

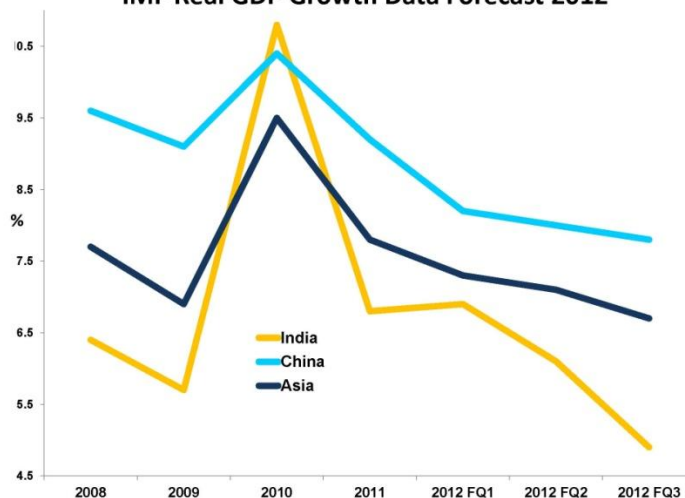
November 2012

Asia's Great Leap Backwards?

"The world is in deep trouble," Indian Prime Minister Manmohan Singh said at the recent 2012 G20 Summit meeting. Did he really mean the world, or was he referring to India? According to the October 2012 report from the IMF, Indian growth will drop to its lowest in a decade leaving the outlook for India "unusually uncertain." GDP will rise by 4.9% at best this year, which is a big downgrade from the IMF's July 2012 forecast of 6.1% and April forecast of 6.9%. At the same time, inflation has been running in double digits for much of the year, whilst the overall annual fiscal deficit will widen to 9.5% of GDP, up from a projected 8.3% back in April 2012. It is now clear that India will do well to avert further credit rating downgrades this year, and concern has reached the point where one of the rating agencies is now openly asking "will India be the first BRICS fallen angel?"

On the other side of the Himalayas in China, things are not looking much brighter. The IMF also cut its economic growth forecast for China. Back in April 2012, the Chinese economy was projected to grow at 8.2% this year. In July, this was downgraded to 8% with the latest IMF figures in October, falling again to 7.8%. China's GDP grew by 7.6% in Q2, 2012, which is its worst performance for three years. Emerging countries rely on continuing high growth numbers to paper over the cracks and inefficiencies in their economies. If growth drops, the wheels can abruptly fall off. We saw this recently when Vietnam entered recession after growth dropped below 6%. We also witnessed this throughout ASEAN where growth averaged 9% per annum from 1988, falling to 5.7% in 1997 and -5% in 1998.

IMF Real GDP Growth Data Forecast 2012



ASIA PACIFIC REGIONAL MEMBERS

Australia
Bangladesh
China
Hong Kong
India
Indonesia
Japan
Macau
Malaysia
Maldives
Mauritius
Mongolia
Nepal
New Zealand
Pakistan
Philippines
Singapore
Sri Lanka
South Korea
Taiwan
Thailand
Vietnam

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It could be argued that democracy has been holding India back economically compared with China's one party authoritarian model

Since the Chinese dragon emerged in the last decade as an economic superpower, its ability to sustain growth whilst being bridled by its communist political roots has been widely questioned. Given that India has had less spectacular growth whilst operating a multi-party democratic system, the political issue seems to be largely irrelevant. Indeed it could be argued that democracy has actually been holding India back economically. China's authoritarian government has been able to develop its economy rapidly as far as it has, because it could make decisions without opposition or excessive debate. India's democratic government, on the other hand, is prone to controversy over what should be done with government money whilst the people's lobby and political squabbling slows down the policy implementation rate.

Overall, the greatest driver for economic growth in the recent past has been capital. Either 1) the introduction of new or additional capital investment; 2) cheaper cost of capital; 3) improvements in capital distribution efficiency, or 4) more widespread capital distribution. Taking these one by one in Asia:

Quickest & simplest

Ways of increasing capital distribution to stimulate growth in developing markets

Toughest & slowest

1. **New capital investment.** Since the millennium, the world has experienced the greatest credit boom in history which has driven up global economic growth and asset prices exponentially. As Asia was less developed with generally cheaper assets, it has logically attracted more of this investment than any other region of the world. However, the credit boom is now over, the world is deleveraging and asset prices are correcting. The rate of new capital investment is falling in consequence, which is a major reason for growth running out of steam in India and China.
2. **Cheaper capital.** In the past thirty years, the developed world benefitted from a gradual reduction in interest rates which has created cheaper capital. Asia has been a huge past beneficiary from this phenomenon, which is now largely exhausted. Scope for interest rate reductions still exist in some jurisdictions in Asia, though governments are wary of inflationary risks. The Asian banking lobby is also fiercely defending the luxury of wide spreads and fat margins at the expense of their economy.
3. **Capital Distribution Efficiency.** Improvements in efficiency have been concentrated in mature markets and have largely bypassed the less developed markets during the past credit boom. Financial innovation has been missed by most of Asia, including India and China, and remains an enormous untapped opportunity area. However, most of the region is incapable of regulating financial and capital markets sufficiently transparently as a means of stimulating further economic growth, leaving some countries totally reliant upon banks as their only source of capital.
4. **Wider capital distribution.** Cronyism and the resulting huge gulf between rich and poor is Asia's structural weakness. Inability to even out domestic markets and stimulate home demand is the greatest barrier to future

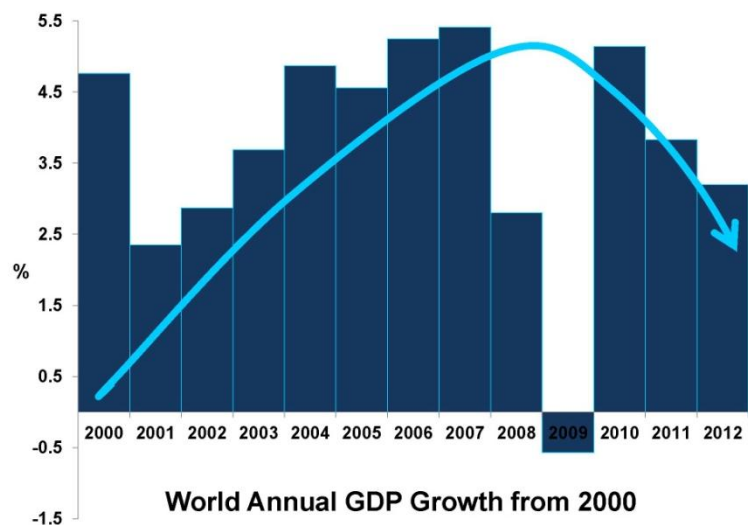
economic growth in India, China and most other countries. Cronyism has overtaken politics; India is governed by crony capitalism and China by crony communism, both of which obstruct widespread capital distribution. Most other jurisdictions in Asia follow either the Indian or the Chinese model. What they all have in common is that those in power are least motivated to change this situation. The population at large loses out in terms of the benefits of additional economic growth, at the expense of a handful of politicians and big business. The opportunity to improve capital distribution in this market/credit cycle has now past; if anything the wealth gap has gone the other way and widened. Taking the Chinese “growth miracle” as an example, it is evident at the end of the boom cycle that 85% of household wealth is held by a meagre 10% of the elite. Looked at from this perspective, the growth is not so miraculous. The enormous challenge now facing Asian governments everywhere in 2013 will be growing their economies in the face of reversals in capital distribution as a result of further global economic slowdown and deleveraging.

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In the new technology enabled era the old ideas around political parties and what they stood for are an anachronism. Marketing and media have taken over from social principles and opinions. Irrespective of whether it is the mature economies or the developing markets, political persuasion has been marginalized and savvy politicians have grouped around the middle ground. Systems like capitalism, communism, socialism or feudalism are becoming increasingly irrelevant. Governments are now judged by how well they distribute capital. Politicians are now perceived as capital distributors. If representatives improve or increase capital distribution to the masses, they are reelected. If they destroy capital or the people become poorer, governments are toppled, as we have seen repeated many times throughout Europe since 2008. This is the new political paradigm everywhere whereby access to data, social media and information technology advances are progressively giving greater and fresher impetus to the power of the people, and with it, unrest over inequality and increased appetite for wealth, through improved and speedier communication.

Governments are judged by how well they distribute capital. Politicians are now perceived as capital distributors

In South East Asia, the implementation of the ASEAN Economic Community (AEC) has the potential to give an enormous, additional boost to capital distribution expansion in the region. Indeed, given the current global slowdown and investor exodus, AEC may be the only ‘show in town’ that bucks global trends. Implementation of AEC’s “open borders” can dramatically improve inter-jurisdictional movement between members of ASEAN and has the capability to be one of the best global opportunities this decade, if the politicians are prepared to grasp it.



Changes resulting from AEC can be categorized as follows:

AEC has the capability to be one of the few global opportunities this decade, capable of increasing capital distribution if the politicians are prepared to grasp it



Free flow of goods
Free flow of services
Free flow of investment
Free flow of capital
Free flow of labour

Whilst some changes have already been implemented, the overall progress so far in the application of regulatory change or new laws necessary for the implementation of AEC has been painfully and worryingly slow. Recent AEC progress updates are not encouraging. The latest news from ASEAN is that the implementation of AEC has now been confirmed as the last day of the year, December 31st 2015. In response to recent criticism of timing delays in the international press, officials claim that an official start day has never been confirmed. However, the risk of further hold-ups is high, which would mean that cronyism and protectionism would continue to prosper at the expense of economic growth, higher standards of living and financial benefit for the majority of the population at large within ASEAN.

The people of ASEAN will see cheaper goods, more trade and employment opportunities and higher incomes once AEC begins. The biggest losers with most to fear will be big companies and business that cannot compete on even terms without protected monopoly

The popular press in some jurisdictions within the region has recently been promoting negative foreign threats and spreading fear of institutions or businesses from stronger jurisdictions within AEC. Singapore particularly, has been branded by some as a threat, due to the unmatched performance of its economy and success in creating the highest GDP per capita and wealthiest citizens within the region. Given its achievements in widespread and efficient capital creation and distribution, the last people who should be worried by Singapore are the population at large within ASEAN who will almost certainly see cheaper goods, more trade and employment opportunities and higher incomes once AEC begins. The biggest losers with most to fear will be big companies and businesses within particular jurisdictions that cannot compete on even terms and currently benefit from protected monopoly at home at the expense of consumers and small business.

Globalization has allowed the notion of widespread distribution of capital to be unleashed at all levels of society within developing economies all around the world. Across Asia, populations at large are now fully vested in modern consumerism; governments are powerless to temper this movement or the increasing lifestyle expectations of their people. The AEC opportunity counters a slowing global market, and is one of a handful of real economic opportunities that have the capability to quickly and effectively increase capital distribution within South East Asian countries. The challenge now facing ASEAN governments is: will the consumer and the economy be given their head by AEC in 2015, or will they take a great leap backwards, where cronyism, and a handful of big domestic businesses are allowed to continue to dominate at the risk of political and social disruption at home as domestic growth slows in response to global economic reversal?

The Luck 'o' the Irish

In the week following the last edition of Asian Compass, the European press was outraged by a commentary in the October 2012 IMF World Economic Output Report headed: "Are We Underestimating Short-term Fiscal Multipliers?" Without going too deeply into technicalities, the subject was the damaging effects of austerity on an economy's ability to recover from downturn, and how current economic models hugely understate its negative impact. Apart from the impact upon the IMF's mathematical growth models, the issue of the austerity multiplier is a hot political topic in nations like Greece, which is close to collapsing under the burden of EU demanded cut-backs.

The austerity debate is at the core of the policy battle lines currently being drawn between Germany and the IMF. Germany is dead set against further quantitative easing for uncompetitive economies in Europe; the IMF thinks it is the only way to go. The article in the IMF Report serves to support the IMF case and seeks to put pressure on the Germans to loosen their current stance. Whether the IMF prevails and Germany backs off remains to be seen, but the mood of the German electorate is not supportive.

Given the uniqueness of the Eurozone plight, and the fact that no-one has experienced anything like this before, the press is probably overstating the extent of its moral outrage over this situation in a desire to grab the headlines. Let's face it, if Greece and others could devalue their currency, which they can't, because they are locked in currency union, this issue would not exist. Once again, Europe and the IMF are locked in debate over the symptoms and are ducking the underlying problem that is choking the regional union.

The competitiveness issue in the Eurozone is exemplified by Ireland. If there had been a 2008 Olympic Gold medal for worst banking sector, the Irish would have been on the podium along with Iceland and a few other debt-stars. Back then, Ireland's bank exposure problem exceeded 700% of GDP. In 2009, Dublin immediately owned up to its credit problems and tried to attack the issue positively, by nationalizing its banks and transferring debt to a national asset management agency (NAMA) with help from the ECB. The ineffectiveness or otherwise of these actions and its results are still unfolding. However, recent failed attempts to transfer equity in Irish nationalized banks from government to the ECB and continuing weak markets seem to suggest that the bank debt problem still has a way to go.

Beyond the scale of the bank debt issue, Ireland's response to 2008 was exemplary, which gives credence to the German rigid stance on not bailing out other EU debtor nations that are unable or unwilling to improve their competitive performance. Ireland's approach was to accept painful austerity and try to export its way out of recession:-



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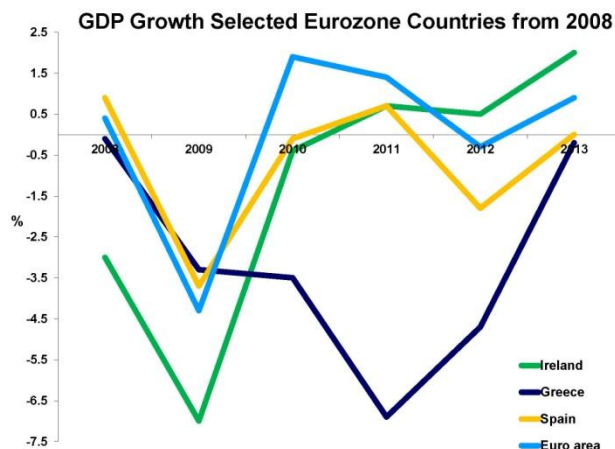
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The advances in Ireland occurred as a result of the country's early recognition and acceptance of its predicament

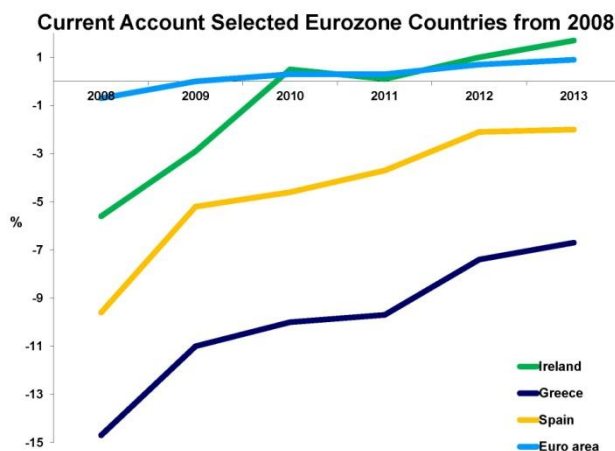
EU m	Exports	Trade Surplus
2006	86,772	25,915
2007	89,226	25,741
2008	86,394	28,810
2009	85,804	40,742
2010	89,703	43,940
2011	91,228	42,913

The subsequent strong Irish export performance is reflected in both GDP growth and Current Account balance statistics which, after a substantial dip in 2009, have recovered far above most of the European debtor nations and are well ahead of the average for the Eurozone.

Ireland's commendable economic improvement and export rebound have occurred in spite of flagging consumer demand at home. Irish GDP and GNP are now going in opposite directions which has effectively created two separate economies; a



booming export sector, pitted against weakening domestic demand. The critical issue for Ireland's creditors at the IMF and the European Union is that they use GDP to calculate the country's debt and deficit target, so any improvement on a GDP basis, regardless of circumstances at home, is good news for the Irish government and the Eurozone.



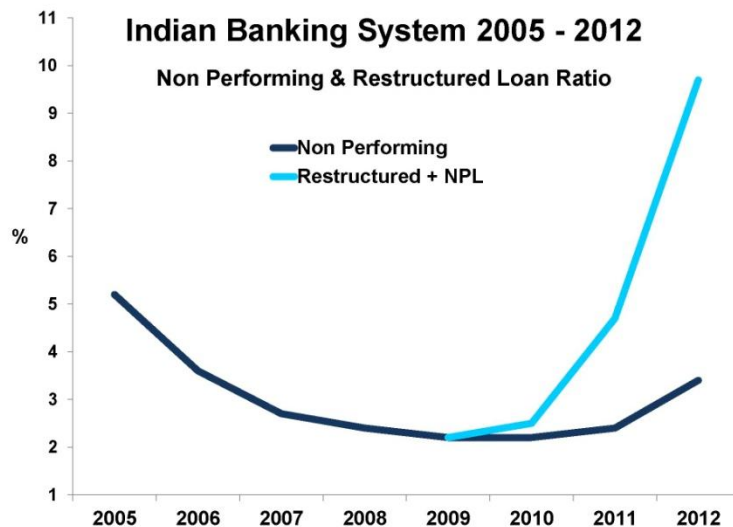
The progress that Ireland has made since 2008 goes some way to showing that economies can grow with stringent austerity measures in place, even under the inflexibility of the single currency. The advances in Ireland occurred as a result of both the governments and the country's early recognition and acceptance of its predicament, allied to firm, transparent, affirmative action. In this regard, Ireland is a good model for fellow members of the Eurozone in terms of response to crisis.

With echoes of Asia 1997, this is the opposite of countries like Spain, which until recently have remained in a state of denial, and are now reaping the consequences of their actions. To the contrary, Ireland's achievement is built on enthusiastically identifying and grasping new opportunity in spite of domestic hardship, and is most certainly not just down to the luck 'o' the Irish.

Indian Summer for NPLs

The non-performing loan (NPL) situation in India is precarious. At the end of the second quarter of 2012 the bank NPL rate was 3.4%, up by 1% from a year earlier. Even more concerning is the high rate of corporate loan restructurings being agreed to by lenders. In the bank year ending March 2012, over US\$ 20 billion of loans were restructured. This year, restructurings will exceed US\$ 40 billion. Taken together, this represents close to 6% of India's total bank loan book that will have been restructured as a result of borrowers' inability to fulfill their debt obligations. Whatever the likelihood of further default for restructured loans, the reality is that they are non-performing. Taking the restructured loans and declared NPLs together, the real NPL rate in India is likely to exceed 10% by the end of the bank year. Furthermore, in our experience, in a deteriorating market where asset prices are falling, banks mostly fudge their numbers. The declared rate of default by banks is usually about half the real rate, which means that by the second quarter of 2013, there could potentially already be as much as US\$ 200 billion of bad loans buried in the Indian banking system.

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As the Indian economy slows, allied to high interest rates and runaway inflation, corporate credit quality is understandably plummeting. With the escalating rate of economic decline seen so far in 2012, the situation may well end up being even worse than we are currently seeing. The overriding problem for banks in South East Asia back in 1997 was overexposure to big corporates and related party borrowing, which is precisely where many banks in India are now. India's banking sector has experienced growth at a rate of 20% per annum since the global financial crisis, which has largely been driven by increasing lending to a dozen or so large conglomerates. Some of these have leveraged up in order to take advantage of buying opportunities in deleveraging western markets, which may now ultimately end up become a fruitless exercise of robbing Peter to pay Paul,

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Poor past credit decisions has now led to the situation where in some distressed domestic loan cases Indian banks cannot afford to take the loss. Banks will not hesitate to foreclose if they can get their money back; the problem comes when they know they cannot

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provided Indian banks are sufficiently perceptive and capable of monetizing foreign collateral in order to offset domestic losses.

Poor past credit decisions has now led to the situation where in some distressed domestic loan cases Indian banks cannot afford to take the loss. Banks will not hesitate to foreclose if they can get their money back; the problem comes when they know they cannot. Many of the current loan restructurings have arisen due to the ineffectiveness of the bankruptcy system. Kingfisher Airlines has recently been in the news after it grounded its fleet when its pilots went on strike in order to recover seven months of unpaid salaries. This is less than two years after they restructured debts of US\$1.45 billion, which in the interim has grown to over US\$1.6 billion. One of the largest restructurings in the past year involved the Global Group (telecommunications) who restructured over US\$3 billion of debt. Under their restructuring protocol, creditors gave up over US\$ 450 million of interest payments in return for a personal guarantee for an equal amount from the controlling shareholder. In such situations, the borrower as far as the banks are concerned, has effectively become too big to fail, which has not gone unnoticed by the markets, leading to the share prices of a number of state run lenders being badly hit this year.

So much for the bad news. The good news, indeed if there is any in this situation, is twofold: firstly, bank funding in India is largely depositary based, so the risk of a liquidity famine or capital withdrawal in the event of markets crashing is substantially removed; and, secondly, that the majority of the bad corporate debt is concentrated in the Indian state owned banks. Similar to the debt situation in China, the Indian government is therefore already largely vested in the country's distressed debt predicament through its ownership of state banks. This being the case, if state banks become distressed, bail-outs become irrelevant and the effect of any sudden market downturn is substantially cushioned. The flipside though is that state-owned banks are not motivated to clear up the mess afterwards. Indeed, in most cases, state-owned banks are overtly prone to procrastination, which has a severely debilitating effect on the markets speed and ability to recover.

There is a clearly visible difference between NPL ratios in state-owned banks, privately owned banks and international institutions. This clear performance divide could turn out to be India's future credit saviour. After all, if the state-owned banks become sidelined, the international and stronger private banks, with their blue chip client base of city-based investors, businesses and wealthy consumers should hopefully at least be able to keep a substantial part of the economy going? In theory, yes, provided the Indian government, which has a long history of over-involvement in banking affairs since bank nationalization in the 1960s, doesn't try to artificially even up the banking playing field.

Taking the top three international banks as examples, which between them currently operate 0.3% of India's branch network, 5% of loans and an impressive 11% of profits, the rules may be changing for the worst. In addition to the current regulatory requirements to hold 25% of their deposits in government bonds (which helps finance the government deficit) international banks with over 20 branches

(which includes the big three) may now also be forced to direct 40% of their loan book to “priority” areas, particularly farming and small businesses. Given the big three international banks between them only have 21 ATM machines outside the major cities nationwide, ‘going rural’ would be like stepping into another country. As a result, India could become a much more difficult and less profitable place to operate in for foreign institutions. From the authorities point of view, it would also be a bit like shooting themselves in both feet, given the weakness of the state owned banks and then hampering the credit operations in one of the few remaining stronger areas of the banking industry.

Institutions	No.	Branches	Assets US\$ b	US\$ Profit / employee	Return on assets
State Bank	6	19,485	296	10,378	0.89
Nationalised	20	50,013	719	13,208	0.88
Old Private	13	5,555	64	11,698	1.20
New Private	7	7,853	217	23,397	1.63
Foreign	40	323	81	64,153	1.76
All Banks	86	83,229	1,378	15,283	1.08

The NPL investment market in India was first predicted to take off around the years 2005 and 2006. Somehow or other though, spring never turned into summer, and the Indian NPL investment market has never fulfilled its early potential. Since that time, industry analyst’s comments have regularly followed a similar pattern: lots of activity, many potential portfolio trades, but limited closings due to valuation gaps between sellers and buyers. Every portfolio trade that fails to complete continues to add to the stock of NPLs buried in the system. The main culprits appear to be the state owned banks. Recent results from lenders like State Bank of India reinforce the existence of a serious distressed debt problem, where bad loans were nearly double the bank’s expectations in their second quarter results, which resulted in a ratings downgrade in October 2012. The main problem loan sectors appear to be in agriculture and big corporates, notably in industries like aviation, infrastructure, real estate and telecommunications.

In a recent speech, one of the Reserve Bank of India’s deputy governors blasted the state owned banks for weak risk management and inappropriate use of restructuring agreements. If current trends are maintained, the government will need to inject fresh capital into state owned banks in order to maintain solvency in the sector. Meanwhile, real estate values continue to erode and capital locked up in restructured loans will not be available to lend elsewhere. This will reduce liquidity in the system and further exacerbate difficulties in the economy and contribute to the downward spiral.

It seems that the only way that the escalating Indian NPL mountain will ultimately be resolved is by firm government intervention. However, the chances of that occurring in the foreseeable future seem close to zero. The Indian economy is in dire need of a number of critical reforms, but the incumbent government’s coalition

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Recent results from lenders like State Bank of India reinforce the existence of a serious distressed debt problem, where bad loans were nearly double the bank’s expectations in their second quarter results, which resulted in a ratings downgrade in October 2012

The Indian economy is in dire need of a number of critical reforms, but the incumbent government's coalition partners seem dead set against any meaningful change which is the conundrum of Indian politics

partners seem dead set against any meaningful change. The only reform of late that has managed to get through the system was allowing foreign supermarkets into the country. In mid-September, the ruling party's main coalition partner went on television to publicly berate the Congress party, threatening to resign from the coalition unless a limited number of reforms were halted, which left the government with no option but to pull back. This is the conundrum of Indian politics and the main barrier to meaningful economic change for the better.

The government has advised banks to take a number of new initiatives to increase the pace of recovery and manage bad debts, but the banks seem to be shrugging this off, applying limp and ineffective steps to improve the distressed debt situation. Bold, affirmative action to address the situation across the board is unlikely to occur given that government involvement would be needed to spark the change. **What we are likely to see as a result, is a burgeoning NPL problem, which will increase exponentially as the global economy continues to slow, until circumstances demand that enormous volumes of NPLs need to be monetized. The NPL industry springtime in India will ultimately change to summer, but when it does, it will be delayed and far more spectacular than we could ever have imagined; in essence an Indian summer.**

India- NPL Investor Hot Spots

The total population of India exceeds 1.2 billion. The country has over 45 cities in excess of one million population, and 13 cities in excess of two million people. The top ten cities are tabled below:

Bank credit distribution in India does not match population distribution

No	City	Population (m)
1	Mumbai	12.5
2	Delhi	11.0
3	Bangalore	8.4
4	Hyderabad	6.8
5	Ahmedabad	5.5
6	Chennai	4.7
7	Kolkata	4.5
8	Surat	4.4
9	Pune	3.1
10	Jaipur	3.0

55% of gross bank credit is concentrated in 6 cities

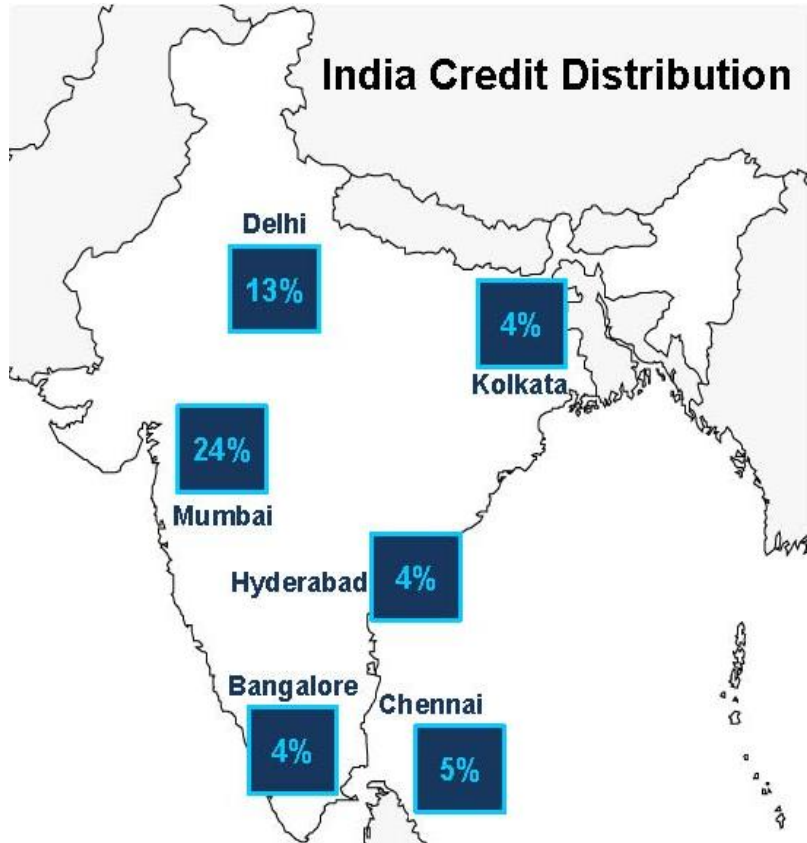
Bank credit distribution does not match population distribution though. Mumbai, for example contains 1% of the Indian population but nearly a quarter of the total aggregate bank credit for the country. Similar disparities occur with the other major cities, whereby over 55% of gross bank credit is currently concentrated in six Indian cities, shown on the map here:

This has important ramifications for future NPL investment in terms of the rate of collections from distressed debt collateral, particularly real estate. Banks generally only consider current open market value when granting secured loans. After a market correction, the property market, specifically in relation to consumer demand, may well be and frequently is, completely different, a factor that the prevailing banks credit system is not geared up to handle

Generally, after a correction, real estate values hold up far better in national capitals and major cities, compared with more remote areas where demand may actually tail off to zero. Investors and occupiers end up pursuing a flight to safety where only prime assets end up being the ones with significant liquidity. The result is the emergence of a clear two-tier market. Recognizing this issue has a huge impact upon the geographical distribution of true NPL value and investor's returns.

Unfortunately, the property valuation discrepancy all too often ends up being a major reason for bid ask disparity between banks sellers and NPL investors once lenders decide to try and monetize their loan books. Given the relative immaturity of the Indian NPL market, there is an acute shortage of specialist financial expertise within the country, which is precisely what is now urgently needed both for banks to optimise their loan books and investors to maximise their returns.

Our recommendation for all the industry players in such situations is as usual: get good professional advice from experts with appropriate experience, from people with proven track records, who really know what they are doing in the NPL market. If suitable expertise cannot be found locally within India, import it.



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White Elephant in Frankfurt



However you look at this spectacular new symbol of a united Europe, whether it is politically, socially, economically or commercially, it is difficult to prevent the words “white elephant” from continually springing to mind

At the recent topping out ceremony of the new European Central Bank (ECB) headquarters in Frankfurt, it was also announced that the overall development cost had just shot up by another 40%, to a colossal EU1.2 Billion, which is more than double the original budget of EU500 million.

Bad and worsening news now seems to be the current standard for the Eurozone. Even the construction of its new HQ is reverting to trend. Launched during the worlds’ biggest ever credit boom, the building is planned for completion in 2014, which will be in the midst of a prolonged world recession that is ravaging Europe. The main

shareholders in the ECB are each of the Eurozone central banks, and, given that more than half of the member states are effectively bankrupt, the continuing existence of the building tenant in its current guise must be in doubt.

Like everything involving a united Europe, unanimous agreement has been extremely difficult to achieve. Similarly, the launch of the new development dragged on for more than a dozen years in an effort to find consensus from all parties. As the union consistently discovers to its cost; new ideas, concepts and developments may look good, but are often much more expensive or less effective than was originally envisaged. For some of its critics, the new HQ summarizes many of the things that are wrong with the Eurozone

Development of the stunning new state of the art, 185 metre tall building will provide 2,200 work stations for 1,700 bank employees plus an individual office for each of the main shareholders. At EU75 million per shareholder to have the pleasure of an office in Frankfurt, the decision to be a part of such and expensive undertaking is an increasingly provocative issue, particularly to the home populations of member countries experiencing austerity and hardship at home.

The new office landmark has been built on the site of Frankfurt’s historic former fruit and vegetable wholesale market. This is not a prime central business location and is remote from the main financial district or government offices. In the event that the ECB were not to occupy the building, it is unlikely that another office tenant prepared to pay for this space could be found to take the ECBs place in such an offbeat location.

However you look at this spectacular new symbol of a united Europe, whether it is politically, socially, economically or commercially, it is difficult to prevent the words “white elephant” from continually springing to mind.

Malaysian Banking Boom

Robust growth in Malaysian banking continues unabated, defying current trends in global deleveraging and a pull-back in lending evident elsewhere in Asia. In the past decade, assets in the Malaysian banking sector have doubled, and the growth in credit that emerged out of the ashes of 1997 and subsequently sidestepped fall-out from GFC 2008, shows no sign of slowing.

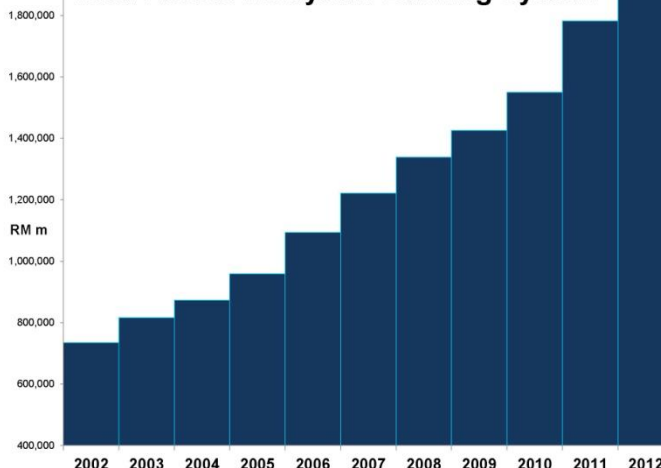
Malaysian Corporate lending is up by almost 40% this year. Syndicated loans totaled US\$ 13 billion year to date compared with US\$ 9.5 billion in the same period last year. This is completely at odds with trends in the rest of Asia, ex-Japan where lending has compressed by 30% in the past year. Lending is down 23% in Singapore, 15% in Indonesia, and 20% in Hong Kong.

The Kuala Lumpur exchange has been home to three of developing Asia's four biggest initial shares sales so far in 2012. In early October 2012, Maybank, Malaysia's biggest lender announced that it had just raised RM 3.6 billion (US\$1.2 billion), some of which it will use to boost capital in accordance with Basel III. The remainder may well be used to go on an acquisition spree throughout ASEAN in anticipation of the impending AEC opportunity. The private placement ranks as the largest in Malaysia's corporate history and was well received by both domestic and foreign institutional investors, the bank said in a public statement. "The issue price was fixed at RM8.88 per placement share," it added, with the total number of shares to be issued representing 4.98% of the enlarged issued and paid-up share capital of Maybank as at September 30th 2012.

Maybank has in recent years made acquisitions or taken stakes in banks and brokerages in Indonesia, Pakistan, the Philippines, Singapore, and Vietnam. In a subsequent interview to the share raising exercise, Maybank's CEO said "it is our intention to have a full presence across all the 10 countries in South East Asia."

In addition to Maybank, CIMB, Malaysia's second largest lender has also been on the acquisition trail in Indonesia, the Philippines, Singapore and Thailand. Maybank and CIMB are currently fourth and fifth respectively on the ASEAN banking table, but given their current performance, it would not be a surprise to see at least one of them break in amongst the top three Singaporean banks within the ASEAN region in the foreseeable future.

Total Assets Malaysian Banking System



Robust growth in Malaysian banking continues unabated, defying current trends in global deleveraging and a pull-back in lending evident elsewhere in Asia

Maybank	
Founded 1960	
42,000 Employees	
2011 Performance:	
Assets:	US\$ 142 b
Profits:	US\$ 813 m
Market cap:	US\$ 21b

Monthly Regional Economic Indicators

Country	Latest GDP Growth rate		Latest Industrial Production		Latest Consumer Price Inflation		Current account % of GDP	
Australia	3.7%	→	0.5%	→	2.0%	↑	-3.6%	↑
China	7.4%	↓	9.2%	↑	1.9%	↓	2.1%	↓
Hong Kong	1.2%	→	-3.0%	→	3.8%	→	6.1%	↑
India	5.5%	→	2.7%	↑	9.7%	↓	-4.0%	↑
Indonesia	6.4%	→	3.6%	↑	4.3%	↓	-2.4%	↓
Japan	3.2%	→	-4.6%	↓	-0.5%	↓	1.2%	↓
Malaysia	5.4%	→	-0.6%	↓	1.3%	↓	6.7%	↓
Pakistan	4.2%	→	0.1%	↓	8.8%	↓	-2.4%	→
Singapore	1.3%	↓	-2.6%	↓	4.7%	↑	15.6%	↓
South Korea	2.3%	→	0.3%	→	2.0%	↑	2.1%	↑
Taiwan	-0.2%	→	8.4%	→	3.0%	↓	8.6%	↑
Thailand	4.2%	→	-11.3%	↓	3.4%	↑	-0.7%	→
Other Regions								
Euro Area	-0.4%	↑	-2.8%	↓	2.6%	→	0.5%	↑
Germany	1.0%	→	-1.4%	→	2.0%	→	5.6%	↑
U.K.	-0.5%	→	-1.1%	↓	2.2%	↓	-2.5%	↓
USA	2.1%	↓	2.8%	→	2.0%	↑	-3.1%	↑

GDP Growth Rate

The dismal trend shown last month continued. Growth rate in the Chinese economy fell from 7.6% to 7.4%. The only green upwards arrow in the above table is the Euro area, which is in negative territory already. In other words, GDP isn't growing in Europe; the rate of decline is just reducing.

Industrial Production

The latest industrial production figures showed some upward movement. China moved from 8.9% to 9.2%. India and Indonesia also increased. Worst mover was Thailand, where industrial production output dropped from -5.8% to -11.3%.

Consumer Price Inflation

Inflation showed mixed signs in different jurisdictions during the past month in both directions, without an overall indicative trend. India and Pakistan both managed to bring inflation into single digits.

Current Account Balance

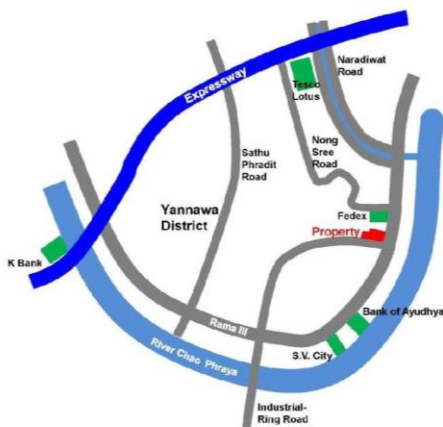
Current account balances showed a marginal upward trend in some jurisdictions. On the above table, Australia moved up, albeit still in negative territory, from -3.8% to -3.6%. China's balance dropped though. Worst performer was Singapore from 17% to 15.6%.

Regional Opportunities

Loan Portfolio		Sales			
Country	Seller	Loan Type	OPB	Bid date	Status
Thailand	Bank of Ayudhya	Corporate	THB1.8b	May 2012	Closed
		SME	THB1.3b		Closed
		Mixed	THB 2.0b		Closed
Thailand	Government Housing Bank	Retail	THB 3.0b	March 2012	Cleared- awaiting formal announcement
Thailand	Government Housing Bank	Retail	THB 10.0b	TBA	Closing during 2012
Thailand	Government TAMC	Mixed		2012	Cleared- in closing process
Thailand	TBA	Corporate, SME & residential	THB3.2B	October 2012	100% Clearance
Thailand	TBA	Mixed loans 500 accounts	THB 5.3 B	November 2012	Data room open
Thailand	TBA	Mixed loans 800 accounts	THB 4.3 B	November 2012	Data room open

Bangkok Prime Vacant Land Sale

Bids are cordially invited for the sale of vacant land located on the corner of Rama III Road and the Industrial Ring Road, in the Yannawa District of central Bangkok



The property comprises 8 contiguous land plots of 14-1-70.8 rai (5,770.8 square wah)

It has approximately 90 metres frontage to Rama III, and 190 metres fronting the new industrial ring road

It is zoned red, identified for commercial use

Bid price submission date is Wednesday 21st November 2012

Minimum Bid Price: THB190,000 per square wah

Contact Khun Krongkarn Noppawan (krongkarn@bakertillythailand.com), or Khun Yook Sophan (yook@bakertillythailand.com) Tel: 02 679 5400

Himalayan Hydropower Project

A long-term investor is sought for a hydropower project in accordance with the Hydropower Development Policy and Water Resources Development Strategy of Nepal.

The project is a simple Himalayan snow-fed "run of the river" type whereby water will be diverted via an overflow weir through culverts and pipes to a semi-surface powerhouse that drives two turbines. From there water will run back through further culverts to the river.



The licence to develop the project will be on a build, own, operate and transfer basis from the Nepalese government for a period of 35 years. It is anticipated that it will take two years to develop the project.

Feasibility studies undertaken by specialist professional consultants indicate returns, based on current energy costs, of 14% IRR and 16% RoE for the investor.

Investment Range: US\$ 25m

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