

NPL Asia

Issue 5
April 2005

A review of what is happening in the Asian non-performing loan market

Since our last issue of **NPL Asia** in September 2004 and our well-received **China NPL Survey** in November 2004, we would like to say that activity has picked up across the region. But with the exception of the Philippines and Taiwan, it has been business as usual; India continues to be a market waiting to happen; the markets in Japan, Korea and Thailand continue their gradual declines; and China remains an enigma, not sure whether it wants to really get started. Throughout all of these individual markets, PricewaterhouseCoopers ("PwC") continues to be at the forefront of the deals being done. In this fifth issue of **NPL Asia**, a newsletter aimed at NPL buyers and sellers, and the advisors that serve them, we again do our best to report on recent trends, transactions and market developments.

In this issue, we focus for the first time on the Philippines, a market just beginning to come into its own, but also on recent developments in Taiwan, India, China, Japan, Korea and Thailand.

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 you will continue to find **NPL Asia** useful, and we welcome any comments you may have.

Recent NPL sellers

Philippines:	United Coconut Planters Bank, Rizal, Equitable PCI, LandBank, PNB
India:	Asset Reconstruction Co.
China:	Great Wall, China Orient, China Construction Bank
Taiwan:	Chung Shing Bank, Chinfon Bank, Cosmos Bank, Shin Kong Life Insurance, Enterprise Bank of Hualien
Korea:	KEB Consortium, Hana Bank, Kookmin Bank, Hantui, IBK, KDB
Japan:	Norinchukin Bank, Resolution and Collection Corporation

Philippines

The most active NPL market in Asia?

Over the last six months, non-performing loan/non-performing asset ("NPL/NPA"), activity in the Philippines has dramatically increased as banks have attempted to avail themselves to the benefits of the SPV Act, which was due to expire on 12 April 2005. During this time there have been seven transactions offering in excess of US\$1.0 billion of NPAs (both NPLs and repossessed assets). This activity includes the largest NPL portfolio successfully offered to the market to date by United Coconut Planters Bank (approximate OPB US\$220 million).

To support the surge of NPA disposals, a number of banks, including the Bankers Association of the Philippines ("BAP"), have lobbied for an extension of the SPV Act. At the time of publishing, no announcement had been made, but market rumours are that the extension will be granted.

To recap, the Republic Act No. 9182 or the Special Purpose Vehicle Act is aimed at revitalising the banking sector and restructuring non-performing assets owned by financial institutions ("FIs"). Under conditions specified by the SPV Act, transfers by FIs, special purpose vehicles, or certain individuals (subject to the Implementing Rules and Regulations of the SPV Act) of eligible NPAs (consisting primarily of and Real and Other Properties Owned or Acquired by banks or FIs in settlement of loans and receivables ("ROPOAs")) are granted tax exemptions and fee Privileges (i.e. a reduction of applicable fees such as applicable mortgage registration and transfer fees). FIs targeted and defined

by the law that may avail themselves of incentives are: (1) Banks, (2) Financing Companies, (3) Investment Houses (4) Government Financial institutions and (5) Quasi-banking institutions licensed by Bangko Sentral ng Pilipinas (“BSP”).

For further details on the SPV Act, please visit our website at www.pwc.com/loansalesasia and click on the Philippines.

Key incentives made available to buyers and sellers under the SPV Act are:

- Exemption from Documentary Stamp Tax
- Exemption from Capital Gains Tax
- Exemption from creditable Withholding Income Tax on transfers of ordinary assets
- Exemption from Value Added Tax
- Reduction of transfer fees by 50% for registration and filing fees in case of foreclosure initiated by the SPV
- Exemption from Income Tax on net interest income in the SPV
- Exemption on registration fees on new loans in excess of existing loans extended to borrowers with NPLs which have been acquired by the SPV
- Loss staggering (for bank sellers) over 10 years

The BAP estimates that the country’s 42 largest banks will dispose of approximately Php200 billion (US\$3.65 billion) worth of NPAs over the next 18 months should the SPV Law be extended. Both houses of Philippine congress (senate and lower house) have already filed a bill for the extension of the Act. Aside from the law’s extension for another two years, the following are also being proposed:

- Re-opening the window for setting up of SPVs for another 18 months from the date of extension
- Amending the qualifying criteria for eligible NPAs from 30 June 2002 to 31 December 2004

As at December 2004, the total level of NPAs within the commercial banking system totalled approximately Php438 billion (US\$8 billion), Php227 billion (US\$4 billion) of which are NPLs and Php211 billion (US\$3.8 billion) are repossessed assets. This figure excludes thrift banks and non-bank financial institutions (i.e. government housing agencies, government pension funds) which have additional NPAs of approximately Php60 billion (US\$1.1 billion).

Furthermore, should the qualifying criteria for an eligible NPA be extended to 31 December 2004, the level of NPAs eligible under the SPV Act would increase substantially.

To complement the proposed amended SPV Law, the Bangko Sentral ng Pilipinas (the Philippine central bank) is proposing the amendment of the banks’ capital provisioning requirements as follows:

- for banks’ bad loans, from the current 50% to 75% this year until 2006, and to 100% in 2007; and,
- for all the other types of loans, to be raised to 125% this year until 2006, and to 150% in 2007.

These changes, combined with the proposed increase in capital provisioning requirements (see above), should see increased deal flow for the next 18 months to two years, particularly given the attractions of the Philippine distressed market, especially to foreign investors, including:

- Ease of entry
- Transparent legal framework
- Increasing availability of ancillary services such as servicing agencies
- Limited language barrier (English widely spoken and documents generally in English)

Overview of Recent Deals

Major deals in the last 12 months are outlined below:

Bank	Type	Approximate Face Value in US\$	Buyer
United Coconut Planters Bank	NPL	220 million	Avenue Capital/ Amroc
Rizal Commercial Banking Group - Tranche 2	NPL	38 million	Asia Debt Management
Philippine National Bank	NPL	87 million	Marathon Asset Mngt
Equitable PCI Bank - Tranche 2	NPL	71 million	HVB
Equitable PCI Bank - Tranche 1	NPL & NPA	190 million	Lehmans
LandBank	NPL	249 million	Deutsche Bank & Morgan Stanley (separate tranches)
Philippine Bank of Communications	NPL & NPA	182 million	Unimark
BPI	NPL	91 million	Morgan Stanley
ICBC	NPL	18 million	Merrill Lynch

Future Opportunities

In addition to the current UCPB transaction, the following financial institutions are expected to announce NPL/NPA sales in the next 6 to 9 months:

- Home Guaranty Corp. - approximately US\$309 million of acquired real estate assets
- Development Bank of the Philippines - approximately US\$127 million of NPLs and US\$55 million of acquired real estate assets
- Rizal Commercial Banking Group
- Philippine National Bank

With the likely extension of the SPV Act, deal flow in the Philippines is expected to continue for at least the next 18-24 months and will cement the Philippines as one of the most active NPL markets in Asia.

China

Activity on the horizon

The rollercoaster ride that defines the China NPL market for foreign investors appears to be on the move again, with some much needed activity on the horizon. Cinda AMC is preparing for at least two (and possibly more) auctions during calendar year

2005 to dispose of a significant portion of the NPLs it acquired in 2004. We are also aware of several bilateral deals in the works between the AMCs and some of the established foreign buyers. With these transactions and the others which may result from disposals by the AMCs of the NPLs on their books that remain from the original 1999 transfers, momentum appears to be on the rise. Will these transactions complete faster than the 12 months plus it took for their predecessors? We will quickly find out as they will become the de facto test cases for the regulations issued late last year by both the National Development and Reform Commission (October 2004) and the State Administration of Foreign Exchange (November 2004) designed to enhance and expedite foreign investment and the loan sale approval process.

While the Cinda auction and a drive to dispose of the AMC's remaining 1999 transfer NPLs sounds encouraging, as we have noted many times before, the level and consistency of deal flow suggests the Government has yet to seriously push the AMCs to unload their inventory of loans. Since the transfer of the first batch of NPLs to the AMCs in 1999, there have been numerous attempts of auctioning NPLs to foreign investors, but only three large-scale auctions have had successful conclusions: Huarong I (2001) and II (2003) and the China Construction Bank Settled Asset auction (2004). The upcoming Cinda auction – which we believe should be successful – will make four. But with only a handful of other deals having been announced with foreign investors since 2001, the number of completed transactions is hardly anything for foreign investors to get overly excited about. Put simply, with NPLs at the AMCs alone still hovering around US\$158 billion, instead of being in a position where they are drinking from a fire-hose of deals, foreign investors are nearly dying of thirst! That said, we remain cautiously optimistic about the foreseeable future (2005-2006 timeframe) and the opportunities for serious investors. Here is what can be expected in the next several months.

Cinda auction

In early February 2005, Cinda, which to date has not conducted any significant NPL sales via an auction format, announced plans to auction off RMB21.5 billion (US\$2.6 billion) of NPLs, separated into 16 pools. Of the 16 pools, only two are planned to be targeted primarily to foreign investors, a pool in Tianjin and a pool in Qingdao. Third-party financial advisors have been retained to oversee these two auctions with Cinda intending to act as its own advisor for the disposal of the remaining 14 pools. In respect of these 14 pools, Cinda has indicated a willingness to consider/entertain offers from all investor classes, including domestic and foreign investors. However, initial indications from foreign investors suggests a less than enthusiastic interest in the Cinda AMC self-advised pools, no doubt due in part to Cinda's lack of experience in conducting bulk sale auctions and the uncertainties that may result from this process. Many international investors we have spoken to are keen on the characteristics of the two pools being targeted to them, liking the pools' size, location, and the fact that many of the creditors' rights are backed by collateral and/or guarantees.

1999 transfer rump assets

As mentioned, the AMCs appear to be under some direction and pressure to dispose of the "1999 assets" no later than 31 December 2006. This target resolution date was apparently established as part of the overall AMC charter revisions that extended the original life of the AMCs. Interested senior ministries, commissions and officials seem to be applying pressure to AMC management to prove their ability to make a dent in the inventory of NPLs. While the goal is lofty, the achievability of resolution by the targeted timeframe remains in question. After almost six years

in existence, official numbers indicate the AMCs have resolved approximately US\$75 billion of the US\$170 billion originally acquired in 1999, generating approximately US\$12 billion in cash. With an estimated US\$50 billion still in the form of debt/equity swap positions, and another estimated US\$45 billion in aged NPLs, historical performance casts doubt on the ability to resolve even the non-debt/equity swap portfolio in the remaining limited timeframe.

Category IV sales

The sales of Category IV ("doubtful") loans to Cinda AMC in 2004 by Bank of China, China Construction Bank, and Bank of Communications may ultimately generate renewed interest in China's NPL landscape by both established China NPL participants and the likely cast of new players now expressing interest in the China NPL market dynamics. Indicators also suggest that an additional amount of Category IV loans will be sold to the AMCs during 2005 by Industrial & Commercial Bank of China ("ICBC"). This likely inventory addition appears to be part of an overall business plan by ICBC that may include a much needed capital injection and formation into a joint stock company as part of its expressed goal of listing by the time of full implementation of the WTO provisions in 2007. Due to a number of assumed factors, including relative "newness" of the loans (as compared to the 1999 assets transferred), better initial loan underwriting and documentation, and relative age of any collateral assets, many of these assets may be of much greater interest to all investors, both foreign and domestic. The big question will be whether investors will offer prices above Cinda's contractual 31 cent acquisition price.

Commercial banks

To date, there do not appear to be any significant and reliable signals that would suggest a near-term easing in current guidelines for China's commercial banks that would allow them to reduce their NPL burden via direct disposals of NPLs to third-party investors. While the sale of "settled assets" and limited qualifying NPLs is technically allowed, it is hard to imagine changes to existing regulatory provisions that will generate a substantial amount of activity by commercial banks in the near term. Concerns might also be raised as to the impact to existing AMC inventories should commercial banks be allowed to deal directly with third-party investors (other than in unique situations).

Sales to domestic investors

Unlike NPL sales to foreign investors, which are normally announced via press releases or through AMC web sites, sales to domestic investors are almost always completed quietly, with no publicity and no disclosure of the details. Thus, compiling statistics on the number and amount of portfolios sold and to whom remains difficult. However, given the disposal/recovery figures published by the AMCs, it is clear that the bulk of the disposals have been made to domestic investor groups. There is a simple reason for this: sales to domestic parties are usually less hassle for the AMCs than sales to foreigners. There is little dispute that there is less hassle; domestic investors normally have far fewer due diligence demands and do not require the complicated transaction structures and government approvals that burden transactions involving foreign parties. But do sales to domestic parties yield higher sales prices? No one really knows the answer to this one. While one theory holds that domestic investors offer more for NPLs as through their local knowledge and connections they know the keys to their "hidden value", another holds that the same local knowledge and connections make them far better placed to arrange the sweetheart deals - acquiring NPLs "at undervalue" - that are often attributed to foreigners.

Japan

Still more work to be done

Japan has been quietly cleaning up its troubled financial sector problems for some time now and with approximately US\$600 billion of NPLs having been disposed of since the late 1990s, significant progress has clearly been made. But with an estimated US\$300 billion of NPLs still remaining, the job is not yet complete. Fortunately, the Japanese government continues to support NPL reductions within the banking system and has initiated several programmes to help facilitate this. One such programme, the Financial Revitalisation Programme, announced in October 2002, aims to “decrease by half the NPL ratio” of major Japanese banks by the end of March 2005. As a result, Japanese financial institutions continue to take measures to dispose of the NPLs on their balance sheets, with the ultimate aim of halting the drag on the Japanese economy.

Government support

In addition to the Financial Revitalisation Programme, in April 2003 the Government established the Industrial Revitalisation Corporation of Japan (“IRCJ”), a publicly owned entity with a mandate to assist with the NPL resolution process by supporting the revitalisation of distressed borrowers. To achieve this, the IRCJ conducts a thorough analysis of the borrower’s business and proposes a sustainable business restructuring plan in consultation with all stakeholders. As part of the process, the IRCJ sometimes purchases bank debt of distressed companies as a means of supporting the borrower and reducing the number of creditors involved in the process, thereby streamlining the coordination and decision-making process. To date, the IRCJ has purchased loans totaling approximately JPY 1 trillion (US\$9 billion), which is backed by JPY 10 trillion (US\$90 billion) guarantee from the Japanese government. The IRCJ then sells the debt acquired to investors – normally banks, investment banks, private equity funds and other business sponsors. The IRCJ recently decided to support several large-scale borrowers, including Daikyo Incorporated, The Daiei, Inc. and Misawa Homes Holdings, Inc., prior to the March 2005 deadline for it to purchase loans from Japanese Banks.

Largely as a consequence of the IRCJ’s actions to intervene in the revitalisation process, the amount of NPLs defined under the Financial Revitalisation Law (“Disclosure Loans”) of banks nationwide (being, city, long-term credit, trust, regional and 2nd tier regional banks) has decreased by 45% in 2.5 years, from JPY 43,207 billion (US\$389 billion) at its peak in March 2002 to JPY 23,791 billion (US\$214 billion) in September 2004. Of these financial institutions, city banks, long-term credit banks and trust banks, that is, the so-called “major banks”, have seen the most reduction. These major banks have actively sought to take their NPLs off-balance sheet through the transfer/disposal of such loans, which resulted in the amount of Disclosure Loans decreasing by 57% from the peak of JPY 28,385 billion (US\$255 billion) in March 2002 to JPY 12,218 billion (US\$110 billion) in September 2004. The NPL ratio has also reduced from 8.4% to 4.7%, steadily falling in line with the aforementioned target reduction. In comparison, the disposal of NPLs by non-major banks, such as regional banks and cooperative structured financial institutions, lags behind.

While much of Japan’s NPL woes appear to have been dealt with, it still remains the second largest NPL market in Asia (after China). And while some foreign investors believe it will be difficult to attain the level of investment returns seen in the past, domestic investors appear to have the appetite to today’s declining returns and dominate the market. So what has happened to the major foreign players in the Japanese NPL

market? While many remain and continue to flourish, often concentrating on single credits, many others appear to be refocusing and concentrating their efforts in other emerging non-performing loan markets, primarily in Asia and Europe.

Taiwan

New laws and regulations are on the way

Taiwan’s NPL clean-up continues, with NPL public auctions totaling around NT\$135 billion (US\$4.4 billion) in 2004, compared to NT\$197 billion (US\$6.4 billion) in 2003. Interestingly, there was no drop in the actual number of transactions year-on-year, rather lower dollar per-deal numbers. 2004’s results should also be reviewed against a back-drop of a recovery in the real estate market and generally improved operating performance by banks. According to the monthly statistics released by the Bureau of Monetary Affairs, Financial Supervisory Commission (“FSC”), total NPLs for domestic banks decreased from around NT\$631 billion (US\$20.5 billion) in December 2003 to NT\$432 billion (US\$14 billion) in December 2004. This resulted in the average overdue loan ratio decreasing from 4.33% to 2.78% in the same period.

Under continued pressure to meet the Ministry of Finance’s 5% NPL ratio policy, there were a larger number of transactions during the second half of 2004; 11 deals out of a total for the year of 13. Taiwan Cooperative Bank, Taitung Business Bank, Enterprise Bank of Hualien, Taichung Business Bank, Bank of Overseas Chinese and Taiwan Business Bank have all tapped the market again to dispose of NPLs through public auctions, seeking quick overdue loan ratio reductions before the end of 2004. There was also the first successful NPL sale by an insurance company, Shin Kong Life Insurance Co.

NPL Auctions: 2004

Seller	Approximate Size(NT\$ billion)	Winning bidder
Chung Shing Bank	51.3	TAMCO\Lone Star\GE Capital
Chinfon Bank	7.2	Orix
Chung Hsing Bills Finance Corporation	6.6	Mega AMC
Cosmos Bank	4.4	Yung Chung AMC
Taiwan Cooperative Bank	13.0	Colony
Chiao Tung Bank	3.5	Mega AMC
Shin Kong Life Insurance	6.5	Lehman Brothers
Enterprise Bank of Hualien	4.0	Orix
Taitung Business Bank	5.0	Mega AMC
Taichung Business Bank	3.8	GE Capital
Bank of Overseas Chinese	11.1	TAMCO
Jihsun Bank	5.4	Orix
Taiwan Business Bank	13.0	GE Capital
Total	134.8	

On the investor side, Taiwan Assets Management Corporation (“TAMCO”) appears to be the market leader followed by Lone Star, GE Capital and China Development Assets Management Corporation (“CDAMC”). Some investors have become more selective in their participation of public auctions and have focused their attention on private deals. Additionally, a number of investment banks, in particular, have now turned their focus to mainland China. With the fall in deal sizes, some AMCs have

started looking at potential restructuring/mezzanine financing opportunities, hoping that the expected economic recovery will result in enhanced returns. Nonetheless, we have still seen investors (both international and domestic) entering the market. For example, KAMCO, Fuban Financial Holding Company, First Financial Holding Co., and Far Eastern International Bank, all set up operations in 2004. So far, these “bank-related” AMC’s have preferred to acquire in-house portfolios from their mother banks, but it is conceivable that they may be tempted to branch out into the wider NPL auction market.

Market factors

There are also a number of other market factors and influences which are likely to impact on NPL sales in Taiwan in the near future:

- The new and more rigid loan classification standard set by the FSC will be effective on 1 July 2005. As a result, banks might again breach the 5% overdue loan ratio requirement, resulting in additional efforts to lower the ratio. The new standard might be applied to other types of financial institutions (e.g. bill finance companies), which might broaden the NPL market somewhat.
- The Legislative Yuan passed a proposal in early 2005 to permanently lower incremental land-value tax rates to 20%, 30% and 40% (from 40%, 50% and 60%, respectively). This arose from efforts, commencing in 2002, to gradually reduce tax rates to try to revamp the then sagging property market. It is expected that these reductions will stimulate trading real estate volumes and prices.
- In recent years, almost every bank has jumped headlong into the consumer and credit card loan business. However, with tough market competition coupled with the desire to build a loan book, many banks have adopted relatively loose credit approval processes. Depending on broader economic conditions, we may well see these loans going sour in the coming few years.
- There are still a significant number of mid-1990s non-performing syndicated loans waiting to be resolved. Generally, there has been little progress on these loans given the difficulties in getting a consensus from diverse and numerous syndicate members. Recently, however, it appears that banks might be more willing to resolve these problem loans and it is possible we will witness several syndication loan auctions in the near term.

Finally, we have noticed that some investors have transferred their focus to other NPL markets and are now seeking other investors to buy out their remaining NPL portfolios. Therefore, we expect to see more “inter-investor” transactions this year.

Thailand

Non-disposal strategy

The level of activity in Thailand’s non-performing loan market has slowed dramatically over the last 18 months, primarily due to banks pursuing problem credit resolution via restructuring or through transfer to AMC’s. And whilst significant amounts of NPL’s have been transferred to AMC’s, the AMC’s themselves are “working out” the loans (either through restructuring, re-scheduling or foreclosure), as opposed to offering the NPL’s for sale to the market. Now many years past the onset of the Thai financial crisis, banks continue to concentrate on restructuring large parts of their loan books, mostly through negotiations with their borrowers. We have also seen a trend towards collections through the “generally effective” but comparatively slow legal system.

Declining NPL levels

As a result of restructuring, workout and transfer initiatives, the NPL ratios at Thailand’s financial institutions has steadily declined, form a peak of 50% plus during the financial crisis, to 11.45% as at September 2004. The 2004 movement is outlined in the following table:

NPLs Outstanding

Unit: Million Baht	2004		
	As of Quarter 1 (Mar)	As of Quarter 2 (Jun)**	As of Quarter 3 (Sep)*
Private Banks	473,490	450,301	451,461
(% to total loans)	15.87	14.66	13.90
State-owned Banks	95,901	141,520	140,004
(% to total loans)	6.50	9.75	9.64
Foreign Banks (full branch)	25,240	24,944	12,063
(% to total loans)	5.61	5.36	2.33
Total Commercial Banks	594,631	616,765	603,528
(% to total loans)	12.11	12.36	11.57
Finance Companies	22,511	24,471	24,213
(% to total loans)	9.41	9.60	9.09
Total Financial Institutions***	617,142	641,236	627,741
(% to total loans)	11.98	12.23	11.45

Source: Bank of Thailand.

* Preliminary Data;

** Revised Data;

*** excluding New IBFs and Credit Foncier Companies

What is the real NPL number?

In Thailand, NPL’s are defined as loans classified as substandard, doubtful, doubtful of loss, and loss. Whilst regulators and institutions have been working toward alignment of classification guidelines to international standards, they still fall short in many respects. If International classification and provisioning norms were applied, it is likely that the reported NPL numbers for the banking sector as a whole would rise. Additionally, at the back of many commentator’s minds is whether the restructuring initiatives that have been undertaken are in fact “real”, or whether the agreements being reached are simply a deferral of deeper problems at the borrower level. Many “restructured” loans now fall outside the reported NPL numbers and whether they are ever able to return to a performing status on truly commercial terms is a matter of open debate. Only time will tell, and much depends on the continued performance of the Thai economy over the next 2-3 years. With the manufacturing sector continuing to represent the largest portion of total reported NPL’s (31.2% at September 2004), economic performance becomes an even more important factor.

Unlikely to see significant commercial NPL sales this year

With the Thai economy forecast to grow by 5-6% during 2005, and the trend towards workouts or transfers of NPL’s to AMC’s, we do not expect any significant NPL transactions for the near future. The one caveat to this is the recent downgrading of Thailand’s economic outlook by a number of local asset management companies. And while there will be scope for single credit or small groups of credit transactions, bank price expectations are anticipated to generally be high. As a result, many investors are focusing their attention for the next 12 months elsewhere in Asia, and in particular the Philippines, China and India.

Possible Retail Market sale activity?

One possible exception to the dearth of NPL activity in Thailand is in the retail loan sector. Whilst no specific sales have been announced, it is understood that one or more institutions may be moving toward a market disposal of their distressed consumer portfolios. With the inherent difficulties of restructuring personal and housing loans, it would make sense that Thailand's financial institutions eventually look to alternate resolution strategies such as bulk sales.

India

Still getting its act together

The Indian NPL market continues to make structural improvements albeit at a moderate pace. Most transactions to date involving foreign investors have remained single credits.

An increased emphasis by the Reserve Bank of India on improving asset quality and capital adequacy is causing a number of banks to focus on NPL resolution or sale as part of their efforts to obtain better valuations in the capital markets. Valuation issues due to inadequate NPL provisioning are impeding transactions, with currently only one active asset reconstruction company ("ARC") and limited availability of funds pending policy and regulatory clarifications on foreign investment in NPLs. However, keen investor interest, increased NPL provisioning requirements effective March 2006, and commencement of operations by ASREC (the second licensed ARC), auger well for market development. Moreover, the extension of stamp duty concessions on NPL transfers to more states, as well as policy and regulatory changes for foreign investors, are also keenly awaited.

As mentioned previously, the Government of India upheld the constitutional validity of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Act 2002 ("SRFAESI Act") in the Mardia Chemicals case judgment. To give effect to the Supreme Court judgment, the Government enacted the Enforcement of Security Interest & Recovery of Debt Laws (Amendment), Act 2004. A new Company Law Bill is being drafted and will include restructuring and insolvency provisions to encourage viable rehabilitations and timely redeployment of assets, where appropriate.

Other key highlights in the Indian NPL market:

- Asset Reconstruction Co (India) Ltd ("ARCIL"), jointly promoted by ICICI Bank, IDBI, and State Bank of India (the three largest lenders in India) and other banks has been operational since 2003:
 - ARCIL has acquired 203 NPLs amounting to approximately Rs. 100 billion (US\$2 billion). Due to the fragmented nature of debt in India, ARCIL has been re-packaging the debt and is now focused on asset resolution.
 - Resolution strategies are being firmed up for most large cases. Strategies currently being adopted include sale of business or assets, settlement with existing owners or restructuring of debt.
 - ARCIL has tried to auction off a number of businesses in the pharmaceutical, chemicals and real estate sectors. Bidders have included a number of large foreign investors.

- ARCIL expects to roll out another 8-10 business sales in the next few months. Average deal size is expected to be in the region of US\$20-50 million. It also expects to roll out 6-8 NPL debt sales over similar quantum over the same period.
- ASREC, promoted by Unit Trust of India and other Indian lenders, has now received its license to operate as an ARC and is likely to commence acquisitions over the next 2-3 months. Increased competition between the ARCs is generally thought to be market-positive for investors.

Korea

Corporate loans

In 2004, the market for non-performing corporate loans in Korea remained relatively inactive. In particular, improved operating results of banks reduced the number of public auctions held to sell off corporate loans and accordingly investors' activity showed signs of torpidity. However, as indicated in the deal chart below, there were exceptions to this. With its size and attractive asset portfolio consisting of loans to Jinro, leasing companies, etc., both foreign and domestic investors flocked to the Hantu transaction. Similarly, the largest deal of the year, the KEB transaction, caught the eyes of many investors with some of its loan claims related to Dong Ah Construction Industrial, which was in the midst of bankruptcy proceedings, and Korea Express, which was in court receivership.

With the conservative attitude of Korean financial institutions and signs of a domestic economy recovery on the horizon, the Korean corporate loan NPL market in 2005 looks to be a repetition of 2004 – some activity but not at the levels seen in prior years.

Credit cards

The gradual clean-up of credit card loans by domestic financial institutions over the past few years, in conjunction with improved economic conditions, has resulted in the average credit card delinquency ratio decreasing to 18% in December 2004. This resulted in fewer NPL transactions during 2004. The fall-off in transactions has also been affected by the merger of certain credit card business units into banks (e.g. Kookmin Credit Card and Korea Exchange Bank Credit Service), with banks taking a rather conservative position on the sale of non-performing consumer loans. This trend is expected to continue for the time being.

Korean NPL auctions completed in 2H 2004 and 1Q 2005

Seller	Approximate size (US\$ million)	Winning Bidder	Asset type
KEB Consortium	1,036	Foreign	Corporate loans
KDB	440	Foreign	Corporate loans
Hana Bank	135	Domestic	Corporate/ consumer loans
Kookmin Bank	900	Domestic	Card receivables
Hantu	753	Foreign	Corporate loans
IBK	567	Domestic	Corporate loans
Total	3,831		

Our Experience

PricewaterhouseCoopers is a leading advisor to both buyers and sellers of NPLs in Asia.

Some of the more significant transactions in which we have recently been involved in include:

Country	Seller	Portfolio size (US\$m)	PwC's role
China	China Orient AMC	225	Financial advisor to the seller; Post-sale loan servicing manager
		3,900	Vendor due diligence and valuation on 10 NPL portfolios
		490	Buy-side advisory and due diligence
	Great Wall AMC	700	Financial advisor to seller
		415	Buy-side advisory and due diligence
		410	Buy-side advisory and due diligence
	Huarong AMC	365	Buy-side advisory and due diligence
		2,800	Buy-side advisory and due diligence for multiple bidders
		215	Buy-side advisory and due diligence
	Cinda AMC	217	Buy-side advisory and due diligence
	Bank of China (Cayman Islands)	1,800	Buy-side advisory and due diligence for multiple bidders
Big-4 commercial bank	1,000	Financial advisor to seller	
	340	Financial advisor to seller	
China Construction Bank	500	Buy-side advisory and due diligence for multiple bidders – Settled asset auction	
	255	Transaction sourcing, structuring, deal closing assistance and post deal loan servicing advisor	
Taiwan	Chung-Hsing Commercial Bank	1,100	Financial advisor to seller
	Kaoshiung Business Bank	962	Financial advisor to seller
	Taiwan Cooperative Bank	750	Financial advisor to seller
	Land Bank	632	Buy-side due diligence and valuation
	Hwa-Nan Bank	388	Buy-side due diligence and loan sale closing services to multiple bidders
	Grand Commercial Bank	232	Buy-side advisory and due diligence
	Chinfon Commercial Bank	212	Financial advisor to seller
	Taichung Commercial Bank	153	Financial advisor to seller
Japan	Tokyo Teito Shinyo	1,905	Financial advisor to seller
	Norinchukin Bank	1,467	Financial advisor to seller
	Norinchukin Bank	476	Financial advisor to seller
	Norinchukin Bank	295	Financial advisor to seller
	Norinchukin Bank	257	Financial advisor to seller
	Norinchukin Bank	200	Financial advisor to seller
	Norinchukin Bank	25	Financial advisor to seller
	The Resolution and Collection Corporation	238	Financial advisor to seller
	NED Co., Ltd.	210	Buy-side due diligence
	Nagasaki Prefecture Shinyo Nogyo Kyodo Kumiai	143	Financial advisor to seller
Miyagi Prefecture Shinyo Nogyo Kyodo Kumiai	105	Financial advisor to seller	
JA Higashi Nagasaki and JA Shimabara-Unzen	9	Financial advisor to seller	
Korea	KEB Consortium	1,036	Foreign Financial advisor to the seller
	Hantu	135	Domestic Due diligence review and valuation
Philippines	United Coconut Planters Bank	220	Advisor to the seller
	Philippine National Bank	87	Advisor to the winning bidder
	Landbank	223	Advisor to the winning bidder
	Philippine Bank of Communications	182	Advisor to bidder
	UCPB - Acquired Assets	236	Advisor to the seller
India	ICICI Bank	20	Advisor to the seller
	ICICI Bank	80	Advisor to the buyer
	A Private Indian Bank	20	Advisor to the buyer
	A Private Indian Bank	70	Advisor to the buyer

Our NPL related services

Throughout Asia, PwC has partners and staff experienced in delivering a complete range of NPL related services, including:

Sell-side services

We act as the lead financial adviser in relation to all facets of NPL sales, including complete management of the disposal process:

- **Preparation for sale:** Portfolio review, classification and stratification; Pooling and packaging sub-portfolios to maximise their potential value; Advising on appropriate form of investor review files; Advising on appropriate marketing and disposal strategies; Preparing confidential information memoranda; Co-ordinating and managing of third party service providers such as lawyers and Asset Appraisers.
- **Investor sourcing:** Identifying potential investors for bilateral deals or public tenders; Targeting specialist investors for specific sub-portfolios/tranches.
- **Execution/completion of sale:** Managing the entire portfolio sales process; Transaction structuring; Designing appropriate bidding/sales procedures; Overseeing investor contact, including investor invitation and investor qualification; Evaluating investment proposals; Negotiating detailed terms; Co-ordinating the involvement of legal and other advisers.

Buy-side services

We offer complete advisory services tailored to meet investor requirements:

- Due diligence and negotiation support: portfolio review and valuation.
- Advising on appropriate deal structures for proposed negotiated transactions.
- Advising on accounting/tax implications of proposed structures.
- Advising on the nuances of the government approval process (if applicable).
- Assisting in the deal completion process, including assistance in securing requisite government approvals.
- Identifying potential portfolio investment opportunities.

Post-deal services

- **Portfolio Management:** Portfolio strategy advice and implementation; Managing the loan collection process; Advising on loan servicing set-up issues; Advising on issues that impact the collection process.

Dedicated Website

For more regular updates on NPL activity in Asia or Europe, or for past editions of **NPL Asia**, please visit our website:

www.pwc.com/loansales

Our Contacts

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

International team

David Edmonds, +66-2-344-1105

david.edmonds@th.pwc.com

Frank Janik, +66-1-869-6522

frank.janik@th.pwc.com

China

Michael Harris, +86-10-6505-4890

michael.p.harris@cn.pwc.com

Brian Cheung, +852-2289-2228

brian.cheung@hk.pwc.com

Ted Osborn, +852-2289-2299

t.osborn@hk.pwc.com

India

Ashwani Puri, + 91 11 5167 1513

ashwani.puri@in.pwc.com

Birendra Kumar, + 91 22 5669 1539

birendra.kumar@in.pwc.com

Viren Malhotra, + 91 22 5669 1305

viren.malhotra@in.pwc.com

Indonesia

Bharat Rao, +62-21-5212901

bharat.rao@id.pwc.com

Suwandi Wiratno, +62-21-5212901

suwandi.wiratno@id.pwc.com

Japan

Shoichi Oka, +81-3-6266-5587

shoichi.oka@jp.pwc.com

Takehito Sasaki, +81-3-6266-5574

takehito.sasaki@jp.pwc.com

Stuart King, +81-3-6266-5583

stuart.king@jp.pwc.com

Korea

Hwa-Joo Bae, +82-2-709-0916

hwa-joo.bae@kr.pwc.com

Seung-Jin Oh, +82-2-3781-9687

seung-jin.oh@kr.pwc.com

Malaysia

San Peen Lim, +60-3-2382-0908

san.peen.lim@my.pwc.com

Wai Fun Yap, +60-3-2382-0912

wai.fun.yap@my.pwc.com

Chui Sum Lee, +60-3-2382-0932

chui.sum.lee@my.pwc.com

Philippines

Charlie Francisco, +63-2-459-2006

charlie.francisco@ph.pwc.com

Cosette Canilao, +63-2-459-3145

cosette.v.canilao@ph.pwc.com

Taiwan

Hui-erh Yuan, +886-2-2729-5210

hui-erh.yuan@tw.pwc.com

Marie Cheng, +886-2-2729-5221

marie.cheng@tw.pwc.com

Thailand and Vietnam

David Edmonds, +66-2-344-1105

david.edmonds@th.pwc.com

For more information on PricewaterhouseCoopers, please visit: www.pwchk.com

©2005 PricewaterhouseCoopers. All rights reserved. "PricewaterhouseCoopers" refers to the Hong Kong firm of PricewaterhouseCoopers or, as the context requires, the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.