Restructuring Trends: A Global View

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Contents

Restructuring Trends: A Global View 4

Key Themes 5

Themes by countries and regions 8

Australia 10

Belgium 12

Brazil 13

Canada 14

Cayman and BVI 16

Central & Eastern Europe 17

China 18

Germany 19

Ghana 20

Greece 21

India 22

Italy 24

Japan 25

Kenya and the East Africa Region 26

The Netherlands 28

Nigeria 29

Singapore 30

South Africa 31

South Korea 32

Spain 33

Turkey 34

USA 36

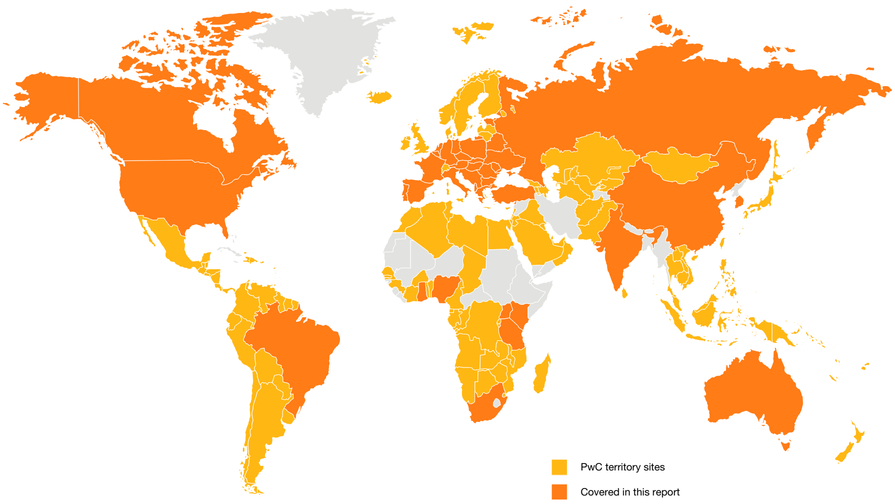
Restructuring Trends: A Global View

Today's business environment is truly global but in local markets, specific regulation, legislation, politics, demographics and culture have a material impact on how restructurings and insolvencies play out. Long thought of as one of the world's leading restructuring hubs, the UK's dominance is increasingly being challenged by other countries in the global restructuring market. Through this global view, we have asked our local restructuring teams from around the world to share their market insights and how these are affecting companies, sectors and economies, both in the UK and more generally across the globe.

Indeed, as the world gets smaller, it is more important than ever to be aware of the global trends and to understand the potential impacts of operating in a global marketplace.

We know that local knowledge goes a long way and that only relevant, targeted advice is valuable to our clients. Our local teams draw on our extensive network of restructuring, refinancing, and insolvency professionals, creating an award-winning service that is greater than the sum of its parts. With immediate access to a world-class pool of sector experts and situation specialists, any of our teams across the globe can draw on the combined skills, knowledge, and technology of our full network to provide a complete service offering that only PwC can deliver.

Each country has its own economic, political and regulatory realities that are critical to a successful restructuring, but there are certain key themes that can be seen across the world in international trade and finance, regulation and sector-specific issues (retail, shipping, construction and infrastructure).



Key themes

Changes to insolvency and restructuring regulations

One of the biggest themes in the global restructuring market is the number of countries that are reforming their legal frameworks against which non-performing credits can be restructured.

In some countries that have historically been borrower friendly (e.g. India), legislation is changing and giving more power to creditors. In other countries that have historically had blunt insolvency tools, the restructuring regime is being developed to allow for more turnaround and recovery, with new legislation often being based on a combination of UK Insolvency Law and US Chapter 11 provisions.

The UK has traditionally been a world centre for global restructuring, due to its strong insolvency framework and restructuring flexibility (e.g. Scheme of Arrangement). Whilst further reforms have recently been announced and will help to sustain the UK as a leading restructuring regime, the implications of Brexit create uncertainty as to how cross-border restructurings might be implemented.

The Netherlands is fast tracking legislation to allow cross-class cramdown, DIP financing and release of 3rd party guarantees. Dutch schemes will automatically benefit from EU recognition under European Insolvency Regulation whilst the position for English schemes remains unclear.

Further afield, Singapore is also seeking to become a global restructuring hub with more borrower friendly options and global reach provisions.

Focus on excessive NPL levels in banks around the world

Levels of non-performing loans (NPLs) have remained high across developed and emerging markets. Many countries have introduced legislation and regulation to address this, with regulators setting deleveraging targets.

The introduction of Basel III, which increases the capital adequacy requirements on banks, increases the cost of holding NPLs. Meanwhile, the introduction of IFRS 9, as well as actions by some governments, are forcing banks to recognised NPLs earlier, resulting in higher provisioning.

The requirement for banks to recognise NPLs, provide for them and allocate more capital, combined with increasing liquidity in secondary debt markets, is leading to credit funds acquiring NPLs earlier and, increasingly, providing rescue financing. As banks are offloading NPLs they are decreasing the size of their workout teams and leaving the credit funds to lead restructurings. The result of this is a change in stakeholder behaviours, with credit funds increasingly driving the agenda in distressed situations.

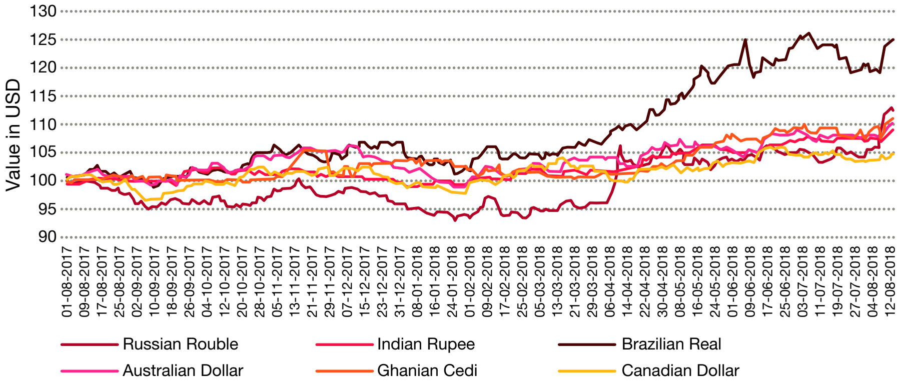
Currency depreciation against the USD

There has been a rise in the prevalence of USD borrowings since the global financial crisis of 2008. As the US Federal Reserve tightens monetary policy, the value of the dollar is increasing, leading to devaluation of many currencies against USD.

Most immediately this impacts global trade balances and the relative performance of exporters and importers in different countries. It is a particular challenge, however, for companies that have issued USD debt and rely on local currency revenues. In order to be able to service debts, many are focusing on operational improvements, working capital optimisation or seeking to restructure debts.

Although a broad range of developed and less developed markets have been affected, currency movements have been exacerbated in certain countries due to local political and economic factors, notably Turkey (where the Lira has devalued by 49% against the USD over the last year) as well as Venezuela, Russia, India, Brazil and Argentina.

Devaluation of selected world currencies against the USD (indexed at 100 on 1 August 2017)



Source: Eikon – Thomson Reuters

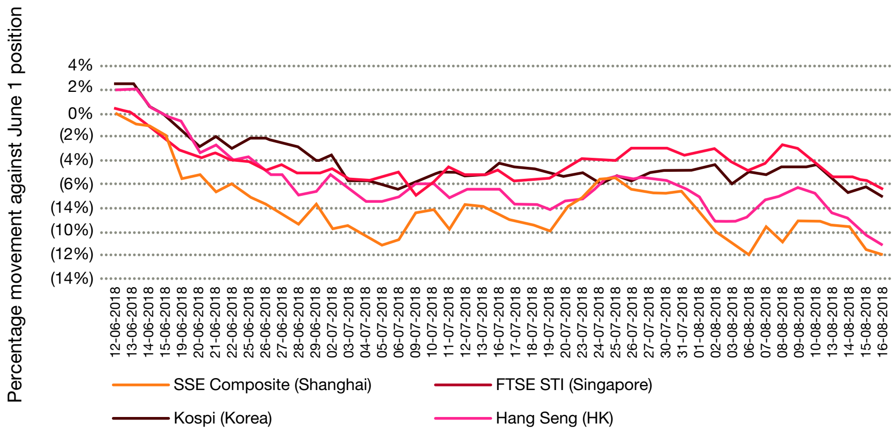
Global trade policies and tariffs – US trade policy and Brexit

The tension between US and its neighbouring countries, as well as some of its biggest trade partners like China and the EU has caused concern in sectors and economies directly and indirectly. Stock markets in the main affected areas dropped notably when the US announced additional tariffs worth $200bn on Chinese products, only days after bringing levies on $34bn worth of Chinese goods.

The direct impact of these global trade tensions is hard to quantify; it is difficult to speculate with any accuracy if rising prices, which typically decrease demand, will cause a drag in general growth. Global supply chains mean that the impact of tariffs could be multiplied as components cross borders multiple times. The indirect impact is potentially more extensive. Business confidence declines under deteriorating financial conditions. A sustained negative impact on equity prices and widening credit spreads would likely adversely impact business and household spending. Furthermore, a worsening of sentiment (especially in tariff-affected sectors) could cause companies to scale back on investment and reduce capital expenditure, further impairing global growth.

Beyond the well-documented economic impact already caused by the prospect of Brexit, particularly due to the depreciation of Sterling over the last two years, investors' confidence is suffering from the political uncertainty around the final form of Brexit.

Asian stock market performance following tariffs announced by USA on 19th June 2018



Source: Eikon – Thomson Reuters

UK insolvency legislation and practice is regarded as world class, with initiatives in recent years to streamline insolvency processes and prioritise business rescue – indeed the UK government recently announcing its intention to significantly change the restructuring regime with the introduction of restructuring moratoria and plans. Brexit raises much uncertainty over the status of the UK's insolvency regime and whether automatic recognition across the EU will prevail. The timing of Brexit coincides with significant focus by many EU members on harmonising insolvency and restructuring regulations across member countries such that there risks damage to the UK's reputation as a "hub" for complex, cross-border restructurings.

Retail disruption

The impact of online retail is being felt around the world, with bricks and mortar retailers suffering the consequences. Customers have embraced online shopping and payment technologies, shifting more transaction flow to platforms.

Not only are traditional retailers suffering from large store portfolios and high fixed costs (e.g. rent and business rates), but their product offering is also far behind the innovators. Increasingly, simply having an online presence is not enough as retailers compete to make the online and offline experience as seamless as possible. Those who cannot keep up are suffering from declining market share and a dwindling value proposition.

Although in some countries retailers have found temporary fixes to manage costs, fundamental shifts in customer behaviour continue to drive restructuring activities and insolvencies in the sector across the globe.

Read more about challenges faced by UK retail stores in our recent Restructuring Trends: Trouble in store – how can retailers deal with the headwinds?

Shipping and Offshore

The tanker market remains weak as the supply of vessels (as well as the large orderbook of new vessels under construction) continues to outstrip demand. The containership market remains uncertain pending the trading patterns the new liner alliance develop, and the impact these will have on the tonnage providers.

The recent oil price recovery to low USD 70s did not translate into a similar improvement in the offshore sector. Whilst the mid-water drilling segment shows signs of slow recovery, the deepwater drilling remains volatile.

The offshore support vessel sector remains weak due to large overcapacity of vessels. Several companies are about to start a 2nd (or 3rd) round of restructuring.

Read more about shipping and offshore in our recent Restructuring Trends: Keeping off the rocks? Navigating restructuring in shipping & offshore

Construction and capital intensive sectors in emerging markets

Emerging market economies (EMEs) that have enjoyed domestic economic growth over recent years are seeing growth slow under pressure from local currency depreciation and lower government spending. These have had a particularly adverse impact on capital intensive sectors such as construction, infrastructure, manufacturing and steel.

In certain markets, the construction sector is particularly at risk because of rising building materials costs and weakening real estate prices. The use of fixed rate contracts increases the risk of underperforming contracts, with projects overrunning (both in time and cost), putting pressure on already thin margins.

Companies in these at-risk sectors have previously spent considerable amounts of capex on expanding their capacity, with a large proportion of the investment funded through raising USD-denominated debt. As economic growth has slowed, these companies have not been able to realise the expected revenue and profit. Recent USD appreciation caused by the Federal Reserve tightening their monetary policy has also put extra pressure on these companies' ability to service the debt.

Trends in debt documentation

Over the last 12 months, there has been a marked increase in borrower/sponsor friendly debt documentation in new debt deals (e.g. cov-lite, cov-loose, wide permitted baskets, "J Crew clause", whitelists). This has been driven by excess liquidity competing for a limited number of deals.

There has been a convergence between the terms seen on high yield bonds and leveraged loans, with Europe increasingly adopting the looser documentation seen in the US.

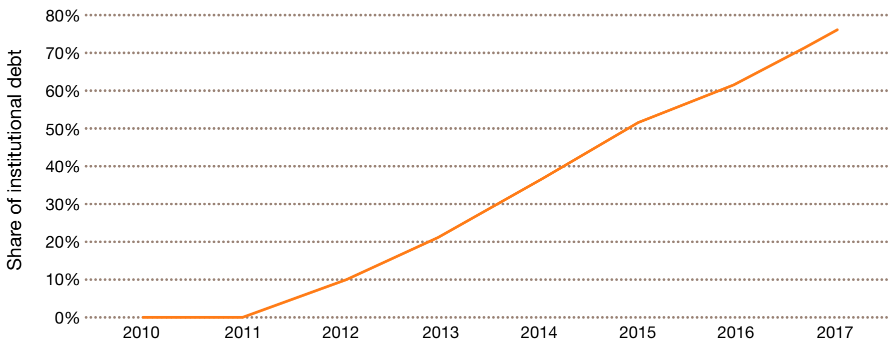
As an illustration of this, cov-lite volumes now account for 78% of outstanding leveraged loans in Europe according to S&P.

Lenders in these credits have arguably lost essential lender protection. The lack of triggers will start to impact the flow of restructurings unless borrowers proactively approach lenders for help.

In the last 3 months, a number of investors have started to push back on loose documentation, although not yet sufficiently to change the underlying trend.

Read more about recent debt market development in documentation in our recent Restructuring Trends: Debt market conditions continue to favour borrowers: what comes next?

Percentage of European institutional debt that is Cov-Lite



Source: S&P Global 2018

Themes by countries and regions

	Regulation	Banks and NPLs	Trade policy (US, Brexit)	Devaluation vs. USD	Retail	Shipping	Construction & transport	Debt markets
Australia	✓		✓		✓		✓	✓
Belgium			✓		✓	✓	✓	✓
Brazil	✓			✓			✓	
Canada	✓		✓	✓	✓		✓	
Cayman and BVI	✓			✓				
CEE		✓	✓					
China	✓		✓		✓	✓		
Germany	✓		✓		✓			✓
Ghana	✓	✓						
Greece		✓			✓		✓	
India	✓	✓					✓	
Italy	✓	✓			✓		✓	
Japan					✓			
Kenya and East Africa	✓	✓						✓
The Netherlands	✓		✓		✓			✓
Nigeria		✓						
Singapore	✓		✓		✓	✓		
South Africa	✓							
South Korea	✓					✓		
Spain		✓			✓	✓		✓
Turkey	✓			✓				
USA			✓		✓			

Australia

Australia's economy could be characterised as being in a 'holding-pattern'. On one hand, modest GDP and employment growth, a decreasing budget deficit, and record low interest rates should be bolstering business, lender and consumer confidence. However, uncertainty over political leadership, broader geopolitical headwinds and stalled action on key nation-building initiatives such as energy, corporate tax and infrastructure has meant that the Australian economy is in a holding pattern. If Australia is to remain an attractive destination for both domestic and inbound investment; there will need to be structural economic policy changes.

Why we need to talk about lending and confidence

Regardless of the pace of economic growth in the short term, Australian households are now reckoning with the consequences of three decades of credit-led asset price growth and leverage. Mortgage originations continue to slow, as they must, to bring household leverage down towards levels sustainable in different interest rate environments. Even if the Australian official interest rate continues to remain low, as the US economy strengthens, Australian domestic major banks will be forced to correct their lending rates as a consequence of offshore funding sources.

Australia's stalling consumer spending reflects the general confidence level. Real-wage growth has been hampered by the personal tax 'bracket-creep' phenomenon, which has seen consumers less confident with their discretionary spending. This confidence can be observed in the business lending market. So far in 2018, business credit growth has once again fallen below the growth in nominal GDP, something that has happened only a few times in the past generally following major downturns – as shown in the below diagram.

This trend is unsurprising given the increased public scrutiny and long lead time into the Australian Royal Commission that is currently underway into the Financial Services industry. This has seen continued high profile media and public interest into lending behaviours, increasing pressures on Australia's traditional 'Big 4' Banks regarding not only enforcement of impaired assets, but also front end lending and the provision of financial advice in the wealth management sector. It remains to be seen if there is regulatory change proposed as a result of this commission.

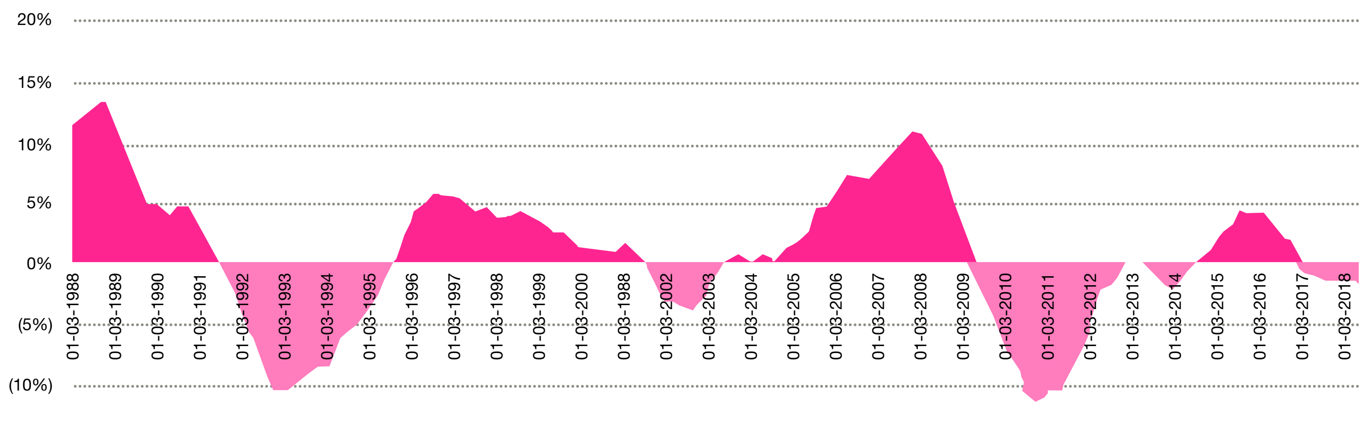
Disruption now: the rise of non banking financial institutions

A trend in the Australian market has been the emergence of non-banking financial institutions – including second and third tier lenders, private equity, superannuation funds and hedge funds as alternative sources of capital. These sources are traditionally more open to different risk profiles and alternate lending structures (e.g. mezzanine lending). An example of this can be seen in the inbound residential buyer market; where the traditional lending market – generally major banks - has been displaced in favour of alternative sources of capital, such as PE-fund backed residential lending platforms.

This is a relatively new feature in the corporate environment, and it is difficult to predict how these alternate

Exhibit 4: Business lending growth once again lower than nominal GDP

Business lending growth minus nominal GDP growth, Australia



Source: S&P Global 2018

sources of capital will play out in the distressed asset cycle or on exit. Traditional sources of capital in these instances, such as major banks, tend to follow a more predictable pattern on exit – given the increased risk appetite of these non-banking lenders; it could be assumed this may mean more assertive exit terms.

A place in the global market: challenge and opportunity

While Australia's headline corporate tax rate is a challenge to international competitiveness, the stable legal system, proximity to Asia and its consumer base, and well-regarded place in the global market continues to see it as an attractive investment destination. Key attractors of investment include infrastructure, property, and the large resource base, including mining services (particularly in transportable assets).

In the longer term, Australia is vulnerable to the current global tax and trade debate. The US is leading the way on corporate tax cuts, and providing avenues of greater competition for investment flows. While the Trump administration was not successful in implementing a value-added tax scheme, the tariffs being implemented could be argued as playing the same role in terms of increasing indirect taxation revenues at the border. As a trade-reliant nation and the US as one of our largest trading partners, this will undoubtedly have significant impacts.

An evolving regulatory landscape

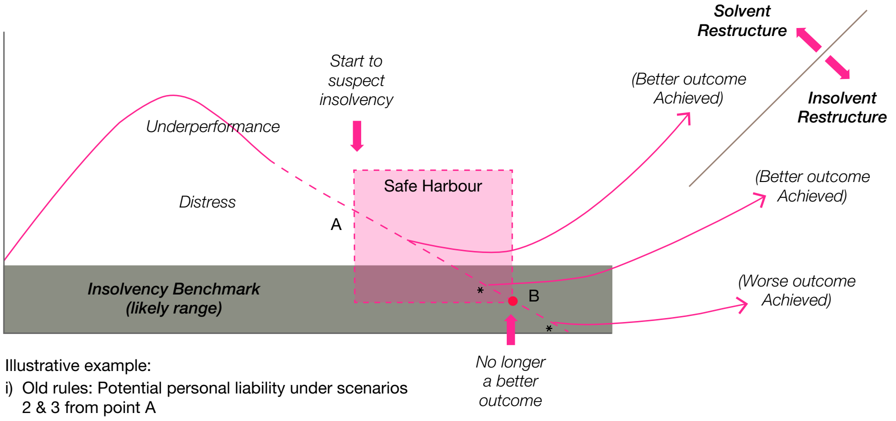
Regulatory change has impacted the restructuring landscape fundamentally over the past 12 months, and will continue to have far reaching effects. Australia has traditionally had some of the most onerous obligations on Board directors for avoiding insolvent trading, including possible civil and criminal liabilities. This year a 'safe harbour' regime for directors of Australian companies was introduced, following a significant government review of Australian insolvency laws. The new laws provide a 'safe harbour' for director personal liability for stressed and distressed corporates, provided that they are working with an appropriately qualified professional and meet other prescribed requirements. This will spur further opportunity in the operational and financial restructuring markets.

The other material change flowing from the review of the insolvency laws has seen the voiding of 'ipso facto' clauses in the context of a formal insolvency – ipso facto clauses provide contract counterparties with the ability to terminate contracts upon the contractor entering into insolvency. As a consequence, the impact of a formal insolvency or any contract based company could be devastating - with these clauses now void, this should enable more restructuring opportunities, as contracting businesses will be able to use all available regimes (both informal and formal) to effect a restructure, without the fear of the underlying business being decimated. While this a positive move for the restructuring industry in Australia, it only applies to new contracts entered into after 1 July 2018 and further, some forms of contracts (for example financial product contracts) are exempt

The combination of regulatory and legislative changes against the current macroeconomic landscape will pose both challenge and opportunity for the Australian restructuring industry.

Illustrative Safe Harbour Model

An analysis of the Australian Safe Harbour model can be seen below.



Illustrative example:

i) Old rules: Potential personal liability under scenarios 2 & 3 from point A

ii) New rules: Potential personal liability only scenario 3 from point B (assuming all Safe Harbour rules are followed)

Insolvency appointment

14	78.79	18	82.5	1	8	11
Ease of doing business ranking	Resolving Insolvency DTF	Resolving Insolvency rank	Recovery rate (cent on the dollar)	Time (years)	Cost (% of estate)	Strength of Insolvency framework Index (0-16)

Belgium

Companies in Belgium, like the rest of Europe, are facing challenges stemming from uncertainty around Brexit and what the future of the eurozone could look. Concerns about an overheating M&A market, combined with historically low interest rates and a rise in cov-lite debt structures are leading to cautious sentiment across all sectors.

The retail, oil & gas and transportation sectors are amongst those experiencing relatively turbulent conditions in Belgium.

The digitisation of the shopping experience continues to disrupt traditional business models, posing a threat to legacy retailers.

Some oil & gas companies are still reeling from the effects of the oil price crash - although a slow rebound to prices seems to have calmed the waters, investment and capital expenditure programmes are yet to reflect this.

The shipping sector has been battling strong headwinds and these seem to be mounting as uncertainty over US trade policies presents fresh challenges regarding the future of international trade and logistics.

52	81.46	11	84.6	0.9	3.5	11.5
Ease of doing business ranking	Resolving Insolvency DTF	Resolving Insolvency rank	Recovery rate (cent on the dollar)	Time (years)	Cost (% of estate)	Strength of Insolvency framework Index (0-16)

Brazil

Brazil is still recovering from the recession of 2015-16 and the restructuring and refinancing markets are active. With modest growth expected through 2019, credit availability and interest rates are getting back to pre-crisis levels. This will likely lead to more companies looking to refinance their debt in the hope of funding expansion. Like other more mature emerging markets, Brazil's transportation and construction sectors are experiencing the highest levels of distress.

Larger corporations have tapped into foreign low-interest rate markets

During 2015 and 2016 Brazil experienced one of the worst recessions in its history. The combination of sluggish economic growth, rampant inflation and surging interest rates caused a sharp increase in overall leverage.

During the recession, the largest corporations took advantage of the low interest rate environment in the US and Europe to refinance their debt with cheaper foreign currency debt.

In general, smaller companies were unable to tap into capital markets and experienced a severe credit crunch, which was exacerbated by the reduction of subsidised loans from the Brazilian Development Bank. The number of company filings for judicial recovery increased by 120% in comparison to pre-crisis levels.

Expansionary fiscal policies have helped domestically focused companies although leverage levels remain high

Starting from 2017 the Central Bank of Brazil lowered interest rates to stimulate the economy resulting in those smaller companies with better credit profiles being able to refinance their debt domestically.

However, financial leverage and filings for judicial recovery have remained high due to the slow pace of the economic recovery combined with a reduction in banks' risk appetite. The current devaluation of the Brazilian Real is also contributing to the increased level (in local currency) of debt denominated in foreign currency. For companies with revenues in local currency, debt service is becoming more challenging as the Real depreciates. Based on the Brazilian Central Bank research, transportation, construction and infrastructure are the sectors with the highest concentration of distressed assets, being particularly capital intensive and leveraged businesses.

The Brazilian economy is on the brink of sustained recovery

PwC estimates real economic growth in Brazil to be a modest 1.8% in 2018 and 2.5% in 2019 (PwC economic projections – August 2018). With tightening credit spreads and interest rates at pre-crisis levels, companies are expected to continue to domestically refinance their debt and begin to fund new expansion projects.

Aside from a more benign economic environment, an amendment of the Brazilian Bankruptcy Law is being considered, which would be a meaningful change to the regulatory landscape. The proposed change involves relaxing the law so that companies with high levels of debt can sell healthy assets yet avoid transferring the credit risk connected to them. The hope is that this modification would give companies a better chance of recovering from distressed situations. The current laws have been criticised for their bureaucracy and low success rate, with only 25% of companies successfully emerging from the bankruptcy procedure.

The levels of non performing loans in Brazil have been steadily rising in the past years, with a recent trend to stabilisation given the more restrictive credit policies adopted as a result of the economic downturn. The short-term estimates indicate a stabilisation of both credit balances and the levels of credit in default until economic growth effectively resumes. The estimated delinquency levels remain stable at 3%-4% of the total loan balance in the National Financial System.

As the secondary market for NPL is still developing in Brazil, financial institutions have been focusing on selling their older loans (5-10 years past due) before moving on to newer loans, nonetheless adopting the sale of NPL as a recurring strategy. Additionally, retail and education are some of the sectors structuring NPL transactions with a focus on improving their core operations.

125	47.46	80	12.7	4	12	13
Ease of doing business ranking	Resolving Insolvency DTF	Resolving Insolvency rank	Recovery rate (cent on the dollar)	Time (years)	Cost (% of estate)	Strength of Insolvency framework Index (0-16)

Canada

Economic growth has been slowing driven by consumer spending and fears over US trade policy

The Canadian economy has performed relatively well over the past couple of years and significant liquidity has been available to refinance positions where lenders see risk. As a result, the Canadian restructuring market has been relatively quiet for the last 18 months, but there are some signs of potential headwinds to come.

Economic growth in Canada ran at an annualised rate of 4.2% in the first half of 2017, following favourable trends in commodity prices, investments in infrastructure, and general consumer optimism. The growth rate slid to an average of 1.6% in the second half of the year (2.6% annualised), and this reduced trend is expected to continue through 2018.

Uncertainty over the renegotiation of the North American Free Trade Agreement (NAFTA) and the notion of a trade war threaten both the export market as well as demand for investment in Canadian industry. The buoyant U.S. economy, helped by tax cuts and consumer spending, is substantially outperforming Canada and is becoming more attractive for investment, placing further pressure on Canadian growth expectations.

The Conference Board of Canada, an economic think tank, notes that "high debt levels, rising interest rates, and falling house prices are leading to a pullback in the pace of consumer spending and overall economic growth. The economy grew (at an annualised rate of) just 1.3 per cent in the first quarter (of 2018) as consumer spending eased, the trade sector continued to perform poorly, and the housing sector weakened, reflecting recent policy changes."

Foreign competition increases sector threats

Lenders are continuing to monitor exposures in the retail sector, which has been significantly disrupted by innovation and competition (largely from American retailers). Toys R Us Canada was sold to Fairfax through proceedings earlier in 2018; Sears Canada is currently completing its liquidation process under the Companies' Creditors Arrangement Act (CCAA).

The oil and gas sector in western Canada is drawing increasing attention, as local commodity prices continue to lag behind the rest of the world due to transportation constraints and as foreign producers increase their production of cheaper oil. We anticipate further oil and gas filings over the next 1-2 years, particularly in the gas sector.

The real estate market in some regions (notably the commercial market in Alberta) is affected by significant vacancies resulting from the downsizing which took place after the downturn in the oil sector of the mid 2010s; options for stakeholders in that sector are not helped by limited growth in the region. Similar pressure is being seen in the construction industry in some regions.

Most other recent restructuring filings have been isolated cases not involving systemic issues in a particular sector. The availability of liquidity from a variety of lenders, distressed funds and other alternative lenders has facilitated many refinancings of companies encountering challenges.

A trial of uncertainty ahead

The Conference Board of Canada has voiced several concerns about the Canadian economy, which will affect performance over the next few years, including record levels of household debt that will constrain consumer spending, the risk of interest rate increases, and constraints on export growth including as a result of possible trade wars.

Business confidence as tracked by the Conference Board has started to become more pessimistic of late, trending down from highs seen in 2017. They note that "businesses do not expect the rapid sales growth they saw in 2017 to continue. They are concerned about government policy and about the availability of labour. They also report increased concern about the competitiveness of the Canadian economy in the face of U.S. tax cuts, a weak Canadian dollar, and an uncertain future for NAFTA."

Few economic pundits are looking beyond the next 1-2 years, given the range of uncertainty faced by the Canadian economy. But concerns abound over the levels of investment in equipment and other infrastructure in Canada, which puts the economy's competitiveness at greater risk.

> ***"High debt levels, rising interest rates, and falling house prices are leading to a pullback in the pace of consumer spending and overall economic growth. The economy grew [at an annualised rate of] just 1.3 per cent in the first quarter [of 2018] as consumer spending eased, the trade sector continued to perform poorly, and the housing sector weakened, reflecting recent policy changes."***
>
> The Conference Board of Canada

Consensual restructurings favoured over insolvency proceedings

All of this comes amidst one of the slowest periods for formal restructuring proceedings in recent memory. As an indicator, the number of new restructuring proceedings initiated under the Companies' Creditors Arrangement Act (CCAA, akin to the Chapter 11 process in the U.S.) fell from 42 in 2016 to 25 in 2017; to June 2018, only a further 8 CCAA proceedings been commenced.

An increasing number of corporate restructurings are being completed under corporation statutes rather than insolvency law. The Canada Business Corporations Act (CBCA) (and similar provincial statutes) provides a mechanism for a plan of arrangement to be voted on by creditors and approved by the Court (similar to a solvent scheme of arrangement) to effect a restructuring. Most recently, the restructuring of Concordia International Corp., a Canadian registered multinational, was completed under the CBCA. This statute provides for a consensual restructuring to be negotiated, without the additional insolvency stigma of a CCAA proceeding.

Several pending decisions of the Canadian courts are expected to affect future proceedings. Among others, the Supreme Court of Canada's decision in the Redwater case is expected shortly, which will decide whether to give priority to certain environmental and safety obligations in restructuring proceedings. A separate decision by the Supreme Court in the Canada v. Callidus case will address the effect of a bankruptcy proceeding on the deemed trust for unremitted GST/HST (value-added tax).

Ease of doing business ranking	Resolving Insolvency DTF	Resolving Insolvency rank	Recovery rate (cent on the dollar)	Time (years)	Cost (% of estate)	Strength of Insolvency framework Index (0-16)
18	81.46	11	87.5	0.8	7	11

Cayman and BVI

Macroeconomic changes and over-leverage are driving a rise in defaults

In recent years, a weak US currency has fuelled a rise in offshore US dollar-denominated lending, with emerging market economies (EMEs) holding a record USD 6.3 trillion in 2017. A large proportion of this debt was structured via Cayman Islands and BVI.

However, these enabling macroeconomic tailwinds have reversed course, driven primarily by US monetary policy normalisation and the subsequent appreciation of the dollar. This has impacted debt service capacity, particularly in cases where revenues are denominated in EME currencies, and increased rollover risk, putting existing lending structures under pressure.

We have observed a sector-agnostic rise in the number of defaults involving offshore dollar lending and can also be considered to be a function of over-leverage.

We continue to observe certain key issues for lenders; these include imperfections in security nets, structural subordination of offshore debt as well as adverse impacts on recoveries.

More sophisticated mechanisms, such as Provisional Liquidations, are emerging

While we expect EME deleveraging to continue in the near-term, more sophisticated restructuring mechanisms are emerging from the Cayman Islands and BVI, providing stakeholders with more options.

For instance, Provisional Liquidations are increasingly being used to seek a protective mechanism for restructuring in collaboration with secured lenders – Mongolian Mining, Ocean Rig and most recently Abraaj, are prominent Cayman Islands examples.

Funds are seeking full-service wind-down solutions

Significant advancements are also occurring in these jurisdictions in relation to the restructuring of hedge funds, for which the Cayman Islands is the principal offshore domicile.

Funds are increasingly looking to access full-service wind-down solutions, often outside of a formal liquidation process, as a means of maximising asset realizations and returns of capital to investors. Secondary market liquidity strategies at the investor level are also increasing in popularity.

The Cayman Islands and British Virgin Islands are British Overseas Territories and do not have their own data.

Central & Eastern Europe

Almost a decade after the financial crisis, the Central and Eastern European (CEE) market has stabilised and is enjoying a period of growth. The restructuring landscape has changed; it has become dominated by a small number of large-scale cases either rooted in the financial crisis or newly appearing in industries undergoing transformation. Despite market growth, threats are becoming more tangible for CEE. Brexit, restrictive US trade policy, overheating of the real estate market and an expected slow-down of market growth all indicate that restructuring activity will increase in the coming years.

Ownership changes are creating investment opportunities for corporates, funds and banks

The CEE market is going through a "second round" of ownership changes where creditor stakes or exposures in newly restructured businesses are being put up for sale. This creates opportunities for financial investors looking for post-restructuring acquisitions, strategic investors seeking attractive and reasonably-valued targets and banks looking to sell or refinance high-yielding distressed debt. These opportunities have been the driving force for an increased focus on distressed M&A and debt refinancing in recent years.

While new restructuring cases are less frequent, they are usually significant in size, attracting the attention of multiple stakeholder groups. They typically originate in industries facing structural changes or increasing export barriers such as steel and heavy machinery.

Retail distress is not necessarily a common theme across Central and Eastern Europe but certain retailers in the Balkans are indeed struggling. There are more entrenched stressors in the construction sector, especially large industrial projects, yet these are still under the surface. We expect the issues to mount and start affecting the market next year; indeed, one of the largest construction companies is on the verge of insolvency.

The Banking sector is showing signs of recovery, but stricter regulations provide fresh challenges

The banking sector is recovering from the financial crisis: the non-performing loan (NPL) ratio has been decreasing gradually following economic recovery across CEE. NPL transaction activity has been significant only in some parts of the region – NPL rates in Romania, Hungary, Croatia and Slovenia are at the higher end of the spectrum. The banking sector, however, faces new challenges as the European Central Bank, in conjunction with local central banks, continues to enforce new stricter regulations in order to prevent excessive risk-taking.

27	77.71	22	63.1	3	15	14
Ease of doing business ranking	Resolving Insolvency DTF	Resolving Insolvency rank	Recovery rate (cent on the dollar)	Time (years)	Cost (% of estate)	Strength of Insolvency framework Index (0-16)

China

Rising operational and borrowing costs as well as credit tightening pose challenges

The first 6 months of 2018 were met with several challenges for companies in Hong Kong and China. Higher labour costs and rising commercial real estate prices have led to increased operational costs. These operational costs, in addition to escalating interest rates, have resulted in higher borrowing costs. The hiked interest rates mean Chinese companies of all sizes are finding it harder to access offshore credit which, combined with an onshore desire to curb leverage, including a crackdown on shadow banking, has led to credit tightening across the economy.

As with other regions around the world, companies that have failed to adapt to the rapid digital transformation taking place globally are being rendered uncompetitive. Other trends impacting corporates include a rise in cases of misconduct and fraud as well as corporate bond defaults.

The number of corporate bankruptcies in China has risen rapidly in recent years with Court filings more than doubling from 2015 to end of 2017.

China-US trade tensions

The escalation in the trade friction between China and the US (the world's two largest economies) has precipitated the fall in China's domestic stock market, damaging investor confidence and adversely affecting consumer purchasing behavior.

Shipping and commodities sectors face the gravest challenges in 2018, as strong infrastructure development unleashes growth potential across the region

There has been a wide range of sectors experiencing difficulty. Mining and commodities trading companies continue to be impacted by the prolonged weakness in commodity prices, and the shipping industry is experiencing weak demand exacerbated by an over-supply of vessels in the market, with a consequential adverse impact on ports. The manufacturing sector, particularly those making electronic products, are struggling to keep up with rapidly changing technology and digital transformation. Bricks and mortar retailers have also suffered as more consumers turn to online shopping.

Although local Chinese firms are facing a more ambiguous global trade atmosphere, recent tension in Sino-US trade relations has made the private sector bullish on the progress of free trade across the Asia Pacific region. In particular, the Belt and Road initiatives have paved the road for greater connection between China and member countries. Other longer term initiatives such as the Greater Bay Area Initiative, which aims to increase connectivity between cities in the Guangdong-Hong Kong-Macau region is expected to enhance mobility and facilitate business.

Reducing overcapacity and deleveraging has been set as a policy priority to address systemic risk as economic growth slows.

Amended insolvency law increases creditors' protection, streamlines winding-up process and strengthens regulation under the winding-up regime

In February 2017, the Hong Kong insolvency law was amended to increase creditors' protection, streamline the winding-up process and strengthen regulation under the winding-up regime. The Hong Kong government is working on introducing a formal corporate rescue regime by implementing the Companies (Corporate Rescue) Bill. The Bill was first revealed in 2001, and has since then undergone many consultations and amendments. In the wake of insolvency law reforms in neighbouring countries, the Bill is back on the agenda for lawmakers who are hoping to remain competitive. The drafting of the Bill is currently in progress with further developments expected in the next twelve to eighteen months.

Ease of doing business ranking	Resolving Insolvency DTF	Resolving Insolvency rank	Recovery rate (cent on the dollar)	Time (years)	Cost (% of estate)	Strength of Insolvency framework Index (0-16)
78	55.82	56	36.9	1.7	22	11.5

Germany

The German economy continues to run at full steam, with modest growth in the first quarter of 2018, and much greater traction by the end of the second quarter.

Trade rhetoric is causing concerns for the future but conditions remain good for Germany's exporters

Uncertainty around US foreign and trade policies, driven primarily by the ongoing rhetoric on trade wars with China, continues to send waves of anxiety across export-focused industries. These concerns might impact future investment decisions but German exporters across sectors are currently enjoying full order books and high levels of production.

While economic growth has lost some pace, it still ranges well above long-term average and continues to send positive signals to the market.

Lenders are becoming more cautious but borrower friendly terms continue - company specific issues to drive restructuring activity

Capital market conditions remain strong, with Germany still perceived as a safe haven in the Eurozone and investors continuing to deploy capital to borrowers with attractive terms. However, recent high-profile events, such as the collapse of German Schuldschein borrower Carillion and the ongoing investigations into the accounting irregularities of Steinhoff, have resulted in a more cautious attitude towards international borrowers.

Increased risk aversion by investors even forced some borrowers to adjust pricing or withdraw new issuances altogether. Nonetheless, for the time being, a strong and solid German economy is keeping any potential effects of these uncertainties at bay.

Major restructuring and insolvency situations continue to be driven primarily by company-specific factors, rather than wider systemic challenges.

Looking ahead, besides geopolitical risks, disruptive trends from new technologies and digitisation remain the main threat to certain sectors, particularly the automotive, retail and consumer goods industries. If these companies fail to transform their respective business models in order to compete more effectively, they could rapidly face the need to restructure or, in the worst cases, insolvency.

Regulatory changes seek to preserve value in insolvencies

From a regulatory standpoint, recently amended regulations for cross-border group insolvencies and the envisaged pre-insolvency restructuring framework will increase value preservation and enhance restructuring solutions for both debtors and creditors. This should enable Germany to maintain its status as an attractive market for distressed opportunities.

20	90.27	4	80.6	1.2	8	15
Ease of doing business ranking	Resolving Insolvency DTF	Resolving Insolvency rank	Recovery rate (cent on the dollar)	Time (years)	Cost (% of estate)	Strength of Insolvency framework Index (0-16)

Ghana

A few key pieces of legislation currently govern restructuring and insolvency activity in Ghana

The regulatory landscape in Ghana is experiencing material developments after the failure of key Ghanaian institutions. The fractured legal backdrop has meant the distress, and in some cases collapse, of several high-profile companies has led to turmoil. This is expected to improve under a proposed new Corporate Insolvency Bill.

Confusion is caused by the fact that the current restructuring environment is based on three separate insolvency laws:

1. Bodies Corporate Act 1963, Act 180

In accordance with Section 7 of the Act, the Registrar of Companies is the Official Liquidator (OL) in Ghana. In addition to two state banks which collapsed 2000, the country's major airline has also been liquidated by the OL.

2. Companies Act 1963, Act 179

A Receiver and Manager may be appointed by a court or out of court subject to Section 241 of Act 179. The inability of one of Ghana's biggest commodity trading companies in 2016 to meet its financial obligations due to the issue of cross securitisation almost crippled the operations of about twenty-six local banks in the country. The combined debt is c.USD 250 million.

3. Banks and Specialised Deposit-Taking Institutions Act, 2016, Act 930

This Act gives the Bank of Ghana the mandate to place an ailing bank into receivership or administration.

The current legislation on insolvency allows a creditor to file for the liquidation of a corporate entity after 21 days of failing to meet liabilities and financial obligations as they fall due.

Although tighter regulation of local banks is needed to create long-term stability, there is appetite for improvement. Pessimists may say this is too little too late, but bodies like the Ghana Association of Restructuring and Insolvency Advisors (GARIA) are trying to effect change by advocating for the speedy passage of the Corporate Insolvency Bill, which is currently sat before Cabinet.

The aim of the bill is to protect companies from entering into premature liquidation and embed a culture of rescue over bankruptcy. The bill is expected to put structure around issues such as cross-border insolvency and set out the duties of insolvency practitioners and the insolvency service among others.

A rocky road ahead

Although the new bill is expected to add stability, short-term challenges are still present. In 2016, nine banks were identified to be undercapitalised after an asset quality review exercise carried out by Bank of Ghana (BoG) revealed that they had a capital adequacy ratio of 4.75. In August 2017, UT Bank Ghana Limited and Capital Bank Ghana Limited went into Receivership after being declared insolvent by BoG, followed by Unibank Ghana Limited in March 2018.

These sorts of insolvencies in the banking sector are symptomatic of the challenges faced by banks throughout the country and across sub-Saharan Africa. Banks do not typically carry out reviews of credits to identify issues until problems have become too pervasive and difficult to mitigate.

120	24.77	158	22.8	1.9	22	4
Ease of doing business ranking	Resolving Insolvency DTF	Resolving Insolvency rank	Recovery rate (cent on the dollar)	Time (years)	Cost (% of estate)	Strength of Insolvency framework Index (0-16)

Greece

Following an eight-year recession (2009-2016), the Greek economy is beginning to show its first signs of recovery, with GDP growth for 2017-2018 and a steady decline in the unemployment rate. We estimate real economic growth in Greece to be 2.0% in 2018 and 2.1% in 2019 [(PwC economic projections - August 2018).]

During the crisis, there was a deterioration in performance across all sectors, particularly capital intensive sectors, where significant amounts of capital expenditure were undertaken during the pre-crisis period.

Greek companies grapple with high leverage, low liquidity and limited access to funding

Construction, real estate (commercial and residential), industrial manufacturing and retail sectors continue to face strong headwinds, spurring a series of financial and operational restructurings as well as consolidation across the market. Overall, companies operating in Greece continue to be plagued by high leverage levels, low liquidity and very limited access to new financing. Over the last 12 months, although the market conditions remain challenging, there seems to be a marked increase in appetite for troubled assets. A secondary market for NPLs has emerged, as Greek banks seek to limit their downside exposure through the disposal of NPL portfolios to international investors.

A stable legal framework combined with stricter targets for banks could spur a new wave of restructurings

The legal framework (e.g. rehabilitation and special administration) remains largely unchanged and has been successfully tested in practice. The execution of a few high-profile restructurings (such as the successful rehabilitation of the largest Greek retailer and a well-established oil storage/retail company) as well as strict targets and deadlines set by the Single Supervisory Mechanism (SSM) for Greek banks, could all pave the way for further restructurings in the near future. The outlook remains relatively positive, as Greek companies continue to focus on securing liquidity, expanding operations and returning to profitability.

67	55.59	57	33.6	3.5	9	12
Ease of doing business ranking	Resolving Insolvency DTF	Resolving Insolvency rank	Recovery rate (cent on the dollar)	Time (years)	Cost (% of estate)	Strength of Insolvency framework Index (0-16)

India

Business leaders are optimistic about the future prospects of the Indian economy. Disciplined and well-governed companies are doing extremely well with earnings at historic highs. The new Insolvency and Bankruptcy Code (IBC) has been warmly welcomed and although certain sectors struggle more than others, the prospect of dealing with distress in a more professionalised and efficient manner is providing confidence to lenders and debtors alike.

Significant currency devaluation versus the USD

The INR has depreciated significantly. It was around Rs 63.38/USD on January 1, 2018 and has fallen today to an all time time low of Rs 70.08/USD. The rupee is down nearly 10% in 2018 and has fallen 2.4% since the beginning of this month.

New Bankruptcy Code streamlines corporate insolvency process, resulting in quicker resolution of stressed businesses

The Insolvency and Bankruptcy Code (IBC), 2016 has been a significant reform in the country as it focuses on quicker resolution of stressed businesses. It is a welcome overhaul of the existing framework dealing with insolvency of corporates, individuals, partnerships and other entities.

Some of the key tools that lenders had been using in the past were Corporate Debt Restructuring (CDR), Strategic Debt Restructuring (SDR) and Scheme for Sustainable Structuring of Stressed Assets (S4A) among others. Each of these mechanisms had its own process of dealing with stressed assets but also had certain drawbacks which made debt resolution a lengthy process. Different processes were regulated by different laws which sometimes conflicted with each other, there was no set timeline for completing the process, and lenders had to work closely with business owners who remain in the control of the business during the resolution process.

Resolution of debt has been one of the key priorities of the Ministry of Finance and Reserve Bank of India (RBI) with focus on following points:

- Building a resilient stressed assets recovery and resolution framework
- Revision of supervisory review framework in the form of risk based supervision
- Increased focus on liquidity risks and counterparty credit risks
- Increased focus on governance, including cyber governance.

The IBC consolidates multiple prior schemes, focuses on time bound resolution and maximisation of value. Cases have to be resolved within 180/270 days, failing which the corporate debtor will have to undergo liquidation. IBC has also been instrumental in consolidating multiple debt resolution and recovery platforms, giving creditors clarity over several details such as the manner of distribution of recovery proceeds.

Following the introduction of IBC, India's position on the World Bank rankings of countries ability to handle insolvency cases improved by 33 places. This jump contributed significantly in India's ease of doing business ranking by 30 places to join the top 100 countries club.

While IBC has provided creditors with a new tool to manage their relationship with debtors, its impact on reducing and avoiding bad debts is as yet untested. However IBC has the potential to be a game changer for the Indian economy. Not only would it help banks release capital that is locked-in on non-performing loans (NPLs), it will also instill credit discipline among bank officials.

High leverage levels and costs of capital, regulatory changes as well as demand-supply imbalances are amongst the key factors resulting in distress

The issue of overleveraging across multiple industries had worsened due to time/cost overruns. Due to the higher cost of funds, Indian Rupee (INR) denominated debt funds can only be serviced through high EBITDA margin industries. Infrastructure projects and commodity-based businesses are low margin, which have been uncompetitive in the face of global competition.

The power sector is especially affected by the frequent changes in the regulatory framework and government policies as they face challenges transitioning from assured return on equity Power Purchase Agreements (PPAs) to competitively bidding for power supply. The de-allocation of captive coal mines retrospectively continues to severely disrupt base project assumption pyramids.

With very limited prior exposure to executing large projects, lenders and developers funded infrastructure projects at unsustainably high debt to equity ratios, increasing the risk of default on such deals. In addition, many large infrastructure projects suffered from time and cost overruns due to delays in land acquisition and obtaining environmental clearances. Slower than anticipated economic growth continues to foster the demand-supply mismatch currently facing the Indian economy.

Certain sectors continue to grapple with unique challenges against the backdrop of slower than expected growth and a transforming regulatory environment

Steel

- Slowing economic growth leads to decline in domestic demand
- Simultaneous on-streaming of significant new capacity worsens demand-supply gap
- Cheap imports from China hit domestic manufacturers
- Regulators impose curbs on key inputs – coal and iron ore – leading to drop in plant utilisation

Power

- Long-term power sale opportunities dry up, leading to overcapacity
- Impact is lower offtake/plant load factors impacting debt serviceability
- Highly capital intensive, with increasing equipment costs
- Lack of fuel supply agreements and unviable tariffs due to increases in the cost of coal
- Distribution companies in poor financial health and are renegotiating PPAs
- Inability of power plants to sell power at cost-based tariffs

Roads and Infrastructure

- Long project gestation periods affect financing, block capital investment
- Delay in land acquisition and environment clearances (~50% of stressed road projects)
- Regulatory price caps for airport and road projects
- Only a few private integrated players who are unable to take on additional projects

Telecoms

- Telcos deploy massive capex to build teledensity – leads to debt of USD 120bn (4x revenue)
- High spectrum bidding and usage fees add further financial burden
- Low Interconnect Usage Charges, compounded by the entry of low-priced Reliance Jio in Sep 2016
- Price wars led to sharp tariff drops across operators, and inability to service debt

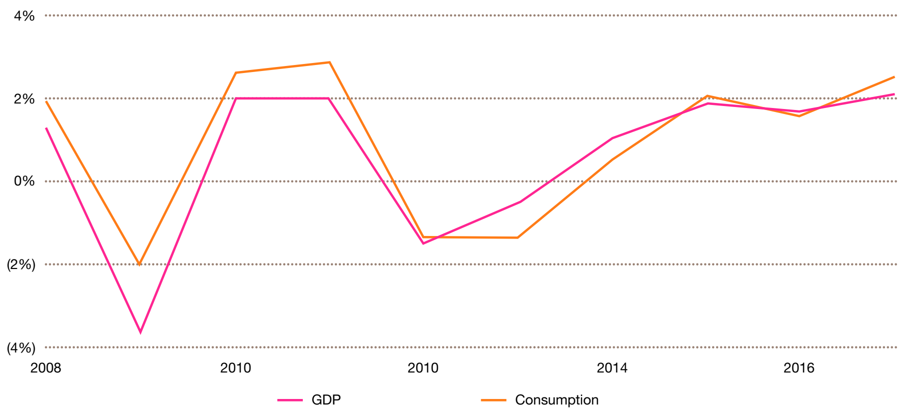
100	40.75	103	26.4	4.3	9	8.5
Ease of doing business ranking	Resolving Insolvency DTF	Resolving Insolvency rank	Recovery rate (cent on the dollar)	Time (years)	Cost (% of estate)	Strength of Insolvency framework Index (0-16)

Italy

The Italian market is facing a number of challenges and is struggling from a 10-year long crisis. Stagnating GDP and consumption coupled with increasing political uncertainty continues to undermine a potential recovery. Companies that have focused on accessing international markets are doing better than domestically focused rivals and are exhibiting signs of a more sustained recovery.

Brexit is not expected to have a significant impact on the Italian economy, whereas tariffs and protectionist policies in the US could warm Italian export, specially in an escalation scenario.

Percentage change (year on year) of GDP and Consumption in Italy – last 9 years



Retail, real estate and construction continue to face the greatest headwinds

The real estate and retail sectors were hit hard by the crisis and are yet to show any significant signs of recovery.

The Italian construction sector went through the perfect storm as the effects of the international real estate financial bubble were magnified by an all-time low spending in infrastructure together with an unprecedented level of outstanding claims. The construction sector continues to struggle, with nearly all the main players entering into refinancing or hard restructuring process. The recovery of the industry, despite signs of recovery from the private sector, is impaired by inadequate level of public spending due to EU deficit limit rules (Stability and Growth Pact) and current government negative attitude to new infrastructures.

The crisis of traditional retail sector is structural, due to e-commerce replacing the physical retail stores. The rise of a new online distribution model is also impacting the logistic players. The shift is irreversible unless effective anti monopoly measures are enacted.

Insolvency Law reform is underway, whilst pressure on banks continues to impact access to funding

An in-depth reform of the insolvency law has been underway for some time and is being developed in conjunction with a number of technical experts. However, this is thought to be on hold and overtaken by political uncertainty.

Insolvency procedures were, until now, leaning towards a Chapter 11-like system. But the recently empowered Italian government has been challenging some of the pillars of the draft reform paper issued by previous administration, leading them to consider a possible full reassessment of the principles of the reform. However, the early stages of revised reform makes it difficult to predict the envisaged direction.

As is the sentiment across the EU, the Italian banking sector is going through a radical reorganisation spurred by regulators. Banks have much less flexibility as they look to deleverage, reduce bad debt provisions and improve cost to income ratios. More comprehensive restructuring solutions are being sought by lenders to address non-performing and unlikely to pay loans, moving away from a reliance on simply amending the terms and extending maturities of loans.

As we have seen over the past few years, credit funds have seized opportunities to bridge the gap being created by traditional lenders, by extending tailored financing packages to stressed and distressed companies.

Ease of doing business ranking	Resolving Insolvency DTF	Resolving Insolvency rank	Recovery rate (cent on the dollar)	Time (years)	Cost (% of estate)	Strength of Insolvency framework Index (0-16)
46	76.97	24	64.6	1.8	22	13.5

Japan

Technological innovation and competition are amongst the greatest challenges facing Japanese companies

Japanese auto parts manufacturers are beginning to see a fall in demand as regulations around sustainability spur technological innovation. As a result, companies that are unable to innovate and adapt accordingly are likely to face strong headwinds in the near future. Retailers that have been unable to reform their business models to meet the changing preferences of a global consumer base are struggling to maintain sales sufficient to achieve operational break even.

Reduced domestic demand is challenging Japanese companies to look for growth elsewhere

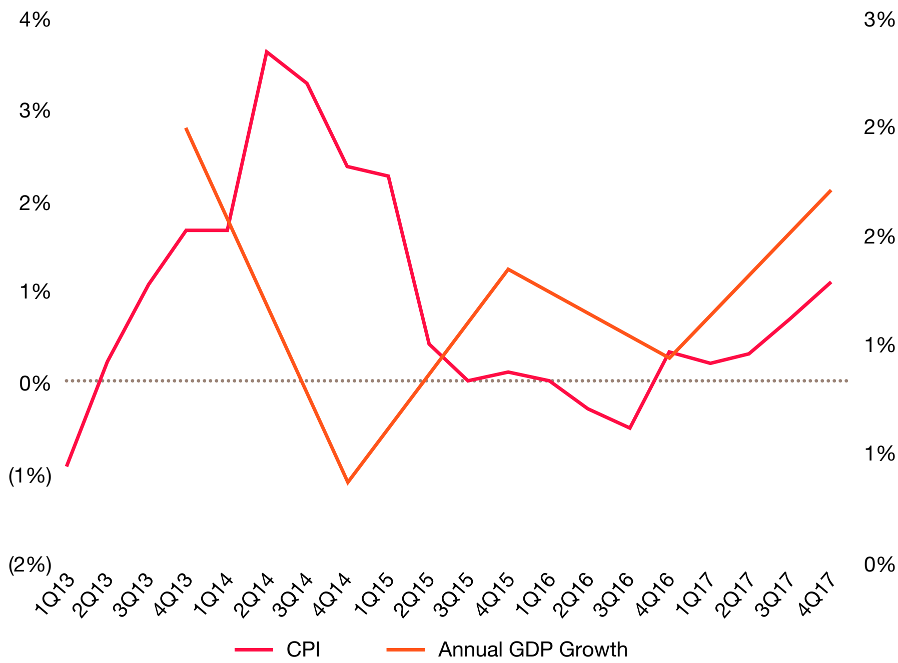
Although Japan has long enjoyed a favourable business environment, domestic demand continues to decline as the working population has shrunk over the past few decades. This has fed a view amongst the business community that Japan could face an adverse credit cycle around 2020, when the Tokyo Olympic Games will be held. The impact of US trade policies and trade tensions with Japan's neighbouring economy China is still unclear.

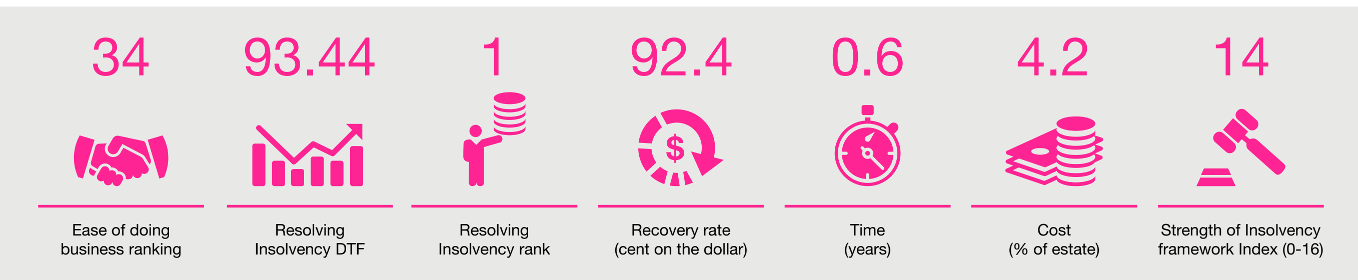
In order to sustain economic growth and inflation, the Bank of Japan has continued to ease monetary policy, which is helping to keep weaker companies afloat.

Based on this backdrop, stronger Japanese firms are planning business activities for the next three years, with some even forecasting over the period through to 2030. In order to generate future growth, many Japanese companies are looking to international markets to differentiate themselves and build more resilient businesses.

More and more companies in Japan are considering options to accelerate growth through M&A, in particular cross-border M&A where they can get a foothold in new, faster growing, markets.

Japan GDP vs Inflation – Last 5 years





Kenya and the East Africa region

The outlook for business in the Kenya and the East Africa region is generally positive due to heavy government expenditure on infrastructure projects across the region, and a steady inflow of foreign direct investments. On the back of this, the robust economic growth experienced by the region in 2017, at 5.9% is forecasted to continue into 2018 and 2019. However, high levels of non-performing debt and government intervention means credit markets are going through a period of market and regulatory driven disruption.

Access to affordable credit continues to be a significant hindrance to the growth of businesses in the region

Access to affordable credit has been one of the biggest challenges for growth for many private businesses in the region. The Kenyan Government introduced a cap on the interest rates chargeable by commercial lenders with the view of improving access to affordable credit. This resulted in a reduction of credit risk appetite amongst commercial lenders and therefore a further decline in credit.

The situation has been exacerbated by the Government's willingness to offer relatively attractive rates for domestic borrowing, thereby crowding out credit for private borrowers. The implementation of IFRS 9 is expected to further reduce the credit risk appetite for commercial lenders, particularly in relation to unsecured loans - this is likely to lock out more private businesses from accessing credit.

A proposal for the repeal of the interest rate capping is currently under consideration. A successful repeal may reverse the slowdown in credit growth, thereby spurring business growth. As a result, going forward, there is a positive outlook on the business landscape.

Real estate, manufacturing and trading sectors are driving record high NPL levels

According to the Central Bank of Kenya, non-performing loans (NPLs) are at an all-time high – reaching 12% of gross loans in April 2018. This increase is largely attributable to increases in NPLs in the real estate, manufacturing and trade sectors.

Commercial lenders expect a decrease in NPL levels due to enhanced recovery measures, ostensibly intended to offset the potential effects of the projected increase in loan provisioning under IFRS 9 on bottom lines. Legal recovery measures will give the market an opportunity to continue testing the relatively new, rescue-based, Insolvency Act of 2015, which borrows heavily from the UK's Insolvency Act of 1986.

New regulation is shaping more proactive and consensual approaches to managing distress within businesses

There is a recent trend for distressed businesses to be more proactive in addressing excess leverage. This is partly attributable to new insolvency legislation in Kenya and similar legislation in the wider region that champions business rescue and early intervention. A key feature of the new laws is the transition away from the traditional receivership model that emphasises the recovery of debts owed to secured creditors at the expense of other stakeholders.

Approaches such as administration and consensual arrangements such as Creditor Voluntary Arrangements (CVAs) and Company Law Schemes of Arrangement (Scheme) seem to have gained traction, given their focus on protecting the interests of a majority of the creditors.

Examples of this trend include Kenya's national airline, Kenya Airways (KQ), which recently completed a successful c.USD 2 billion restructuring of its balance sheet through a number of consensual arrangements with its various creditor and shareholder groups. The restructuring served to ease off financing pressure on KQ allowing its new management to focus on stabilising the business and streamlining operations to return the carrier to profitability.

Another high profile attempt at a consensual arrangement in Kenya is by the hitherto largest regional retail supermarket chain, Nakumatt Holdings Limited (Nakumatt) that is currently in administration.

Similarly, in Uganda, Uganda Telecom Limited (UTL) became the first company in the country to be placed in administration under the Insolvency Act 2011 of Uganda in 2017. The UTL Administrators' proposals were approved by the company's creditors and we understand that the Administrator is in the process of implementing those approved proposals.

In Tanzania, the Bank of Tanzania (BOT) recently issued a circular on "Measures to Increase Credit to Private Sector and Contain Non-performing Loans". This circular aims to tackle the increasing number of non-performing loans (NPLs) and increase private sector credit growth. A key regulatory measure of the circular is granting permission for banks to restructure NPLs up to four times, up from the previous limit of two restructures as set out in the Banking and Financial Institutions (Management of Risk Assets) Regulations 2014.

This is all evidence of a shift by various stakeholders, including regulators, across the region to tackle the challenges of high levels of NPLs through consensual restructuring arrangements. It is hoped that this will lead to a wider acceptance of insolvency law and practice as a recovery and turnaround tool for distressed companies.

80	43.11	95	27.9	4.5	22	9
Ease of doing business ranking	Resolving Insolvency DTF	Resolving Insolvency rank	Recovery rate (cent on the dollar)	Time (years)	Cost (% of estate)	Strength of Insolvency framework Index (0-16)

The Netherlands

Away from the economic uncertainty of Southern Europe, the Dutch economy has been performing well for a number of years. However, like many mature markets, especially in Europe, certain industries are struggling.

There is a distinct feeling amongst the financial and legal professions in the Netherlands that the next crisis is inevitable. Lack of solidarity over the migrant crisis in Europe and the volatility surrounding global trade wars have contributed to this sentiment. The new WHOA regulations (Wet homologatie onderhands akkoord ter voorkoming van faillissement) are a frequent topic for discussion for the restructuring community. Modelled on Chapter 11 in the US and scheme of arrangement in the UK, WHOA allows the restructuring plan to be implemented outside formal insolvency proceedings. The plan can be imposed on dissenting creditors or shareholders – this is explained further below.

The construction, retail, healthcare and automotive sectors are facing major challenges

Construction: Tight margins, driven by overcapacity and rising raw material costs, are impacting the profitability of construction companies.

Retail: Decreasing footfall on the high streets continues to pose challenges for traditional retailers who have failed to invest adequately in digital strategies to create a strong online presence.

Healthcare: The costs of healthcare are rising due to the emergence of more expensive treatments and an ageing population. The government is seeking to manage these costs and avoid increases in budget allocation for healthcare.

Automotive (specifically suppliers): The increasing pressure to transform the value chain is expected to continue to impact the industry as a whole.

Crisis round the corner?

It is widely speculated (among the advisory and legal community) that the next crisis is inevitable. As is the case across all of Europe, this view is driven by extraordinarily borrower friendly deals that are being completed, specifically at high leverage multiples and with a lack of financial covenants.

Instability around the world and specifically in the EU is further adding to the negative sentiment felt in the Netherlands: Italian attitude towards the EU is cooling, global trade tensions are increasing and lack of solidarity over the migrant crisis is causing divisions. Corporates are generally positive in respect of the short term outlook, but less confident about the years ahead.

Regulatory breakthrough with draft new restructuring law

The Dutch legal and financial restructuring community is excited about the development of the Dutch Scheme (WHOA), which has been under development for a number of years. The proposed bill contains elements of both the English law Scheme of Arrangement and the US Chapter 11 proceedings, but also includes some innovative new features.

These new features include marginal court involvement, ability to have a plan sanctioned in less than two months and a cash exit option for 'in-the-money' creditors. In autumn 2017 a revised draft bill was published following a number of consultations with the legal, financial and business communities in the Netherlands.

PwC are playing an active role in these consultations to ensure that the Netherlands will get a state of the art restructuring regime and, perhaps, rival the UK as the "go-to" jurisdiction for complex restructurings. When this act is passed it will, in certain conditions, enable a company to restructure its debts through the incorporation of a plan (subject to court approval) that can be imposed on (selected classes of) dissenting creditors (including counterparties of onerous contacts) and shareholders. It will also be possible to scheme loss-making contracts (employee contracts excluded).

Ease of doing business ranking	Resolving Insolvency DTF	Resolving Insolvency rank	Recovery rate (cent on the dollar)	Time (years)	Cost (% of estate)	Strength of Insolvency framework Index (0-16)
32	84.22	8	89.7	1.1	3.5	11.5

Nigeria

Despite Nigeria's exit from recession in Q3 2017, many corporate borrowers and sectors across the economy are still grappling with meagre growth.

Businesses are finding it challenging to generate sufficient cash flows to service debt, due to tough market conditions and in many cases lack of appropriate planning and execution. Similarly, banks are under significant pressure to restore and improve net interest margins, while ensuring that non-performing loans ("NPL") remain below the threshold set by the Central Bank of Nigeria.

There is a lack of adequate laws governing restructuring and insolvency in Nigeria

The absence of adequate business restructuring laws in Nigeria has led to the increased use of 'informal' arrangements. Informal workouts are based on the principle that banks and underperforming or distressed borrowers work together to resolve financial difficulties that would otherwise have resulted in insolvency.

In some cases restructuring is driven by regulatory influence, especially for entities operating in upstream oil and gas. A number of upstream oil and gas players and manufacturing entities restructured their facilities with local lenders between 2016 and the latter part of 2017. The challenge with informal arrangements is that they are, by their very nature, subject to standstills. Getting creditors to agree delaying their debt collection can be challenging or impossible without a state-enforced structure or empowered mediator.

For larger entities, where the chance of having a consortium of lenders is greater, stalemates caused by going through informal arrangements are naturally more common.

Distressed M&A increasingly replacing per asset firesales

In addition to informal arrangements, a number of receiver-managers and lenders are increasingly considering disposal of businesses through a distressed M&A process, as opposed to selling assets piecemeal. The aim is to maintain the potential of viable businesses and preserve jobs, which is important for ongoing economic recovery.

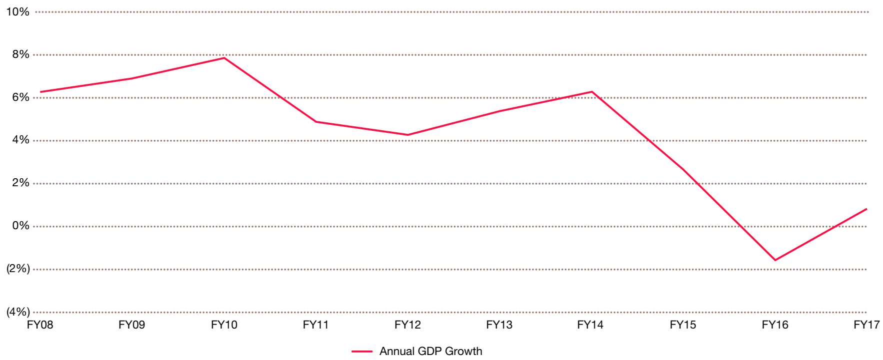
Some key transactions following this route include the ongoing disposal of 9Mobile (a mobile telecommunications company with debts of over c.USD 1.2 billion), two large pharmaceutical manufacturing and distribution companies (combined debt of c.USD 23 million) and the former Intercontinental Hotel with exposure of c.USD 42.2 million. All these entities were taken over by their respective lenders in the last 12 months.

Encouraging secondary trading of bank debt could provide viable exit options for banks with high levels of NPLs

In 2017, the Central Bank of Nigeria circulated a discussion document to regulate and enable private investors to acquire non-performing loan (NPL) portfolios from banks. Aside from creating an NPL portfolio market, there is likely to be more activity in selling or restructuring distressed companies as investors work out the portfolios.

Although there has been an increase in informal restructuring arrangements and distressed M&A transactions, a lot more needs to be done by both corporates and lenders to ensure the survival and value preservation of businesses. Borrowers have to appreciate the financial, legal and strategic issues associated with any debt renegotiation to avoid insolvency. Lenders might continue to view insolvency and fire sale of assets as a last resort as they can achieve more through a distressed M&A process where restructuring fails. Invariably, there could be more effective credit monitoring and adherence to loan covenants to minimise the risk of defaults.

Nigeria Annual GDP Growth – Last 10 years



Ease of doing business ranking	Resolving Insolvency DTF	Resolving Insolvency rank	Recovery rate (cent on the dollar)	Time (years)	Cost (% of estate)	Strength of Insolvency framework Index (0-16)
145	30.6	145	27.8	2	22	5

Singapore

Trade wars and the prolonged downturn in the shipping/offshore sector contribute to challenges currently facing businesses

Most business leaders appear cautiously optimistic about the future, but the outcome and impact of the US-China trade tensions are still uncertain, and constitute a live risk for the Singapore corporates.

Singapore enjoys a high level of trade driven by Chinese economic activity. This is not just direct trade with China but also supplementary goods and services to Chinese internationally traded goods, as well as shipping and other logistics.

The shipping and offshore sectors are also a key driver for the Singapore corporates so as long as both sectors are enduring a prolonged downturn, there continues to be challenges for companies that either operate in these sectors or that service them.

Traditional retailers and ship operators under threat

Traditional retailers continue to experience pressure, particularly those who have been slow to transform their value chains to accommodate online shopping trends. High staff and real estate costs in Singapore have been combined with increasing development of luxury retail in China, Malaysia and Indonesia. As a result, retail tourism has seen a sharp decline as wealthy foreigners no longer look to Singapore for luxury shopping needs.

As mentioned above, the shipping and offshore sectors continue to face challenges. Certain shipping categories have seen some improvement but the global over-supply of vessel capacity means that offshore and marine charter rates are unlikely to recover to pre-downturn levels for the foreseeable future. Those operators and suppliers with high leverage are likely to continue to face pressure if their balance sheets cannot be suitably right-sized.

Revised insolvency laws could see Singapore becoming the restructuring hub for Asia Pacific

The insolvency laws have been radically overhauled in the last two years, with more debtor-friendly options being implemented along with global reach provisions designed to promote a rescue platform.

New provisions were enacted to promote debtor in possession processes including:

- Provisions for a 'pre-pack' under a Singapore Scheme of Arrangement.
- Automatic moratorium (interim 30-day moratorium) upon filing an application for a Singapore Scheme of Arrangement.
- Ability to raise super-priority funding for restructuring via DIP financing.
- Easier access to a Judicial Management process (in some ways similar to a UK Administration process).
- Cram-down provisions across multiple creditor classes.

Under these provisions the regime has sought to become more international. The moratorium can have global reach (akin to a global stay under US Chapter 11), and Singapore has adopted the UNCITRAL model law. Furthermore Singapore jurisdiction can be extended to non-Singapore companies with a 'substantial connection' to Singapore.

With the introduction of these major reforms, Singapore intends to establish itself as a hub for cross-border restructuring in South East Asia. The Singapore markets are paying close attention to the first implementations of these new laws.

Ease of doing business ranking	Resolving Insolvency DTF	Resolving Insolvency rank	Recovery rate (cent on the dollar)	Time (years)	Cost (% of estate)	Strength of Insolvency framework Index (0-16)
2	74.31	27	88.7	0.8	4	8.5

South Africa

South Africa continues to see strong growth in the restructuring and insolvency space, driven both by economic necessity and an increasingly mature and sophisticated workout and restructuring environment.

Lenders, development banks, legal institutions and boards of directors are becoming more aware of the options available through both informal and formal insolvency routes - with a number of successful restructurings and turnarounds being predicated on more consensual and considered approaches.

Increasing use of rescue laws needs to be met with earlier intervention

The increasing focus on business rescue in recent years is driving further clarification of a number of key clauses within the rescue laws in South Africa.

While Chapter 6 business rescue proceedings were never intended to be run by the courts (South Africa has no dedicated rescue or bankruptcy courts), it is inevitable and somewhat encouraging that they are increasingly being used to provide clarification on the interpretation of various clauses within the legislation.

Key principles which have recently been tested as the principles of Chapter 6 continue to be played out include creditors' rights, particularly the concept of a binding offer (or 'cram down') and the concept of an 'inappropriate' vote. In the case of First Rand Bank Limited v KJ Foods CC, the court set aside the vote on a specific rescue plan, and this is an example of judiciary intervention.

Insolvency practitioner regulation continues to be a hotly debated topic in the south, with recent developments to be implemented shortly, including the requirement for practitioners to be governed by certain accredited institutions.

82	57.59	55	34.4	2	18	12.5
Ease of doing business ranking	Resolving Insolvency DTF	Resolving Insolvency rank	Recovery rate (cent on the dollar)	Time (years)	Cost (% of estate)	Strength of Insolvency framework Index (0-16)

South Korea

Manufacturers in South Korea continue to face the greatest headwinds

Korean manufacturing companies are currently facing a number of key challenges, notably higher operating and salary costs, working hour regulations (limited to 52 hours a week) and unfavourable exchange rates. These are having a material impact on the export-driven economy.

The key sectors that are impacted include the automotive, shipbuilding, resorts and steel-related manufacturing.

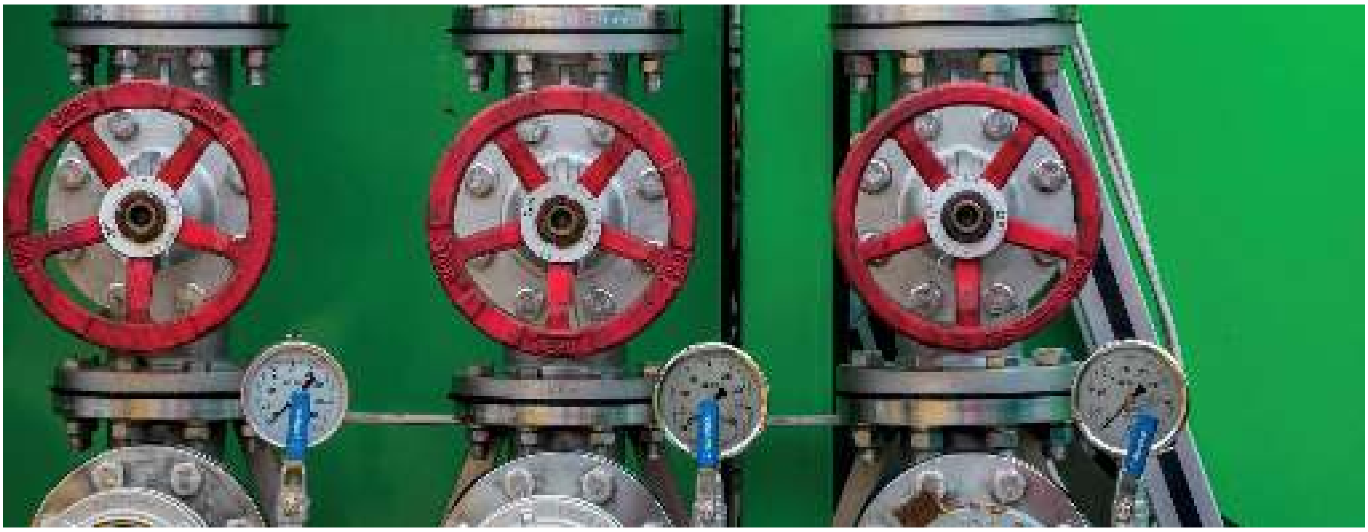
South Korea's auto industry saw a downturn in 2017 as local brands struggled at home and abroad. The United States automaker General Motors Co.(GM) has decided to shut down its manufacturing plant in Gunsan, one of its four factories in Korea, as part of its restructuring measures. Korean local companies also face possible sweeping tariffs from the United States, the largest foreign market of Korea cars.

Korean mid-tier shipbuilders including SPP Shipbuilding Co., Sungdong Shipbuilding & Marine Engineering (Sungdong S&M), STX Offshore & Shipbuilding (STX O&S) are under joint control of creditors and some of them will take steps for merger. The mid-tier shipbuilders have been mired in a prolonged downturn since the 2008 global financial crisis and are undergoing restructuring including entering into voluntary arrangement and court receivership.

Recent regulation around insolvency and restructuring have been well-received by most

There are two main restructuring regulatory programs – The 'Workout Programme' under the corporate restructuring promotion act and the 'Court Receivership Programme', which is under court control.

Recently, the court receivership programme adopted a similar concept to US Chapter 11 in order to facilitate the receivership process, enabling Debtor-in-possession and stalking horse bidding arrangements. These new developments are welcomed by most companies and the courts are very optimistic that it will yield positive results.



4	89.33	5	84.7	1.5	3.5	14
Ease of doing business ranking	Resolving Insolvency DTF	Resolving Insolvency rank	Recovery rate (cent on the dollar)	Time (years)	Cost (% of estate)	Strength of Insolvency framework Index (0-16)

Spain

Corporates are positive about the outlook over the next five years and expect revenue growth in the coming year. PwC estimate real economic growth at 2.8% for 2018 and 2.4% for 2019 [(PwC economic projections – August 2018).] However, a recent slowdown in Spanish growth and lower exports, against a backdrop of rising oil prices and interest rates, is putting shortterm pressure on business in Spain.

Unsustainable leverage levels and limited access to new funding continue to pose challenges

The key challenge of business is limited access to financing from traditional lenders to fund business operations and growth.

The credit markets are continuing to wrestle with excessive amounts of unsustainable debt in the market, whilst Spain is no exception to the trend of highly-leveraged new deals across EMEA, which is adding to, rather than helping to solve the problem.

Spain is facing similar sector specific challenges as seen globally, with the rise in e-commerce impacting traditional retailers and challenges in the commodities and shipping industries.

The real-estate sector is also taking a hit as growth in residential housing development is being met with narrower margins, driven primarily by the entrance of new developers spurring more competition. Furthermore, a lack of sufficient investment in infrastructure has resulted in a particularly challenging environment for EPC (Engineering, Procurement and Construction) companies.

Recent transactions in banking highlight asymmetries in provisioning policies across various lenders, and these lending patterns are believed by some to be nurturing a bubble as far as M&A transaction prices and multiples within certain sectors are concerned.

New accounting laws seek to tighten provisioning of NPLs

New accounting rules that look to tighten bad debt provision policies are set to come into place to force banks to recognise non-performing loans (NPLs) and may impact how easily companies can refinance from a position of distress. The growth in the size of banks' NPL portfolios is leading to pressure for them to address their balance sheets, resulting in a significant rise in secondary debt transactions.

The introduction of IFRS 9 (Financial Instruments) and IFRS 16 (Leases) is likely to have a material impact on current financing covenants and may well spur a wave of refinancings or more comprehensive restructurings.

Ease of doing business ranking	Resolving Insolvency DTF	Resolving Insolvency rank	Recovery rate (cent on the dollar)	Time (years)	Cost (% of estate)	Strength of Insolvency framework Index (0-16)
28	78.74	19	76.6	1.5	11	12

Turkey

Set against the backdrop of political tension and diplomatic chess with the United States, Turkey has been under the microscope for a number of years. Historically, a large proportion of growth in Turkey has been funded through overseas investment, meaning many non-financial companies have debt denominated in hard currency (primarily USD), with over USD 336 billion currently outstanding and a net foreign exchange open position of USD 217 billion.

In a restructuring context, the recently amended bankruptcy code has resulted in a greater balance between debtors and creditors by withdrawing the much-criticised 'postponement of bankruptcy' mechanism.

Foreign exchange, inflation and increasing rates present major risk to

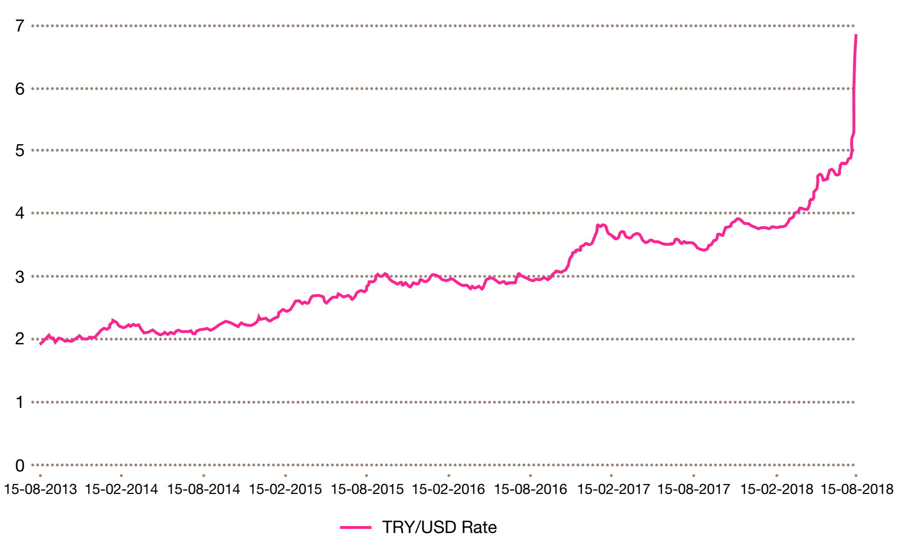
Many corporates in Turkey are set to be hit significantly by rising FX rates, particularly those that are highly-leveraged. Project finance loans in particular are often in foreign currency, meaning they are especially vulnerable to recent dramatic FX rate volatility unless they are protected against fluctuations in foreign currency by government guarantees and FX denominated revenues.

The FX mismatch between debt and revenue may hit companies' ability to raise debt, especially if their revenue streams are not diversified or are restricted to domestic channels. If the economy deteriorates this will only worsen. The energy sector has experienced specific challenges based on FX denominated project finance loans, with increased costs being passed onto consumers.

Inflation has been increasing, hitting the mid-teens in July 2018. This was principally driven by increasing energy costs and the cost of imports, particularly raw materials, electronics and food prices.

Although the Central Bank has been conservative about raising interest rates, benchmark bond yield increased to a record high of 28% in August 2018, rates for mortgages have been increasing due to rising loan to deposit ratios at local banks and a backdrop of increasing rates around the world. This is having an impact on demand in the housing sector, which is under increasing pressure. The main indicator of the cost of insuring Turkish debt, five-year credit default swaps rose above 500 bps in August 2018, the highest levels since October 2008.

TRY/USD Spot Rate – Last 5 years



Reforms, incentives and new regulations aim to stabilise the business environment

Despite the challenges, new initiatives are being put in place to try to stabilise Turkey's macroeconomic picture including independent monetary policies, new investment incentives to substitute imports, allowing banks to reclassify loans in the watchlist to performing more quickly, giving banks more latitude to use a fixed exchange rate to calculate their capital adequacy ratios and facilitating bank acquisitions of shares of their defaulted borrowers.

On 17 August 2018, the Banking Regulatory and Supervisory Agency ("BRSA") introduced Regulation on the Restructuring of Debts in the Financial Sector ("Regulation") in an effort to further facilitate successful financial restructuring. Even at this relatively early stage it is clear that the programme is launched as a very positive step in facilitating the upcoming restructurings in the Turkish banking sector.

The initiative is to allow borrowers breathing space and grant the banks a stable platform to achieve successful restructurings by:

- Extending the term of relevant loans.
- Renewing of the loans of borrowers.
- Extending additional loans to borrowers.
- Writing off receivables relating to principal, interest, default interest, dividend payments or any other receivables arising from the loans.
- Sale, disposal or write-off (full or partial) of debt by way of taking any of the following steps in relation to receivables (relating to principal, interest or dividends):
    - Conversion into equity.
    - Assignment or transfer in exchange for payment in-kind, cash or other receivables (provided conditional on collection of such receivables).
    - Discharge in exchange for assets of the borrower or third parties.
    - Execution of protocols with other banks or creditors.

In addition, new regulation has closed a significant loophole in the restructuring process. The 'postponement of the bankruptcy' system that previously allowed bad faith debtors to threaten creditors with lengthy and uncertain enforcement avenues has been withdrawn. The new regime: Composition with Creditors (konkordato) has been introduced and is an important step in streamlining Turkey's insolvency process.

60	33.26	139	15.3	5	14.5	8
Ease of doing business ranking	Resolving Insolvency DTF	Resolving Insolvency rank	Recovery rate (cent on the dollar)	Time (years)	Cost (% of estate)	Strength of Insolvency framework Index (0-16)

USA

The US is currently in its third-longest period of continued economic expansion since the Great Depression. The record stands at 121 months, which will be broken if economic growth continues through to mid-2019. At the moment, we don't see anything to break this growth cycle, which was echoed by US Federal Reserve Chairman Jerome Powell in his 17 July 2018 testimony to Congress.

Barring the US-China trade tensions, there are few signs of disruption to the current growth momentum

The US great recession was born from the mortgage crisis and widespread, correlated mortgage loan defaults. Right now, there doesn't seem to be any obvious equivalent factor. The federal funds rate has risen steadily since the start of 2016 and although we expect further interest rate rises, rates will remain low by historical standards.

Worsening trade tensions have the potential to derail expansion. US companies with outsourced manufacturing or supply chains based in China are attempting to shift production and materials sourcing to avoid the added costs from tariffs.

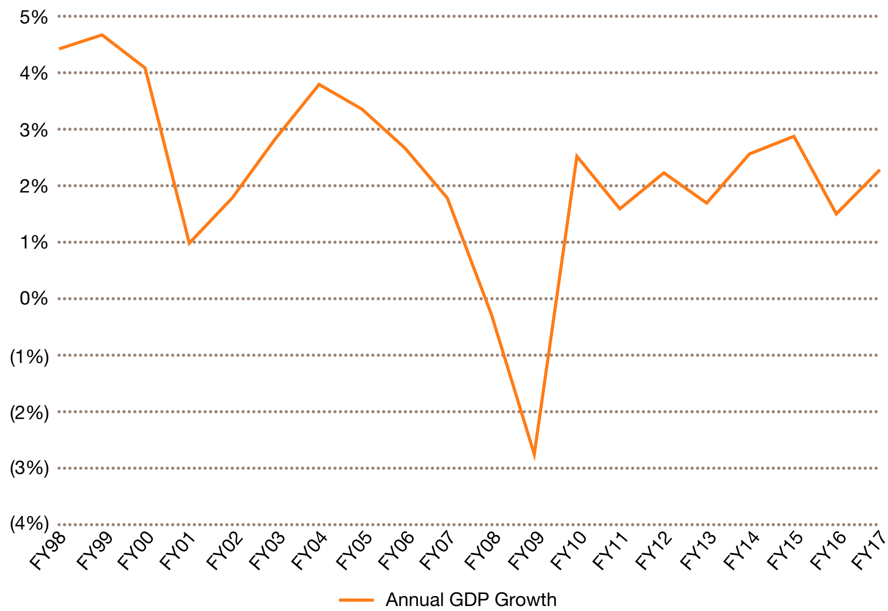
While US importers focus on reducing costs or passing price increases on to customers, exporters are left with fewer options. Retaliatory tariffs by China on US exporters have largely been focused on agricultural and other goods that are produced in politically sensitive regions. As a countermeasure, the Trump administration proposed a USD 12 billion aid package for the US agricultural sector, though the measure appears to lack wider political support.

As the tit-for-tat trade conflict grows, financial markets, in the US at least, have so far managed to weather the escalating rhetoric in the hopes that current posturing between Washington and Beijing will give way to further talks and a negotiated solution.

New entrants with disruptive business models continue to shake up legacy players, particularly in the retail, healthcare and automotive sectors

Notwithstanding the favorable macroeconomic outlook, there will continue to be pockets of stress and distress. The retail industry remains in a state of perpetual flux, as traditional

USA Annual GDP Growth – Last 20 years



6	91.07	3	82.1	1	10	15
Ease of doing business ranking	Resolving Insolvency DTF	Resolving Insolvency rank	Recovery rate (cent on the dollar)	Time (years)	Cost (% of estate)	Strength of Insolvency framework Index (0-16)

retailers battle with emerging business models. The healthcare market is changing, and the focus on patient outcomes could lead to falling profitability for legacy businesses as new entrants seek to disrupt and reform patient care models.

There will continue to be technological disruption that is not isolated to Silicon Valley. Firms are looking to reinvent old business models as the pace of technological change accelerates. These forces have companies looking beyond their own sectors to expand into new businesses or investing to remain relevant in their own. The auto sector is front and center in this dynamic. Whether it's a new generation of electric cars or a fully autonomous vehicle, change is coming with significant impact on the supply chain and servicing businesses.

In a world where money is still cheap by historical standards, it will likely be structural failings rather than cyclical economic issues that drive the US restructuring market in the coming years.

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