

The NPL Resolution Measures: Experiences of Korea and Comparison of NPL Resolution Regimes by Countries in Asia

June 4th, 2021



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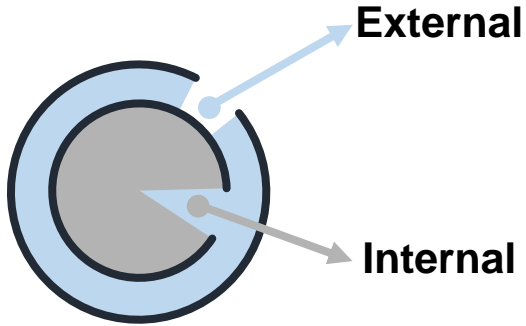
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I. KAMCO'S NPL RESOLUTION FUND

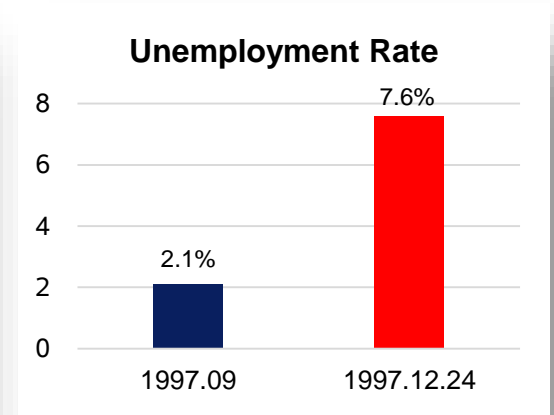
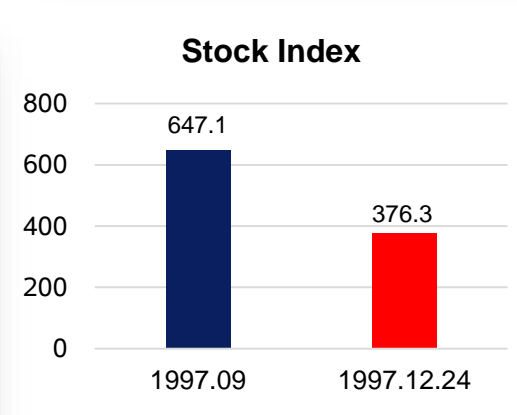
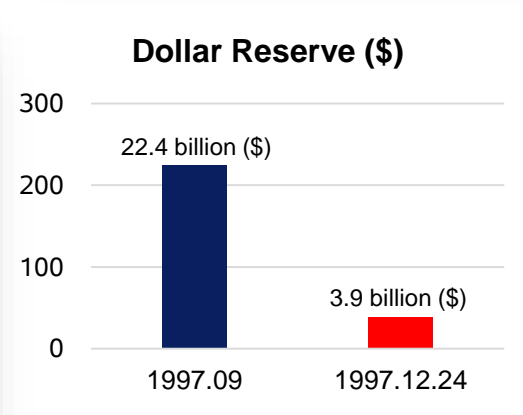
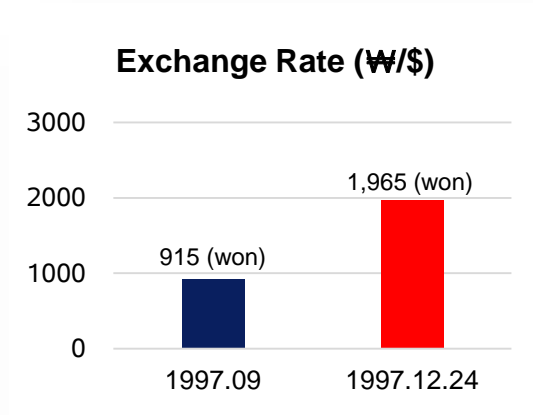
1. BACKGROUND

Major Causes of 1997 Korea's Financial Crisis



- Asian financial crisis occurs; high ratio of Asian capital loan, Foreign investors' withdrawal of investment
- Vulnerability of corporate financial and industrial structure
- Lack of credit management in financial companies
- Lack of foreign exchange reserves
- Lack of financial supervision system

Key Indicator changes during Asian financial crisis (Korea)



(Source : Ministry of Finance and Economy 'Gathering strength to overcome crisis, gathering will to an economic leap' (2002.2))

I. KAMCO'S NPL RESOLUTION FUND

2. GOVERNMENT POLICY

Financial Restructuring

Purpose & Principal

- Lifting uncertainty in financial system by removing insolvent financial companies and utilizing public fund
 - Cost minimize, establish self-responsibility & market principle
 - Establish the objectivity and rationality of restructuring, Push resolutely and rapidly

Reinforcement of Financial Restructuring System

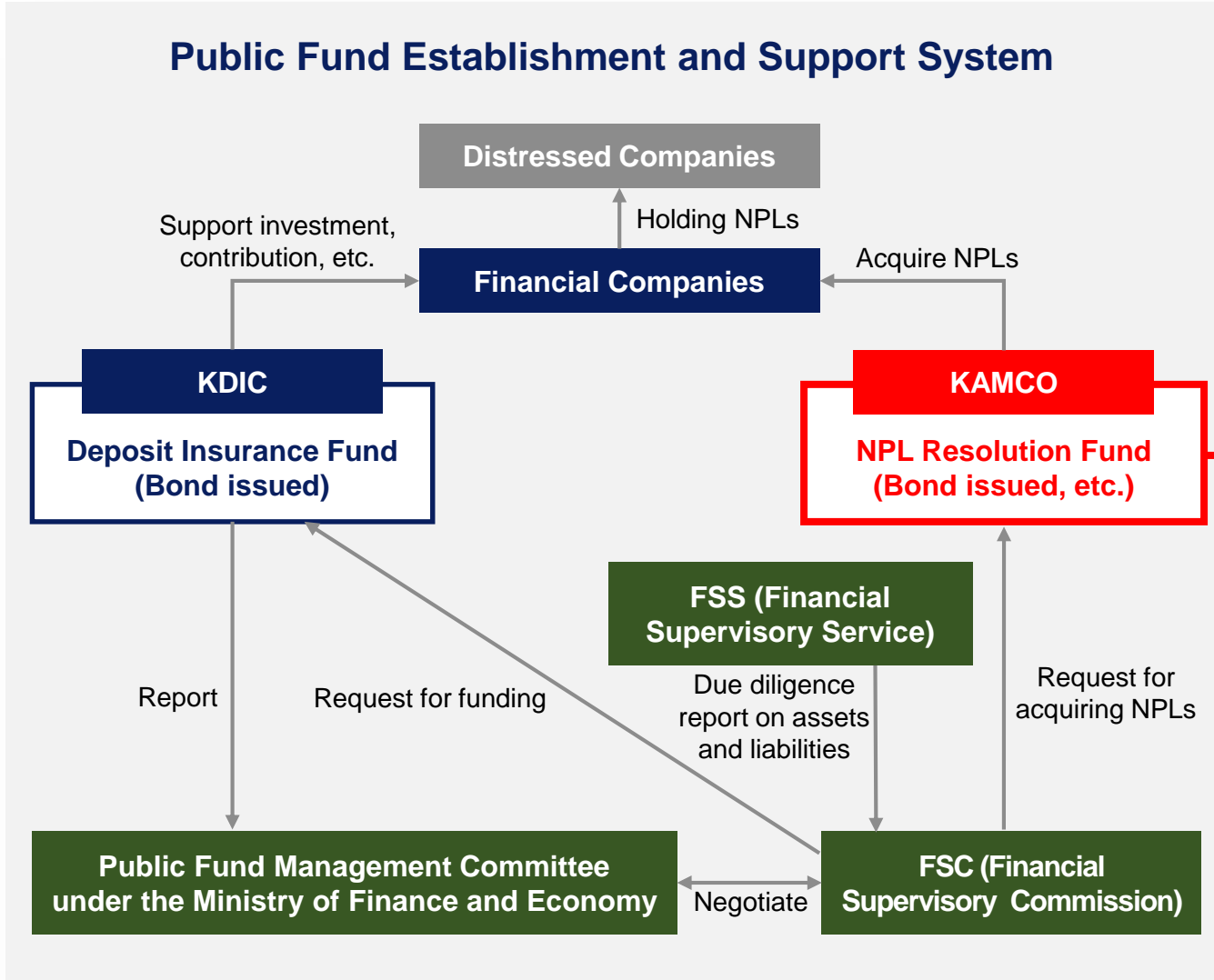
- Establishment of KAMCO to deal with NPLs (KAMCO ACT)
 - NPL Resolution Fund in KAMCO ('97.11.24)
- Establishment of Korea Deposit Insurance Corporation ('97.12.31)
- Establishment of Supervisory Commission ('98.4.1)

Restructuring of Financial Companies

- Use of Public Fund to resolve financial instability
- KAMCO : Acquiring NPLs from financial companies → Liquidity and asset quality ↑
- KDIC : Returning the deposits of the withdrawn financial company to depositors
 - Protect depositors and financial market

I. KAMCO'S NPL RESOLUTION FUND

3. NPL RESOLUTION FUND ESTABLISHMENT



Operating Period

- Funded & acquired NPL for 5 years ('97~'02)
- Operated for 15 years (until '12.11.22)

Source of Fund

- Bond issued (government guarantee)
- Financial company, Government contribution, etc.

Funding

(USD billion)	
Category	Funding
Bond issuance	18.43
KDB loans	0.45
Financial company contribution	0.54
Use of Collected NPL between '97 ~ '02	15.83
TOTAL	35.25

※ KDB : Korea Development Bank

(Source : KAMCO 'NPL Resolution fund white book' (2013.2))

4. NPL ACQUISITION PRINCIPLE AND PRICE CALCULATION

NPL Acquisition Principle

- Decision making by the government restructuring plan (Time, Scale, Method, Acquisition Ratio, etc.)
- Acquisition of NPLs based on objectivity, fairness, transparency and market price
- Efficiently manage the public fund to minimize public costs

- **Short-term Goal**
Normalizing financial intermediary functions
Restoring international credibility
- **Long-term Goal**
Improving international competitiveness of the financial industry

Price Calculation

1997.11

1998.09

Under Settlement Conditions

- Pay estimated price first → Individual settlement by debtor later
- Less pricing issue or conflict with creditors when buying NPLs (It is important to set settlement conditions in advance)
- Time-consuming / Under IFRS it is difficult to write-off until settlement is settled

Fixed Price

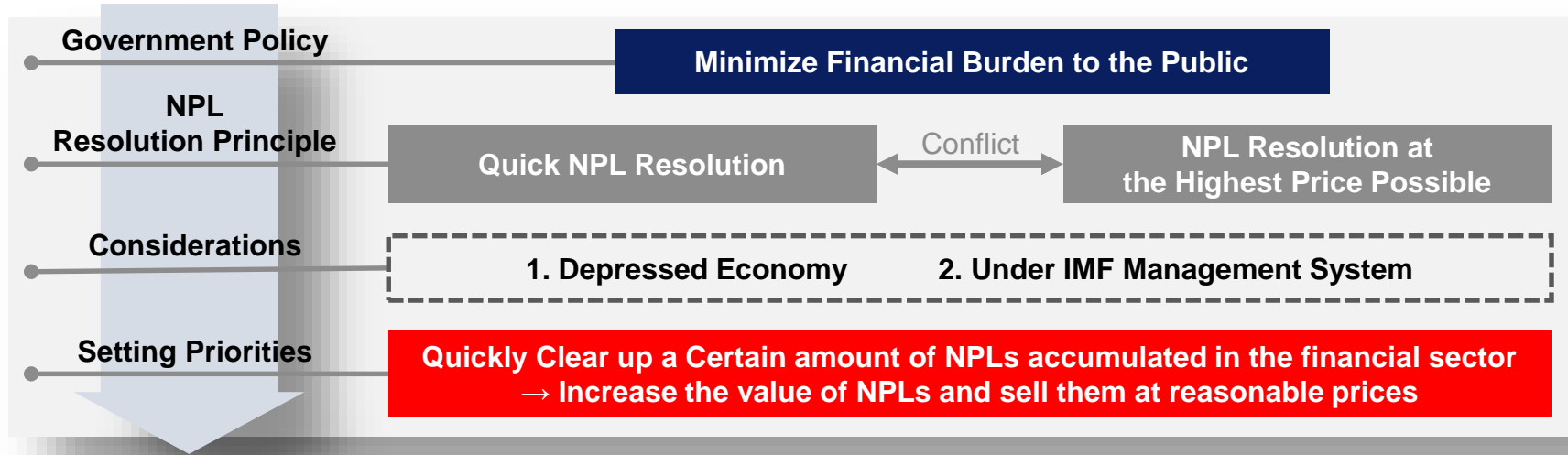
- Apply fixed purchase rate collectively
- Fast and efficient / Creditors can book-off immediately after sell NPLs → financial soundness improvement
- Pricing issue with creditors which makes creditors refuse to sell NPLs to AMCs (government intervention required)

Collective Purchase

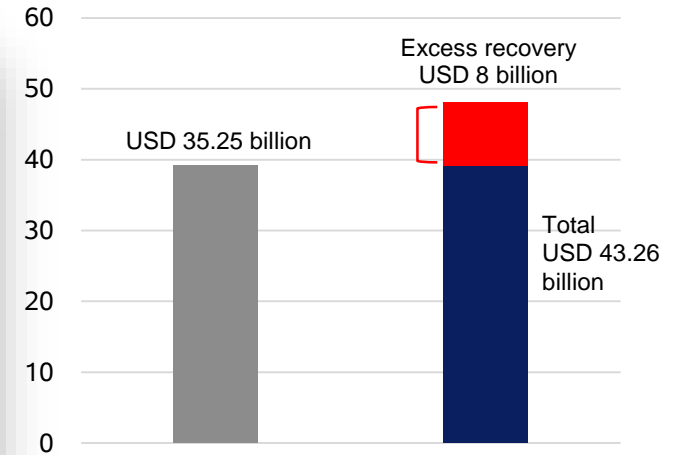
I. KAMCO'S NPL RESOLUTION FUND

5. NPL RESOLUTION PRINCIPLE AND RECORD

NPL Resolution Principle



NPL Resolution Record



NPL Recovery by Types

(USD billion)

Category	Face Value	Purchase Price	Recovery	Recovery Ratio
Ordinary Loans	29.05	8.45	10.61	125.5%
Restructured Corporate Loans	37.14	14.84	17.72	119.4%
Daewoo Loans	31.83	11.42	14.12*	123.6%
Workout Loans	2.34	0.54	0.81	150.0%
TOTAL	100.36	35.25	43.26	122.7%

* Valuation of unsold asset 1 billion included (Source : KAMCO 'NPL Resolution fund white book' (2013.2))

6. ACCOMPLISHMENT

Excess Recovery and Repayment of Public Fund

Excess Recovery

Excess amount of 8 billion USD

- Recovery rate of 123%
- Other countries : US RTC(87%), Sweden RETRIVA(86%), Finland ARSENAL(42%)
- Full repayment of public fund, minimizing public burden

Surplus Repaid

Additional 7.46 billion USD repaid

- 303% of initial funding(funding(3.68), repayment(11.14))
- Contributed to national budget, and lent the proceeds to be used for helping financially underprivileged swiftly

Allowed Early Stabilization of Financial Market

Fiscal Soundness

Fast resolution of NPLs improved fiscal soundness of the financial institutions and contributed to stabilization of the market to pre-crisis level

- BIS rate : late '97(7%) → late '02(10.5%)
- NPL rate : late '99(14.5%) → late '02(11.4%)

Creation and Development of NPL Investment Market

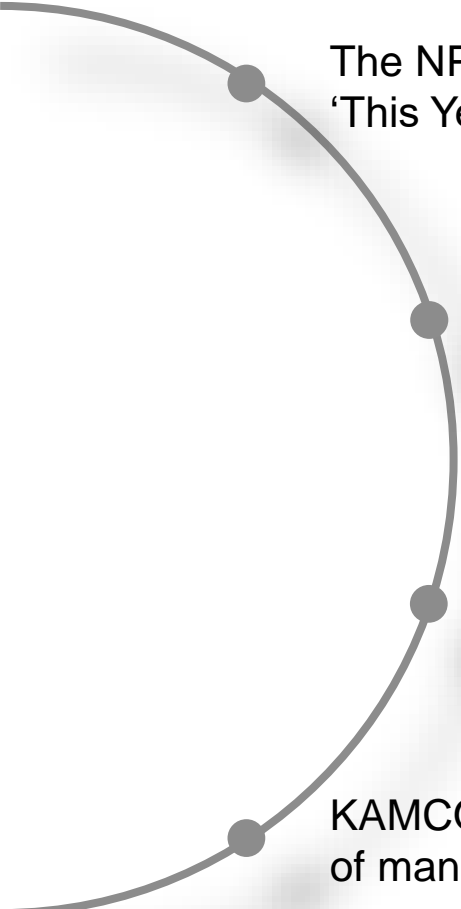
Development of NPL Market

NPLs as underlying assets of ABS introduced in Korea by KAMCO (the first in Asia)

- NPL market established with the private sector taking up the bigger shares
- The ABS mechanism has gained more popularity in Korea's domestic bond market

I. KAMCO'S NPL RESOLUTION FUND

6. ACCOMPLISHMENT



The NPL Resolution fund won 10+ awards from Asia Money, Euro Money, etc. including 'This Year's Best Restructuring Organization' award from IFR Asia in January 17, 2000.

2009 G20 Finance Ministers' conference lauded the achievement made by the NPL Resolution Fund as model for successful financial countermeasures and early termination of the crisis

Experience of NPL Resolution Fund enabled KAMCO to establish Corporate Restructuring Fund in 2009 and prevent financial crisis from spreading

KAMCO has signed business MOUs with 32 institutions in 20 countries, and spread the experiences and know-how of managing the NPL Resolution Fund to 38 foreign government institutions and public AMCs in 20 countries

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II. KAMCO'S NPL RESOLUTION METHODS & DAEWOO CASE

1. NPL RESOLUTION METHODS

NPL Recovery by Resolution Methods

(USD billion)

Category	Face Value	Purchase Price	Recovery	Recovery Ratio
International Bidding	5.49	1.17	1.53	130.7%
ABS Issuance	7.82	4.14	4.68	113.0%
JV-AMC·CRC	4.32	0.99	1.53	154.5%
ILB*·M&A	3.15	0.72	1.17	162.5%
Restructuring(CRV)	31.12	7.01	13.31	189.7%
Others	48.46	21.22	21.04**	99.2%
TOTAL	100.36	35.25	43.26	122.7%

* Individual Loan Bidding ** Valuation of unsold asset 1billion included

(Source : KAMCO 'NPL Resolution fund white book' (2013.2))

1. NPL RESOLUTION METHODS

International Bidding | ABS Issuance | JV-AMC-CRC | Restructuring

Definition

- Form appropriate disposal unit of selected NPLs as a selling pool and sell them to domestic and foreign investors in accordance with the international competitive bidding procedure

Background

- External → IMF's bailout condition (Resolution of 50% bond in hand by 3 years)
- Internal → Needs for funding to acquire additional NPLs
 - All financial companies, including domestic banks, were experiencing a liquidity crisis, so there was no proceeds available to invest in NPLs

Achievement

- Closing of total 7 international biddings from September 1998 to July 2000
- Resolution of massive target NPLs in a short period of time
- With an improvement of its financial credibility, Korea's NPL market emerged as foreign investors' new investment destination
- Allowed reinvestment of the proceeds made available from international transactions and contributed to the financial market stability in the initial stage of the fund management

II. KAMCO'S NPL RESOLUTION METHODS & DAEWOO CASE

1. NPL RESOLUTION METHODS

International Bidding | ABS Issuance | JV-AMC-CRC | Restructuring

Outright Sale

Appropriate disposal unit of selected NPLs as a selling pool and sell by individual bidding

Equity Partnership

The owner of the asset and the investors set up SPC and share profits by proportion to equity ratio

Residual Retention Scheme

Investors and asset owners distribute remaining additional profit that has arisen after the transaction

Typical Process of International Bidding

1 Selection of target assets

No legal dispute, transferable to a successful bidder or SPC, no issues attached when exercising security rights after transfer

3 Send CIM

(Confidential Information Memorandum)
Only to qualified investors who are interested in the bidding

5 Due Diligence

Data Room provided by KAMCO
Loan cause document

7 Bid execution and Selection of successful bidder

Investor with the highest bid

1
Send invitation Letter

2

3

4
Receive LOI
(Letter Of Intent)

4

5

6
Specify Cut-off-Date
Designate specific date when the price of target assets are set

6

7

8
Closing
Contract signing and asset transfer

8

II. KAMCO'S NPL RESOLUTION METHODS & DAEWOO CASE

1. NPL RESOLUTION METHODS

International Bidding | **ABS Issuance** | JV-AMC-CRC | Restructuring

Definition

- Securitization of assets : Asset holder transfer the assets to SPCs and SPCs issue ABS based on the transferred assets resulting in sale of ABS and liquidation

Background

- Liquidating asset at the early stage was necessary in order to accumulate more proceeds for subsequent NPL acquisitions
- Needed new channels to liquidate NPL stocks that are not appropriate for international bidding more quickly and efficiently

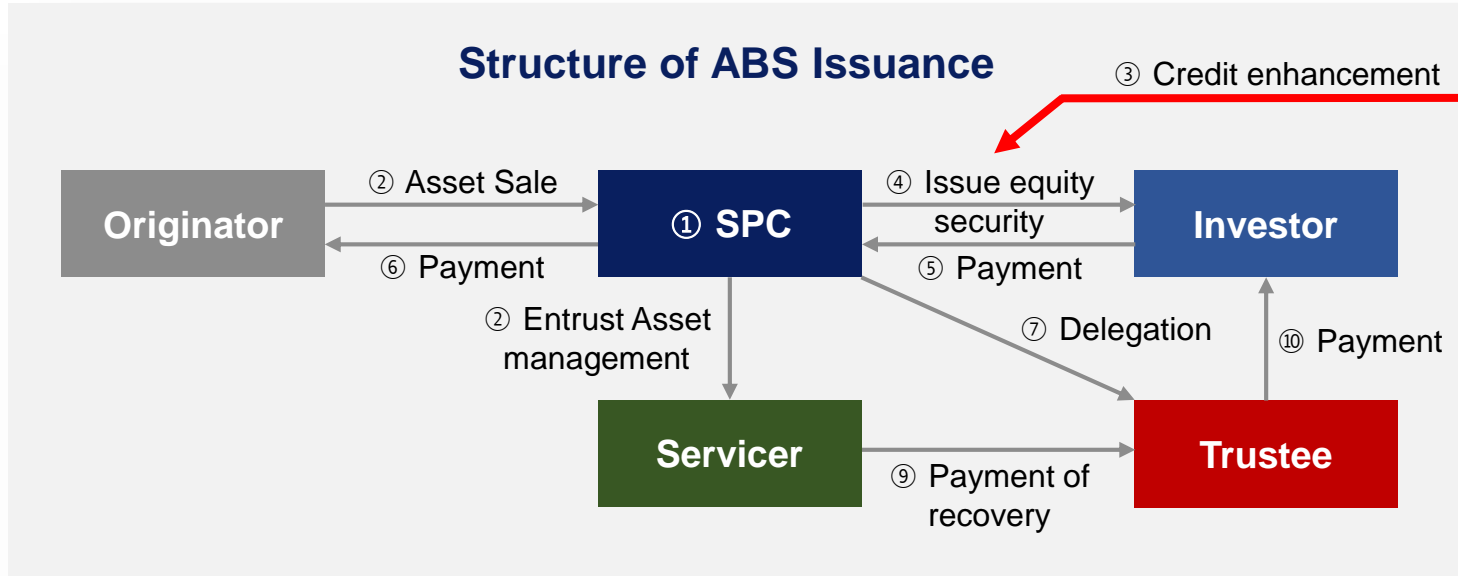
Achievement

- Successful closing of total 17 ABS issuances('99.06 ~ '03.08)
- The first NPL backed ABS issuance in Korea
- Coming into force of 「Asset-Backed Securitization Act」 (1998) in Korea, conceived by KAMCO
- Spread into other Asian countries as a way of resolving NPLs (including China)

II. KAMCO'S NPL RESOLUTION METHODS & DAEWOO CASE

1. NPL RESOLUTION METHODS

International Bidding | **ABS Issuance** | JV-AMC-CRC | Restructuring



- Loans subject to redemption
High stability of repayment (principal and interest)
- Credit Facility by Trustee
In case of a temporary shortage of repayment to the investor
- ABS divided into senior and subordinated bonds
Senior bonds to investor, subordinated bonds to KAMCO
Stability for investor, additional returns for KAMCO

PROs

- As distressed assets securitized as underlying assets, liquidity increases and financing cost becomes lower
- Financial structure can be improved as there is no need to record it as liability
- Enabled to invest the financial products serving high returns provided with credit enhancement

CONs

- Complicated transaction structure
- Additional costs can occur if the size of securitized assets is not large enough or asset management skillset is not provided properly
- If the servicer's asset managers are lack of required skillset, the risk may go up

II. KAMCO'S NPL RESOLUTION METHODS & DAEWOO CASE

1. NPL RESOLUTION METHODS

International Bidding | ABS Issuance | **JV-AMC-CRC** | Restructuring

Definition

- KAMCO and the investors set up a Joint Venture(JV) and transfer NPLs to the JV to entrust asset management and disposal of those NPLs, thereby sharing the surplus profits according to the investment ratio

Background

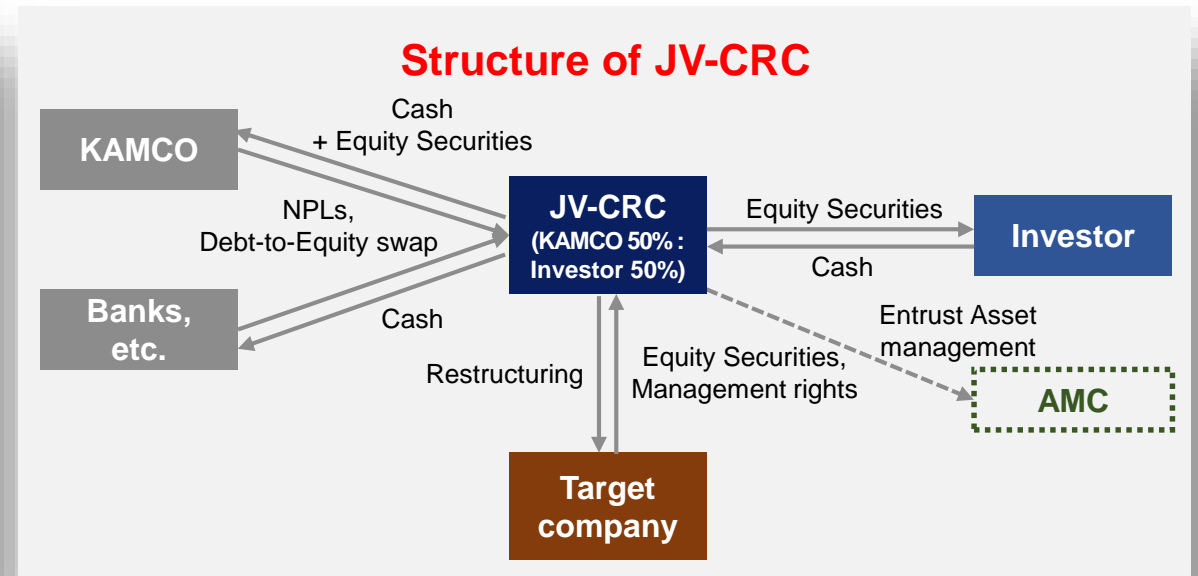
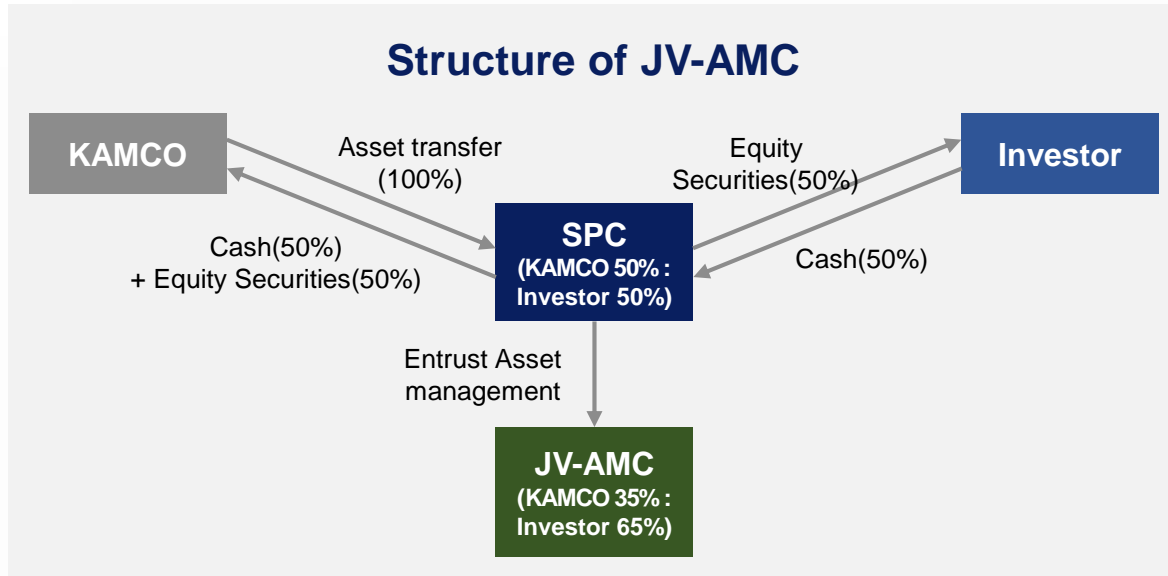
- To prevent possible loss on an outright sale
- Resolving illiquidity due to the delayed resolution of NPLs
- To learn professional asset management know-how from foreign partner and impart the knowledge to the Korean market

Achievement

- Successful establishment of total 8 times of JV-AMCs(4) and JV-CRCs(4) establishment
- Generate higher recovery rate compared to other
- Loan recovery maximization was possible by the profit distribution structure that shares surplus profits according to the investment ratio

1. NPL RESOLUTION METHODS

International Bidding | ABS Issuance | **JV-AMC-CRC** | Restructuring



COMMON

- Establishing Joint Venture with foreign investment companies
- To encourage foreign investors to participate in domestic NPL market
 - To learn and introduce advanced NPL resolution experience

DIFFERENCE

- Target assets for sale and management method
- AMC - Manages NPLs and real estate assets and arranges them mainly for disposal
 - CRC - Attempts to sell corporate NPLs and shares through restructuring and normalization of management

II. KAMCO'S NPL RESOLUTION METHODS & DAEWOO CASE

1. NPL RESOLUTION METHODS

International Bidding | ABS Issuance | **JV-AMC-CRC** | Restructuring

Category	AMC	CRC
Applicable act	Asset-Backed Securitization Act	Industrial Development Act
Establishment	FSC registered asset holder, credit information holder or firm with capital of 1 billion KRW or more, firm of certain employment size SPC is LLC according to the law	Registered to Ministry of Industry and Resources as corporation with capital size of more than 7 billion KRW
Investment	NPL, debt, securities, real estate	NPL, potential restructuring company's share & asset
Key activities	<ul style="list-style-type: none"> • Evaluation of asset value • Plan management, disposal of asset • Management and development of real estate • Debt collection, credit check, auction • Other SPC businesses 	<ul style="list-style-type: none"> • Acquisition and normalization of distressed firms • Investment, loan and equity swap of distressed asset • Acquisition of distressed firms' real estate, facilities etc. • Acquisition of NPL owned by financial institutions, KAMCO • Liquidation, settlement, mediation of M&A, acting agency for bankruptcy
Asset management	Direct management of assets entrusted from SPC	<ul style="list-style-type: none"> • CRC manages assets directly • AMC manages CRC jointly invested by KAMCO(1st~3rd JV-CRC)
Asset transfer	Sale to SPC or investment in kind	Sale or investment in kind
Payment method for asset transfer	Cash, SPC bond or share	Cash primarily(CRC bond or share for KAMCO)
Procurement	Limited fund procurement for SPC	<ul style="list-style-type: none"> • Corporate bond < 10 times the sum of capital & reserve • Loan < 2 times the agreed investment amount
Purpose	Increase future asset value, attract investment, spread advanced asset management technique	Increase future asset value, attract investment, spread advanced restructuring technique

II. KAMCO'S NPL RESOLUTION METHODS & DAEWOO CASE

1. NPL RESOLUTION METHODS

International Bidding | ABS Issuance | JV-AMC-CRC | **Restructuring**

Establishment of CRV

- Collect distressed assets(debt, debt-to-equity swap, etc.) belonging to a company under Workout process into one pool
- Promote business normalization by entrusting assets to AMC and distribute any profits to shareholders

Sale of Debt-to-Equity Swapped Shares

- Promote normalization of promising business through debt to equity swap
- Most widely used finance restructuring method

Definition

- Conflict of interest between creditor institutions, lack of expertise in managing companies under Workout process
- With CRC structure, it was difficult to take over and restructure large companies due to the small capital and the limitations of funding

Background

- Financial restructuring to support rehabilitation
- Maximize recovery amount through revaluating shares

Enhancing corporate value through active restructuring

Achievement

Increase of equity value through normalizing business

The two methods have created a synergy effect, showing a higher recovery rate than other resolution methods

II. KAMCO'S NPL RESOLUTION METHODS & DAEWOO CASE

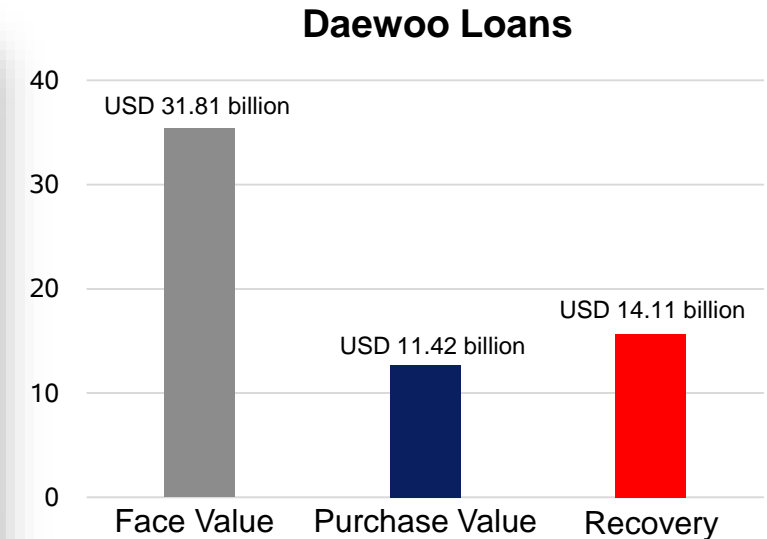
2. NPL RESOLUTION CASE (DAEWOO GROUP AFFILIATES)

Background

Daewoo Group expanded its business by commencing global operations in 1993 but faced a management crisis due to the prolonged recession and contraction of global market. It entered workout process after failing to achieve restructuring on its own and due to excessive borrowings.

How we handled

- Difficulty in restructuring due to multiple creditors → **Debt pooling**
- Difficulty in sale due to massive asset size → **Company spin-off**
- A mix of insolvent businesses and normal businesses → **Business restructuring**
- Delays in normalization due to excessive debt → **Financial restructuring**
- Recovery of public funds were uncertain → **Joint sales of stocks in possession(M&A)**



II. KAMCO'S NPL RESOLUTION METHODS & DAEWOO CASE

2. NPL RESOLUTION CASE (DAEWOO GROUP AFFILIATES)



Purchase of Domestic NPLs

(USD billion)

Investors	Number of Institutions	Loan Amount	Purchased Price
Investment Management Companies	23	16.63	5.76
Bank	30	10.51	3.77
Total		27.14	9.53

Purchase of Overseas NPLs

(USD billion)

Investors	Number of Institutions	Loan Amount	Purchased Price
Foreign Financial Institution	386	4.67	1.89

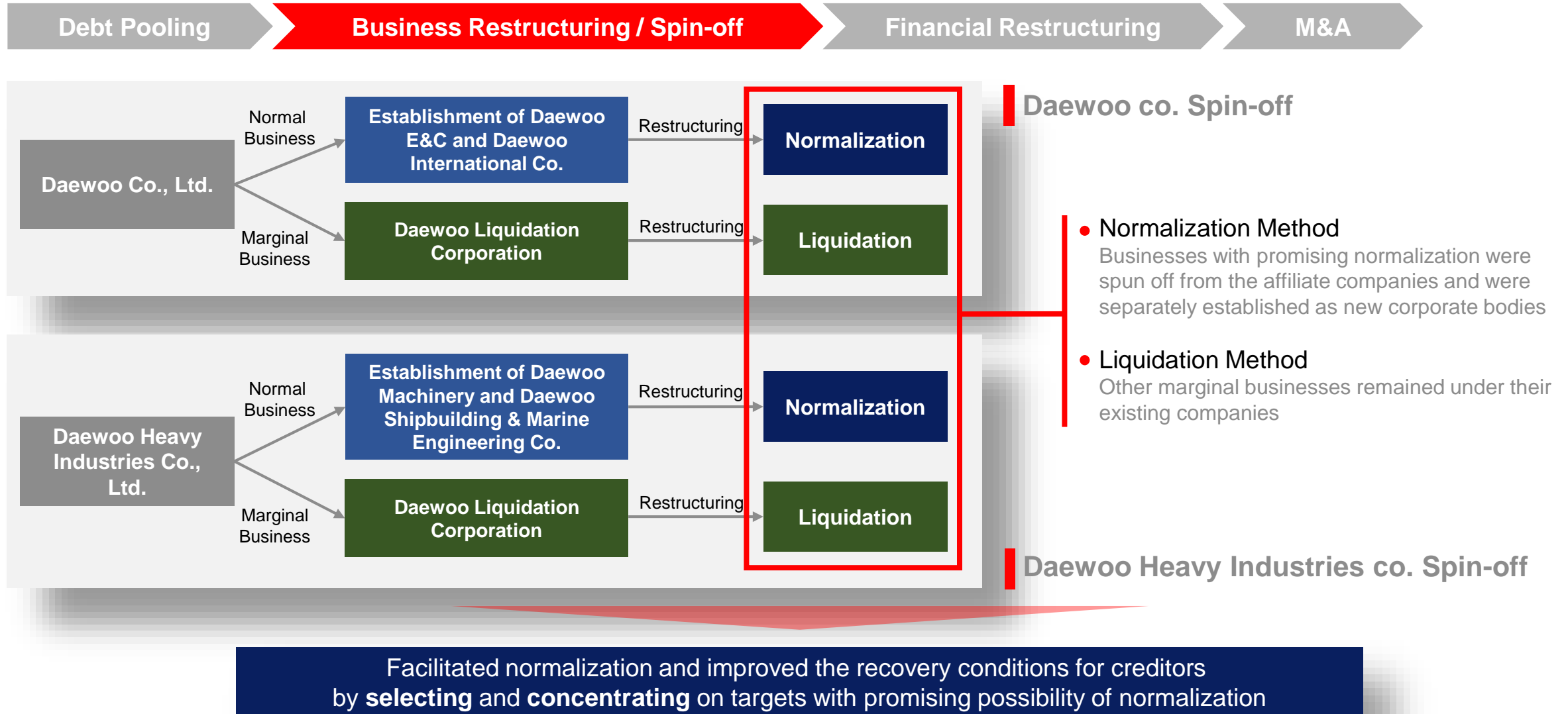
Background of Purchasing Overseas NPLs

To prevent delays in restructuring that might have been caused by a possible dispute resulting from foreign creditors' demand for distribution of profits, etc.

Debt pooling to create a condition necessary for a efficient and consistent restructuring process

II. KAMCO'S NPL RESOLUTION METHODS & DAEWOO CASE

2. NPL RESOLUTION CASE (DAEWOO GROUP AFFILIATES)

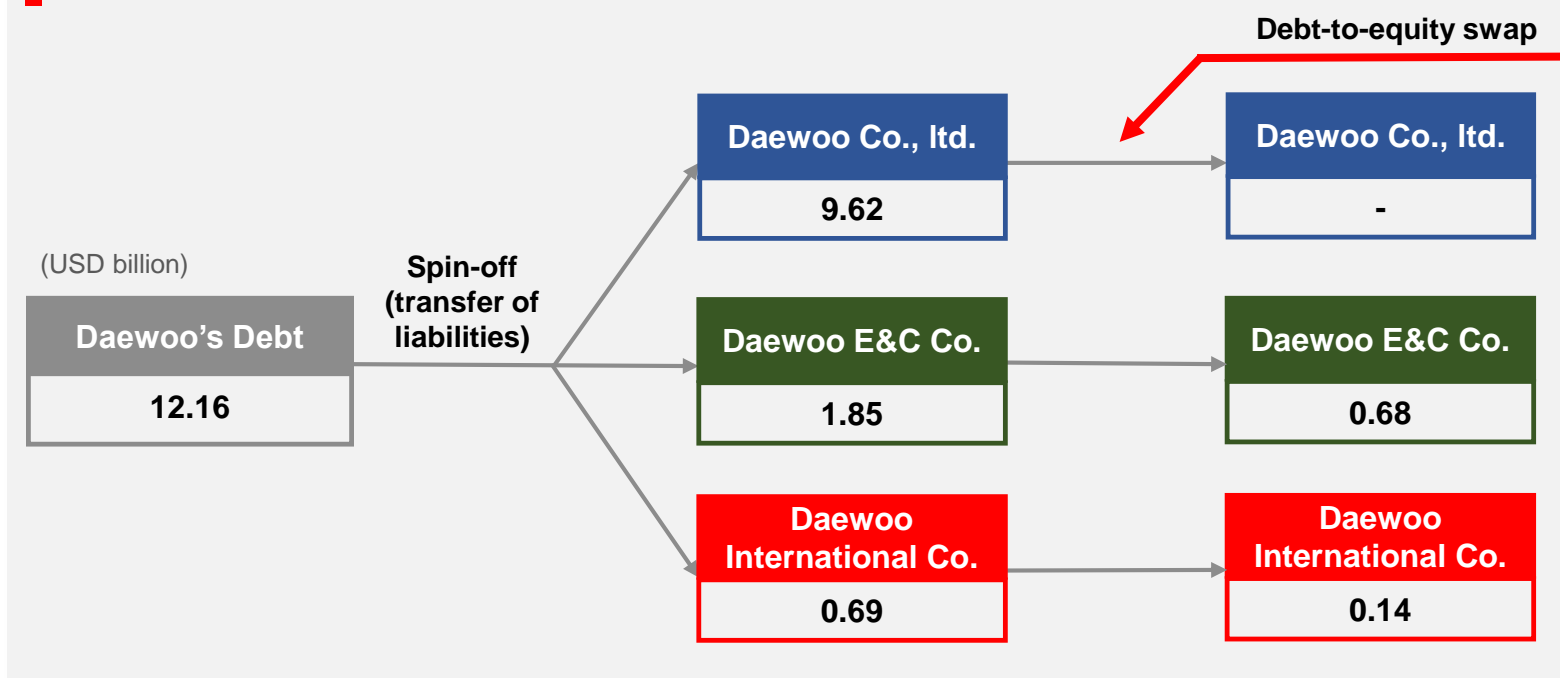


II. KAMCO'S NPL RESOLUTION METHODS & DAEWOO CASE

2. NPL RESOLUTION CASE (DAEWOO GROUP AFFILIATES)



Daewoo Co. Spin-off & Debt-to-Equity Swap



- **Debt-to-equity Swap**
Creditors offered debt-to-equity swap to the newly established corporations subject to normalization to improve the financial structure
→ Improved debt ratio and reduced financial costs

- **New Funds**
New funds provided to promote normalization of management

- **Interest Coverage Ratio**
= Earnings Before Interest and Tax(EBIT) / Interest expense
→ If "Interest Coverage Ratio < 1", debt-to-equity swap is carried out

Recovery rates tend to be higher if business becomes successfully restructured in tandem with debt-to-equity swap and that in turn contributes to value enhancement of the investee companies

II. KAMCO'S NPL RESOLUTION METHODS & DAEWOO CASE

2. NPL RESOLUTION CASE (DAEWOO GROUP AFFILIATES)



(USD billion)

Category	M&A of Daewoo E&C	M&A of Daewoo International	M&A of Daewoo Machinery
Debt-to-equity swap	0.68 (Share ratio : 44.4%)	0.14 (Share ratio : 35.5%)	0.53 (Share ratio : 30.6%)
Joint sale	The divestment committee (9 companies) (Share ratio : 72.1%)	The divestment committee (9 companies) (Share ratio : 68.1%)	IBK (Share ratio : 51%)
Acquirer	Kumho Asiana Consortium (Dec. 2006)	POSCO (Sept. 2010)	Doosan Heavy Industries Consortium (April. 2005)
Proceeds from Sale	5.76 (3.51 recovered by KAMCO)	3.06 (1.53 recovered by KAMCO)	1.44 (0.99 recovered by KAMCO)

Maximize recovery value
by **divesting management control**

- **At least 50%**
Joint sale of “at least 50%” of the total issued shares by creditors
→ Formation of the Divestment Committees

With the increased value of the newly established corporate units, the **joint sale** of the creditors' shares from the **debt-to-equity swap** resulted in **enough profits to offset the losses from the liquidated companies**

II. KAMCO'S NPL RESOLUTION METHODS & DAEWOO CASE

3. SUMMARY

Comparison of NPL Resolution Methods Applied by Year

	International Bidding	ABS Issuance	JV-AMC-CRC	Restructuring(CRV)
Introduction time	1998	1999	2000	2001
Background	<ul style="list-style-type: none"> • IMF's bailout condition • Not enough domestic liquidity available to invest in massive NPLs 	<ul style="list-style-type: none"> • To reserve proceeds for subsequent NPL acquisitions 	<ul style="list-style-type: none"> • To prevent possible loss on an outright sale • To learn professional asset management skillset from foreign investors 	<ul style="list-style-type: none"> • To overcome CRC's limitations • To learn professional asset management skillset from foreign investors
Merits	<ul style="list-style-type: none"> • Broaden potential buyer pool → NPL price increase • Massive resolution of NPLs 	<ul style="list-style-type: none"> • Quick and Efficient way to liquidate assets 	<ul style="list-style-type: none"> • Sharing surplus profits according to the investment ratio is possible 	<ul style="list-style-type: none"> • Enhancing corporate value through active restructuring → higher recovery rate • Strengthening fiscal soundness and corporate competitiveness
Conditions	<ul style="list-style-type: none"> • Transparency and transaction standards required by foreign investors • Relevant legislation required (foreign investor-friendly system) 	<ul style="list-style-type: none"> • Relevant legislation required 	<ul style="list-style-type: none"> • Relevant legislation required 	<ul style="list-style-type: none"> • Securing majority shares is essential for smooth restructuring decisions (eg. Debt-to-equity swap)
		<ul style="list-style-type: none"> • Transaction structures are complex and additional costs can occur if the asset management know-how is not properly applied 		
Applicable act	<ul style="list-style-type: none"> • Act on Contracts to which the State is a Party, etc. 	<ul style="list-style-type: none"> • Asset-Backed Securitization Act 	<ul style="list-style-type: none"> • Asset-Backed Securitization Act • Industrial Development Act 	<ul style="list-style-type: none"> • Corporate Restructuring Investment Companies Act

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III. COMPARING NPL RESOLUTION REGIME BY COUNTRY

1. Overview

‘Resolving Insolvency’ by Country : Time, cost, outcome and recovery rate for a commercial insolvency and the strength of the legal framework for insolvency

Economy	Rank (1-190)	Score (0-100)	Recovery Rate (cents on the dollar)	Time (years)	Strength of insolvency framework index (0-16)
Vietnam	122	38.0	21.3	5.0	8.5
Mongolia	150	30.1	18.2	4.0	6.5
China	51	62.1	36.9	1.7	13.5
Korea, rep.	11	82.9	84.3	1.5	12.0
East Asia & Pacific (Total 25)	105	40.9	35.5	2.6	7.0

(Source : World Bank ‘Doing Business 2020’ (as of May 2019))

Common Ground

- China, Mongolia, and Vietnam have been moving from **centrally planned economy** to **market economy** and their economies have been on the rapid growth
- The NPL environment of each country has been changed according to the economic transition and policy changes

Comparing the NPL resolution regime of these countries will provide meaningful implications to policymakers

III. COMPARING NPL RESOLUTION REGIME BY COUNTRY

2. CHINA'S NPL RESOLUTION REGIME

1990

- Since mid-1990's, the insolvency of state-owned enterprises has been concentrated on the state-owned banks
- The NPL ratio of the 4 big state-owned banks except for Construction Bank constantly **exceeded 20%** 1999-2002
- In response, the Chinese government invested public funds and established the AMCs, which are responsible for handling NPLs of the 4 big state-owned banks

2003

- Established China Banking Regulatory Commission* to manage and exercise supervisory authority over financial companies (* later China Banking and Insurance Regulatory Commission)
- Introducing the competitive bidding method for NPLs, and the government agencies manage and supervise the bidding process
- Write-off of NPLs on a large scale (2004,2005,2008)

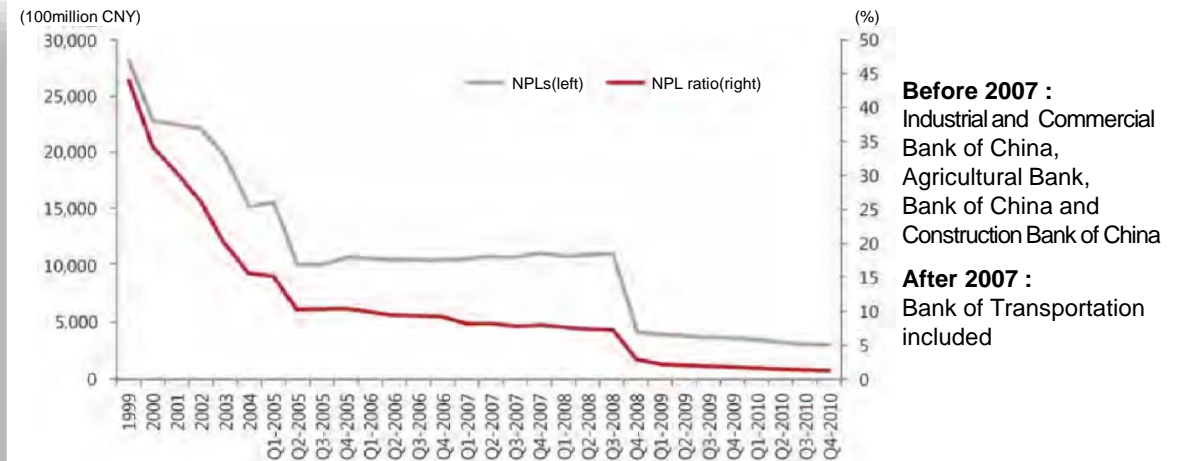
Performance of the 4 big state-owned AMCs (1999-2006)

(100 million CNY, %)

AMC	Capital	Purchase	Resolution	Resolution Rate	Recovery	Recovery Rate
Great Wall	100	3,458	2,707.8	78.31	278.3	10.28
Huarong	100	4,077	2,468.0	60.53	546.6	22.15
Orient	100	2,674	1,419.9	53.10	328.1	23.11
Cinda	100	3,730	2,067.7	55.43	652.6	31.56

(Source : KDB monthly report 616th issue, Kim Dae Hwan (2007))

China State owned commercial banks' NPLs and NPL ratio



(Source : China's financial yearbook (2003), China banking and insurance regulatory commission's website)

III. COMPARING NPL RESOLUTION REGIME BY COUNTRY

2. CHINA'S NPL RESOLUTION REGIME

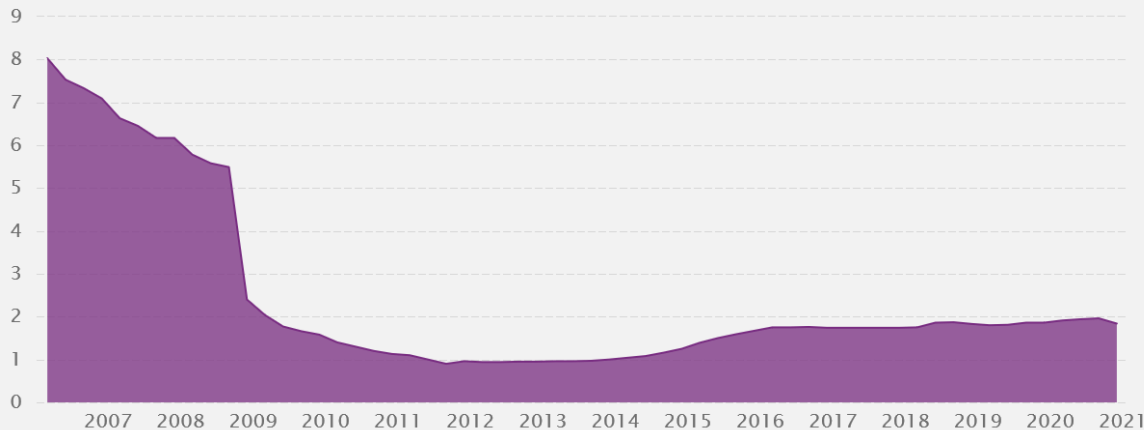
2007

- After the global financial crisis, shadow financing expanded due to tightened regulations on bank loans, raising concerns about potential financial insolvency.
- Shadow financing includes non-bank financial institutions (NBFIs)' financing and banks' off-balance sheet financing
- In response the Chinese government established local AMC's in each region to allow the acquisition and disposition of local NPLs

2016

- The policy to suppress financial risk continues even in the face of insufficient corporate performance due to slowdown in the real economy and trade disputes with the United States
→ The scale of NPLs in banking sector increased again, and the problem of insolvent in financial companies such as small and medium-sized banks also emerged.
- The government resumed the debt-to-equity swap of NPLs for the first time in 17 years
- Resume issuance of ABS backed by NPLs
(A total of 76 cases as of the end of August 2019, the amount issued was 47.63 billion CNY)

NPL Ratio in China



(Source : CEIC)

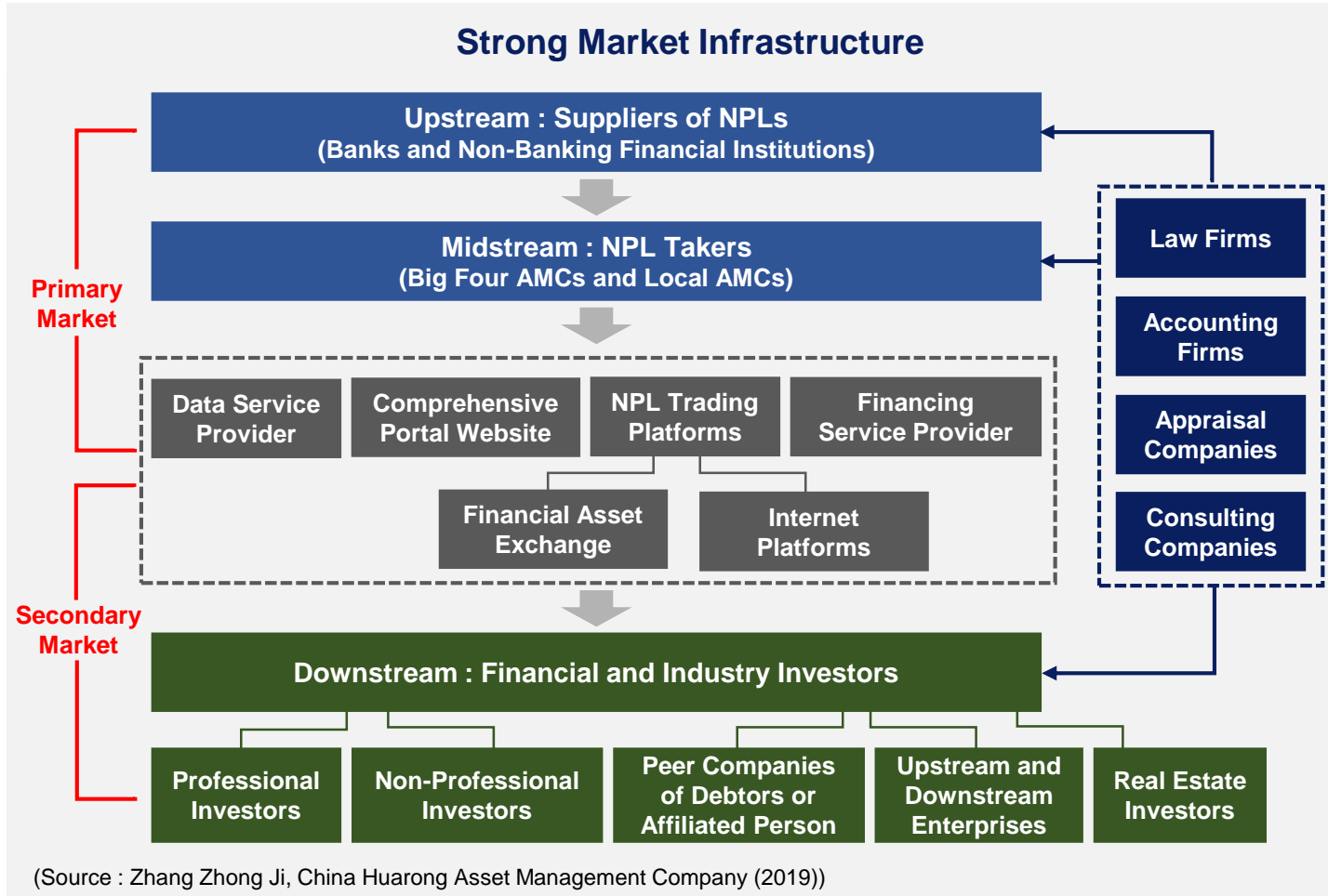
Market based policy

- Created an efficient market for NPL resolution
- For the last 20 years, each AMC's has relatively successfully resolved NPLs, and aims to grow into an internationalized modern financial group by establishing a diversified management structure

III. COMPARING NPL RESOLUTION REGIME BY COUNTRY

2. CHINA'S NPL RESOLUTION REGIME

Present



Changes in the Judiciary

After the 18th National Congress, it has been suggested to reform the legal system to an advanced level

One approach of which was to establish a special court, to conduct screening on banks' NPLs and to build an NPL assessment system.

Changes in the Execution

(Technology) Established an online examination & control system in which one can perform examination and attachment of properties

(Judiciary) Made official announcements about attachment, security right, and judicial interpretations on the online auction laws, preservation of property, etc. to reduce ambiguity in the execution process

(Systematic Reformation) Judges now undertake life-long responsibilities to reduce interferences from the government or high officials

III. COMPARING NPL RESOLUTION REGIME BY COUNTRY

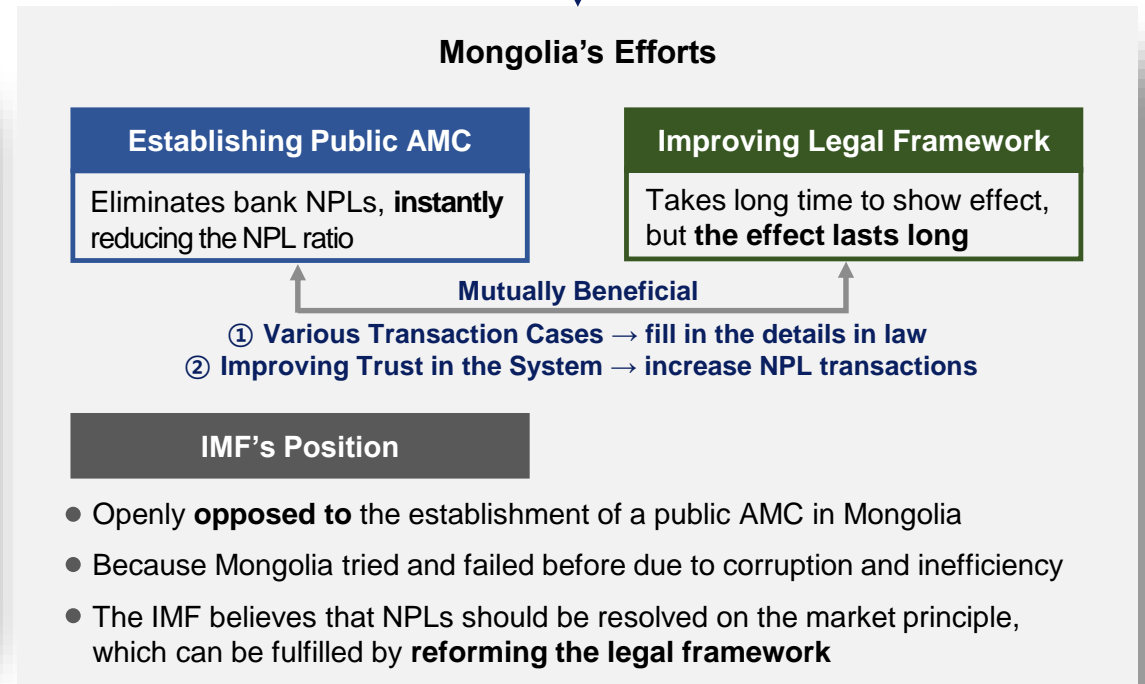
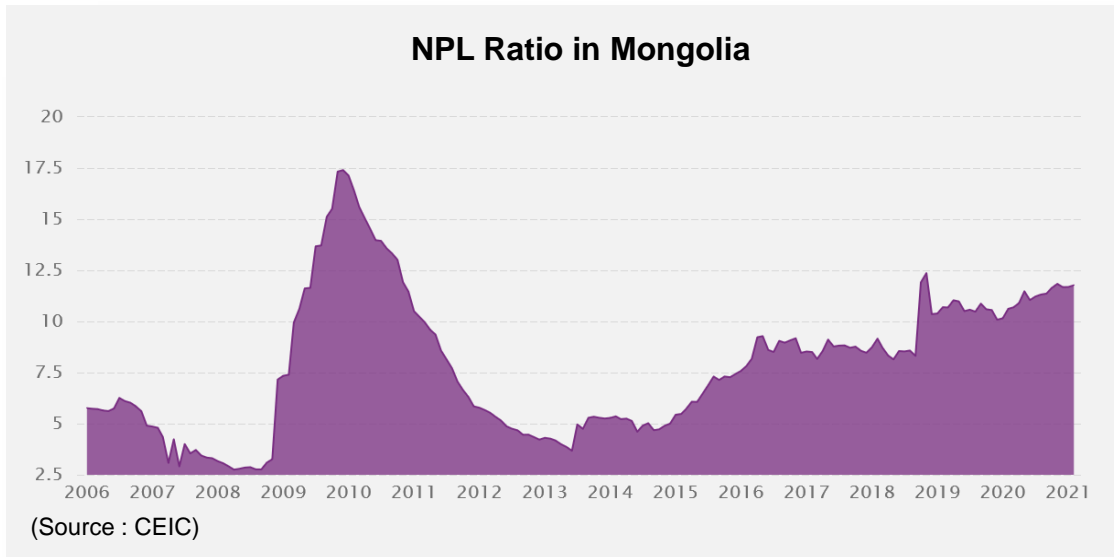
3. MONGOLIA'S NPL RESOLUTION REGIME

2013

- Mongolia's economy relies heavily on mineral exports
- In addition to the increase in Mongolia's NPL ratio in 2013, the price of minerals plunged in 2016, resulting in an economic crisis

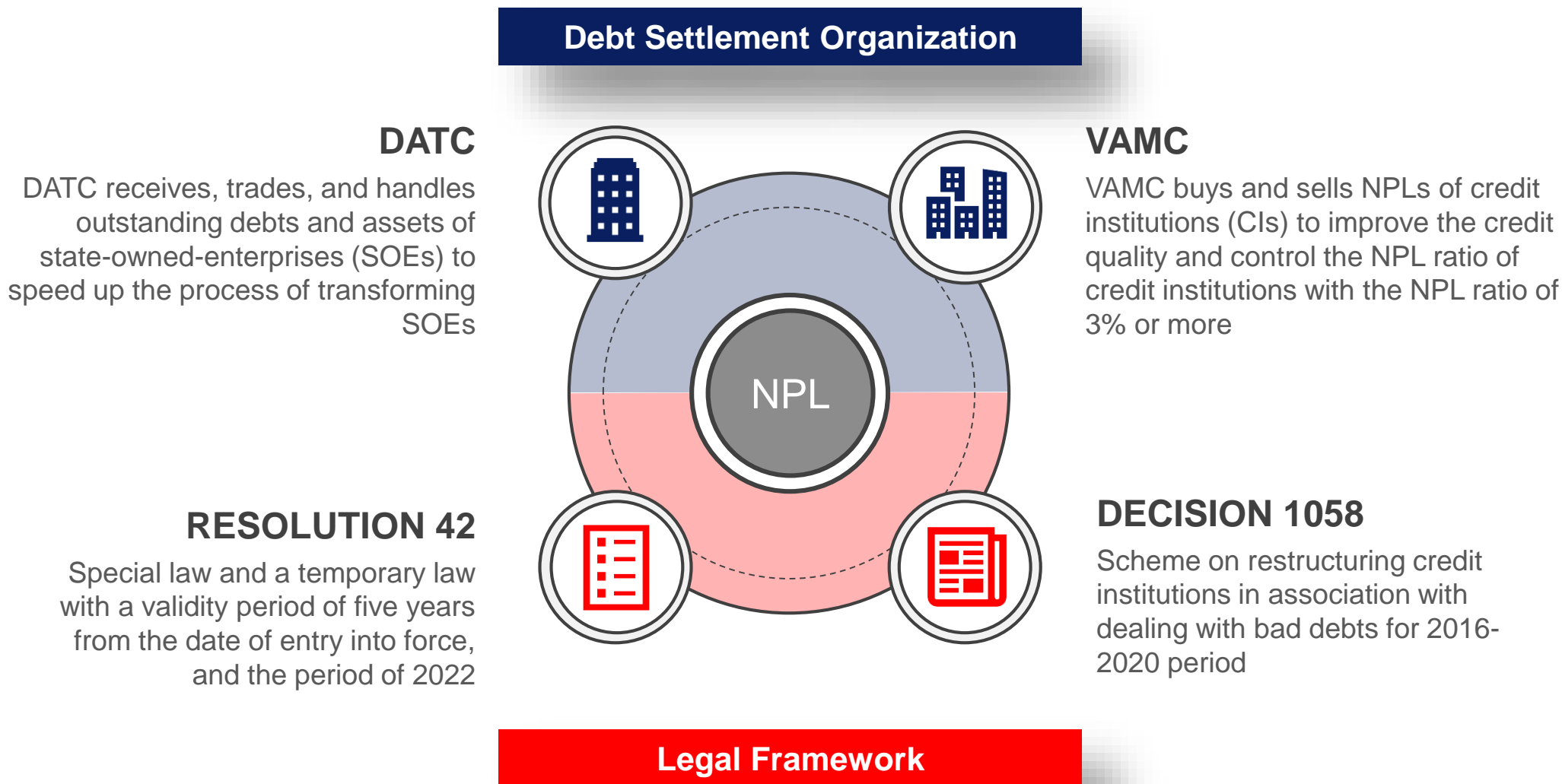
2017

- Mongolia received bailouts of USD 5.5 billion from the IMF and other international organizations in 2017
- Mongolia also agreed to make certain structural reforms including strengthening the troubled banking sector



III. COMPARING NPL RESOLUTION REGIME BY COUNTRY

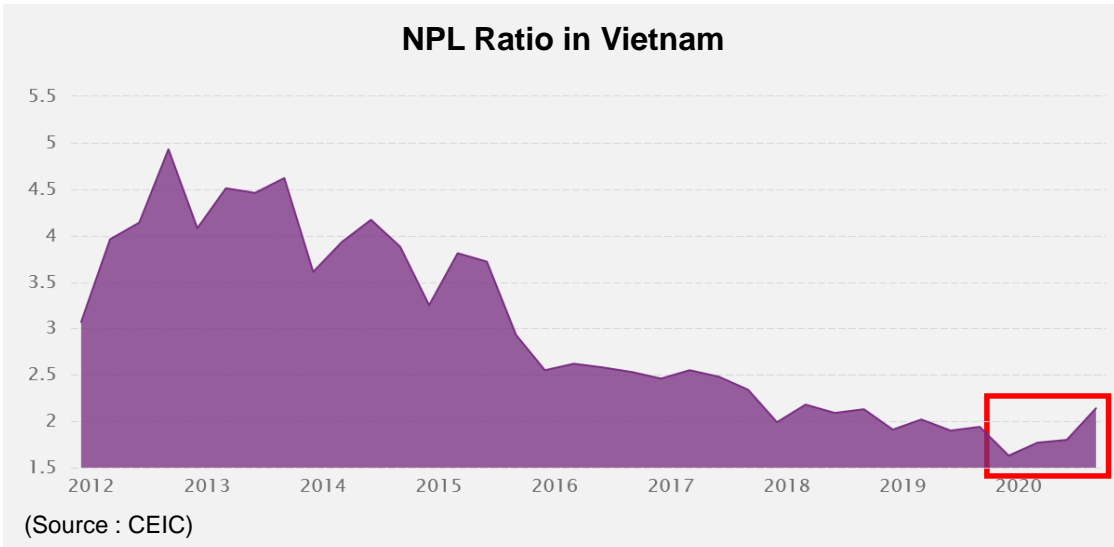
4. VIETNAM'S NPL RESOLUTION REGIME



III. COMPARING NPL RESOLUTION REGIME BY COUNTRY

4. VIETNAM'S NPL RESOLUTION REGIME

Present and Forecast of Vietnam's NPL Market



Covid 19 and Circular 01

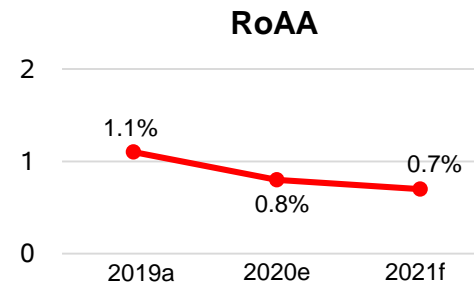
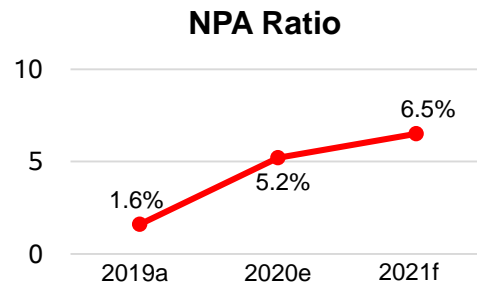
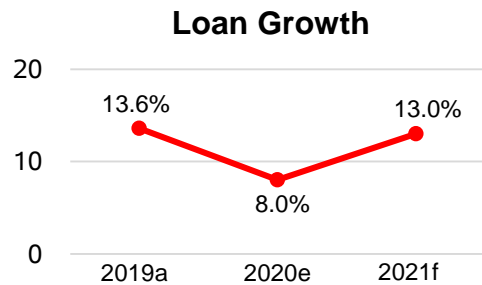
Retention of debt groups aimed at assisting commercial banks and alleviating the impact of Covid 19

Low Resolution Rate of VAMC

As of June 2018, VAMC acquired NPLs worth 314.1 trillion VND and resolved less than 40%

Weaker Profitability of banks

Vietnam bank's earnings hit by higher credit costs and reduced net interest margins as banks keep interest rates low to support borrowers facing difficulties



Loan growth – Sector(Industry)-average growth in loans.
NPA ratio – Nonperforming assets as a % of system wide loans.
RoAA – Sector(Industry)-average return on average assets.
 a--Actual. e--Estimate. f--Forecast.

(Source : S&P Global, Global banks country-by-country 2021 outlook(Nov.17,2020)

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I. KAMCO'S NPL RESOLUTION FUND

II. KAMCO'S NPL RESOLUTION METHODS & DAEWOO CASE

III. COMPARING NPL RESOLUTION REGIME BY COUNTRY

IV. IMPLICATIONS

1. OVERVIEW

NPL Resolution Regime of Three Countries

China

- NPL trading in China has been active not because of the advanced NPL legal framework but because of strong market infrastructure
- Through the strong market infrastructure and unique business skills, China has overcome institutional shortcomings

Mongolia

- Mongolia set the long-term strategy to deal with NPLs, specifically focusing on improvement of the legal framework
- However, cooperation with various government bodies and agencies remained challenging task

Vietnam

- Vietnam has made balanced efforts in both areas: improvement of the legal framework and promising NPL market development being led by strong 2 public agencies, VAMC and DATC
- Despite the absence of the sub-rules and confusions around them, after resolution 42 in 2017, Vietnam is making strides in its legal reforms

2. IMPLICATIONS

Implications and Suggestions

Revitalization of Secondary NPL Market

an important substructure that can enhance the overall safety of the financial system and plays an important role in the stable development of the financial system



Creating NPL Ecosystem

A permanent and sound NPL market ecosystem can be established only when an environment is created in which NPL trading can be carried out efficiently

Creating an Economic Safety Net and Self-Sustaining Environment

Foreign investor-friendly legal system

To acquire various asset management techniques and restructuring techniques from overseas investors, and to sell NPLs at high prices by expanding the pool of potential NPL buyers

Build a trusted NPL market

Procedural fairness and transparency in NPL sales are one of the most important factors for successful revitalization of the NPL market and strengthening international competitiveness

THANK YOU!

Junes 4th, 2021

