance (PF) loans is likely to grow due to a downturn in the real estate market. Loans controlled by Credit Counseling and Recovery Services (CCRS), designed to promote credit recovery and prevention of bankruptcy, are also increasing and are likely to come on to the market.

The types of NPLs expected to hit the market are as follows:

1. Personal finance loans and mortgage loans
2. NPLs of finance companies specialising in credit, such as credit card, leasing and instalment financing products
3. NPLs caused by insolvency due to the global financial crunch and domestic recession.

NPL sales in Korea over the past six months

Seller	Approximate size (US\$ million)	Buyer	Type
Kookmin Bank	151	Ongoing	Corporate & Household
Korea Exchange Bank	47	KCR Partners	Credit card
Korea Exchange Bank	250	Tongyang Financial and Jinheung Mutual Savings Bank	Corporate & Household
Hana Bank	250	Hyundai Mutual Savings Bank	Corporate & Household
Samsung Card	404	Ongoing	Corporate & Household
IBK	142	Hyundai Mutual Savings Bank	Corporate & Household
CitiFinancial	84	Failed	Corporate & Household
Hana Bank	167	Confidential	Corporate & Household
Kookmin Bank	275	Tongyang Financial	Corporate & Household

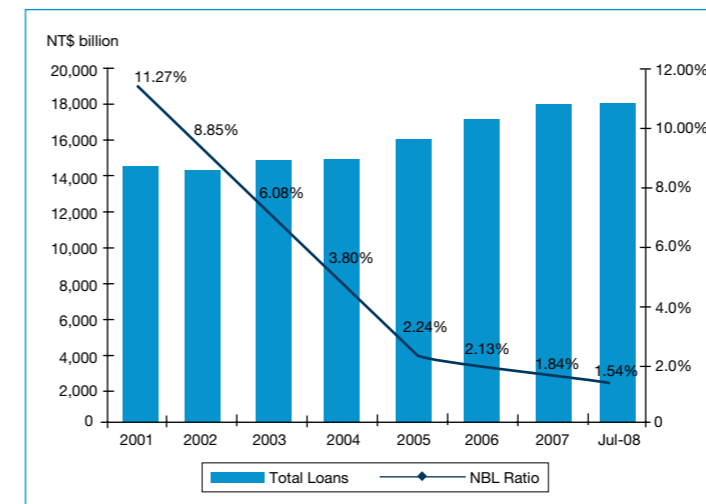
Source: PwC research

Taiwan market slows in 2008 while credit cycle develops

Taiwanese banks have reduced their overall NPL ratio from 2.1 per cent in December 2006 to 1.5 per cent in July 2008 due to sizeable disposals of NPLs over the past two years.

As at July 2008, Chinfon Commercial Bank (CFB) was the only remaining local bank with a double-digit NPL ratio and subject to Taiwan Financial Supervisory Commission (FSC) scrutiny. With NPL ratios increasing as high as 28.3% CFB has now been taken over by the FSC and will subsequently be disposed of in early 2009 [PwC Taiwan has been appointed as the sole financial advisor to the seller - please communicate with the Taiwan contacts listed on the back page to obtain further information].

2001-July 2008 Total loans with NPL ratios



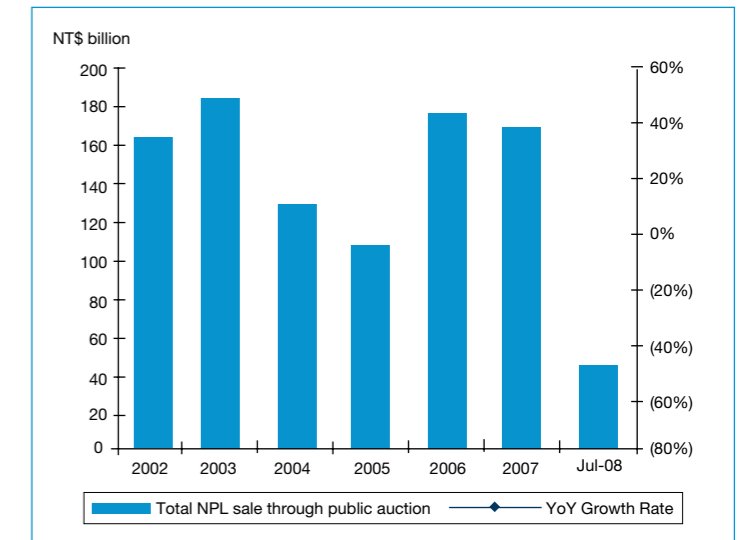
Source: Banking Bureau, Financial Supervisory Commission

Taiwan's NPL market saw relatively low activity in 2008. Up until the end of August, only three deals were announced for sale. The aggregate debt amount of those deals was about NT\$32 billion (US\$0.9 billion), of which NT\$20.3 billion could be attributed to the January 2008 disposal of the distressed BOWA Bank. Another two large-scale NPL public auctions involved the Asia Trust and Investment Corporation (Asia Trust) and the Taiwan Cooperative Bank (TCB).

The Taiwan Government's Central Deposit Insurance Corp (CDIC) announced the public auction of Asia Trust, which had an NPL portfolio of about NT\$11.7 billion, in August 2008. In October 2008, Standard Chartered Bank (Taiwan) Ltd finalised the acquisition of certain assets, liabilities and operations of Asia Trust in return for a payment of NT\$3.348 billion from the CDIC, while Taiwan Life Insurance acquired Asia Trust's Taipei headquarters for NT\$3.03 billion and Revival Asset Management Corp bought some impaired assets for NT\$707 million.

Following the Asia Trust auction, TCB appointed PwC in early September as financial advisor to assist in its NPL auction. The TCB portfolio amounts to about NT\$16 billion, making it the second-largest NPL sale in 2008. The auction was concluded in early December 2008 with Fubon AMC, a local AMC and a subsidiary of Fubon Financial Holding Company, the winning bidder.

2002-July 2008 Total NPL sales through public auction



Source: Banking Bureau, Financial Supervisory Commission
Note: 2008 number includes Bowa (20.3), Asia Trust (11.7) and TCB (16).

Despite the fact overall NPL figures seem under control, the uncertain economic outlook has increased local credit risk. Two developments worth paying attention to are the bumps in the syndicated loan market and the distorted grace period for housing mortgage loans.

Partly influenced by the global economic downturn, some businesses are facing difficulties repaying their syndicated loans. Many of these businesses were listed on the Taiwan stock exchanges and used to have good credit for syndication. Given some of these companies are hard to classify as members of specific industries, it suggests a rise in overall credit risk. In terms of consumer loans, some major banks have also started to extend the grace period of housing mortgage loans because borrowers cannot meet repayments. However, this move might only defer the occurrence of defaults if the financial situation of borrowers fails to improve.

On the buyer side, the Taiwan Asset Management Corporation remains the largest acquirer in terms of portfolios size; some foreign asset management corporations (AMCs) are relatively quiet and focusing on disposing of the portfolios in hand. Most major buyers are closely watching the credit deterioration and expect the credit cycle to move upwards in the near term. During the slump, some AMCs were concentrating on developing real estate projects or private deals for certain single assets as they accumulate experience in real estate-related investments. In addition, a few AMCs that continue to enjoy financial flexibility are attempting to invest in different markets such as China or in different industries such as chain stores or leisure. We expect that the current credit deterioration may bring further opportunities to the AMCs.

Australia and New Zealand

Australia and New Zealand entering the NPL portfolio sale market

For the first time in NPL Asia, we have included commentary on the Australian and New Zealand markets. To date both markets have been very quiet in terms of NPL portfolio sales. Historically, banks have restricted sales to defaulted credit card debts, which have been typically sold on a forward-flow agreement basis to local servicing companies. However, recently we have seen a small portfolio sale in each market. In New Zealand, the administrators of Provincial Finance Limited sold a portfolio of consumer receivables, while in Australia a bank recently took to market a portfolio of unsecured consumer loans with a face value of A\$46 million (US\$29.7 million). Both portfolios included a mix of performing and non-performing loans.

In the past, banks in Australia and New Zealand have shown little interest in NPL sales due to the traditionally low levels of bad and doubtful debts. However, interest has started to pick up at a number of banks as default rates and levels of provisioning begin to increase.

Collectively, banks in Australia have increased their provisions for bad and doubtful loans to A\$10 billion (for the June 2008 quarter end), an increase of A\$2.2 billion, or 28 per cent, over the same period in 2007. In New Zealand, more than 25 finance companies (non-bank lenders) have been placed in administration, closed or gone into a moratorium over the past 15 months.

Sub-prime loan exposure

Australian banks have largely managed to minimise the impact of non-conforming loans (the sub-prime equivalent in Australia). According to the Reserve Bank of Australia, less than 1 per cent of all loans are non-conforming loans. The vast majority of these loans have been written by the non-bank lenders/mortgage originators (banks without deposit bases).

Of total non-conforming loans, 9 per cent are more than 90 days in arrears (compared to 15–20 per cent of sub-prime loans being more than 30 days in arrears). This would suggest the increase in default rates has largely been driven by provisions associated with the corporate sector.

As a result, banks have increasingly started to look at single credit sales to mitigate losses and the negative exposure attached to high-profile collapses. With single credit sales providing an early exit mechanism, the load on banks' increasingly stretched workout teams can be managed more effectively.

A change in the servicing market landscape

Over the past 12 months, the Australian servicing market has gone through a mini-transformation. Historically, there have been a few large servicers with well-developed platforms focusing on purchasing forward-flow agreements from banks. A number of these servicers have now run into financial difficulties and closed down or vacated the buying market as they concentrate on turning over debts already purchased on their books. In their place we are seeing a number of smaller, more nimble servicers appear to take advantage of the change in general economic circumstances.

Where to from here?

We are yet to see any of the big banks in Australia or New Zealand take an NPL portfolio to market. This would appear to be mainly as a result of the gap between the price at which a bank would be willing to sell and what they consider the market would be prepared to pay. However, as defaults rise, particularly in the consumer sector, banks might find the advantages of NPL sales increasingly compelling. While the banks would benefit from a tax perspective, sales may also minimise the negative publicity associated with increasing the level of provisions on balance sheets and finally, may allow banks to reallocate strained internal resources.

Indonesia

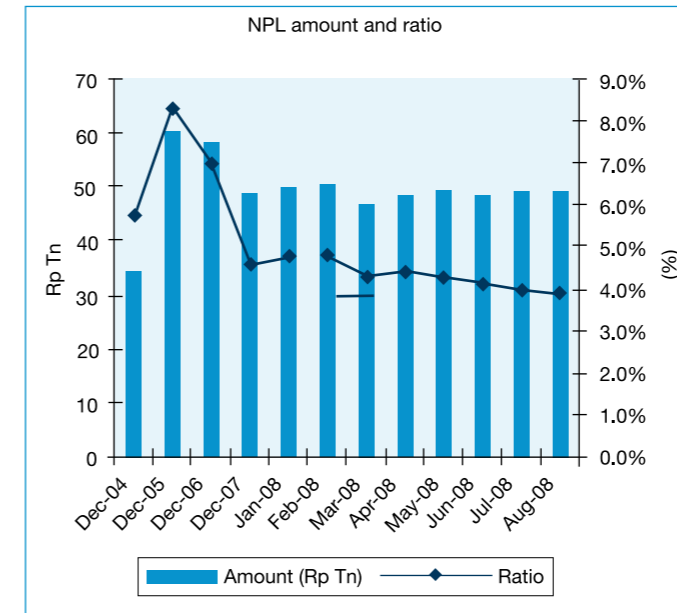
Regulatory change fuels increased likelihood of Indonesian NPL transactions

Building on the restructuring of large corporate loans at state-owned banks in 2007, gross NPL ratios have fallen well below 5 per cent in 2008. While bank lending growth in support of economic expansion is forecast to reach 22–24 per cent for the year, the global financial crisis is expected to raise the overall NPL ratio of Indonesian banks as we head into 2009.

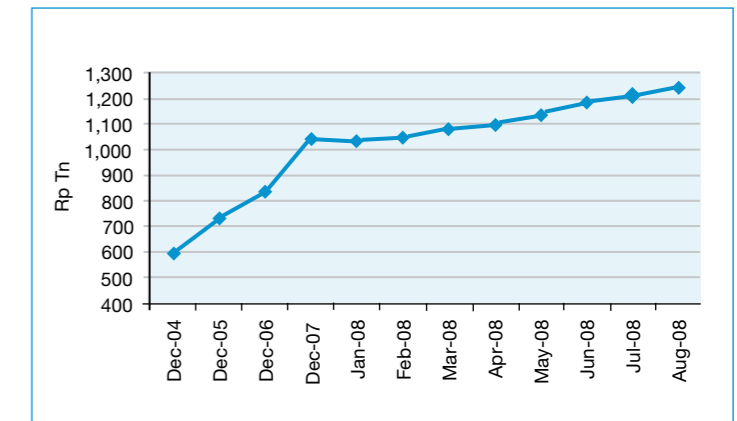
The reported gross NPL ratio declined from 7 per cent in December 2006 and 4.6 per cent in December 2007 to 3.9 per cent in August 2008 (source: Bank Indonesia). NPL gross amounts fell only slightly, from IDR 58.1 trillion (US\$4.8 billion) in December 2006 to IDR 49.2 trillion in August 2008.

Indonesia's economy is expected to slow considerably in 2009–10, as growth in external demand falters and capital inflows dry up. The crisis that has gripped the developed world's financial markets since mid-2007 has deepened during the fourth quarter of 2008, and its effects are now being felt in emerging economies, including Indonesia.

NPL amount and ratio



Total Credits



Source: Bank Indonesia

Top nine banks in Indonesia: Balance as at 30 September 2008

No.	Bank Name	Total assets (in billion Rp)	NPL amount (in billion Rp)	NPL gross ratio (%)
1	PT Bank Mandiri Tbk	297,948	7,201	4.4
2	PT Bank Central Asia Tbk	227,110	630	0.6
3	PT Bank Rakyat Indonesia Tbk	219,564	4,389	2.9
4	PT Bank Negara Indonesia Tbk	178,369	7,076	6.5
5	PT Bank Danamon Indonesia Tbk	103,462	1,387	2.1
6	PT Bank Niaga Tbk	60,289	1,416	3.0
7	PT Pan Indonesia Bank Tbk	61,443	1,246	3.4
8	PT Bank International Indonesia Tbk	54,465	930	2.8
9	PT Bank Permata Tbk	47,214	1,093	3.2
	Total	1,249,864	25,368	

Source: Bank's web sites

New regulations could release state-owned banks' NPLs

In October 2006, the Government of Indonesia (GoI) issued Government Regulation No. 33/2006 and Minister of Finance Regulation No. 87/PMK.07/2006.

According to these regulations, the receivables of state-owned enterprises (SOE) are not considered state assets and SOEs are authorised to manage receivables according to common commercial business practice.

Some observers believe these regulations provide sufficient legal basis for state-owned banks to sell their NPLs at a discount. However, no state-owned bank has moved to date for fear of government bodies seeking recourse for any eventual discounted price accepted.

There has been talk that the GoI plans to issue a new regulation in lieu of laws concerning SOE assets. This regulation is expected to reinforce the ability of state-owned banks to sell NPLs at less than face value.

NPL sale activity

During 2007 and into the first half of 2008, NPL sales activity was fairly muted. Despite new regulations issued in 2006, state-owned banks are still hesitant to launch NPL disposal programs due to perceived regulatory uncertainties.

While a number of banks have considered going to market, all deals have been postponed until at least 2009. With the launch of new regulations, we expect state-owned banks to conduct NPL sales in 2009 and 2010. The portfolios likely to be offered include corporate NPLs, credit card NPLs and SME NPLs.

Our Contacts

Across Asia we have experienced partners and directors who can assist you with your NPL-related needs. In addition, PwC has a dedicated international NPL group that can act as an overall coordinator for worldwide NPL mandates and opportunity identification. Through this group, both buyers and sellers of NPLs can receive consistent and seamless service across the world, integrated with country-specific knowledge and expertise.

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