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The biggest financial sector deals of the year Asia Pacific – 2016

Deloitte Tohmatsu Financial Advisory LLC

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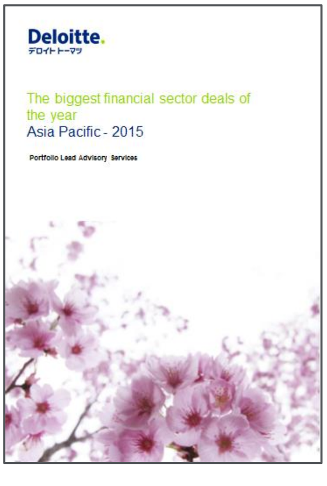


Market Update – AsiaPac

AsiaPac 2016

Deloitte confirms that financial sector based deal flow in 2016 consisted of 174 M&A transactions totalling $44bn. This is 38% below the $70bn invested in 2015

Volatility

2016 was a year of extreme volatility. We have witnessed, inter alia, Brexit, a court case regarding the South China Sea, North Korean aggression, Presidential elections in the US and Philippines, a Presidential impeachment in Korea and Prime Ministerial resignations (UK, New Zealand and Italy), an ongoing crisis between Russia and Ukraine, doubts over the Trans-Pacific Partnership and the continued slowdown in the Chinese economy.

Such volatility negatively impacted the global economic outlook and appears to have eroded some of the confidence in corporate boardrooms which in 2015 had approved more than $4.66trn of M&A deals globally. According to Dealogic, 2016 global M&A totalled $3.84trn, a drop of 18% from the 2015 record high.

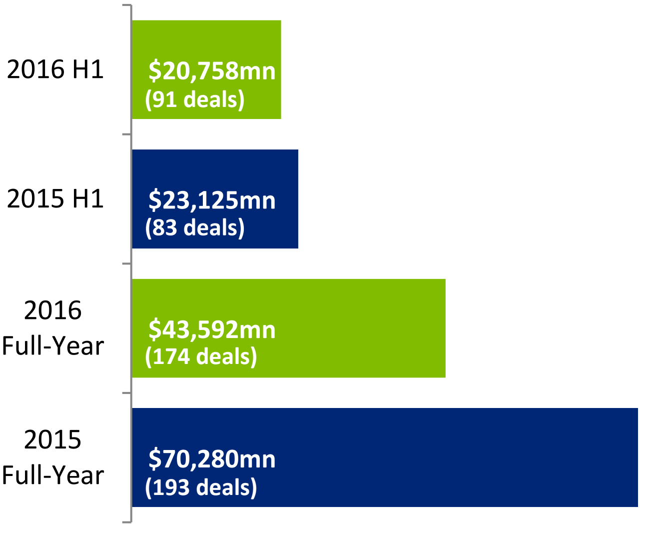
In this, our second, Deloitte report, we focus on M&A deals (equity, asset and loan portfolio) in the financial sector for AsiaPac. The types of businesses covered in our analysis include banks, leasing companies, credit card companies, auto, consumer, real estate and micro-finance businesses. We also include detailed analysis on India, Malaysia and Cambodia for the first time.

In 2016, we saw 174 deals covering $44bn of deal value brought to market. This equates to 10% fewer deals and a 38% drop in value compared to 2015.

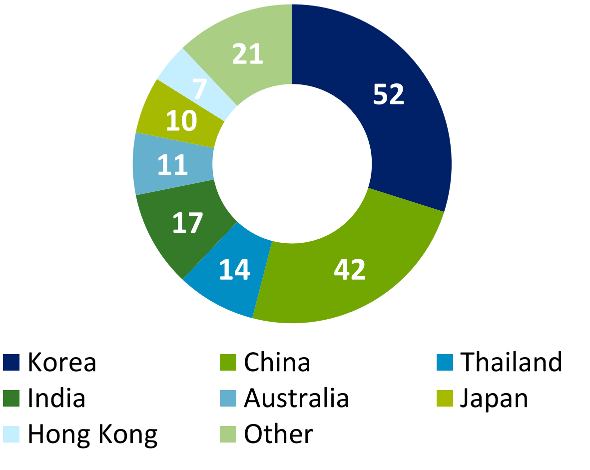
The macro-environment did not change significantly in 2016; low GDP growth, cheap debt, available cash on a corporate's balance sheet and a desire to grow by acquisition as oppose to organically. So, why the significant drop in M&A?

In a word, uncertainty. Historically, uncertainty has always resulted in a more cautious approach to M&A and this certainly had an impact on 2016.

Activity by year (2015-2016)



Number of deals by country (2016)



Source: Mergermarket, Deloitte research

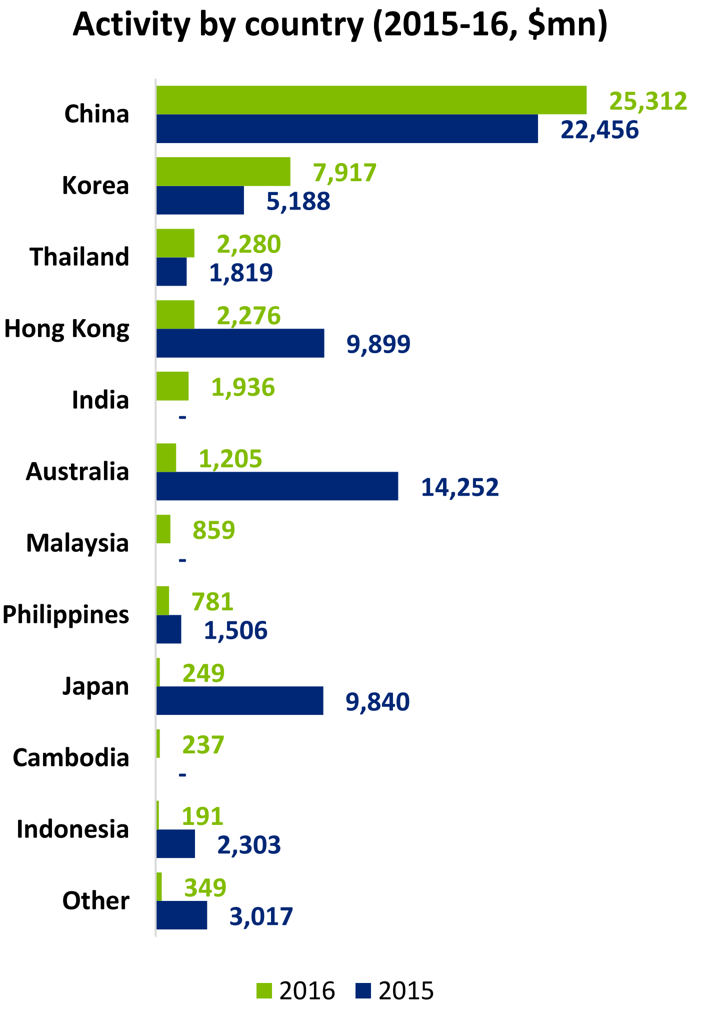
Comparisons

Whilst aggregate deal flow was down year on year in the region, there was a greater level of activity in 2016 than the year before for the three most active countries; China, Korea and Thailand.

In China, we saw more deals and a greater value transacted, up 13%, compared to 2015. This was largely due to Jinan Diesel Engine Co., Ltd. diversifying into the financial sector and spending $11.3bn on a 28% holding in China Petroleum Capital, the majority owner of Kunlun Bank and a shareholder in BOC International (China) Limited. Also, a Chinese consortium led by China Investment Corporation spent $4.5bn in acquiring equity in Ant Financial Services Group which operates Alipay (similar to Paypal) and the on-line bank Mybank.

The Korean M&A market (for the financial sector) was approximately a third in size compared to China with $7.9bn of deal value, predominantly relating to bank transactions such as the $2bn part privatization of Woori Bank. There was also c.$2.6bn of loan portfolio (NPL) sales in 2016 which, whilst down 25% on the 2015 volumes, shows that Korea has a very active NPL market.

The only transactions in Thailand for 2015 were c.$1.8bn of loan portfolio sales. There were no equity deals in the financial sector however, this year, we noted $2.3bn of equity and loan portfolio sales. The biggest transaction brought to market was a $480mn corporate loan portfolio sale.



Source: Mergermarket, Deloitte research

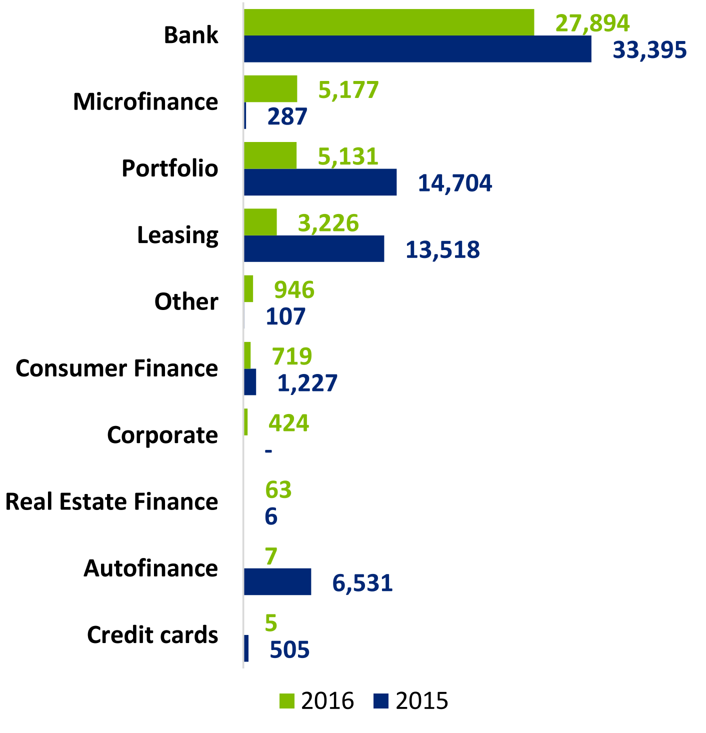
Type of deals

Bank transactions were the most common type of business being sold with 64% of all deals being bank-related compared to 48% in 2015. As indicated above, the largest deal in 2016 was the Jinan Diesel Engine deal with China Petroleum Capital for $11.3bn but we also saw nine other bank deals in China, eight in India, five in Korea where the savings bank sector was particularly active, four in Philippines and three in Thailand and Hong Kong amongst others. There was only one bank deal in Japan despite there being seven in 2015. The potential for more regional bank consolidation remains, although we have witnessed some subsidiary consolidations of regional banks in 2016. Indeed, deal flow for the financial sector in Japan was a shadow of 2015 when there were 22 deals totalling almost $10bn of value. In 2016, deal value was a mere $249mn. The decline might be due to some of the foreign players having already exited, for example in 2015 we saw Citi and GE exit Japan, with fewer foreign banks now remaining in Japan.

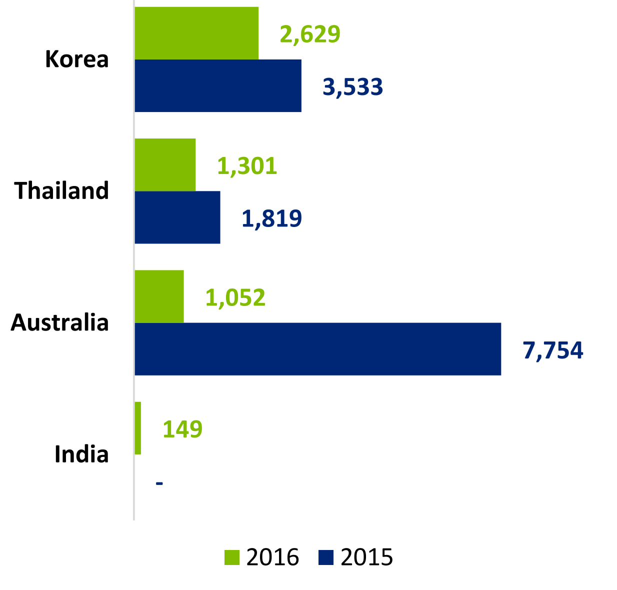
There were also fewer loan portfolio transactions this year ($5.1bn) as a number of the 2015 deals related to sellers exiting the market such as GE and RBS in Australia. In 2016, we saw RBS selling down a non-core Indian portfolio as it winds down its exposure to the country as well as NPL portfolio sales by domestic banks in Korea and Thailand.

We note that not all trades are publicly announced especially loan portfolios and for some disclosed transactions, deal value was not provided. For loan portfolios, we included data received from clients, market participants and the Deloitte network whereas for equity transactions, our research is largely limited to public research sources (Mergermarket).

Activity by asset type (2015-16, $mn)



Portfolio deals (2015-16, $mn)



Source: Mergermarket, Deloitte research

Cross border or domestic

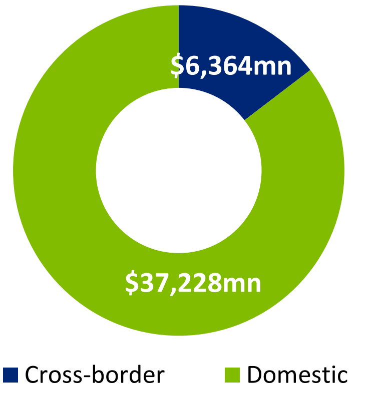
The ratio between domestic and cross border deals was 85% : 15% in 2016, 65% : 35% in 2015 suggesting that there was a greater confidence in buying competitors you know and / or in a country that you are familiar with potentially due to the increased volatility and uncertainty in the region and globally.

The most active market for cross border deals last year was Indonesia but in 2016 China was the most active with nine deals totalling $1.415bn in deal value out of a total $6.370bn for the region.

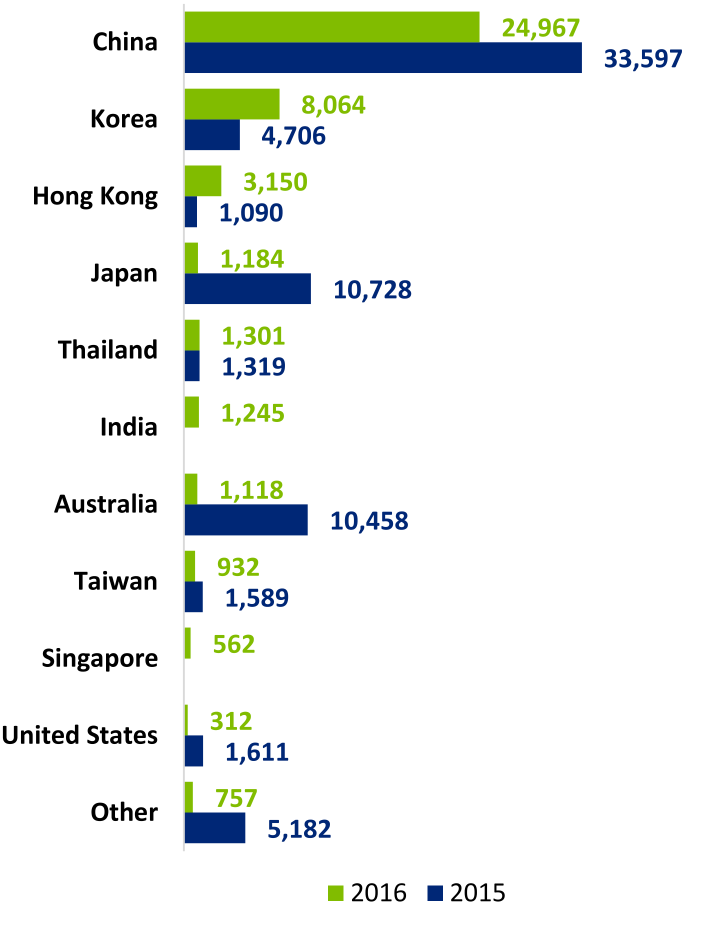
In our 2015 report we advised that we do not expect significant inward activity from European and US financial institutions into Asia Pacific but anticipate Japanese banks continuing to look for strategic investments and Japan-based financial investors seeking investments in NPL books in the region, especially Thailand. In terms of Japanese banks, BTMU was the sole mega bank acquirer paying $800mn for equity in Security Bank Corporation in Philippines, a country where we predicted greater FDI into the financial sector. We also saw a Japanese distressed investor acquire a small Thai NPL portfolio. We had expected more activity from Japanese banks given the nation's declining population, modest credit demand from businesses and the negative interest rate environment which is putting pressure on domestic bank profits whilst making acquisitions easier. But, this was not the case.

The chart opposite shows that there is still little interest from corporates outside of AsiaPac investing in the region's financial sector. Of the top 10 buyer countries the US is the only non AsiaPac country and 67% of the US outbound deal value into Asia related to TPG acquiring in India.

Activity by deal type (2016)



Activity by buyer country (2015-16, $mn)



Source: Mergermarket, Deloitte research

Mega deals

Whilst there were 10% fewer deals in 2016 compared to 2015, it was the larger deals that really struggled.

In the $1bn and above segments, the volume of deals was 48% below 2015 levels.

Conclusion

Do we think that 2016 was a one-off, a pot-hole in the road to be carefully navigated or the beginning of a significant drop off in activity?

Analyzing the monthly trends are not conclusive. The first half of the year was volatile with some strong months in 2016 compared to 2015 and by end of June, 2016 was only 5% off 2015 in terms of value.

However, the second half of the year was a different tale and the last three months suggest that the weakness in the M&A market for the financial sector will continue into 2017.

In addition to monthly trends, 2017 has the potential to be an equally volatile year. In Europe, the UK will trigger Article 50 of the Treaty of Lisbon and start to negotiate Brexit, France and Germany will hold elections and we are unlikely to have heard the last of immigration and terrorism from the Middle East.

In the US, the policies of Donald Trump will become clearer and could have implications for all trading partners with the US and, by default, potentially those trading with China.

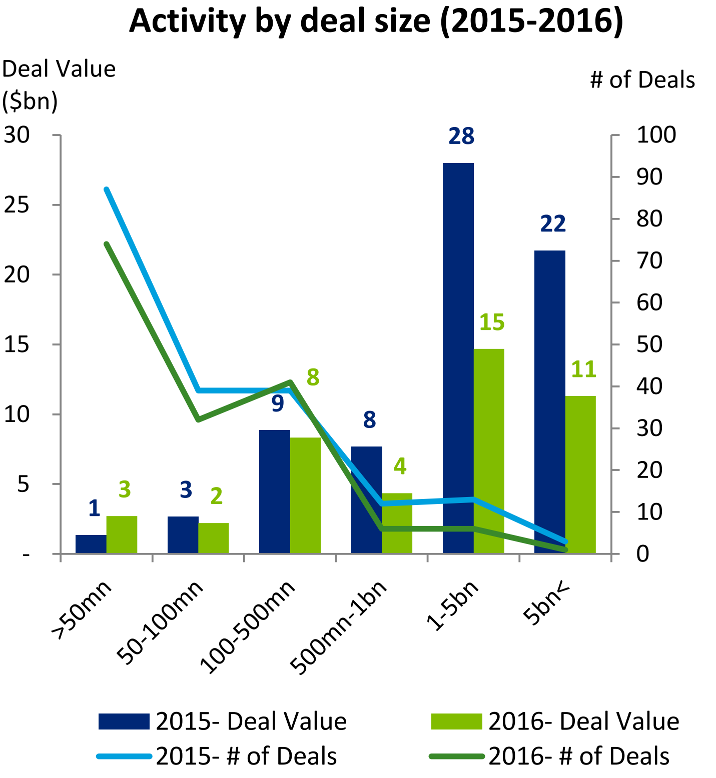
In Asia, volatility is caused by uncertainty, and uncertainty by the unexpected. By definition, events are very difficult to predict. However, North Korea, Hong Kong (and the 20th anniversary of the British handover), the South China Sea issue and, of course, the ongoing slow down in China could lead to volatility.

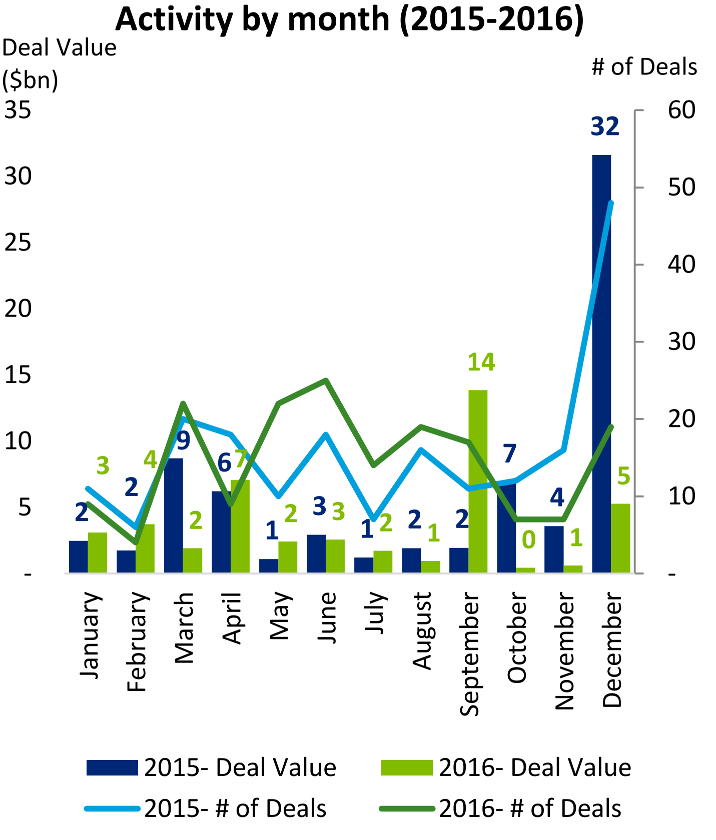
All of the above, may loom large on corporate boardroom confidence for the first few months but we are bullish on 2017 as a whole and by year end expect a return much closer to the M&A levels seen in 2015.

Regards,

Jonathan Daniel

Tokyo



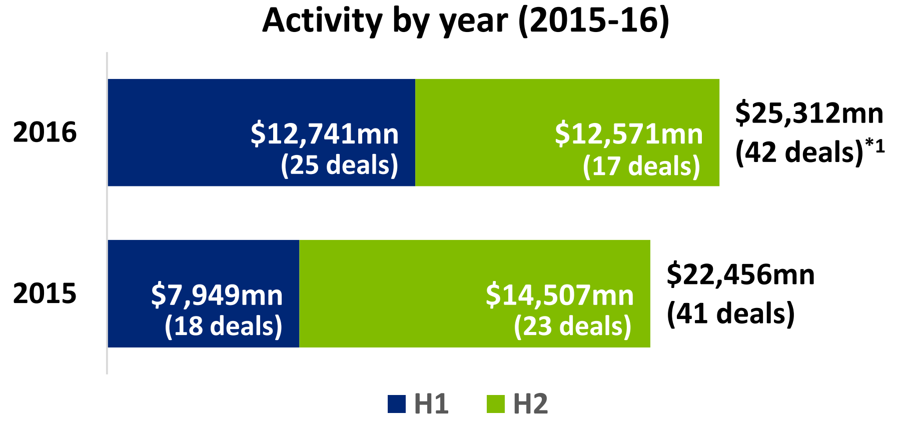


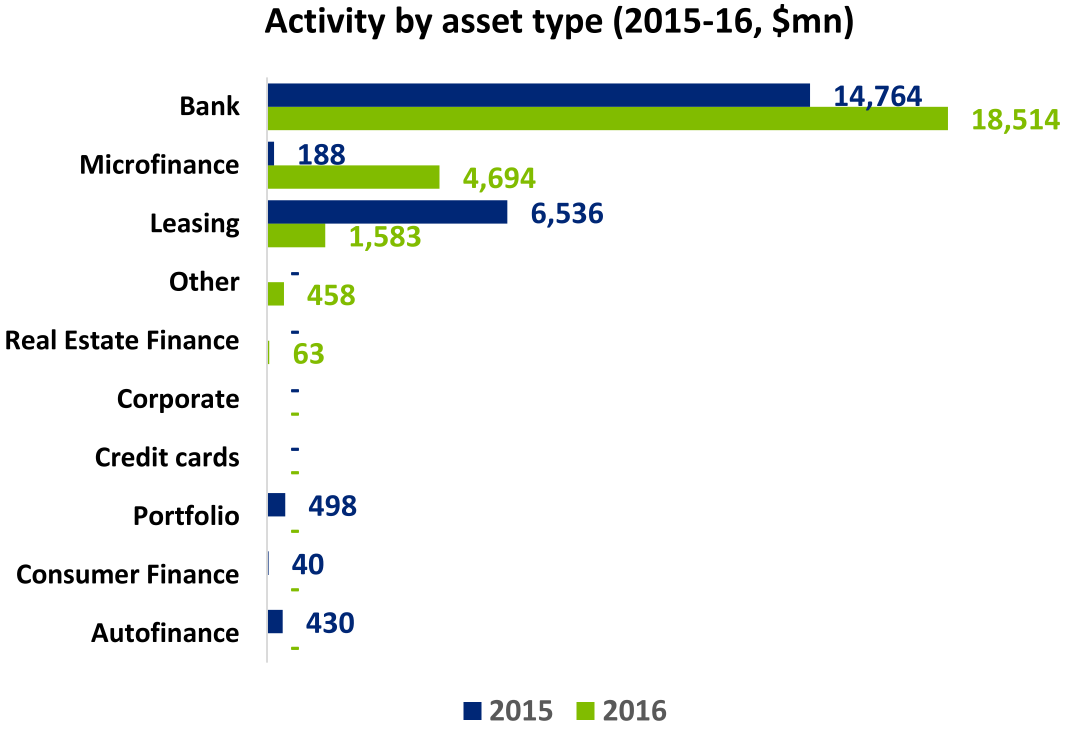
Source: Mergermarket, Deloitte research

Market Overview
China

China

China's $25bn of deals, a 13% uplift on 2015, represents almost two thirds of the total deal value for the region





*1: 1 out of 42 deals had an undisclosed value

Source: Mergermarket, Deloitte research

China

Market Overview

Macroeconomic Overview

The fiscal deficit in China is set to widen further as the government continues to try to stimulate the slowing economy with an expansionary policy aimed at offsetting the lower levels of growth seen in 2015 and 2016 compared to the first part of the decade. The Economist Intelligence Unit (EIU) predicts that the economy will expand by an average 4.9% per annum for the period 2017 – 2021 which compares poorly to 2015, when real GDP growth was 6.9% and to 2016 where 6.7% is expected. These higher growth levels were achieved as a result of the strong housing market, property development and investment in SOEs all of which are expected to slow down in 2017 – 2021. Consumer spending should reduce in line with lower growth levels and lower wage inflation.

The fiscal position for China will deteriorate in 2017 – 2021 as it seeks to spend its way towards greater growth. Government is targeting annual economic growth of 6.5% – 7.0% per annum in order to meet the goal of doubling GDP by 2020 over its 2010 level however this looks very challenging.

Government has recently introduced public finance reforms where local administrations can now issue bonds to fund expenditure and can swap existing bank debt into bonds thus reducing the debt service costs. However, there may be pressure on state-owned banks to invest in the bonds and this could create a sense of moral hazard and future default issues. Sales of local state assets are also being encouraged to reduce the deficit.

Inflation of 2.1% in 2016 is expected to increase marginally to 2.3% in 2017 and average 2.3% per annum for 2018 – 2021. The imported inflation (as the renminbi weakens further) and higher commodity prices from 2017, especially oil which has a big influence on local food and transport costs will put upward pressure on inflation although industrial, agricultural production and housing overcapacity will limit the inflationary pressures.

The population of China is 1.4bn with expected average growth rate of 0.4% between 2016 – 2020. EIU forecasts the percentage of working-age population (15 – 64 years old) to remain above 70% throughout 2016 – 2020. Unemployment is expected to be 4.2% at the end of 2016 and to increase to 5% in 2018. There is a threat of greater unemployment as the economy slows and industrial overcapacity continues but government will seek to limit redundancies in order to avoid social unrest.

As at December 2016, the renminbi had fallen 4.7% against the US dollar for the year and was the weakest performer of 11 major currencies.

Housing prices continue to grow in selected cities (55 out of 70 cities saw growth month-on-month in November 2016) and contribute to development activity. Credit growth has been dominated by mortgage lending and there are concerns of rapid house inflation and a potential property market bubble which is not an unreasonable concern when you see certain cities recording price increases in excess of 45% in 2016. In Q4 2016, the central bank requested banks to exercise prudence with their housing loans which will likely reduce real estate lending in 2017.

Car sales rose sharply in 2015 after the sales tax on small vehicles was lowered and automotive production had grown by 31.5% year on year as at September 2016. This is one example of the many policy initiatives that could be introduced to stimulate growth.

Lower economic growth and higher lending levels typically cause banking sector stress and there are growing concerns, however, the implicit government support for its banks and deposit guarantees should protect banks from any collapse notwithstanding the increasing NPLs. The recognized value of NPLs grew by more than 50% in 2015 and special mention loans grew by more than 25% year on year as at June 2016. NPL levels are discussed further below.

Banking Industry

The value of outstanding domestic credit is expected to be c.215% of GDP at the end of 2016 according to EIU, compared to less than 120% in 2008. The volume of bank loans increased by 18.7% between 2011 – 2012 according to EIU. The year-on-year change in lending remained in the range of 10.8 – 14.7% between 2013 – 2016, and EIU forecasts this rate to remain in the range of 6.6% - 10.5% throughout 2018 – 2020.

The aging population will create opportunities for new savings and pension products to be designed by the banks. The 65 years and older segment comprised 8.1% of the entire population in 2005 which saw an increase to 11% in 2016. Forecasts show growth to 13.1% by 2020.

There is stress in the banking sector and NPLs will continue to increase in 2017 – 2020 with an increase in NPLs expected following China's post 2008 lending surge. The NPL ratio was 1.8% at the end of March 2016 (up from 1.7% as at end 2015) and totalled $215bn according to a Reuters report although some people consider this still to be understated. Banks have been encouraged to divest of NPL to state owned asset management companies or to undertake debt for equity swaps given the concerns that NPLs will grow further. A downturn in real estate prices could hit NPL levels although the government recently encouraged greater prudence from banks in assessing housing loans which contrasts with the relaxing of lending requirements which took place earlier in the year, in February 2016.

The shadow banking market is expected to continue to grow and it is likely that the regulators will seek to increase their oversight towards this subsector.

Chinese banks are some of the largest in the world in terms of market capitalization. Industrial and Commercial Bank of China, China Construction Bank and Agricultural Bank of China were the three largest banks globally as at end 2015. Much of Chinese bank lending has been to state owned businesses or local governments and the 2008 – 2012 period saw, according to some reports, excessive and aggressive lending. Local government borrowing stood at RMB 17.9trn ($2.6trn) compared to RMB 10.7trn ($1.6trn) at end of 2010 according to a National Audit Office report. As a result, concerns with the serviceability of such debt in an economy with lower growth now exist. Extend and pretend lending decisions may increase at the expense of hard defaults.

2016 at a Glance

The Chinese market was the most active of all the countries covered in this report with 42 deals worth $25.3bn compared to 41 deals worth c.$22.5bn in 2015. An increase of 13% in deal value.

The majority of the activity (including the sub $50mn deals which appear in Appendix II) related to leasing but the largest transactions involved banks.

The largest transaction this year was the purchase of a 28% stake in a domestic financial services investment holding company called China Petroleum Capital from its parent China National Petroleum Corporation. The target holds a 77% stake in Kunlun bank and a 16% stake in BOC International (China) amongst other financial services businesses. The value of the 28% stake was $11.3bn and Jinan Diesel Engine was the acquirer. Jinan is an engine manufacturer but the company has been looking to improve its business structure, its profitability, enhance its anti-risk ability and sustainable development capacity. The deal consisted of cash, equity and asset swap and was subject to approval from State Owned Assets Supervision and Administration Commission of the State Council and the China Insurance Regulatory Commission.

Earlier in the year, a consortium led by China Investment Corporation (the $740bn Chinese sovereign wealth fund) which includes China Construction Bank Corporation, China Development Bank Capital Corporation Ltd. and various insurance companies acquired an undisclosed stake in Ant Financial Services Group for $4.5bn. Ant operates an online payment platform called Alipay. Alipay has more than 450mn active users, which draws comparisons with Paypal and also provides small loans to businesses via an on-line bank called Mybank. The rationale for the transaction was to increase Ant's technological input, assist with its global expansion and assist in its preparation for an IPO. There is no firm timeline for the IPO and the preferred stock exchange(s) has not been disclosed. The enterprise value of the transaction was reported to be $60bn. Ma Yun the China-based private investor and CEO of Alibaba Group is the controlling shareholder of Ant Financial Services Group.

Shengjing Bank is a commercial bank based in Shenyang which also holds a consumer finance licence that was granted in January 2016. Shengjing Bank has a market value of $8.3bn. In April, Evergrande Real Estate Group added to its existing holding of 16% in Shenjing by acquiring an additional 17% of the bank for $1.5bn from an investment consortium. Evergrande is a listed property company (developer, investor, etc) that has diversified into the financial sector. It has total assets of $146bn, annual sales in excess of $44bn, more than 500 real estate projects in over 180 cities and 80,000 employees.

Shenjing equity traded again in 2016 when Evergrande sold 10% of its holding to a Hong Kong listed property business, Chinese Estates Holdings. The transaction was valued at $892mn.

One other notable bank transaction was the sale of a 24% stake in China Guangfa Bank, a national bank based in Guangzhou. The sellers were Citi and IBM Credit (both were in a co-investor agreement where Citi could direct IBM Credit to sell). Citi held 20% and IBM Credit c.4% equity. The acquirer was China Life Insurance Company. Established in July 1988, China Guangfa Bank is one of the earliest-incorporated joint-stock commercial banks in China. The Bank is a retail bank with a SME focus. Its network includes 30 plus branches, more than 650 business outlets and 100 Enterprises Banking Centers. The Bank has over 9mn e-banking customers and over 27mn credit cards issued. The strategic rationale for the deal was the overlap in customers, the ability to cross-sell and the opportunity to consolidate mid and back office operations.

Harbin Bank was founded in 1997 and is headquartered in Harbin, Heilongjiang Province, with 352 branch outlets across six administrative regions. It invested in Guangdong Huaxing Bank as a turnaround opportunity and in October sold its 16% stake in the bank to Keenstar Holding Company Ltd. for $224mn. Keenstar is new to the banking sector having previously focused on cultural education, urban water supply and tourism amongst other businesses. Guangdong Huaxing Bank was formerly known as Shantou City Commercial Bank Co., Ltd. and changed its name to Guangdong Huaxing Bank Co., Ltd. in April, 2011. The company was founded in 1997 and is based in Shantou.

Like Citi and IBM Credit, another foreign bank to divest in China was CIMB Group Holdings, who, on 30 December, announced that it had agreed to sell its 18.21% stake in the Bank of Yingkou, a China based lender, to Shanghai Guozhijie Investment for a total consideration of $217mn. CIMB Group said, “This has certainly been one of CIMB Group’s best investments. Since our entry in 2009, this investment has yielded an IRR of 17.4% and a money multiple of 3.3 times. However, capital requirements for minority investments in other banks such as this has continued to increase, so much so that in time, the returns threshold required to justify this investment will be too high...This disposal is also in line with CIMB's T18 operating and capital targets, and our plans to focus on our core business in our core markets. However, I look forward to continuing the strategic collaboration with the Bank of Yingkou in deepening our understanding of the consumer and commercial banking markets in China, for us to continue to build ‘China expertise’ within our ranks”. The transaction is subject to regulatory approvals and is expected to complete in 2017.

In 2015, aside from loan portfolio sales between Chinese domestic banks and CBRC approved AMCs, there were two loan portfolio transactions, RBS selling to China Construction Bank, and Oaktree reportedly making its first distressed debt investment in China, partnering with Chinese NPL Shoreline Capital Management to acquire a US$168mn Chinese bad debt portfolio. In 2016, apart from the domestic bank to AMC trades and despite the massive NPL volumes, we saw no NPL transactions being reported. We are, however, aware of a private bilateral transaction involving $500mn of face value acquired by another US private equity fund but this has yet to be formally announced.

We are aware that given the scale of the NPL market in China, the country is gaining a lot of attention from overseas investors. The market was active for foreign investors at the start of the century but over the last couple of years they have not been successful in closing many deals notwithstanding significant effort. This is partly due to the difficulties in navigating through the legal, regulatory and commercial challenges as well as the lack of appetite by AMCs to sell to foreign investors as such a transaction carries potential political risk (foreign investors making positive returns at the expense of a Chinese AMC or borrower).

Whilst not an actual transaction, the joint venture between KKR and one of China's biggest state-owned bad banks, China Orient Asset Management is evidence of such foreign investor interest. Announced earlier this year, the private equity group is partnering with the offshore unit of China Orient Asset Management established by China's finance ministry in the late 1990s to acquire non-performing loans from the Big 4 state-owned commercial banks. KKR and China Orient will "co-invest in credit and distressed opportunities in the Chinese market", according to KKR and went further to praise Orient and another co-investor in the deal as "experienced local partners that have track records in sourcing unique opportunities and active asset management".

In 2015, Clearwater Capital acquired Fan Ya Tai Asset Management Company an onshore asset management and loan servicing company. Fan Ya Tai was appointed the sole servicer of asset portfolios originated by Guangdong Holdings, the investment arm of the Guangdong Provincial Government. Since its establishment, it has built a 14-year track record acquiring, managing and servicing a wide range of assets, including real estate assets and NPL portfolios.

In 2013, Oaktree entered into a joint venture with China Cinda Asset Management, leaving only China Huarong AMC and China Great Wall AMC of the Big 4 AMC's, available for strategic partnerships.

China

Transactions 2016

Equity Transactions

Deal Type	Name	Date	Asset Type	Buyer	Seller	Value ($'m)
Cross-border	Xiamen International Bank Co., Ltd., (1.67%)	Jun-16	Bank	Min Xin Holdings Ltd		102
	Fubon Bank (China) (20%)	May-16	Bank	Fubon Financial Holding Co Ltd	Shanghai Pudong Development Bank Co., Ltd.	327
	Shengjing Bank (9.96%)	May-16	Bank	Chinese Estates Holdings Limited	China Evergrande Group	892
Domestic	Bank of Yingkou Co., Ltd. (18.21%)	Dec-16	Bank	Shanghai Guozhijie Investment Development Co Ltd	CIMB Group Holdings Bhd	217
	Guangdong Huaxing Bank Co., Ltd. (16%)	Oct-16	Bank	Keenstar Holding Company Limited	Harbin Bank	224
	Jiangsu Runxing Financing Leasing Co., Ltd. (40%)	Sep-16	Leasing	Tatwah Smartech Co., Ltd.	Beijing Shoutuo Rongyu Investment Co., Ltd.; Shanghai Shoutou Investment Co., Ltd.	150
	China Petroleum Capital Co., Ltd.(28%)	Sep-16	Bank	Jinan Diesel Engine Co., Ltd.	China National Petroleum Corporation	11,304
	Sinosafe General Insurance Co., Ltd. (14.77%); Hong Kong Aviation Capital (12.79%); Hong Kong International Aviation Leasing (Aircraft leasing business)	Jul-16	Other	Bohai Financial Investment Holding Co., Ltd.	HNA Group Co., Ltd.; Hong Kong International Aviation Leasing Co., Ltd.; Guangzhou Zeda Textile Co., Ltd.	458
	Xinan Financial Group (10%); Anhui Xinan Capital Management Co., Ltd. (10%)	Jun-16	Microfinance	Macrolink Real Estate Co Ltd	NanXiang WanShang (Anhui) Logistics Industry Co., Ltd.	84
	Zhejiang Chouzhou Commercial Bank Co Ltd (9.62%)	Jun-16	Bank	Jiangsu Huaxicun Company Limited		192
	Shenzhen Harmony Micro Credit Co., Ltd. (35%)	Jun-16	Leasing	Shenzhen Wongtee International Enterprise Co., Ltd.		124
	Shengjing Bank (17.28%)	Apr-16	Bank	China Evergrande Group	Tibet Jinduo Investment Management Co.,Ltd.; Tibet Fansheng Investment Management Co., Ltd.; Beijing Zhaotai Group Co., Ltd. et. al	1,545
	Ant Financial Services Group	Apr-16	Microfinance	An investor group led by China Investment Corporation		4,500
	Zhongcheng Leasing Co., Ltd. (100%)	Apr-16	Leasing	Greattown Holdings Ltd.	Chongqing Haorui Rongxing Investment Centre; Shanghai Shoutuo Investment Management Co., Ltd.; Tianjin Shenghui Tongda Asset Management Center	385
	Xiangtan Tianyi Rural Commercial Bank (20%); Lixian Rural Commercial Bank (28%); Changsha Rural Commercial Bank (3%)	Mar-16	Bank	Xiandai Investment Co., Ltd.		126
	CAR Inc. (23.97%)	Mar-16	Leasing	UCAR Technology Inc.	Herc Holdings Inc; Charles Zhengyao Lu (Private Investor)	678
	China Guangfa Bank (23.69%)	Feb-16	Bank	China Life Insurance Company Limited	Citi; IBM Credit LLC	3,567
Sub-total						**24,875**
Deals sub $50m						**437**
TOTAL						**25,312**

Source: Mergermarket, Deloitte research

China

Transactions 2016

Loan Portfolio Transactions

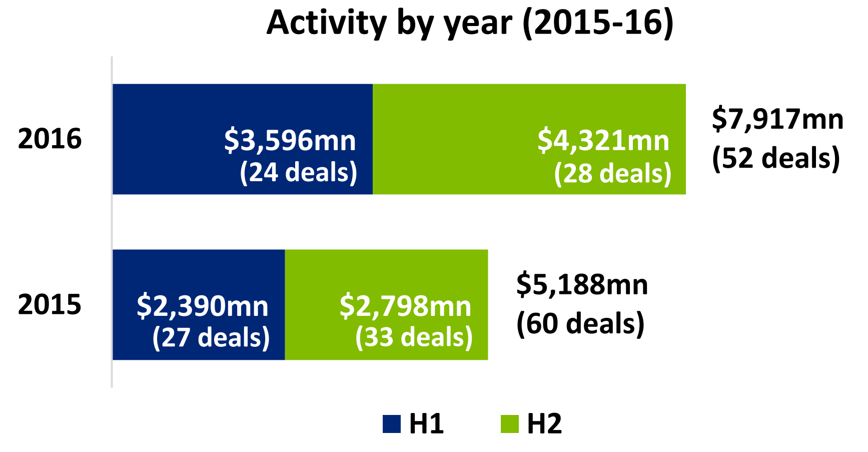
Deal Type	Name	Date	Asset Type	Buyer	Seller	Value ($'m)
N/A	N/A	N/A	N/A	N/A	N/A	N/A
TOTAL						–

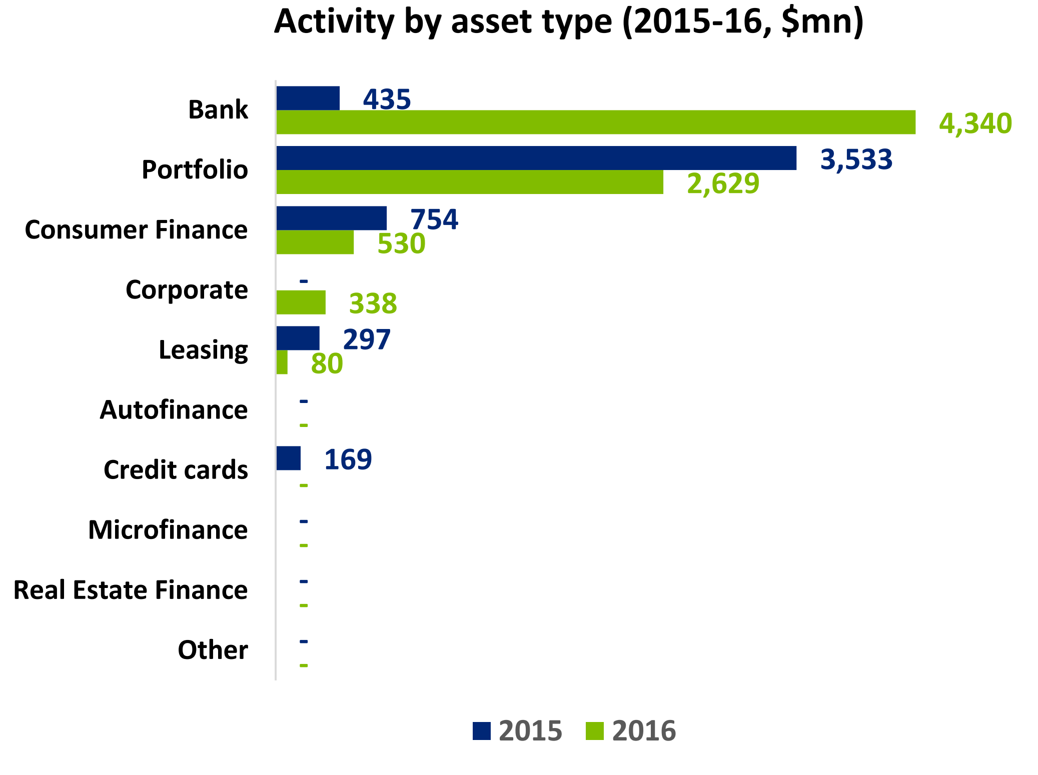
Source: Mergermarket, Deloitte research

Market Overview
Korea

Korea

11 equity deals transacted with a value of $5.3bn and 41 loan portfolio trades and with a value of $2.6bn resulted in a 53% increase on 2015 activity





Source: Mergermarket, Deloitte research

Korea

Market Overview

Macroeconomic Overview

Real GDP growth is forecast to be 2.8% for 2016 compared to 2.6% for 2015, however, EIU predicts that growth will drop back to 2.7% in 2017 and average 2.3% for 2017 – 2021. The main cause for this weaker growth is the continued downturn in global trade, especially China, which is Korea's largest export market and is twice the size of its second largest export market, the US. Key exports are electronics, shipbuilding and petrochemicals. The restructuring of the shipbuilding sector is impacting exports and economic growth and Samsung's recent issues with the Galaxy Note 7 is likely to also have an adverse impact.

The political turmoil involving Park Geun-hye is also likely to have impacted GDP growth in the final quarter of 2016 and could continue to do so in the early part of 2017 and potentially beyond.

The government has tried to find an alternative to an export led economy but this is challenging. Private consumption remains modest due to the high levels of household leverage, low wage growth and, to a certain extent, increasing levels of unemployment which was 3.6% in 2015 and is forecast to increase to c.4% during 2016 – 2020. The population in Korea was 50.3mn as at 2015 with the expectation of only 1mn people being added by 2020 which is relatively small by regional standards. Single child families are becoming more commonplace as evidence indicates; the percentage of the population aged 14 years old and under was 19.1% in 2005 which saw a decrease to 13.4% in 2016, with further decline to 12.9% expected in 2020. On the contrary, the percentage of 65 years old and over segment is forecast to expand from 13.6% as of 2016 to 15.8% in 2020.

Consumer price inflation for 2016 – 2020 is predicted to be 1% (despite a government target of 2%) given the continued low commodity prices.

The benchmark interest rate is 1.25%, a record low and reflects the government's desire to stimulate the economy.

Banking Industry

There are six nationwide commercial banks which include Citibank and Standard Chartered, six regional banks, five government-led banks (a legacy of the 1997 – 1998 Asian banking crisis) and 39 foreign bank branches in Korea. As a result of the banking crisis, banks are still subject to prescriptive regulations with close supervision and intervention by five major administrative bodies (Ministry of Strategy and Finance, Bank of Korea, Financial Services Commission, Financial Supervisory Service, Korea Deposit Insurance Corporation).

The sector has been subject to mergers and acquisitions. In 2015 Hana Bank merged with Korea Exchange Bank. KEB Hana is now Korea's largest bank by assets and the second largest bank, Woori Bank, was part privatised this year. Bank ownership rules are complex in Korea and become even more difficult where the investor is a foreign entity although as noted in our 2015 report, cross border deals do happen.

The banking sector is under pressure from various angles. The banks have been subject to the phased introduction of Basel III capital requirements since 2013. Interest rates are low thus limiting the spread banks can enjoy (net interest margin was 1.55% in early 2016). Mortgage lending has been in demand by the consumer but is now subject to greater regulatory attention (interest only mortgages were phased out earlier this year) due to the high levels of personal leverage.

The growth in bank lending has remained relatively subdued compared to other countries in Asia Pacific with the year on year change in the volume of bank loans between 2.2 – 7.6% throughout 2012 – 2016 according to EIU, with an exception of 9.9% between 2013 – 2014. The rate is expected to remain under 6% through to 2020.

There is also an active non-bank lending market involving mutual savings banks, credit co-operatives and the government postal bank. The savings bank sector has been active in terms of transactions with investors attracted by the high net interest margin.

2016 at a Glance

Korea had 11 equity transactions in 2016, totalling $5.3bn, all of which were domestic deals.

At the start of the year, KT Capital Corporation (also known as Acuon Capital Corporation) invested $187mn in the acquisition of HK Savings Bank from MBK Partners (Korea's largest PE fund) and Hyundai Capital who had acquired the bank in 2006 as a turnaround play. HK Savings Bank was founded in 1972, with 11 offices and 13 branches and has a focus on personal, mortgage, stock and business loans and auto finance. In 2015, JC Flowers had paid $274mn for a c.90% stake in KT Capital. The acquisition was part funded by PE fund, Vogo Investment, who is now the second largest shareholder in KT Capital after JC Flowers.

Another savings bank to have a change in ownership was TS Savings Bank which was acquired by an online brokerage firm, Kiwoom Securities for $78mn in July 2016.

In December, it was announced that a Korean group of investors including Tong Yang Life Insurance and consisting of a PE fund and other life insurance and asset management companies have agreed to each acquire tranches of 4 - 8% equity and totalling c.30% in the listed Woori Bank for $2.05bn, the largest transaction in Korea this year. Woori Bank is the second largest bank in Korea. The sale was part of the Government's privatization plan and the state-owned KDIC will continue to hold a c.21% stake in Woori Bank. It was reported that KDIC will support board changes and minimize its influence in the bank, allowing in time for a full privatization.

The second largest domestic transaction was Mirae Asset Consortium's $2bn acquisition of a 43% stake in Daewoo Securities, an asset management business and brokerage firm with retail and investment banking services.

In our 2015 report we highlighted GE selling their 23.3% stake in Hyundai Capital Services Inc. (HCS), a provider of automotive financing, automotive leasing services as well as unsecured and unguaranteed personal loans to Hyundai Motor Corporation (HMC) for $595mn. In 2016, GE sold its remaining 20% in HCS to HMC for $530mn.

Another brokerage firm, Meritz Securities, acquired an undisclosed stake in the leasing, installment, and other personal and corporate loan business of Acuon Capital for $60mn. Meritz Securities completed a second deal acquiring Meritz Capital for c.$331mn via a share swap with its parent Meritz Financial Group. Meritz Capital is an autofinance, consumer and corporate finance company.

The loan portfolio market in Korea continues to be active with 41 announced deals during 2016 compared to 48 in 2015.

Like Thailand, the Korean banks periodically clear out non-performing loans and have done so since the Asian Banking Crisis in the late 90's.

The total deal value for the portfolios brought to market in 2016 was $2.6bn ($3.5bn in 2015).

The market is largely domestic with the most active sellers being Industrial Bank of Korea and Woori Bank and the most active buyers being UAMCO and Daishin F&I. UAMCO was set up in 2009 by six Korean lenders to buy sub or non performing loans made to construction companies during the 2008 global financial crisis. The six banks that co-own UAMCO are Shinhan Bank, Kookmin Bank, Hana Bank, Industrial Bank of Korea, Woori Bank and NongHyup Bank. As of May 2016, UAMCO is co-owned by eight banks with KDB and EXIM Bank as additional new owners. UAMCO was being marketed for sale in 2015 but a deal did not close.

The NPL ratio for the banking sector is 1.5% and we expect the current trend and volumes of the loan portfolio deals to continue for the next few years. Given the maturity and competitiveness of the market, it is difficult for foreign investors to compete and only a small handful of such investors have shown interest in NPL portfolio sales.

Korea

Transactions 2016

Equity Transactions

Deal Type	Name	Date	Asset Type	Buyer	Seller	Value ($'m)
Domestic	Woori Bank (29.7%)	Dec-16	Bank	Hanwha Life Insurance Co., Ltd.; Korea Investment & Securities Co., Ltd.; Tong Yang Life Insurance Co., Ltd.; Kiwoom Securities Co., Ltd.; Mirae Asset Global Investments Co., Ltd.; IMM Private Equity, Inc.; Eugene Asset Management Co., Ltd.	Korea Deposit Insurance Corporation	2,051
	Meritz Capital Co., Ltd.	Nov-16	Corporate	Meritz Securities Co., Ltd.	Meritz Financial Group Inc	331
	Kangwon Mutual Savings & Finance Co., Ltd	Oct-16	Bank	UGint Co., Ltd.		12
	Deutsch Financial Co., Ltd. (14.48%)	Aug-16	Leasing	Mirae Asset Capital Co., Ltd.		13
	Hyundai Capital Services, Inc. (20%)	Jul-16	Consumer Finance	Hyundai Motor Co.	General Electric Company	530
	TS Savings Bank	Jul-16	Bank	Kiwoom Securities Co., Ltd.	TS Corporation	78
	Acuon Capital Corporation (16.57%)	Jun-16	Leasing	Meritz Securities Co Ltd		60
	CXC Investment & Credit Capital Corporation (21.84%)	Mar-16	Corporate	JD Holdings; Chang Jo Son (Private investor); Hye Suk Kim (Private investor)		7
	W Investment Finance (40%)	Mar-16	Leasing	SH Holdings Co., Ltd.	IOK Company Co., Ltd.	7
	Mirae Asset Daewoo Co., Ltd. (43%); KDB Asset Management Co., Ltd.	Jan-16	Bank	Mirae Asset Consortium	Korea Development Bank	2,012
	HK Savings Bank (98.63%)	Jan-16	Bank	Acuon Capital Corporation	MBK Partners Inc.	187
TOTAL						**5,288**

Source: Mergermarket, Deloitte research

Korea

Transactions 2016

Loan Portfolio Transactions

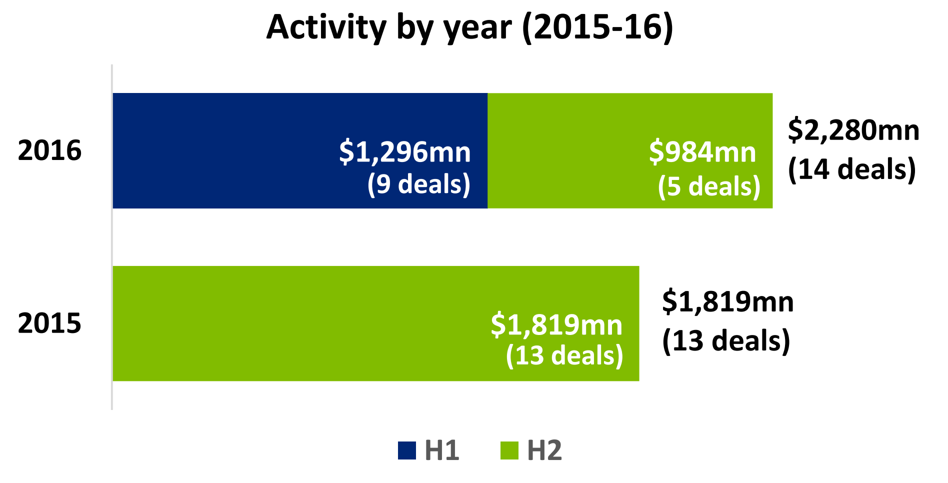
Deal Type	Name	Date	Asset Type	Buyer	Seller	Value ($'m)
Domestic	N/A	Dec-16	Secured NPL	UAMCO	Confidential	56
	N/A	Dec-16	Secured NPL	UAMCO	Confidential	143
	N/A	Dec-16	Secured NPL	Eugene Asset Management	Confidential	61
	N/A	Dec-16	Secured NPL	UAMCO	Confidential	44
	N/A	Dec-16	Secured NPL	Daishin F&I	Confidential	52
	N/A	Dec-16	Secured NPL	UAMCO	Confidential	59
	N/A	Dec-16	Secured NPL	UAMCO	Confidential	70
	N/A	Dec-16	Secured NPL	Eugene Asset Management	Confidential	46
	N/A	Nov-16	Secured NPL	Igis Asset Management	Confidential	38
	N/A	Nov-16	Secured NPL	KEB F&I	Confidential	23
	N/A	Nov-16	Secured NPL	Daishin F&I	Confidential	71
	N/A	Nov-16	Secured NPL	Igis Asset Management	Confidential	72
	N/A	Sep-16	Secured NPL	UAMCO	Confidential	26
	N/A	Sep-16	Secured NPL	KEB F&I	Confidential	73
	N/A	Sep-16	Secured NPL	UAMCO	Confidential	99
	N/A	Sep-16	Secured NPL	UAMCO	Confidential	47
	N/A	Sep-16	Secured NPL	KEB F&I	Confidential	41
	N/A	Sep-16	Secured NPL	UAMCO	Confidential	41
	N/A	Sep-16	Secured NPL	Eugene Asset Management	Confidential	64
	N/A	Aug-16	Secured NPL	Daishin F&I	Confidential	70
	N/A	Aug-16	Secured NPL	Woori IB	Confidential	38
	N/A	Aug-16	Secured NPL	Daishin F&I	Confidential	73
	N/A	Jun-16	Secured NPL	Daishin F&I	Confidential	39
	N/A	Jun-16	Secured NPL	Daishin F&I	Confidential	49
	N/A	Jun-16	Secured NPL	UAMCO	Confidential	175
	N/A	Jun-16	Secured NPL	UAMCO	Confidential	98
	N/A	Jun-16	Secured NPL	Daishin F&I	Confidential	35
	N/A	Jun-16	Secured NPL	UAMCO	Confidential	67
	N/A	May-16	Secured NPL	Daishin F&I	Confidential	70
	N/A	May-16	Secured NPL	UAMCO	Confidential	61
	N/A	May-16	Secured NPL	Cyrus Capital	Confidential	113
	N/A	May-16	Secured NPL	Eugene Asset Management	Confidential	139
	N/A	May-16	Secured NPL	Daishin F&I	Confidential	51
	N/A	May-16	Secured NPL	Myasset	Confidential	63
	N/A	May-16	Secured NPL	Daishin F&I	Confidential	50
	N/A	May-16	Secured NPL	Eugene Asset Management	Confidential	12
	N/A	Mar-16	Secured NPL	KB Asset Management	Confidential	79
	N/A	Mar-16	Secured NPL	Myasset	Confidential	42
	N/A	Mar-16	Secured NPL	KB Asset Management	Confidential	47
	N/A	Mar-16	Secured NPL	UAMCO	Confidential	50
	N/A	Mar-16	Secured NPL	Myasset	Confidential	84
TOTAL						**2,629**

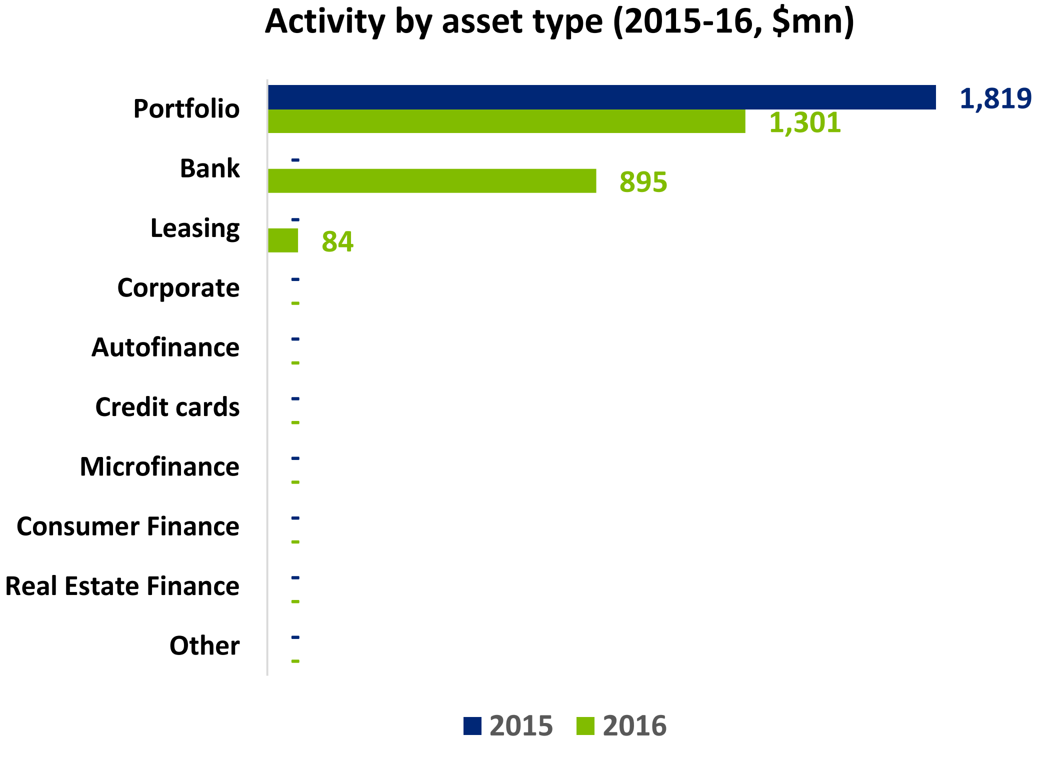
Source: Mergermarket, Deloitte research

Market Overview Thailand

Thailand

57% of the total transaction volume came from portfolio / asset deals of which most consisted of secured residential real estate loans





Source: Mergermarket, Deloitte research

Thailand

Market Overview

Macroeconomic Overview

Thailand's real GDP growth recovered further in 2016 with EIU estimating 3.2% compared to 2.8% for 2015 and 0.8% for 2014, as a result of the calmer political situation, increased public spending on handouts to the rural economy and on infrastructure projects and the strengthening tourism earnings. However, the recent passing away of King Bhumibol Adulyadej in mid-October is likely to have impacted growth in the final quarter of 2016 and potentially beyond. Other challenges to growth remain with; high household debt, a serious drought followed by unseasonal flooding in January 2017, falling agricultural commodity prices and the sustained slowdown in China which accounted for 11.1% of Thailand's exports.

Private consumption accounts for more than 50% of GDP and this is funded heavily by foreign tourist spending and such dependence means any increased political instability or acts of terrorism (there were bomb explosions in 2015 and 2016) could impact growth. Tourism has been a positive story with strong tourist arrivals in 2016 and 2015, especially from China. That aside, the high levels of debt held by the lower income households and low wage growth are also challenges to the economy. The modest increase to the minimum wage scheduled for the beginning of 2017 is unlikely to have much impact.

The EIU forecasts average 2.9% growth of real GDP for 2017 – 2021 driven in part by the large stimulus package launched in 2015 which included support for SMEs and farmers via soft loans and tax breaks as well as big ticket road and rail infrastructure projects. It has been reported that the government plans to invest $40bn across 20 major projects by 2022.

According to EIU, CPI showed average growth of 0.2% at the end of 2016 which is below the central bank's target of 1 – 4%. The EIU do not expect this target to be achieved in 2017 given the weak credit demand, stagnating commodity prices and limited external demand.

The Thai unemployment rate is 0.97% according to the BOT and has averaged only 1.5% for the period 2001 – 2015. The population is 67.5mn, 10.9% of which are aged 65 years or older but this is forecast to increase to 13% by 2020.

The central bank kept its benchmark rate at 1.5% throughout 2016 and last cut rates in March 2015.

Banking Industry

The financial services sector accounted for 7.6% of GDP in 2015 but just 1.4% of the labour force according to the government.

The banking system includes domestic, foreign and state-owned lenders. The latter focuses on areas not widely covered by the commercial banks such as lending related to housing, SME and rural businesses.

The top 5 banks (in terms of total assets) that represent 70% of the market are; Krung Thai Bank (16%), Bangkok Bank (16%), Siam Commercial Bank (15%), Kasikornbank (13%) and Krungsri (the brand name for BTMU owned Bank of Ayudhya, 10%). Other foreign lenders with subsidiaries include UOB, CIMB, Standard Chartered Bank and ICBC and those with branches include Mizuho Bank (3%) and Sumitomo Mitsui Banking Corporation (2%).

Under current regulations, foreign banks can buy up to 25% of a Thai bank without BOT approval and acquisitions beyond 49% require MOF approval.

In the late 90's, the Thai banks suffered badly from high NPL levels and whilst current levels, measured by NPLs to total loans are much lower at 2.8%, there is a rising trend and in 2016 banks were noticeably lending more cautiously.

Bank lending is forecast to increase by 7.3% a year 2016 – 2020 which is lower than the 9.8% a year growth seen in 2011 – 2015. The recent and forecast growth is being supported by the government's push to increase lending to SMEs. However, Thai banks tend to favour lending to consumers (rather than SMEs) due to the lower NPL levels and better interest margins.

According to the World Bank's 2014 report, 78% of the Thai population had an individual or shared bank account. Whilst 50% of those surveyed had borrowed money in the previous year, only 15% had received a loan from a financial institution.

2016 at a Glance

In 2016, Bank of China Ltd. of Hong Kong paid $424mn for the commercial bank, Bank of China (Thai) Ltd, a wholly-owned subsidiary of Bank of China Limited (BOC). BOC, established for more than a century is one of the most internationalized and diversified banks in China and it is listed on the Hong Kong Stock Exchange and Shanghai Stock Exchange. Thailand is considered as one of the most strategically valued regions for BOC. BOC, as the first Chinese bank in Thailand, established its off-shore office in 1994 and focuses on Chinese enterprises in Thailand.

The largest transaction involved CTBC Financial Holding Co. Ltd. of Taiwan acquiring 36% of the new equity issued by LH Financial Group PCL. The Group has five types of operation in its financial business group, as follows; Investments, Commercial Banking (Land and Houses Bank, the 13th largest in Thailand, employs 1,733 people and has 126 branches), Fund Management, Securities and Financial Advisory. The acquisition is in line with CTBC's strategy to expand its overseas business and is expected to increase CTBC's overseas revenues. CTBC has a total of 149 branches within Taiwan and 106 outlets (representative offices, branches, and subsidiaries and their branches) located in the US, Canada, Japan, India, Indonesia, the Philippines, Thailand, Vietnam, Hong Kong, Singapore, Myanmar, Malaysia, Australia and China. CTBC is also the 100% owner of Tokyo Star Bank of Japan.

IBJ Leasing Company of Japan paid $84mn for a 49% stake in KTB Leasing, the subsidiary of the state owned Krung Thai Bank. IBJ has other leasing businesses in Asia including China, Indonesia and Philippines.

The last financial sector deal of 2016 in Thailand related to TISCO Financial Group, a Thai financial group who announced an asset acquisition of the retail banking business from Standard Chartered Bank (Thai). The net asset value of the business amounted to $152.7mn and included personal lending business, mortgages, retail banking, wealth management, individual deposits business and a credit card business. The deal is subject to approval from the Bank of Thailand.

Standard Chartered Bank has been in Thailand since 1894. The Asia-focused British bank is divesting unprofitable businesses and those that lack competitive advantage following losses in 2015, their first losses since 1989. The disappointing trading had led to a new CEO being appointed and the new strategy being devised.

Tisco reportedly stated that "The transaction aligns well with Tisco's strategic position and business aspirations...Tisco will strengthen its retail banking business franchise with a substantially expanded customer base, more complete product lines and increased retail distribution channels." To date, the majority of TISCO lending has been hire purchase related.

We see Thailand as one of the key NPL portfolio markets in Asia for any foreign NPL investor to consider. However, there are challenges to doing business in Thailand; the language (although English is widely spoken), the economy (as a key supplier to China, exports are much reduced), and the regulatory challenges (only domestic AMCs or banks can enforce and repossess an asset).

In order to acquire Thai NPLs, the purchasing vehicle has to be a licensed AMC. A NPL investor has the choice of either establishing an AMC themselves which can take four to six months, acquiring one from a seller (we are aware of a private and therefore confidential transaction involving a Thai based AMC being acquired by a US private equity fund that took place in 2016) or using an AMC held by an existing loan servicer. All three are viable options. We expect another AMC acquisition by a US private equity fund in 2017 such is the interest in this market.

NPL acquisition pricing has significantly increased driven in part by competition between Sukhumvit Asset Management (SAM) and Bangkok Asset Management (BAM), although the economics of NPL collection in the market remain strong. Furthermore, we expect that these government owned institutions need to recycle investments in order to fund future acquisition. Whilst the vast majority of Thai NPLs have been purchased by SAM or BAM in the latter years, sellers are seeking to broaden the buyer pool and include foreign investors in the sale process. We are aware of Japanese investors that have successfully acquired Thai NPL in 2016.

The Thai NPL sale process typically has a single binding phase with a c.$1,500 data tape fee. The diligence timescale is usually one month.

In 2016 we saw 10 NPL transactions with a value of $1.1bn complete. This was slightly less than the 13 deals seen in 2015 although activity slowed significantly in the final quarter of 2016 potentially due to the mourning period in Thailand. Residential mortgage portfolios were the most frequently traded asset type and we expect pricing to have ranged from 30% to c.60% of face value. All of the sellers were Thai domestic banks and the portfolio size ranged from as small as $13mn to $480mn, the latter being a secured corporate loan portfolio. There is also an active unsecured market although the deal size is very small and asset details rarely disclosed.

Outside of China, we see Thailand and Korea as being the most active NPL markets. All three markets have been dominated by domestic investors but we do anticipate this changing in 2017, especially for China and Thailand.

Thailand

Transactions 2016

Equity Transactions

Deal Type	Name	Date	Asset Type	Buyer	Seller	Value ($'m)
Cross-border	Bank of China (Thai) Public Company Limited	Jun-16	Bank	BOC Hong Kong (Holdings) Limited	Bank of China Limited	424
	LH Financial Group PCL (35.6%)	Jun-16	Bank	CTBC Financial Holding Co Ltd		471
	KTB Leasing Co., Ltd. (49%)	May-16	Leasing	IBJ Leasing Company, Limited		84
TOTAL						**979**

Loan Portfolio Transactions

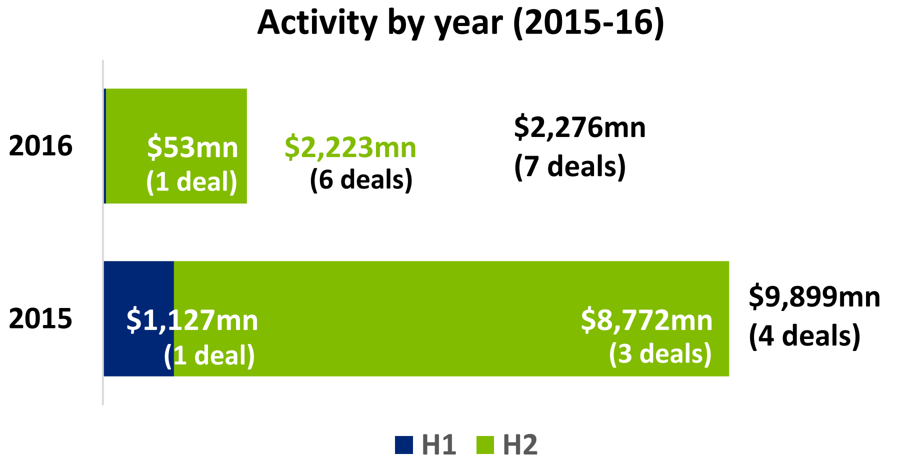
Deal Type	Name	Date	Asset Type	Buyer	Seller	Value ($'m)
Portfolio	Standard Chartered Bank (Thai) PCL (Thailand retail banking business)	Dec-16	Bank	Tisco Financial Group Plc	Standard Chartered Bank (Thai) PCL	153
	N/A	Oct-16	Residential secured NPL	Confidential	Thai Bank	51
	N/A	Sep-16	Corporate secured NPL	Confidential	Thai Bank	480
	N/A	Sep-16	Residential secured NPL	Confidential	Thai Bank	170
	N/A	Jul-16	Residential secured NPL	Confidential	Thai Bank	130
	N/A	Jun-16	Mixed Portfolio	Confidential	Thai Bank	13
	N/A	Jun-16	Residential, corporate, SME secured NPL	Confidential	Thai Bank	37
	N/A	May-16	Commercial, SME, residential secured NPL	Confidential	Thai Bank	38
	N/A	Apr-16	Residential secured NPL	Confidential	Thai Bank	104
	N/A	Mar-16	Residential, SME secured NPL	Confidential	Thai Bank	110
	N/A	Mar-16	Residential secured NPL	Confidential	Thai Bank	15
TOTAL						**1,301**

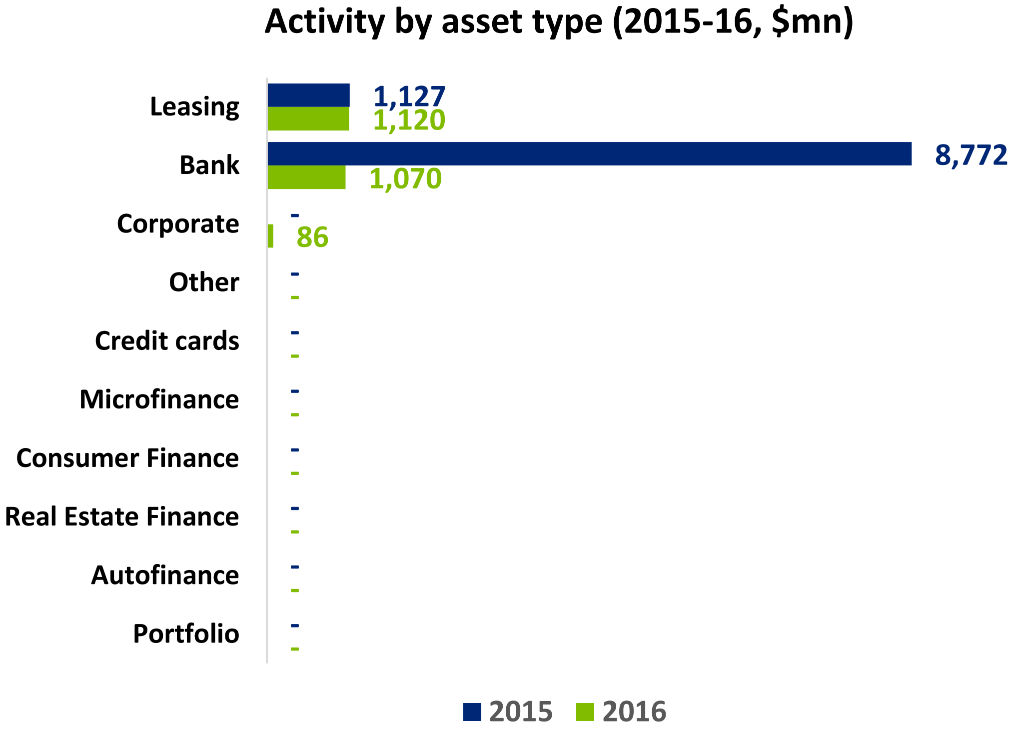
Source: Mergermarket, Deloitte research

Market Overview
Hong Kong

Hong Kong

The biggest deal of the year was the sale of Chiyu Bank for $990mn by Bank of China (HK) in December





Source: Mergermarket, Deloitte research

Hong Kong

Market Overview

Macroeconomic Overview

The Hong Kong economy saw real GDP growth of 1.6% in 2016 down from 2.4% in 2015 as a result of reduced private consumption and pessimism with the economic outlook. The residential real estate market saw a large increase in transactions (up 83.6% year on year as at September 2016), however, the market is volatile and issues facing Hong Kong growth include an expected decline in real estate prices of between 5 – 15% in 2017 (in 2016 prices were c.6% below 2015 prices) along with the continued slow down in China. Average economic growth for 2017 – 2021 is forecast to be 2.7%.

The government will continue to try and stimulate the economy with infrastructure investment including a third runway at the airport, express rail link to Guangzhou and a bridge to Macau which remains under development.

The construction sector will be more dependent on these public sector projects as the government's strategy to build more residential housing has been met with criticism following a failed housing project.

The seasonally adjusted unemployment rate was 3.4% with a population of 7.3mn (16% of which is aged 65 or older).

The anticipated real estate price fall will likely impact property investment, tax receipts from stamp duty, personal consumption, inflation and potentially the banking sectors' willingness to lend.

Inflation was 2.4% for 2016 and is forecast to average 2.3% a year 2017 – 2021.

Banking Industry

The finance industry employs c.220,000 people and generated more than 16% of the output in 2015. It is regarded as one of the world's most sophisticated financial centres.

There are 22 licensed banks incorporated in Hong Kong with another 24 restricted license banks and 18 deposit taking businesses with a limited scope of activities. The largest banks, in terms of total assets are; HSBC (the largest), Bank of China (Hong Kong), Hang Seng Bank, Standard Chartered Bank (Hong Kong) and Bank of East Asia.

According to the EIU, bank lending growth is expected to slow to sub 5% levels on an annual basis for 2016 but is expected to exceed 5% for each year 2017 – 2019.

Property development and investment lending accounted for c.25% of the total lending as at March 2016 and residential mortgages accounted for another 22% approximately. Property lending is expected to decline in line with the fall in house prices and an expected increase in interest rates. The Hong Kong regulators also manage the real estate lending closely and in 2015 reduced the LTV ratio and debt servicing ratio to cool the market. As a result, NPLs are not expected to increase significantly. The HKMA reported that, as at end 2015, only 0.45% of retail banks loans were either 90 days overdue or had been rescheduled.

Given the low loan to value lending in Hong Kong, the expected fall in real estate prices should not significantly impact the banks. Further slowdown in China and an increase in Chinese bank NPLs could, however, have broader implications for the Hong Kong banks' willingness to provide credit and thus, impact the economy as a whole.

2016 at a Glance

In 2016 we noted seven deals worth c.$2.3bn in aggregate compared to almost $10bn of deals in 2015.

The largest transaction in Hong Kong was The Bank of China and Bank of China (Hong Kong) agreeing to sell 70.49% of Chiyu Bank to Xiamen International Investment (a subsidiary of Xiamen International Bank) and the Committee of Jimei Schools for a total consideration of $0.990bn, subject to approval from the HKMA and various other conditions.

The sale is part of the long-term development plan of Bank of China, following the completed disposal of Nanyang Commercial Bank Limited in May to China Cinda Asset Management (that was announced and reported on in our 2015 report) and BOCHK's ongoing expansion of its ASEAN operations (please see our analysis on Thailand).

The transaction should streamline BOCHK's corporate structure, reinforce its brand in Hong Kong and facilitate the development of their business in the ASEAN region.

XIL is a wholly owned subsidiary of Xiamen International Bank ("XIB"), a Chinese commercial bank headquartered in Xiamen City, Fujian Province. XIB also owns Luso International Banking Limited in Macau. Chiyu Bank is a licensed bank in Hong Kong with a network of 24 branches in Hong Kong and two branches and two sub-branches in the Mainland of China.

The sale of CK Capital by CK Hutchison to Cheung Kong Property Holdings Limited for $987mn was a close second in terms of deal size for the year. CK Capital owns a fleet of 43 planes. The strategic rationale for the deal was for the property company to diversify its revenue in light of the challenges in identifying adequate yield given the state of the Hong Kong real estate market. "We are still searching for good property investment targets, but it will take time. The air leasing business is going to generate strong cash flows for us and it makes sense for us to invest in the company", said Cheung Kong Property. "The aircraft leasing business, which provides a steady income stream on a medium to long term basis, is an investment that matches the above-mentioned investment criteria", a company statement said.

Earlier in the year, Cheung Kong Property had agreed to purchase 36 aircraft, which included 30 Airbus narrow body passenger aircraft and six Boeing narrow body passenger aircraft. CK Hutchison Holdings Limited (CK Hutchison) is a multinational conglomerate committed to innovation and technology. The Group employ over 270,000 people in more than 50 countries across the world. The vendor advised that the aircraft leasing business is by its nature a specialised financial asset management business that is not aligned with their core competencies. CK Hutchison focuses on five core businesses; ports and related services, retail, infrastructure, energy and telecommunications.

International Entertainment Corporation, a hotel operator and business that leases owned properties to casino's predominantly in Metro Manila and owner of 51% in Maxprofit International, acquired the residual 49% for $147mn from Chow Tai Fook Holding. Maxprofiit International is in the same line of business as International Entertainment Corporation.

The state-owned Chinese bad bank, China Huarong AMC (also covered in the China section of this report) acquired Pacific Plywood Holdings Ltd, a business that is principally engaged in money lending but also has an on-line peer-to-peer (P2P) financing platform linking borrowers with private lenders. The Company mainly operates in Hong Kong and China. The transaction was valued at $74mn.

Hong Kong

Transactions 2016

Equity Transactions

Deal Type	Name	Date	Asset Type	Buyer	Seller	Value ($'m)
Cross-border	Chiyu Banking Corporation Limited (70.49%)	Dec-16	Bank	Xiamen International Bank Co., Ltd.,; Chip Bee Private Institution	Bank of China (Hong Kong) Limited	990
	Chengxin Finance Limited	Dec-16	Bank	Newtree Group Holdings Limited	Tang Hon Kwong (Private Investor)	6
	Pacific Plywood Holdings Limited (55%)	Aug-16	Bank	China Huarong Asset Management Co., Ltd.	Allied Summit Inc.	74
	Hackett Enterprises Limited (25%)	Jul-16	Corporate	SRA Holdings, Inc.	Insight Financial Group LLC	33
Domestic	CK Capital	Dec-16	Leasing	Cheung Kong Property Holdings Limited	CK Hutchison Holdings	973
	Maxprofit International Limited (49%)	Jul-16	Leasing	International Entertainment Corporation	Chow Tai Fook (Holding) Limited	147
	Win Wind Capital Limited (11.78%)	Mar-16	Corporate	Qualipak International Holdings Limited		53
TOTAL						**2,276**

Loan Portfolio Transactions

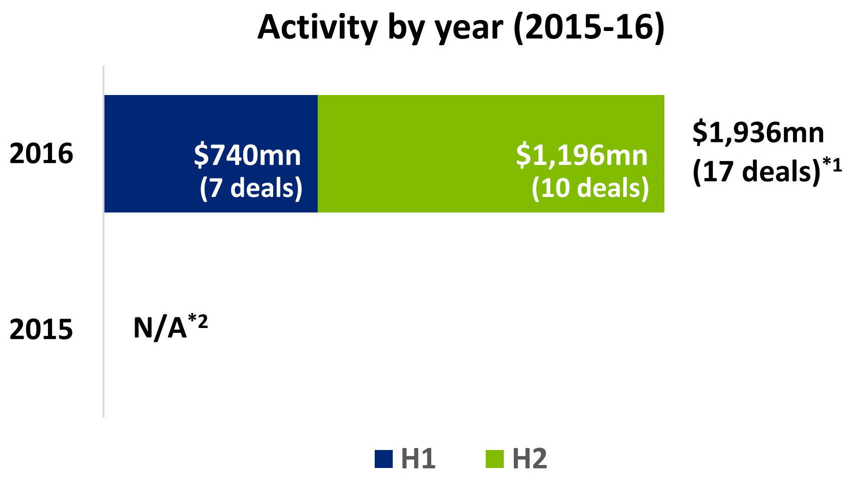
Deal Type	Name	Date	Asset Type	Buyer	Seller	Value ($'m)
N/A	N/A	N/A	N/A	N/A	N/A	N/A
TOTAL						–

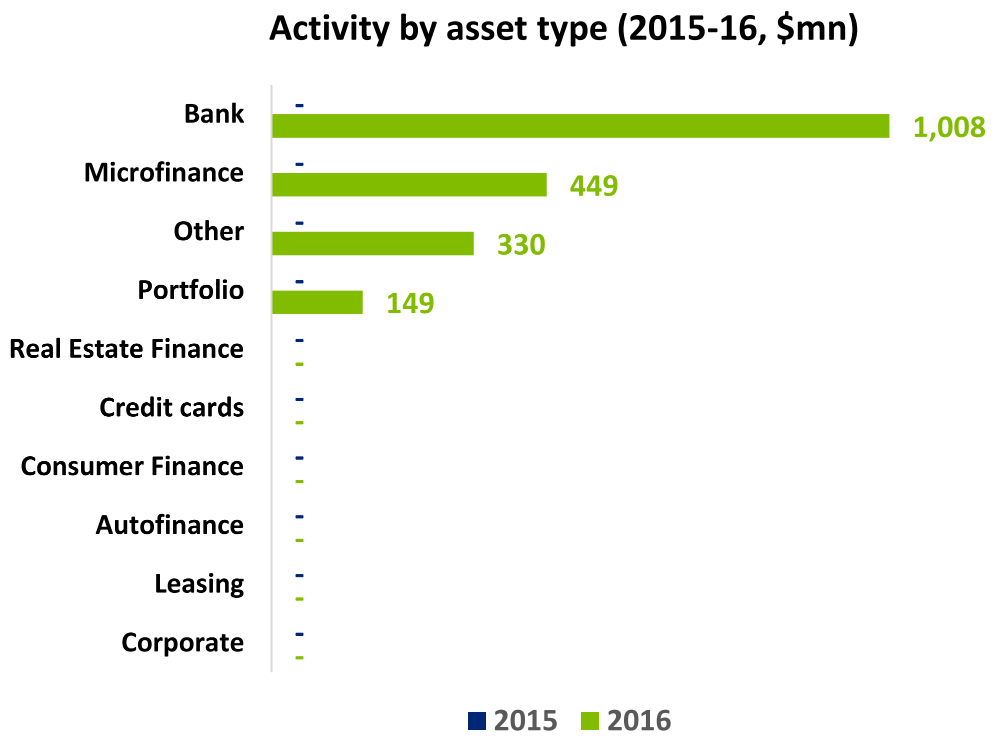
Source: Mergermarket, Deloitte research

Market Overview India

India

17 deals with a total of $1.9bn in value were transacted, of which more than 92% were equity deals





*1: 1 out of 17 deals had an undisclosed value

*2: India was not included in our 2015 analysis and report

Source: Mergermarket, Deloitte research

India

Market Overview

Macroeconomic Overview

The Indian economy saw real GDP growth of 7.5% in 2015 and 6.5% is estimated for 2016 as a result of strong domestic consumption and government spending on infrastructure such as railways, roads, energy, ports and airports. It is the fastest growing economy in the world.

Such growth is forecast to be sustained with average 7.6% growth in real GDP in 2017 – 2021. This growth will be driven by manufacturing and services as well as ongoing infrastructure spending. Corporate entities are generally highly leveraged and this will limit the level of private sector investment.

Whilst the economic outlook looks favourable, there is a concern that such GDP data could be overstated according to the EIU.

The Indian government is expected to introduce a new GST which replaces numerous state-led taxes and this is expected to bring about major improvements to the business environment, reducing the complexity of the tax system and help turn India into a genuine single market.

The central bank has an inflation target of 2 – 6% for 2016 – 2021. Inflation is sensitive to changes in food prices as it represents almost 50% of the CPI. Inflation for 2016 is expected to average 5.0% and 5.0% for the period 2017 – 2021. Inflation in India could increase rapidly if the food supply is impeded by a poor monsoon period.

The unemployment rate is expected to average 8.4% for 2016 and remain at this level to 2020. India is the second most populous country in the world with a population of 1.3bn. The population is expected to continue growing at the average rate of 1.2% per annum between 2016 – 2020. The aged 65 and older segment is expected to increase at a modest pace from 6.1% as of 2016 to 6.7% in 2020 according to EIU.

Banking Industry

The financial services sector has grown quickly given the rising incomes and urbanization of the population. According to the World Bank's 2014 database on financial inclusion, c.53% of Indians had a bank account compared to 35% in the 2011 survey. However, only 4.2% had a credit card and 3.7% a mortgage. The government is actively encouraging greater take up of banking accounts and services.

As incomes increase (nominal personal disposable income is forecast to grow at an annual average rate of over 13% for 2016 – 2020), lending levels will rise and EIU forecasts the bank lending (in local currency terms) will increase by an average of 12.7% a year in 2016 – 2020 compared to 16.2% for the previous five years.

The top 5 banks by total assets are; State Bank of India, Bank of Baroda, ICICI Bank, Bank of India and Punjab National Bank, all of which are state owned except for ICICI. The largest foreign banks are; Citi, HSBC, StanChart and Deutsche.

Indian banks are required to support government defined priority sectors. For domestic and foreign banks (with more than 20 branches), prioritized credit is at least 40% of total loans and at least 18% has to go to agriculture and 10% to other weaker sectors. Loans to these weaker sectors are, by definition, more prone to default.

India's state banks are under pressure from the central bank to correctly classify, provide and resolve the problematic loans which are largely corporate related. The central bank has set a deadline of end March 2017 for such action. As at March 2016, the NPL ratio was 7.6% compared to c.5% in September 2015 and c.2% in March 2011. If the definition is broadened to include stressed loans (i.e. restructured and / or written off loans), the ratio would increase to c.15% and is expected to total in the region of $150bn according to some reports.

In 2016, the central bank announced new guidelines relating to the sale of NPLs by banks. Previously asset reconstruction companies (there are 16 licensed ARCs) acquired most of the NPLs as this allowed for de-recognition of the loan on transfer in exchange for a credit-rated security receipt. The new regulation broadens the pool of potential investors beyond securitization and ARCs to include banks and other financial institutions. Foreign direct investment into ARCs is no longer capped at 49% and investors can now take full ownership thus increasing the capital available for acquiring NPLs and cleaning up the bank balance sheets.The government also announced measures to strengthen the construction sector, which employs about 40mn people, and the potential implementation of a scheme to help underperforming businesses / loans in the sector. Whilst this could be perceived as a bail out and be subject to criticism, the sector is severely stressed and could damage the banking sector if left without support. In addition to construction, the textiles and manufacturing sectors are also under stress.

2016 at a Glance

India had 17 financial sector transactions in 2016, with seven being cross border.

TPG Capital had been expected to lead the overseas buyer activity with two cross border deals. The successful acquisition of a 20% investment into Janalakshmi Financial Services and the proposed purchase of ICICI Home Finance. However the ICICI deal was reported to have been delayed due to ongoing negotiations. TPG's expected acquisition of the housing loan company was to have cost $320mn. The planned sale of ICICI Home Finance commenced in July 2015 with strong competition reportedly coming from Piramal Group, Baring PE Asia, India Value Fund Advisors, Carlyle, AION Capital Partners, Morgan Stanley and Tata Capital. ICICI is the mortgage lending arm of India's second largest bank and achieved c.$270mn earnings for the year end 31 March 2016. The sale by ICICI Bank, should it close, would be one of several divestments as it seeks to clean up its balance sheet.

The 20% investment into Janalakshmi was for a slightly more modest $210mn but did successfully close. TPG partnered with GIC (and other investors) with this acquisition of an Indian non-banking financial institutional. The transaction allowed Morgan Stanley Private Equity Asia and select other investors to exit their investment in the NBFI. Janalakshmi is the country's largest micro-lender in terms of loan portfolio size.

Janalakshmi was founded in 2000 and is among the country's largest issuers of pre-paid cards and micro-pensions. It is currently present in more than 184 cities across 19 states and will use the investment proceeds to drive customer acquisition and develop its current product offerings. Last September, it was among the 10 entities that received an in-principle license to form a small finance bank that can provide basic banking services like accepting deposits and lending to unserved and under-served sections.

In December, Fairfax Financial Holdings Limited, a listed Canada-based company engaged in property and casualty insurance and reinsurance and investment management agreed to acquire a 51% stake in The Catholic Syrian Bank Ltd, a private sector bank, for a consideration of $146mn. The transaction will allow the bank to focus on small and medium enterprises, gold and retail and will increase its business by 10 times. The transaction is subject to Reserve Bank of India's approval and is expected to close by March 2017. If approval is granted, this would be the first time India's central bank allows a foreign investor to purchase a majority stake in a domestic lender.

The largest transaction in 2016 was a domestic deal but involved a foreign seller in the form of General Electric who was selling its commercial finance business including the subsidiaries GE Money and GE Capital. The acquirer, Plutus Financials is backed by AION Capital. AION is a special situations fund co-owned by ICICI Venture and Apollo Global Management. Plutus paid $330mn for the business.

In another domestic transaction the Indian government agreed to acquire a 22.64% stake in the enlarged share capital of Indian Overseas Bank, the listed bank, for $233mn. Indian Overseas Bank is one of the oldest Public Sector banks with its Head Office located at Chennai. As of June 2014, the bank had 3,315 branches with overseas branches in Hong Kong, Singapore, Seoul, Bangkok and Colombo. The transaction was part of the government's strategy to recapitalize 13 public sector banks for ensuring compliance with BASEL III norms. As a result of this deal, the government's stake in the bank increased from 73.58% to 79.56%.

There is potential for the government to make a further injection of similar amount if certain conditions are met.

RBS has been divesting businesses and loan portfolios globally since the establishment of its non-core division in 2009. In 2015, it sold loan portfolios in China and Indonesia. In 2016, it tried to sell RBS Berhad in Malaysia but a potential deal with Taiwan Life and CTBC Bank was terminated. In India, RBS was proposing to sell its corporate banking business but eventually decided to wind down operations as it could not find a buyer. The bank is now looking to sell some assets and wind down other parts of the business. In March it completed the sale of a loan portfolio to DBS Bank Limited, of Singapore, for an estimated $149mn, having reportedly sold $900m loans in November 2015 to National Bank of Abu Dhabi and $200mn to Deutsche Bank earlier in 2015.

RBS is not the only bank to exit India as many global institutions have sought to exit, as evidenced by GE's actions. The private banking sector has been particularly vulnerable. In 2013, Morgan Stanley announced the sale of its private banking arm to Standard Chartered, HSBC closed its private banking business in 2015, RBS had sold its own private bank to Sanctum Wealth in 2015 and, earlier this year, Deutsche Bank put its private banking arm up for sale.

During the first half of the year, it was reported that Standard Chartered Bank was looking to sell a $4.4bn loan portfolio consisting of $1.4bn stressed Indian loans and $3bn from the rest of Asia including China, Indonesia and Malaysia. There has been no formal announcement of a successful sale in 2016 and investor interest for the Indian assets was reported to be very light. SSG, the Hong Kong based distressed investor was reported to have acquired some of the assets but we were unable to confirm.

Axis Bank was reported to be selling $267mn of performing loans and $52mn of distressed loans but it is unclear if a sale was achieved.

India

Transactions 2016

Equity Transactions

Deal Type	Name	Date	Asset Type	Buyer	Seller	Value ($'m)
Cross-border	The Catholic Syrian Bank Ltd. (51%)	Dec-16	Bank	Fairfax Financial Holdings Limited		146
	India Infoline Finance Limited (15%)	Jul-16	Microfinance	CDC Group plc		149
	IntelleGrow Finance Pvt. Ltd.	Jun-16	Microfinance	Triodos Investment Management BV; Developing World Markets Finance LLP		12
	Zen Lefin Pvt. Ltd.	May-16	Microfinance	Creation Investments Capital Management, LLC		25
	Janalakshmi Financial Services Private Limited (20%)	Apr-16	Microfinance	TPG Capital LP; GIC Private Limited	GAWA Microfinance Fund	210
	Rent Alpha Private Limited	Jan-16	Leasing	Bravia Capital Hong Kong Limited		N/A
Domestic	BSS Microfinance Private Limited (99.49% Stake)	Sep-16	Microfinance	Kotak Mahindra Bank Limited	Ramesh Bellamkonda (Private Investor)	21
	United Bank of India (19.97%)	Sep-16	Bank	Government of India		91
	Bank of India (11.44%)	Sep-16	Bank	Government of India		201
	Bharatiya Mahila Bank	Aug-16	Bank	State Bank of India		163
	State Bank of Mysore (10%)	Aug-16	Bank	State Bank of India		39
	State Bank of Travancore (20.91%)	Aug-16	Bank	State Bank of India		121
	Indian Overseas Bank (22.64%)	Aug-16	Bank	Government of India		233
	Suryoday Micro Finance Limited (19%)	Jul-16	Microfinance	Gaja Capital Partners; Evolvence India Life Sciences Fund; responsAbility Investments AG; ASK Pravi Capital Advisors Pvt. Ltd.; Polaris Banyan Holding Private Limited; IDFC Bank Ltd.; Kiran Vyapar Limited; Americorp Group; Arpwood Capital; Aravind Srinivasan (Private Investor); New Tech Investments Ltd.	Lok Capital; Aavishkaar Goodwell India Microfinance Development Company Ltd	32
	Thirumeni Finance Pvt Ltd	Apr-16	Bank	Zephyr Peacock Management India PVT LTD; Kaizen Private Equity LLC		14
	GE Capital Services India Limited; GE Money Financial Services Private Limited	Mar-16	Other	Plutus Financials Pvt. Ltd.	General Electric Company	330
TOTAL						**1,787**

*Merger transactions are in BLUE font

Loan Portfolio Transactions

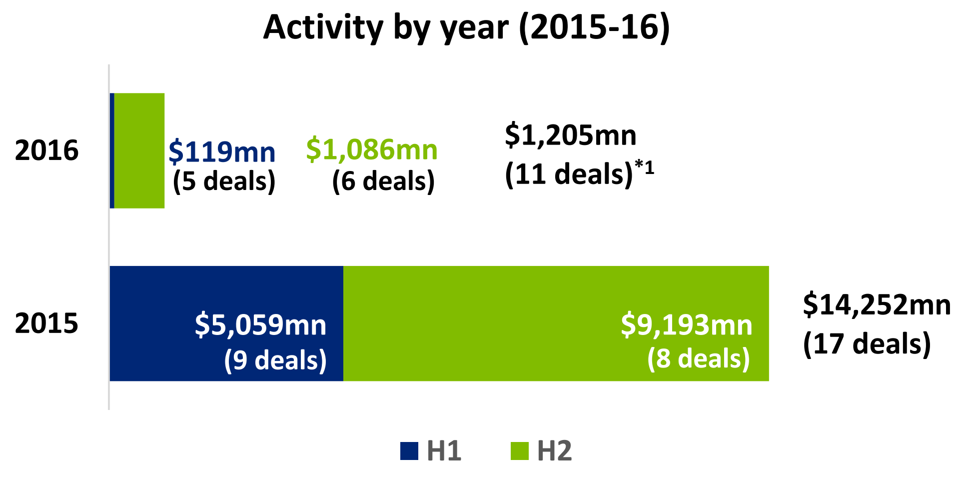
Deal Type	Name	Date	Asset Type	Buyer	Seller	Value ($'m)
Cross-border	Royal Bank of Scotland Group Plc (Loan Portfolio of India)	Mar-16	Portfolio	DBS Bank Ltd.	Royal Bank of Scotland Group Plc	149
TOTAL						**149**

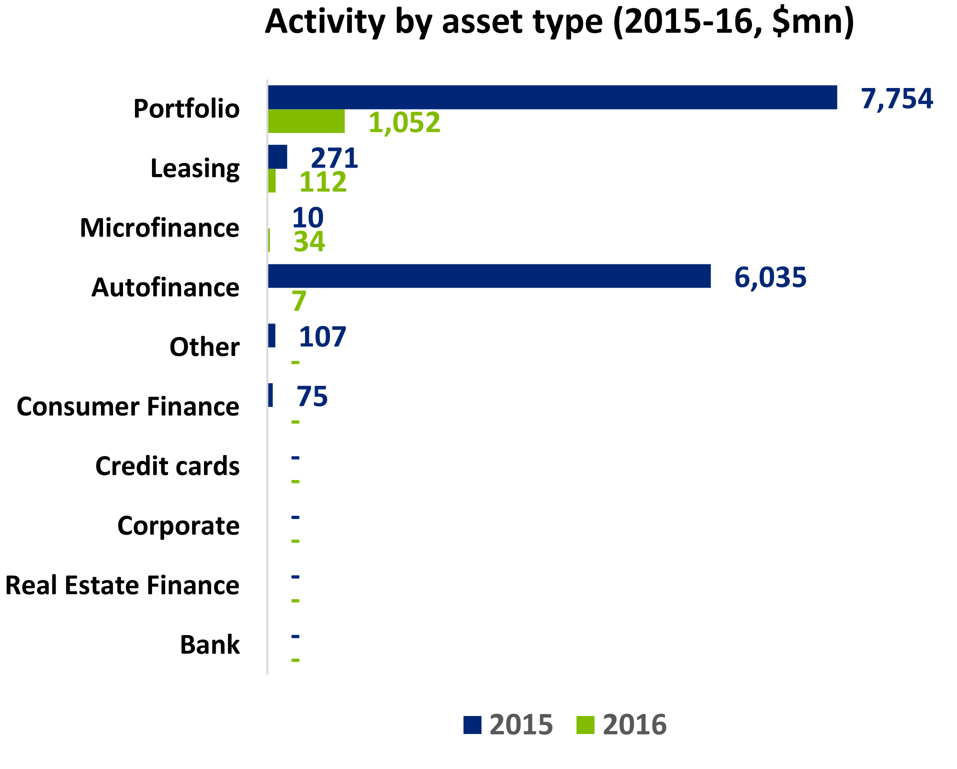
Source: Mergermarket, Deloitte research

Market Overview
Australia

Australia

The $1bn “Keystart” loan portfolio sale by the W.A. state government was the largest transaction in 2016





*1: 2 out of 11 deals had undisclosed values

Source: Mergermarket, Deloitte research

Australia

Market Overview

Macroeconomic Overview

Real GDP growth for 2016 was estimated by EIU to be 2.8% (up from 2.4% in 2015) but is expected to soften marginally, down to 2.6% by 2020. The slow down in China's growth has impacted Australia as China is its largest export market although government's supportive monetary policy has mitigated the impact to a degree.

The central bank cut its official central rate by 50 basis points to a record low of 1.5% in 2016. The EIU expects the Australian central bank to apply a further 50 basis point cut given the current, low inflation with no tightening in monetary policy expected until 2019.

Unemployment was 5.7% in December 2016 (the population is 24.3mn) and is expected to drop to 5.6% by 2021. Australia has a relatively aged population compared to others in Asia with 15.3% of the population aged 65 or older as at 2016.

From 2017 – 2020, the mining sector is likely to be a concern for government as investment in the sector reduces. Mining production and output is expected to increase (iron ore and LNG) and have a positive impact on exports whilst government revenues will continue to decline due to the low commodity prices of gold, iron ore, copper and liquefied natural gas.

In terms of the property market, the government continues to try to control house price increases in Sydney and Melbourne via stricter limits on foreign investment for residential housing and agricultural land and stamp duty surcharges and land tax surcharges for foreign investors in certain states. The government's strategy appears to be working as annual house price growth has slowed and turnover was below average in 2016.

The central bank's inflation target range is 2 – 3% but as at September 2016 it was 1.3% year on year as a result of the low oil prices and subdued domestic inflation.

Banking Industry

The banking sector is mature with domestic and foreign banks both competing for services. The financial sector employed 3.6% of the labour force (data only available as of August 2015) and accounted for 9.4% of GDP.

There are 157 authorized deposit taking institutions in Australia which include local banks, building societies, credit unions, foreign banks and branches.

The four biggest domestic players are; Westpac, (largest by total assets), Commonwealth Bank of Australia, National Australia Bank and Australia and New Zealand Bank.

Personal disposable income is c.$33k per head and the growth in consumer credit has been driven by a culture of home and car ownership. The level of private sector credit to GDP was 172% in 2015 (up from 109% in 2000 and is expected to increase to 192% by 2020 (a record high) as a result of the low interest rates and subsequent mortgage lending.

Credit growth has risen from a low of 3% year on year in June 2013 to 6.4% in June 2016. The demand for bank loans is expected to grow at an average of 5.6% a year in 2017 – 2020 according to EIU forecast. Corporate borrowing has been less aggressive following the global financial crisis and banks have been reluctant to lend. However, lending to corporates did grow during 2015 – 2016.

Exposure to residential lending is considered to be a key risk for the banks. The big 4 banks cover 80% of mortgage lending and there are concerns of a real estate bubble, especially in Sydney. However, the central bank advised that even if house prices dropped 25% the impact on banks would not be material as most borrowers are high income earners. NPLs are relatively low and the NPL ratio as of June 2016 was 0.9% a rise by 13 basis points from December 2015, but still well below the c.2% peak in 2010.

2016 at a Glance

In 2015, we reported on deals exceeding $14bn. It was the second most active country in terms of transactions, second only to China. Leasing was the most common deal type in Australia that year as it was for 2016 but with five reported deals the disclosed value was only $146mn.

The value of the merger between the Royal Automobile Club of Queensland (one of Queensland's biggest car and home insurance providers) and QT Mutual Bank was not disclosed but the combined assets of the Group were $3bn with 1.6mn members. QT Mutual Bank converted from Queensland Teachers' Credit Union into a bank in 2011 having been established in 1965 with the original purpose of being able to lend money to teachers. With regards to the transaction, the RACQ CEO advised "It's definitely RACQ's goal to grow the bank over time…A $6bn loan-book figure cited in merger documents was only to show the need for growth and not a hard target…We may have an opportunity to offer banking products outside of Queensland if the value proposition stacks up for RACQ's current members". Diversifying into banking is considered to be sensible because RACQ is facing pressure on membership numbers as cars become more reliable and competitors offer roadside assistance.

The largest disclosed equity deal of 2016 by value was Eclipx Group's $50mn acquisition of Right2Drive (a vehicle rental business). Eclipx is a leasing and fleet management services business and saw Right2Drive as a good strategic fit with the CEO advising "This is an exciting, synergistic and strategic acquisition providing Eclipx with a platform to expand into the medium term vehicle rental segment providing new and used accident replacement vehicles to 'not at fault' drivers…With an existing base of approximately 1,200 vehicles operating from 16 branches in Australia and New Zealand, R2D operates in an attractive, high growth and underpenetrated market, characterised by smaller operators that lack the resources to take advantage of growth opportunities. This market is underpenetrated relative to the UK with a current estimated potential Australian and New Zealand addressable market size of approximately AUD$550mn of revenue per annum". Right2Drive Pty Ltd. subsequently acquired Onyx Car Rentals in November for $7mn.

The second largest disclosed equity deal, also leasing, involved Smartgroup Corporation another fleet management and vehicle leasing business acquiring 100% of Autopia Management. Autopia currently manages around 3,000 vehicles. The acquisition was priced at 6.5 times (EBITDA). Autopia is Smartgroup's fourth acquisition since the group undertook its IPO in 2014 and is a reminder to investors that the salary packaging, novated leasing and fleet management sectors are ready for consolidation.

180 Group is a debtor and invoice financing business that was acquired in 2016 by CML Group a payroll, financial management and franchise services business. 180 Group had a $22mn loan book. The CML CEO advised "This series of transactions represents the next stage of our growth as an invoice finance company. We have invested significantly into the company's systems, capabilities and, most importantly – people….The acquisition of 180 Group will build upon the base that has been established in the business and we expect that this will be a catalyst for significant value creation for our shareholders". CML had acquired CashFlow Advantage for $8mn earlier in the year, another debtor finance business.

In terms of loan portfolio trades, the Australian Western State Government sold off part of its Keystart loan book to Bendigo and Adelaide Bank for a reported $1bn as part of a broader public sector asset sale program, designed to reduce debt. Keystart is owned by the Western Australia Housing Authority and provides loans to disadvantaged buyers who are unable to meet the deposit requirements of mainstream lenders. The deal involved 6,000 of Keystart's 18,000 loans. According to the Bank CEO, "The customers in the portfolio we are acquiring have, on average, a track record of meeting their loan repayments for more than five years…We will not be acquiring any loans that are more than one month in arrears". Keystart's total loan book is worth about $4bn and makes up 18% of the first time homebuyer market in Western Australia.

Bendigo and Adelaide Bank is also reportedly interested in the South Australia State government's Home Start portfolio which totals c.$1.5bn of loans and which may be brought to market in early 2017.

Citi acquired a c.$660mn portfolio of credit card receivables as part of an agreement to take control of the Coles credit card business from its parent Wesfarmers. The Australian conglomerate made a 10-year agreement that will see Citi become the issuer of Coles credit cards, manage the operations of the credit card portfolio and fund customers across credit cards and car and home insurance. The group ended its long-term financial partnership with GE Capital in 2015. That year, GE also sold GE Capital and GE Money Australia as noted in our last report. With regards to the Coles acquisition, Citi advised that “Today’s agreement reflects our strategy to grow our credit cards business in Australia”.

Australia

Transactions 2016

Equity Transactions

Deal Type	Name	Date	Asset Type	Buyer	Seller	Value ($'m)
Cross-border	TR Pty Ltd	Apr-16	Leasing	Vp Plc	Advent Private Capital Pty Ltd	19
	Skyreach Group Holdings Pty Ltd (80%)	Mar-16	Leasing	Nishio Rent All Co., Ltd	Rodney Graeme Stephen Leech (Private Investor)	16
Domestic	Onyx Car Rentals	Oct-16	Autofinance	Right2Drive Pty Ltd	Chris Keisoglu, Andrea Svoboda	7
	QT Mutual Bank Limited	Aug-16	Bank	Royal Automobile Club of Queensland Limited		N/A
	Autopia Management Pty Limited	Jul-16	Leasing	Smartgroup Corporation Ltd		27
	United Crane Hire Pty Limited	Jul-16	Leasing	Sterling Crane Australia Pty Limited		N/A
	180 Group Pty Limited	Jun-16	Microfinance	CML Group Limited	FSA Group Limited	26
	Right2Drive Pty Ltd	May-16	Leasing	Eclipx Group Limited		50
	CashFlow Advantage Pty Ltd.	Feb-16	Microfinance	CML Group Limited	Mr. Jason Smith (Private Investor)	8
TOTAL						**153**

*Merger transactions are in BLUE font

Loan Portfolio Transactions

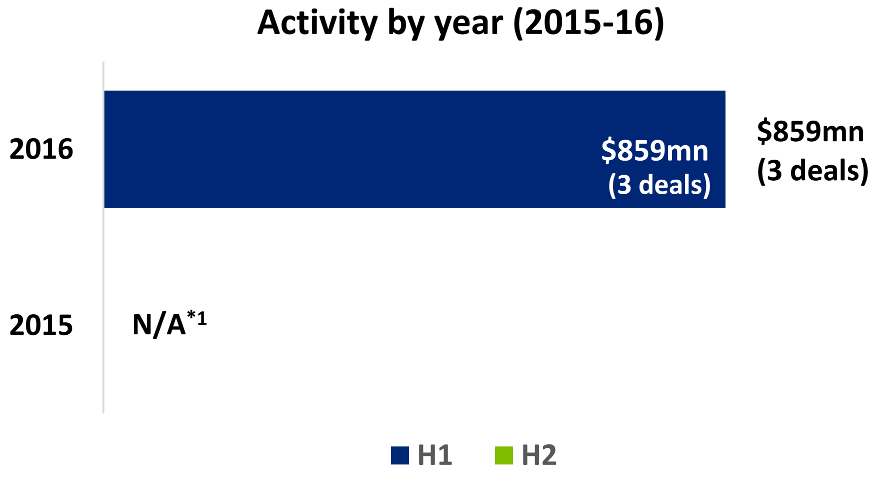
Deal Type	Name	Date	Asset Type	Buyer	Seller	Value ($'m)
Cross-border	Coles Group Limited (Credit Card Receivables Business)	Nov-16	Receivables	Citi	Coles Group Limited	52
Domestic	Keystart Housing Scheme Trust	Sep-16	Real estate loans	Bendigo and Adelaide Bank Ltd	Western Australia State Government	1,000
TOTAL						**1,052**

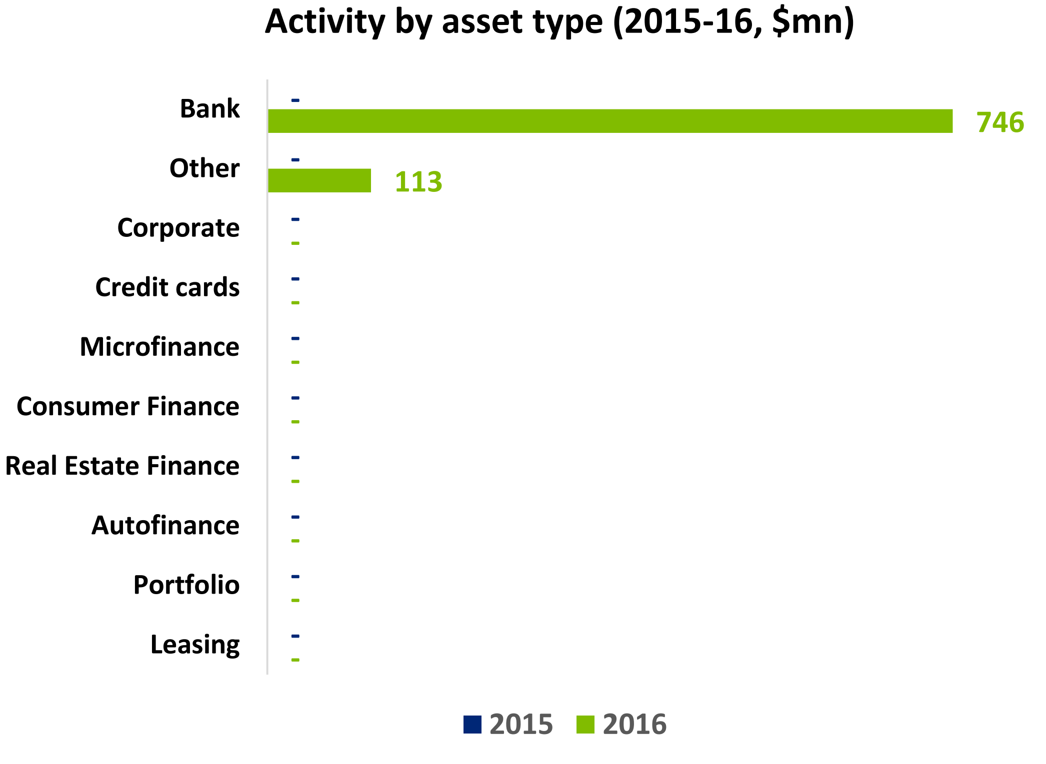
Source: Mergermarket, Deloitte research

Market Overview
Malaysia

Malaysia

There were three deals totalling $859mn of which two related to bank acquisitions





*1: Malaysia was not included in our 2015 analysis and report

Source: Mergermarket, Deloitte research

Malaysia

Market Overview

Macroeconomic Overview

The real GDP growth was 4.3% for 2016, the slowest pace since the 2008 – 2009 global financial crisis. The main factors for such slow growth were the global slowdown and low global energy prices. EIU forecasts that oil prices will increase gradually between 2017 - 2021 and as one of the largest oil and gas export markets in Asia, Malaysia has been negatively affected by low prices and investment activity in the energy sector. An increase in oil prices will be well received and EIU expects the economy to grow in 2017 - 2021, with average annual growth of 4.4% and government consumption at 5.4% annually. For the forecast period of 2017 – 2021, Malaysia's economic agenda will be focused on both public spending initiatives and private consumption promotion through monetary and fiscal policies in 2017 – 2021, which in return will be main drivers for growth.

Private consumption grew by 4.9% and is expected to grow between 2017 – 2021 at 4.4% per annum.

Inflation was estimated at 1.9% in 2016 and is projected to be 2.0% on average throughout forecast period (2017 – 2021).

6.1% of the 30.8mn Malaysian population is aged 65 years old and above which is expected to increase to 7.1% in 2020. The unemployment rate was at 3.2% in 2016 and is expected to be broadly the same level between 2017 – 2021.

Banking Industry

Key players in the banking sector are financial groups which have a conventional banking unit, as well as smaller affiliated operations in Islamic and investment banking. These groups are also usually active in fund management and capital market activities.

According to EIU, there were 87 licensed banks in Malaysia as of April 2016, 27 of which were locally incorporated conventional lenders (8 domestically owned and 19 foreign-owned). There were also 16 Islamic banks (10 domestic and six foreign), 11 investment banks and three international Islamic banks. Malayan Banking (Maybank), CIMB Bank, Public Bank, RHB Capital and Hong Leong Bank are the main local banking groups. All of these banks have branch networks and affiliated Islamic and investment-bank subsidiaries. Only Maybank, CIMB Bank and Public Bank have overseas operations.

Singapore's United Overseas Bank (Malaysia), OCBC Bank (Malaysia) and the UK's HSBC Bank Malaysia are the largest foreign-owned lenders.

The demand for bank loans has been on a declining path since 2013 with 10.6% change in the local currency terms compared with 4.2% in 2016. Although EIU forecasts that growth will accelerate to 6.9% a year on average in 2017 – 2020.

Malaysians are frequent users of banking services. Around 81% have a bank account, 20% borrowed from a financial institution in 2014, 20% had credit cards and 18% had a mortgage according to the World Bank.

As of October 2016, the ratio of impaired loans to total loans was 1.2% at c.$5.5bn for the banking sector, which has been stable for the past year with the ratio moving only within the range of 1.2 – 1.3%. The reporting of a NPL ratio has been discontinued by Malaysian financial institutions since 2010 due to the changes in reporting rules set by the government.

2016 at a Glance

We noted three equity transactions in Malaysia, totalling $859mn, two involved overseas buyers and one single domestic deal.

The largest transaction involved Bank of China (Hong Kong) Limited acquiring Bank of China (Malaysia) Berhad from Bank of China Limited for $503mn. Bank of China (Malaysia) Berhad (BOC Malaysia), a Malaysia-based company headquartered in Kuala Lumpur provides corporate loans, trade finance and cross border trade settlements and personal banking services. The acquisition is in line with BOCHK's strategy to expand overseas and increase its market competitiveness in the ASEAN region.

The second cross-border transaction involved a group of investors acquiring a 14.8% stake in Alliance Financial Group Berhad from a private investor for the total consideration of $243mn.

In July, Hwang Enterprises Sdn. Bhd and Mr. Hwang Lip Teik completed the acquisition of Hwang Capital (Malaysia) Berhad.

The transaction, valued at $113mn related to the transfer of 69.41% equity and having already held 30.59% of the equity in the business, the bidder now owns 100% of Hwang Capital (Malaysia), a financial services business that includes consumer finance.

Malaysia

Transactions 2016

Equity Transactions

Deal Type	Name	Date	Asset Type	Buyer	Seller	Value ($'m)
Cross-border	Bank of China (Malaysia) Berhad (66.06%)	Jun-16	Bank	Bank of China (Hong Kong) Limited	Bank of China Limited	503
	Alliance Financial Group Berhad (14.82%)	Apr-16	Bank	Ong Beng Seng (Private Investor); Ong Tiong Sin (Private investor); Seow Lun Hoo (Private Investor)	Lutfiah Ismail (Private Investor)	243
Domestic	Hwang Capital (Malaysia) Berhad (69.41%)	May-16	Other	Hwang Lip Teik; Hwang Enterprises Sdn. Bhd		113
TOTAL						**859**

Loan Portfolio Transactions

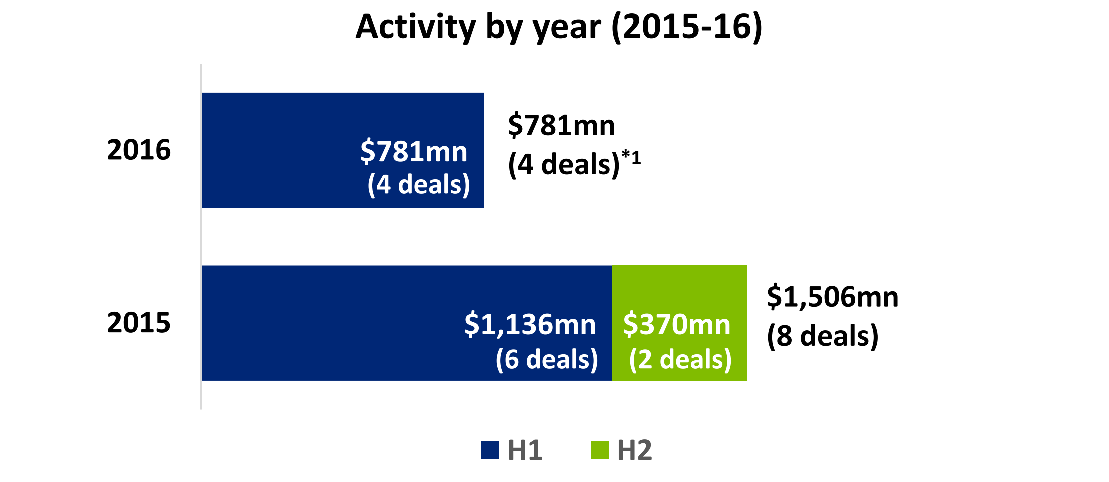
Deal Type	Name	Date	Asset Type	Buyer	Seller	Value ($'m)
N/A	N/A	N/A	N/A	N/A	N/A	N/A
TOTAL						–

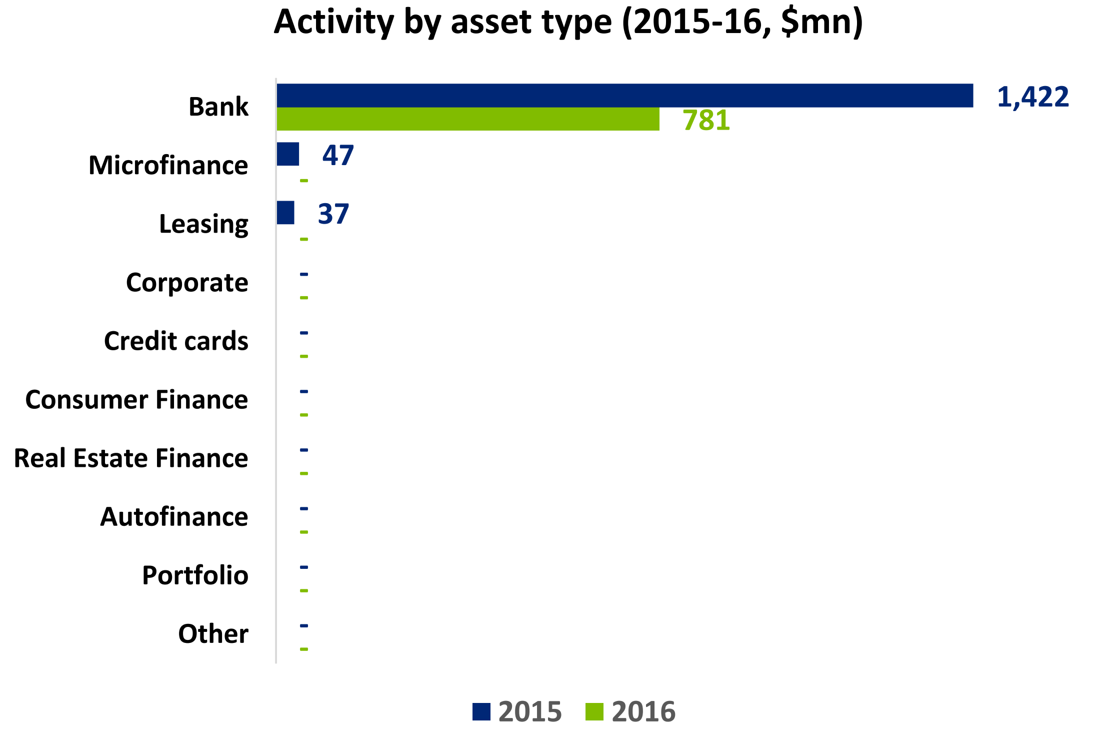
Source: Mergermarket, Deloitte research

Market Overview Philippines

Philippines

The number and volume of transactions fell 50% in 2016 with only 4 deals, all bank related and the largest was BTMU's $781mn investment in Security Bank Corporation





*1: 3 out of 4 deals had undisclosed values

Source: Mergermarket, Deloitte research

Philippines

Market Overview

Macroeconomic Overview

According to EIU, Philippines real GDP growth is estimated to be 6.9% for 2016 (5.9% for 2015) owing to strong expansion in private consumption and a surge in investment. The government has committed to increase public sector spending on social services (healthcare and education) and public infrastructure in the coming years. The infrastructure projects and plans include; new highway construction and upgrading of road networks, a new road link from Manila to Clark International Airport, upgrading and expanding the regional airports and a 2,000 km rail network in the south.

Real GDP is forecast to grow by an average 5.9% a year in 2017 – 2021 predominantly due to private consumption made possible by subdued inflation, healthy inflows of remittances from overseas (as at August 2016, remittances were up 16% year on year) and increasing employment. Unemployment was 6.4% in 2016 and is expected to improve modestly for the period 2017 – 2021. The population is currently 102.3mn (up from 96mn in 2012) and is forecast to be 123.6mn by 2030. Less than 4% of the population is aged 65 or older.

Inflation for 2016 is expected to be c.1.8% and expected to rise by an average of 2.6% a year in 2017 – 2021 against a central bank 2016 – 2018 target of 2 – 4%.

The central bank left the main benchmark rate (overnight repurchase rate) unchanged at 6% in 2016, as it did in 2015. The reverse repo rate was revised from 4% to 3% during the second quarter.

Banking Industry

The Philippine financial sector is relatively small. Activities classed as financial intermediation accounted for 8.4% of GDP as at September 2016 according to the Philippine Statistics Authority and the industry employed just 1.3% of the labour force in that year.

As at June 2016, the country had 618 banks; of which 513 were co-operatives or rural banks, 41 were universal and commercial banks with a further 64 thrift banks. In addition, there were 5,580 non-bank financial institutions, the vast majority being pawn shops.

The top 4 largest banks by total assets cover almost 50% of the market with the largest BDO Unibank, Inc. (16% of total assets), followed by Metropolitan Bank and Trust Company (12%), Bank of the Philippine Islands (10%) and state owned Land Bank of the Philippines (10%).

Qualified foreign banks may operate in the Philippines by acquiring up to 100% of the voting stock of an existing bank (universal, commercial, thrift or rural), or by investing in up to 100% of the voting stock of a new banking subsidiary, or by establishing branches with full banking authority. Only established, reputable and financially sound foreign banks shall be allowed entry. The foreign bank applicant must be widely-owned and publicly-listed in its country of origin, unless it is owned and controlled by the government of its country of origin.

Of the 41 universal and commercial banks, 17 are foreign bank branches or subsidiaries including BTMU, Mizuho and SMBC. In February 2016, BTMU invested c.$800mn into Security Bank Corporation (discussed further below).

Lending growth was 17.6% year-on-year as at June 2016 (19.1% in 2014) and is expected to be c.11% for 2016 – 2020. Property lending has been a particularly attractive asset type and this type of lending has grown due to the low interest rate environment, healthy remittances from abroad and consumer confidence has been high as the stock market rose 33% from a low in January to an August peak but has recently softened during the last quarter of 2016.

The country remains underbanked with only c.30% of adults having a bank account at a formal financial institution according to the World Bank's 2014 Global Financial Inclusion Database. Whilst c.70% of adults had borrowed money in the past year, just under 12% had used a formal financial institution. Only about 5% of Filipinos had a mortgage. Providing banking services to the poor people that live in rural areas will remain a logistical challenge.

Given the relatively stable economy, positive lending growth, low NPL levels that are currently 2.2%, expanding population and the fact that foreign investors can own 100% of banks, we believe there will be more bank acquisitions and / or investments in 2017.

2016 at a Glance

In 2015, there were six bank transactions, the majority were domestic deals but a Korean and a Taiwanese bank both acquired Filipino banks. These were both sub $50mn deals and significantly smaller than BTMU's 20% investment into Security Bank Corporation which cost $800mn. Security Bank is the 6th largest bank in Philippines. It has 280 branches, almost 60% of which are in metro Manila. As at year end 2015, they achieved a 15% return on equity compared to an industry average of 9.4%, NPL ratio of 0.14% and a cost income ratio of 50.3% (industry average 63.6%). The Security Bank CEO said the transaction with BTMU "will allow us to accelerate the expansion of our branch network to support retail market penetration as well as make inroads into the Japanese business sector" whilst BTMU said "We are very excited with the opportunity to work closely with Security Bank. We have started exploring various areas for collaboration including work-site business and PPP projects. By partnering with Security Bank, we can expect to expand our business platform and identify new business areas for BTMU in the Philippines".

TPG Growth also acquired 40% of One Network Rural Bank from BDO Unibank, who retain a 60% holding. TPG has acquired the Indonesian financial institution BFI, Janalakshmi India's largest microfinance company, the Shenzhen Development Bank in China and in 2015, Union Bank of Colombo in Sri Lanka. BDO Unibank bought One Network Rural Bank for $628mn from DCMI in 2015.

At the end of 2016 there was a domestic transaction with Union Properties Inc. and City Savings Bank, Inc. obtaining regulatory approval to acquire the 11-branch First-Agro Industrial Rural Bank ("FairBank") for an undisclosed value. The acquirers were subsidiaries of Union Bank of the Philippines and represents their first investment in the Rural and Microfinance Banking sector. City Savings Bank, Inc is a thrift bank and Union Properties Inc. manages the buildings and other properties-owned by the parent bank. The bank announced "We are thrilled about this acquisition because it serves as a first step in serving our unbanked countrymen...We are grateful to the founding owners of Fairbank for trusting us to continue their Microfinance mission." It is expected that, FairBank will remain structurally separate and will keep its company name. Established in 1999, FairBank has more than 200 employees, more than 10,000 borrowers and a depositors' base of over 20,000. It serves the Microfinance communities around the Visayas area.

There were no reported NPL portfolio transactions in 2016. Most of the distressed investors that were acquiring Filipino NPL during the Asian banking Crisis have long gone. There are some active local opportunistic players who acquire sub $5mn portfolios. Some US private equity funds are still looking for deals in the Philippines but their minimum investment size is generally too large for the small NPL market that exists. Some funds are looking at non-performing assets (real estate) as oppose to loans. There is also a World Bank sponsored "Debt and Asset Recovery Program" platform with a local loan servicer, that manages existing investment and is looking to acquire more assets in the Philippines and other Asian countries.

There is greater stress in the rural banking sector, and several government shelter housing agencies have larger problematic portfolios (loans and real estate). The sale of non performing assets is achieved via public auction or privately but such deals are largely not made public.

NPL ratios are at all time lows and banks are very disciplined in new lending. Accordingly, assuming no significant change in the economy, we do not expect any material increase in NPL levels and therefore portfolio sales will continue to be minimal. However, as mentioned, we do expect more bank equity transactions in 2017 given the attractive demographics, an underbanked market and positive returns currently enjoyed by Filipino banks.

There was however a transaction which included a loan portfolio being sold along with branches and people. Standard Chartered Bank sold its

Filipino retail banking business to East West Banking Corporation. The UK-listed bank, which opened in the Philippines in 1872, has sold its credit card, personal loan, wealth management and retail deposit business along with four branches and 300 people. The UK bank began reversing its strategy of expanding aggressively across emerging markets in 2015 and also sold its Thai retail business in 2016. The bank will retain its corporate and institutional banking business in the Philippines and advised "Standard Chartered remains fully committed to the growth of our corporate and institutional banking business in the Philippines which is a core part of our Asean network".

Source: EIU, National Bank of Cambodia

Philippines

Transactions 2016

Equity Transactions

Deal Type	Name	Date	Asset Type	Buyer	Seller	Value ($'m)
Cross-border	One Network Rural Bank Inc. (40%)	Jun-16	Bank	TPG Growth	BDO Unibank, Inc.	N/A
	Security Bank Corporation (20%)	Jan-16	Bank	The Bank of Tokyo-Mitsubishi UFJ, Ltd.		781
Domestic	First Agro-Industrial Rural Bank, Inc.	Dec-16	Bank	City Savings Bank, Inc.; Union Properties Inc. (Union Bank of the Philippines)		N/A
TOTAL						**781**

Loan Portfolio Transactions

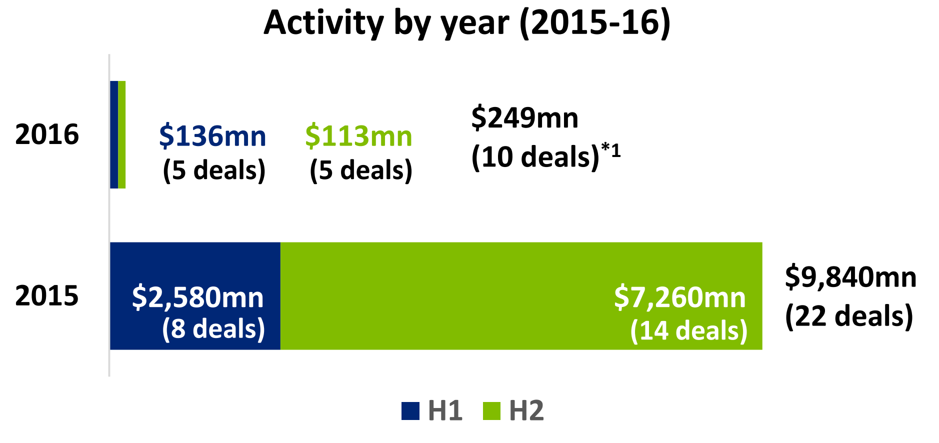
Deal Type	Name	Date	Asset Type	Buyer	Seller	Value ($'m)
Domestic	Standard Chartered Retail Business Unit	May-16	Bank	East West Banking Corporation	Standard Chartered Plc	N/A
TOTAL						–

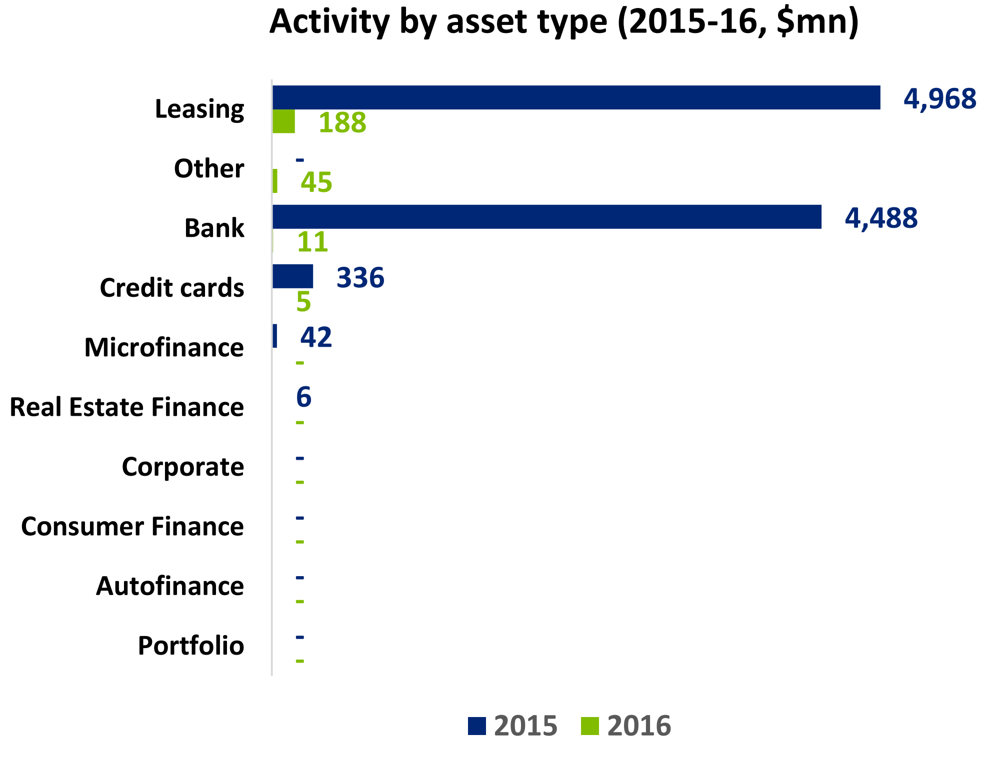
Source: Mergermarket, Deloitte research

Market Overview
Japan

Japan

There were only ten deals with a total value of $249mn in 2016 compared to 22 in 2015 with a value of almost $10bn





*1: 1 out of 10 deals had an undisclosed value

Source: Mergermarket, Deloitte research

Japan

Market Overview

Macroeconomic Overview

According to the EIU, the real GDP growth for Japan is estimated as 0.8% for 2016, compared to 1.2% in 2015. GDP growth for the period 2017 – 2021 is expected to fluctuate between 1% (2017) and 0.2% (2020) assuming the consumption tax increase originally planned for April 2017 goes ahead in October 2019. The forecast low of 0.2% in 2020 is despite Tokyo hosting the Olympics that year. For the period 2018 – 2021, real GDP growth is forecast as average 0.4% annually.

Global macro-economic factors such as the potential hard landing in China and a technical recession in the US as well as domestic demographic factors, fundamentally the aging population and contracting workforce, will be the main constraint on GDP growth. In 2005, 19.8% of the population was aged 65 years or older but by 2020 this segment is expected to be c.29%. Due to a stagnating birth rate, the population under 14 years of age will continue to decrease from 12.9% to 12.4% between 2016 – 2020.

The population of Japan is 126.3mn (forecast to decline to 107.4mn by 2050) and the unemployment rate was 3.1% at the end of 2016. This rate is expected to reduce annually and reach 2.8% by 2021.

The Bank of Japan has a CPI target of 2% but given the low oil prices, strengthening yen (one of the best performing currencies in 2016) and soft wage growth, consumer prices actually declined in 2016 by 0.2% on average. EIU predict that the 2% target will not be achieved during the period 2017 – 2021 but an annual average of 0.9% in 2019 – 2021 is forecast.

As stated above, there was a planned increase in the consumption tax rate in April 2017 from 8% to 10% but this has been deferred to October 2019 in order avoid further contraction in consumer spending.

EIU does not expect the BOJ to increase the benchmark interest rate until 2021 at the earliest.

Banking Industry

Japan has one of the largest and most sophisticated financial sectors in the world. In 2016 its financial asset base is equivalent to c.1,500% of GDP compared to c.1,050% in US and 740% in China.

The banking sector is relatively mature. The sector is largely focused on outward investment, especially Asia, given the widespread use of financial products, narrow interest rate spreads, a risk averse and declining population and slow economic growth in Japan.

The negative interest rate policy introduced in 2016 in order to try to avoid deflation has had an adverse impact on bank profits (both mega and regional banks). Whilst some corporates are taking advantage of the favourable financing conditions, the reducing and flattening of the interest rates has impacted the income earned by banks from borrowing short and lending long.

There does not appear to be a strong link between the negative interest rate policy and the demand for bank loans; EIU demonstrates a fall in lending growth of 0.9% year on year in 2015 – 2016. Although the forecast shows average growth of 1.6% a year between 2017 – 2020.

Notwithstanding the absolute increase in lending, the low domestic interest rates has put pressure on margins and the larger banks are focused on overseas lending and investment as evidenced by numerous acquisitions since the global financial crisis including BTMU's investment into Security Bank of the Philippines in 2016 and Bank of Ayuthaya (Thailand) in 2013, SMBC's investment into BTPN (Indonesia) in 2013 and Mizuho's investment into Vietcombank in 2011.

As a result of these and other acquisitions, the level of overseas lending compared to total lending for the three largest Japanese banks was 29.3% as of December 2015 compared to 16.8% in 2008.

The 105 regional banks are more traditional, domestic lenders and are likely to be hit harder by the negative interest rate policy. Consolidation within the regional banking sector has already started with three regional bank mergers being announced and covered in our 2015 report.

The NPL ratio as of March 2016 was 1% according to the Financial Services Agency and we expect the ratio to remain stable while interest rates remain at such low levels.

2016 at a Glance

As with many other countries in the region, deal flow in Japan was significantly quieter in 2016 than 2015 with ten deals compared to 22 in 2015. The disclosed deal value was $249mn compared to $9.84bn.

Similar to 2015, leasing transactions were the most popular type of deal with five transactions (nine in 2015).

The largest transaction was Aktio Holdings 80% acquisition of Kyosei-Rentemu for $88mn. Kyosei-Rentemu is a construction machinery and auto leasing business based in the northern island of Hokkaido and Tokyo-based Aktio is engaged in real estate, finance and also in the construction machinery leasing sector. The acquisition gives Aktio access to the Hokkaido market.

Another leasing transaction was Kanamoto acquiring 77% of Nishiken for $58mn. Nishiken is a Kurume (Kyushu island) headquartered leasing business focusing on construction machinery and nursing care equipment. Kanamoto has similar lines of business but is based in Sapporo (Hokkaido) and sees the acquisition as an opportunity to expand into Kyushu and diversify into the nursing care equipment leasing area.

As part of Toshiba Corporation's 'Rebuilding Initiative' project, Toshiba acquired IBJ Leasing Company's 65% equity investment in Toshiba Medical Finance, a medical equipment leasing provider, for $32mn. Toshiba already owned 35% of Toshiba Medical Finance and the latter now becomes a wholly owned subsidiary.

In 2016, we saw two domestic regional banks make small acquisitions, the Bank of Iwate and The 77 Bank. The latter acquired stakes in 77 Lease, 77 Card, Shin-yo Hosyio and 77 Computer Services. The value of the 77 Card deal was $15mn. The targets are also involved with leasing, credit cards, credit guarantees and computer services.

The 77 Bank was founded in 1878 as Japan's 77th national bank. Headquartered in Sendai, the capital of Miyagi Prefecture, the bank is the largest in the Tohoku region, with a branch network covering the northern part of Honshu, Japan's largest island. As of March 2016, the bank had capital of $224mn, 142 domestic branches and 2,767 employees.

The Bank of Iwate was established in 1932 as a financial institution in Iwate Prefecture, the largest prefecture on Japan's main island of Honshu. The prefecture has a wide range of activity from traditional industries to advanced technology businesses. The bank offers a wide variety of financial services centered on the banking business, including leasing and credit cards as well as clerical work outsourcing for the Bank. The bank acquired a 91% stake in Iwagin Lease & Data Corporations (a medical equipment leasing business) and 70% each in Iwagin DC Card and Iwagin Credit Service for a combined value of $30mn. The Bank subsequently increased its stake in these two subsidiaries by 25% each in June 2016. The Bank already had equity in each of the businesses. Post completion and following a share swap, Iwagin Credit Service and Iwagin DC Card became wholly owned subsidiaries and the Bank held 96% equity in Iwagin Lease and Data Corporation.

Sumitomo Mitsui Auto Service Company Limited is 46% owned by the trading house Sumitomo Corporation, 34% Sumitomo Mitsui Financial Group Inc and 20% Hitachi Capital Corporation. The business has diversified from vehicle leasing towards a "one-stop vehicle management solution" including; lease and installment sale of automobiles and vehicles, operations related to maintenance, repair, and inspection of automobiles and vehicles and the purchase and sale of used automobiles and vehicles. It has operations in Japan, Australia, Thailand, India and Indonesia. In October it sought to broaden its domestic client base and acquired a 60% stake in Ceydna Auto Lease Co. Ltd., a domestic auto lease player for an undisclosed consideration.

We did not identify any formally disclosed loan portfolio transactions in 2016, although we believe that a large number, potentially around 100, of small loan portfolio transactions did take place in 2016 but full counterparty details and values are rarely disclosed. These are typically auction processes with an investment value of $1 – 5mn per deal. The sellers are predominantly regional banks. Deal flow reduced in 2016 and therefore the Japanese NPL investors are looking overseas for new markets, especially Thailand which has an active market, regular deal flow and reasonable returns.

We have also seen the external financing of corporate borrowers, at a discount to par, as a means for a lender to transfer the asset off balance sheet. Given the low interest rate environment, low NPL ratio and volumes and the stable real estate market, we expect the already small NPL market to continue to contract.

Japan

Transactions 2016

Equity Transactions

Deal Type	Name	Date	Asset Type	Buyer	Seller	Value ($'m)
Domestic	Cedyna Auto Lease Co., Ltd. (60%)	Oct-16	Autofinance	Sumitomo Mitsui Auto Service Company, Limited	Cedyna Financial Corporation	N/A
	77 Lease Co., Ltd. (47.06%); The 77 Card Co., Ltd. (79.69%); 77 Shin-yo Hosyo Co., Ltd. (54.1%); 77 Computer Services Co., Ltd. (55%)	Sep-16	Other	The 77 Bank, Ltd.	Mitsubishi UFJ Lease & Finance Co., Ltd.; Sumitomo Mitsui Card Co., Ltd.; JCB Co., Ltd.; 77 Lease Co., Ltd.; The 77 Card Co., Ltd.; 77 Shin-yo Hosyo Co., Ltd.; 77 Computer Services Co., Ltd.; Miyagi Shoji Co., ltd.; Techno Mind Corporation	15
	Nid Co ltd (30%)	Aug-16	Leasing	National Vending Co., Ltd.		10
	Shibayama Real Estate	Jul-16	Leasing	Brain Bank Co Ltd	Investor Group Led by Hiroyuki Shibayama	N/A
	Kyosei-Rentemu Co., Ltd. (79.57%)	Jul-16	Leasing	Aktio Holdings Corporation		88
	Aozora Trust Bank, Ltd (14.9%)	Jun-16	Bank	GMO Internet, Inc.		11
	Iwagin Credit Service (25%); Iwagin DC Card Co., Ltd. (25%)	May-16	Credit cards	The Bank of Iwate, Ltd.		5
	Iwagin Lease & Data Corporation (91.3%); Iwagin Credit Service (70%); Iwagin DC Card Co., Ltd. (70%)	Apr-16	Other	The Bank of Iwate, Ltd.		30
	Toshiba Medical Finance. (65%)	Mar-16	Leasing	Toshiba Corporation	IBJ Leasing Company, Limited	32
	Nishiken Co., Ltd. (76.62%)	Jan-16	Leasing	Kanamoto Co., Ltd.		58
TOTAL						**249**

Loan Portfolio Transactions

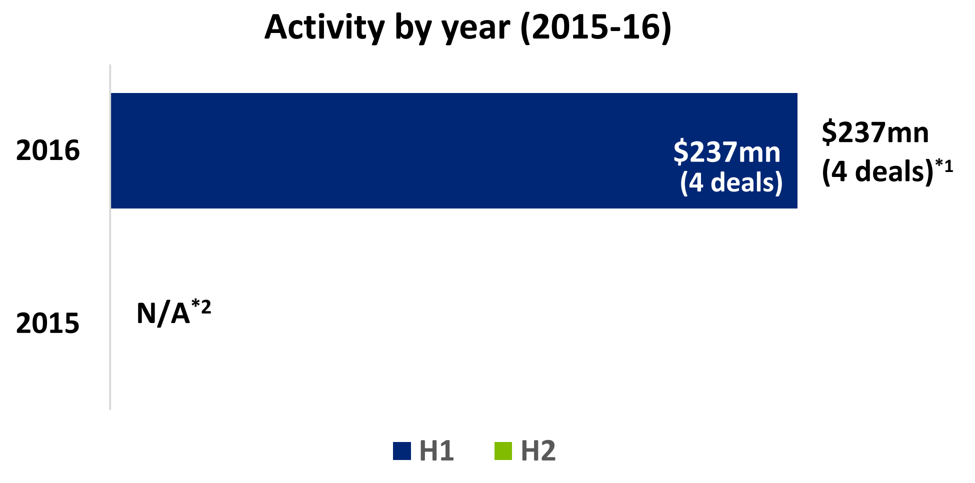
Deal Type	Name	Date	Asset Type	Buyer	Seller	Value ($'m)
N/A	N/A	N/A	N/A	N/A	N/A	N/A
TOTAL						**–**

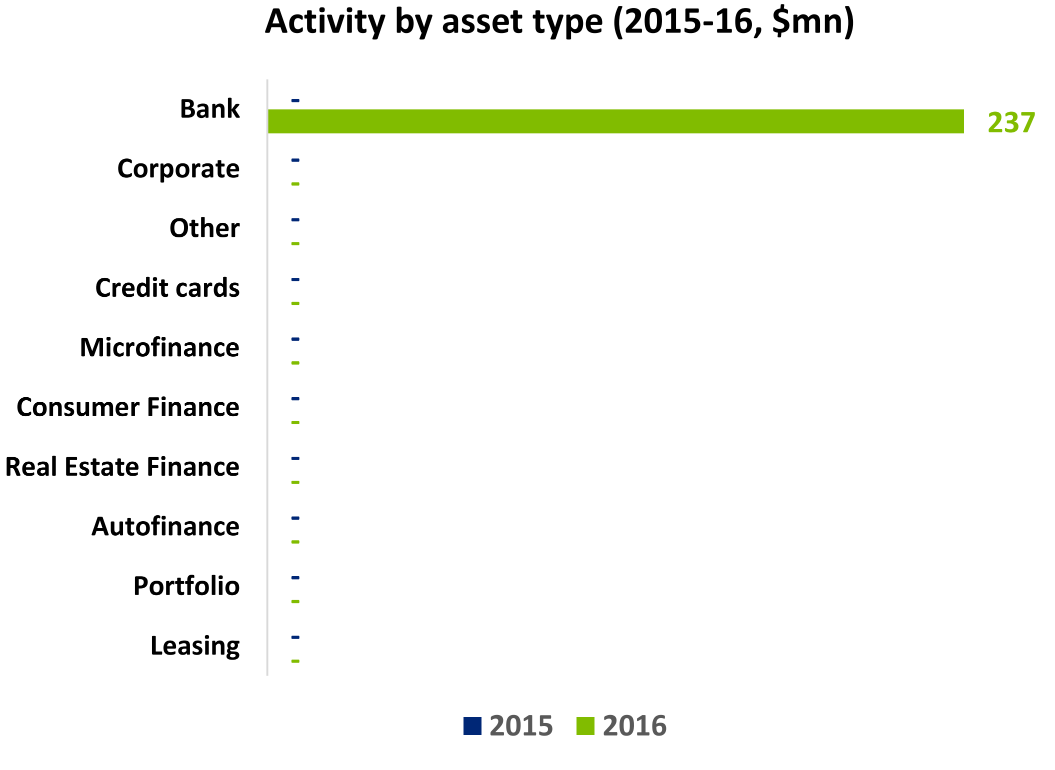
Source: Mergermarket, Deloitte research

Market Overview
Cambodia

Cambodia

There were two bank acquisitions totalling $237mn as well as deals in leasing and microfinance (both with undisclosed values)





*1: 2 out of 4 deals had undisclosed values

*2: All Cambodian deals in 2015 had undisclosed values

Source: Mergermarket, Deloitte research

Cambodia

Market Overview

Macroeconomic Overview

According to EIU, real GDP growth of Cambodia was 6.8% for 2016 and has shown positive growth at similar levels for the past few years. Growth for 2016 was achieved as a result of further increases in private investment and public expenditures.

Forecasts predict real GDP growth to average 7.3% for the period of 2017 - 2021 due to strong private consumption achieved from productivity improvement and the development of higher-value sectors.

Cambodia's strong relations with China will continue to impact positively on direct investment from China, especially for infrastructure projects under the "One Belt, One Road" program and from the Chinese-led Asian Infrastructure Investment Bank. Furthermore, international organizations such as the World Bank and ADB are expected to provide financial support.

The Cambodian central bank is continuing to prioritize managing the speed of credit growth to mitigate the risk of problems associated with rapid loan disbursements and raised the minimum capital requirements for banks in March 2016. The measure is expected to help to safeguard financial sector stability.

Inflation was at 2.8% in 2016 and expected to continue at 3.6% annually between 2017 - 2021.

According to Trading Economics, the unemployment rate was at 0.4% and is forecast to be 0.5% between 2017 – 2021. The current population for Cambodia is 15.8mn which is estimated to expand at 1.5% per annum and will reach c.17mn by 2021 according to the IMF.

Banking Industry

Cambodia’s financial sector is still developing. There were 39 commercial banks, 15 specialized banks, 8 foreign bank representative offices and 67 microfinance institutions.

Banks are continuing with their expansion of branches and ATMs as well as offering online payment services. The trend is positively affecting consumer confidence in financial services and foreign investment in Cambodia’s banking sector.

In recent years, Cambodian banks have improved their lending capacity and developed new products and services.

National and foreign banks have implemented a number of initiatives towards strengthening IT systems, human resources, service quality and capital requirements to enhance business effectiveness in this rapidly growing economy.

Credit growth in Cambodia has steadily increased since 2013 at 28% annually.

2016 at a Glance

The financial sector in Cambodia was relatively active with four announced deals compared to two in 2015. High economic growth boosted by public and private spending made Cambodia an attractive destination for investments from Thailand, Canada, Papua New Guinea and Korea in 2016.

A Korean consortium led by Jeonbuk Bank Ltd. has agreed to acquire Phnom Penh Commercial Bank from the Japanese financial firm, SBI Holdings, Inc for an estimated USD 134mn. The Cambodian bank was established in 2008, has more than 200 employees and 14 branches. The deal gives the bank a new CEO and a $36mn capital increase allowing greater lending which will be largely SME focused. The bank will also develop a digital banking platform. Jeonbuk Bank holds 50% of the equity, Apro Financial Group 40% and JB Woori Capital 10%. Both Jeonbuk Bank and JB Woori Capital are subsidiaries of JB Financial Group.

National Bank of Canada (NBC), the Canada-based and listed banking group, sixth largest in Canada, has agreed to acquire a 48% stake in Advanced Bank of Asia Limited (ABA), the Cambodia-based commercial bank, for a consideration of $103mn. The bank was established in 1996 and now has assets of $925mn, 42 branches and 1,300 employees. The capital investment made by NBC will provide ABA with greater market opportunities. Post acquisition, NBC will hold a 90% stake in ABA. The President and CEO of NBC said “National Bank is proud to become the majority shareholder of ABA Bank, a well established

Source: EIU, National Bank of Cambodia

financial institution. ABA Bank is positioned to take advantage of the country's long-term growth prospects and to contribute to increased utilization of financial services by individuals and commercial businesses in the region".

Two other transactions were announced. In the microfinance sector, Bank of Ayudhya (also known as Krungsri), which is controlled by BTMU, acquired Hattha Kaksekar, the fourth largest financial institution with $450mn of assets and 151 branches. The strategic rationale for the deal was Cambodia's strong economic growth which is expected to remain high by increasing demand for infrastructure following the completion of the Southern Economic Corridor (an arterial road connecting Ho Chi Minh City and Phnom Penh with Bangkok) in April 2015 and regional economic revitalization through the launch of the ASEAN Economic Community (AEC). BTMU has expanded its business in ASEAN and the Mekong region through investments in VietinBank, a state-owned commercial bank in Vietnam, the acquisition of Krungsri, a commercial bank in Thailand, a business alliance with Co-operative Bank Ltd., a leading private bank in Myanmar, and the opening of a branch in Yangon, Myanmar. Since February 2012, when BTMU established the Phnom Penh Representative Office, the first in Cambodia by a Japanese bank, BTMU has been analyzing Cambodia's economic information and providing an environment conducive to investment. This acquisition will enable BTMU to tap into the growth of the Cambodian market by leveraging the knowhow of Ngern Tid Lor Co., Ltd., a subsidiary of Krungsri engaged in microfinance.

There were no loan portfolio trades in Cambodia during 2016. There is limited foreign investor interest in the NPL market as the size of the opportunity is still relatively small. As of August 2016, the country's NPL ratio was 3.1%. This reverses the recent trend where the NPL ratio had been declining; 2.7% in 2013, 2.2% in 2014 and 1.99% in 2015.

Source: EIU, National Bank of Cambodia

Cambodia

Transactions 2016

Equity Transactions

Deal Type	Name	Date	Asset Type	Buyer	Seller	Value ($'m)
Cross-border	Advanced Bank of Asia Limited (48%)	May-16	Bank	National Bank of Canada		103
	RMA Financial Services (50%)	Mar-16	Leasing	Bank of South Pacific Limited	RMA Group Company Limited	N/A
	Phnom Penh Commercial Bank (50%)	Feb-16	Bank	A consortium led by Jeonbuk Bank Ltd	SBI Holdings, Inc.	134
	Hattha Kaksekar Limited	Jan-16	Microfinance	Bank of Ayudhya Public Company Limited	Norfund AS; Oikocredit International; responsAbility Investments AG; Hattha Kaksekar NGO; ASN-Novib Microcredit Fund	N/A
TOTAL						**237**

Loan Portfolio Transactions

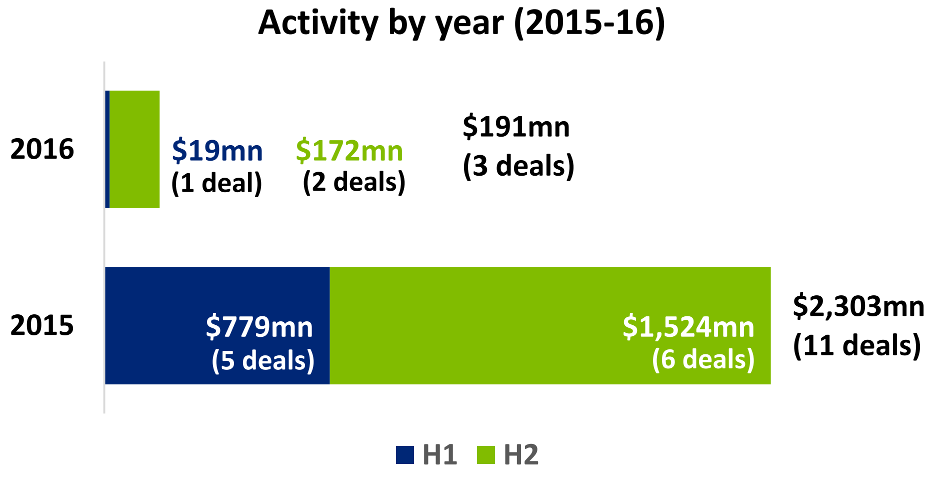
Deal Type	Name	Date	Asset Type	Buyer	Seller	Value ($'m)
N/A	N/A	N/A	N/A	N/A	N/A	N/A
TOTAL						**–**

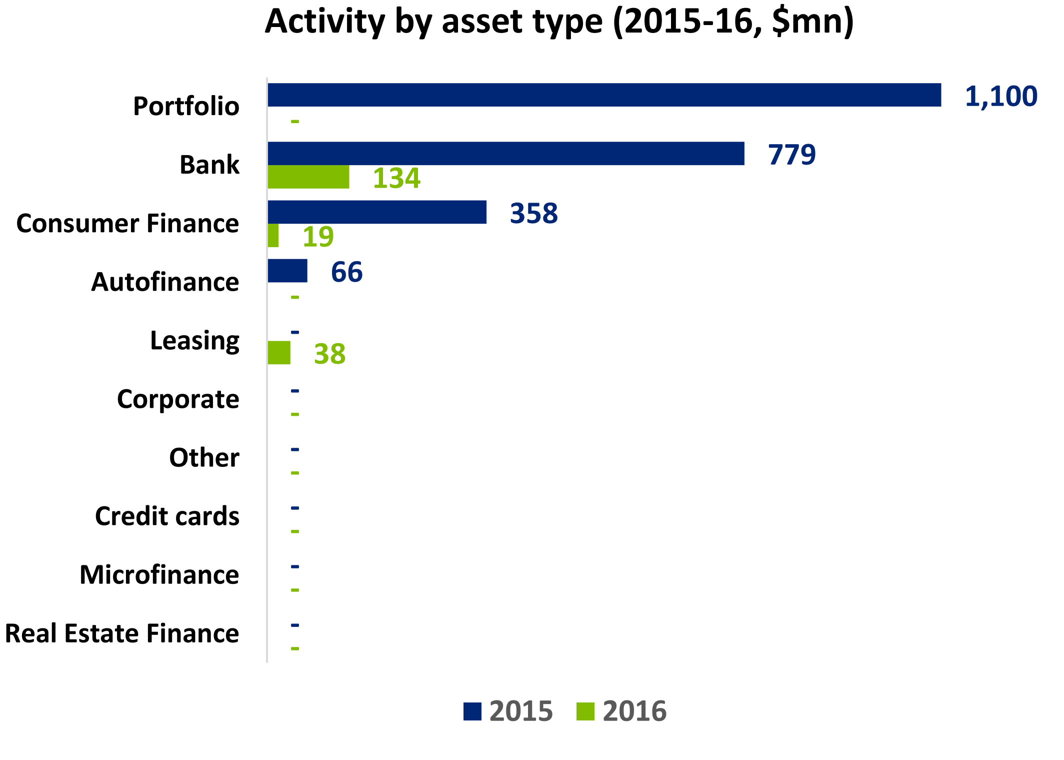
Source: Mergermarket, Deloitte research

Market Overview
Indonesia

Indonesia

There were three deals valued at c.$200mn covering the banking, leasing and consumer finance sectors





Source: Mergermarket, Deloitte research

Indonesia

Market Overview

Macroeconomic Overview

Real GDP growth was 5.1% year on year for 2016, an increase from 2015 when growth was 4.8%. EIU predict average annual growth of 4.9% for the period of 2017 – 2021. The key drivers for growth is private investment (FDI is actively courted) and public investment as the government is pursuing infrastructure investments (new roads, ports and power stations). Challenges to growth will largely come from the Chinese slow down as well as the delays that impact the infrastructure projects. Delays to half of the 30 projects (oil refineries, toll roads, railways and deep-water ports) worth $80bn were announced in 2016 due to the number of regulatory and on the ground obstacles impeding quick progress.

Government announced a series of stimulus packages and deregulation strategies (especially around FDI) although project delays and bureaucracy continue to impede progress. Certain sectors are now open to FDI such as tourism, entertainment, logistics and e-commerce.

The central bank has undertaken six 25 basis point rate cuts in 2016, to stimulate the economy. These were the first cuts for almost three years and the current rate is 4.75%. There is no sign of excess credit demand with credit growth at 6.8% year on year in 2016.

Inflation averaged 3.5% in 2016 and is forecast to average 4.6% for the period 2017 – 2021.

The unemployment rate in 2016 was 5.6% and is not expected to differ significantly from this level through to 2021. The population in 2016 totalled 258.2mn (6% is aged 65 or older) and is expected to rise to 270mn by 2021.

Banking Industry

The government continues to have a significant involvement with the banking sector, a legacy from the Asian banking crisis in the late 90's. Four of the top ten banks (by total assets) are state owned and the largest (Bank Mandiri) carries almost 15% of total banking assets and the second largest (Bank Rakyat Indonesia) accounted for 14.3% of total banking assets. Both are state-owned.

There are 118 commercial banks and 1,637 rural banks. Islamic banking is growing and represents 7% of total loans.

Foreign banks are expected to continue investing into Indonesian banks with CIMB of Malaysia, Temasek Holdings of Singapore, ANZ, Maybank and SMBC all holding equity in Indonesian banks.

In July 2012 the central bank introduced a ruling capping the foreign investment size at 40%. Shareholders who own more than 40% and have not obtained a waiver from the OJK will need to sell their shares by 2019. The OJK has shown some willingness to entice foreign investment and allow a greater than 40% shareholding where the transaction leads to consolidation of two Indonesian banks. In June 2015, the OJK showed support for China Construction Bank's acquisition of Bank Windu Kentjana International and Bank Antardaerah. In 2015, Deloitte advised Shinhan Bank of Korea on its receipt of approval to acquire a holding exceeding 40% in Bank Metro Express and Centratama Nasional Bank.

Indonesians do not make great use of financial services and according to the World Bank survey in 2014, only 36% of the adult population had a bank account. Whilst 57% had borrowed monies only 13% had borrowed from a financial institution. Only 5% had a mortgage and 1.6% had a credit card.

Household lending grew by 7.7% in 2016 and it accounted for 46% of all lending outstanding. This compares to 24% a year growth in 2008 – 2012. 18% of all household credit is for housing loans and government is starting to relax loan to value requirements (to 85% for certain properties) which had previously been tightened to avoid property speculation. Whilst average disposable incomes are low and the collateral values offered by consumers are also low, demand has been supported by an improving jobs market, rising employment and an increase in wages.

Lending to private non-financial firm rose 9.1% year on year in 2016. EIU forecast that overall demand for loans will rise by 11.7% a year in local currency terms in 2017 - 2020 significantly below the 18.3% growth seen 2011 – 2015.

2016 at a Glance

In 2016, there were only three transactions in the financial services sector, totalling $191mn in Indonesia, compared to 11 deals with a value of $2.3bn in 2015.

The transactions in 2016 involved a bank, a leasing business and a consumer finance business whereas in 2015, there were six bank transactions involving Japanese, Taiwanese and Korean institutions.

In 2015, we documented in our report the acquisition of Bank Mayapada Internasional by Taiwan-based Cathay Financial Holding Co. Ltd. The transaction was for 40% of the bank's equity with a deal value of $282mn. The acquisition was in two phases with c.25% transferred in June 2015 and the residual c.15% was transferred in October 2016 for c.$134mn.

The second largest of the deals saw Bank of Tokyo Mitsubishi sell its 55% stake in PT. BTMU-BRI Finance to State-owned PT Bank Rakyat Indonesia (who already owned 45% in the target) for $38mn. Notwithstanding the sale, earlier in the year BTMU advised that they are looking for acquisition opportunities in Indonesia given the growth potential and demographic characteristics. Bank Rakyat Indonesia is the oldest bank in Indonesia and second largest in terms of assets. The bank focuses on micro SME's and as at December 2015 had more than 10,000 outlets and employed more than 100,000 people.

The third deal involved Pool Advista Indonesia, a consulting and investment management services provider acquiring Indojasa Pratama Finance, a consumer finance company for $19mn.

We did not note any loan portfolio transactions in 2016 (RBS sold a $1.1bn portfolio in 2015) although the banking industry is facing some challenges with the NPL ratio increasing to 3.18% as at July 2016 (up from 3.05% in June) due to the adverse economic conditions. The main sectors contributing to NPLs in 2016 were mining, manufacturing and metal whilst the oil and gas, transportation and telecommunication sectors also remained under pressure. Standard and Poor's predicted that NPLs would likely rise to 3 – 4% by the end of 2016. We have noted an increase in banks undertaking corporate restructurings to improve businesses and / or the debt structures of their borrowers. We anticipate that these restructurings will results in some loan portfolio sales unless the economy improves and the pressure for banks to sell assets abates.

Indonesia

Transactions 2016

Equity Transactions

Deal Type	Name	Date	Asset Type	Buyer	Seller	Value ($'m)
Cross-border	Bank Mayapada Internasional Tbk PT (15.1%)	Oct-16	Bank	Cathay Financial Holding Co., Ltd		134
Domestic	PT. BTMU-BRI Finance (55%)	Jul-16	Leasing	PT Bank Rakyat Indonesia Tbk	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	38
	Indojasa Pratama Finance PT (99.99%)	May-16	Consumer Finance	Pool Advista Indonesia Tbk, PT		19
TOTAL						**191**

Loan Portfolio Transactions

Deal Type	Name	Date	Asset Type	Buyer	Seller	Value ($'m)
N/A	N/A	N/A	N/A	N/A	N/A	N/A
TOTAL						–

Source: Mergermarket, Deloitte research

Glossary

Acronyms	Meaning
ADB	Asian Development Bank
AMC	Asset Management Company
ASEAN	Association of Southeast Asian Nations
AsiaPac	Asia Pacific
BOC	Bank of China Limited
BOC Hong Kong	Bank of China Hong Kong
BOJ	Bank of Japan
BOT	Bank of Thailand
BSP	The Bangko Sentral ng Pilipinas
BTMU	Bank of Tokyo Mitsubishi UFJ
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization
CBRC	China Bank Regulatory Commission
EIU	Economist Intelligence Unit
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GST	Government Statutory Tax
HKMA	Hong Kong Monetary Authority
ICBC	Industrial and Commercial Bank of China Limited
IPO	Initial Public Offering
KDIC	Korean Deposit Insurance Corporation
LTV ratio	Loan-To-Value Ratio
MUFG	Mitsubishi UFJ Financial Group
NPL	Non-performing Loans
NBFI	Non-Bank Financial Institution
OJK	Otoritas Jasa Keuangan
SME	Small-Medium Enterprises
SME Finance	Small-Medium Enterprises Finance
SOEs	State-owned Enterprises
RACQ	Royal Automobile Club of Queensland
AUD	Australian dollar
FY	Fiscal Year
H1	First Half of the Year
H2	Second Half of the Year
mn	Million
bn	Billion
trn	Trillion
Q1~Q4	Quarter one ~ four
$mn	Million USD
Rs	Indian Rupees
USD	US dollars
WA	Western Australia

Appendices

APPENDIX I:
Other Transactions in AsiaPac

Transactions 2016

PAPUA NEW GUINEA

Equity Transactions

Deal Type	Name	Date	Asset Type	Buyer	Seller	Value ($'m)
Cross-border	Heduru Moni Limited	May-16	Consumer Finance	Jaya Holdings Ltd		170
TOTAL						**170**

PAKISTAN

Equity Transactions

Deal Type	Name	Date	Asset Type	Buyer	Seller	Value ($'m)
Cross-border	Standard Chartered Leasing Limited; Standard Chartered Services of Pakistan Limited	Jul-16	Leasing	ORIX Corporation	Standard Chartered Modaraba	10
Domestic	NIB Bank Limited	Dec-16	Bank	MCB Bank Limited		158
	The First MicroFinanceBank Ltd. (51%)	May-16	Microfinance	Habib Bank Limited	Aga Khan Agency for Microfinance (AKAM)	N/A
	Tameer Microfinance Bank Limited (49%)	Mar-16	Microfinance	Telenor Pakistan (Pvt.) Limited		N/A
TOTAL						**168**

SINGAPORE

Equity Transactions

Deal Type	Name	Date	Asset Type	Buyer	Seller	Value ($'m)
Cross-border	Keystone Holdings (Global) Pte. Ltd. (50%)	Feb-16	Leasing	Sojitz Corporation	Singapore Technologies Aerospace Resources Pte Ltd.	11
TOTAL						**11**

MACAU

Equity Transactions

Deal Type	Name	Date	Asset Type	Buyer	Seller	Value ($'m)
Cross-border	Novo Banco Asia, S.A.	Aug-16	Bank	Well Link Group Holdings Limited	Novo Banco S.A.	N/A
TOTAL						**–**

Source: Mergermarket, Deloitte research

APPENDIX II:
Sub $50m Transactions in China

Transactions 2016

CHINA

Sub $50mn Transactions (Cross-border)

Deal Type	Name	Date	Asset Type	Buyer	Seller	Value ($'m)
Cross-border	Qianhai Zhonggang Ruixin Finance Leasing (Shenzhen) Limited; Tianjin Zhonghui Yintong Commercial Factoring Limited	Sep-16	Leasing	Freeman FinTech Corporation Limited	Smart Generation Holdings Limited; Roseate City Limited	38
	China Co-Op (Tianjin) International Finance Leasing Co., Ltd. (29.82%)	Aug-16	Leasing	NH Capital Co., Ltd.		13
	Harvest Financial Leasing Co., Ltd. (35%)	Jun-16	Leasing	Zall Financial Services Group Co., Ltd.	New Resource Energy International Private Limited	7
	Chongqing Economic and Technological Development Zone Houze Small Loan Co., Ltd.	Mar-16	Real Estate Finance	International Finance Corporation	Clearwater Capital Partners LLC	20
	Shenzhen Tianron Finance Leasing Company	Mar-16	Leasing	CD International Enterprises, Inc.	Xiangjun Wang (Private Investor)	5
	Ease Main Limited (37.5%)	Jan-16	Leasing	Dingyi Group Investment Ltd.	Joy Well Investments Limited	11
TOTAL						**94**

Source: Mergermarket, Deloitte research

APPENDIX II:
Sub $50m Transactions in China

Transactions 2016

CHINA

Sub $50mn Transactions (Domestic)

Deal Type	Name	Date	Asset Type	Buyer	Seller	Value ($'m)
Domestic	Chongqing Zhong County Tongzheng Micro Credit Co., Ltd. (30%)	Dec-16	Microfinance	An investor group led by Qiu Xiaolan	Chongqing Tiandi Pharmaceutical Co Ltd	5
	Changsha CSCEC & Zoomlion Machinery Leasing Service Co., Ltd. (40%)	Dec-16	Leasing	China Construction Fifth Engineering Division Corporation Ltd.	Zoomlion Heavy Industry Science and Technology Co., Ltd.	37
	Zhuhai Shipping Corporation Limited	Nov-16	Leasing	China Shipping Container Lines Company Limited	China Shipping (Group) Company	10
	Leqing Chint Micro Credit Co., Ltd. (24.25%)	Oct-16	Microfinance	Chint Group Co., Ltd.	Zhejiang Chint Electrics Co., Ltd.	13
	Hunan Anxiang Rurual Commercial Bank Co., Ltd. (27%)	Aug-16	Bank	Xiandai Investment Co., Ltd.		18
	Anhui Heli Industrial Vehicle Leasing (Shanghai) Co., Ltd. (Leasing business)	Aug-16	Leasing	Jungheinrich Heli Industrial Vehicle Leasing Co., Ltd.	Anhui Heli Industrial Vehicle Leasing (Shanghai) Co., Ltd.	13
	Chengdu Small Enterprise Financing Guarantee Co.,Ltd. (20%)	Aug-16	Microfinance	Chengdu B-ray Media Co., Ltd.	International Finance Corporation	25
	Zhengzhou Wanfu Microfinance Co., Ltd. (45%)	Aug-16	Microfinance	Shi Wanfu (Private Investor)	Henan Tong-Da Cable Co. Ltd.	11
	Hangzhou High-tech District (Binjiang) Xing Yao Pu Hui Micro-finance Co., Ltd (60%)	Aug-16	Microfinance	Zuoli Kechuang Micro-finance Company Limited		20
	Lander International Financial Leasing Co., Ltd. (45%)	Aug-16	Leasing	Zhang Xiaoyi (Private investor)	Xi'an Hongsheng Technology Co., Ltd.	15
	Zhejiang Xingyao Micro-finance Co., Ltd. (60%)	Jun-16	Microfinance	Zuoli Kechuang Micro-finance Company Limited		23
	Harvest Financial Leasing Co., Ltd. (65%)	Jun-16	Leasing	Zalljinfu Information Technology (Wuhan) Co., Ltd.	Harvest Capital Management Co.,Ltd	12
	Give U Credit	Jun-16	Bank	An investors group led by Ants Capital		N/A
	Zhengzhou Wanfu Microfinance Co., Ltd. (30%)	Jun-16	Microfinance	Henan Xinrongji Financial Holding Co., Ltd.	Henan Hengxing Science and Technology Co., Ltd.	7
	Gaomi City Sunvim Microcredit Co., Ltd.	May-16	Leasing	Sunvim Holding Group Co., Ltd.	Sunvim Group Co., Ltd.	31
	Ganzhou Development Financial Leasing Co., Ltd. (40%)	Mar-16	Leasing	Jiangsu Akcome Science and Technology Co., Ltd.	Jiangsu Akcome Industrial Group Co Ltd	38
	Jia Yi Financial Leasing Company Limited	Mar-16	Leasing	Huili Resources (Group) Limited	He Ying (Private Investor); Niu Yinyin (Private Investor)	16
	Shenzhen Harmony Investment Funds Co Ltd (17.01%)	Jan-16	Real Estate Finance	Shenzhen Wongtee International Enterprise Co., Ltd.		43
	Shanghai Thomson Credit Co., Ltd. (20%)	Jan-16	Microfinance	Pengxin International Mining Co., Ltd.		6
TOTAL						**343**

Source: Mergermarket, Deloitte research

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