



RESOLUTION OF NON-PERFORMING LOANS (NPLs)

1. INTRODUCTION

- 1.1. After acquiring NPLs from banking institutions, ZAMCO would need to put in place strategies to resolve the acquired loans. The resolution of the loans is meant to ensure that ZAMCO recovers the amounts owed by the borrowers.
- 1.2. The first post-acquisition step undertaken by ZAMCO involves a detailed credit review of every NPL to determine the most appropriate recovery strategy.
- 1.3. After completion of the credit reviews, the NPLs will be classified into two categories namely, viable loans and non-viable loans.
- 1.4. The categories to which the acquired loans fall as well as the quality of the underlying assets affects the choices of resolution methods to be adopted by ZAMCO and, influences resolution pace and recovery.

2. RESOLUTION OF NON-VIABLE NPLs

The resolution options that are available for loans considered to be non-viable include the following:

- a) Sale of underlying collateral (foreclosure);
- b) Negotiated settlement; and
- c) Liquidation.

2.1. Sale of foreclosed properties

On failure by a borrower to repay the loan, ZAMCO or its appointed agent may after following due process proceed to sell the property utilizing one or a combination of methods highlighted hereunder to sell the collateral.

2.1.1 Sale by tender

- i) The objective of selling foreclosed property by way of open tender is to establish a clear and transparent process to foreclose on assets at acceptable market-based prices.
- ii) Properties are offered for sale at their respective indicative values based on the latest independent valuations of the properties. A member of the public can obtain from ZAMCO or real estate agents on ZAMCO's panel, key information about properties being tendered and purchase a tender package for the property that he is interested in. Guided by this information, the prospective buyer may submit a bid for the property.
- iii) The tenders will be marketed via a wide range of public media and, through the ZAMCO website and will be spearheaded by the real estate agents on ZAMCO's panel, who actively market the properties and advise bidders on their tenders.
- iv) All submitted bids will be collated transparently by a Tender Committee comprising non-interested parties of the ZAMCO senior management team, in the presence of external or internal auditors.
- v) The winning bids will be approved by the ZAMCO Board or its delegated committee and bidders will be notified in writing of the success (or failure) of their bids.

2.1.2 Sale by private treaty

This method of disposal of real property, involves private negotiations between ZAMCO or its appointed agent and a prospective buyer. Negotiations must be guided by the market value, based on the latest independent professional valuation of the property.

2.1.3 Sale by ZAMCO auction

An auction will be conducted on behalf of ZAMCO by a professional property auctioneer and the underlying asset will be sold to the highest bidder, provided the amount offered exceeds any reserve, i.e. the lowest acceptable price, fixed by ZAMCO. Occasionally, if deemed

prudent by ZAMCO, properties may be offered without a reserve price, in which event the highest bid will be accepted.

2.2 Negotiated settlement or Discounted Pay-off

ZAMCO will negotiate with borrowers and guarantors, to arrive at an agreement for the borrower to pay off the loan in cash, property or other payment forms. ZAMCO will only accept the discounted payoff or negotiated settlement if the amount offered is equal to or above the Net Present Value of Estimated Cash Recovery (NPV ECR) value calculated in terms of ZAMCO's policy on valuation and pricing of NPLs.

2.3 Liquidation

Upon acquisition of loans from banking institutions, ZAMCO will become a creditor in the borrowing companies. As a creditor, ZAMCO will have power to force a company into liquidation where it considers that no other strategies can result in better recovery prospects.

3 RESOLUTION OF VIABLE NPLS

The main mandate of ZAMCO is to resuscitate distressed companies that are otherwise considered viable to ensure that companies do not close needlessly, and save employment. There are two major strategies that will be pursued to resuscitate distressed companies, namely loan/debt restructuring and corporate/operational restructuring.

3.1 Loan/Debt Restructuring

- i) ZAMCO will enter into negotiations with the borrower(s) to redefine the terms of the original contract, a process that may entail some concessions on both the part of ZAMCO and, the borrower.
- ii) Loan restructuring could include downward adjustment of interest rates on loans and/or increasing the loan repayment period;

- iii) In carrying out debt restructurings, ZAMCO can also convert the debtor's debt to equity in the debtor's business, thus giving ZAMCO the rights to influence the restructuring processes of the company.
- iv) Some of the advantages that would be obtained by borrowers from debt restructuring include reduction of finance costs, which releases cashflows to finance operations.

3.2 Corporate/operational Restructuring

Corporate restructuring will involve changing some of the structures of a corporate debtor (e.g. assets, capital, management, costs, organization, business strategy etc.) in order to re-orient the business to achieve success.

4 OTHER STRATEGIES TO RESOLVE VIABLE NPLs

- 4.1 In addition to debt restructuring and corporate restructuring that ZAMCO may undertake, viable NPLs can be sold outright to private AMCs or investors.
- 4.2 ZAMCO shall ensure that at all times the disposal of NPLs to investors is conducted:
 - a) in accordance with an asset management plan prepared and approved by the ZAMCO board for each class of managed NPLs;
 - b) at arm's length and in a commercially reasonable manner;
 - c) in a transparent manner; and
 - d) in a manner that ensures the realisation of the long term economic value of such NPLs.
- 4.3 The NPLs will be sold on a non-recourse basis where all risks of the NPLs are to be transferred to the buyers and the AMCs or investors will be expected to manage the NPLs in accordance with their own policies.
- 4.4 ZAMCO or its appointed agent utilizes a variety of methods to conduct sales of individual or, portfolios of NPLs. The disposal methods are highlighted hereunder:-

4.4.1 Competitive Bidding/Tender...

Request for Bid (RFB)

Selling through competitive bidding begins with ZAMCO sending a request for bids (RFBs) by posting the request on the ZAMCO website and/or advertised through public media. In addition the RFB document, which outlines details of the sale and bid timelines, will be sent to AMCs, investment advisors and private investors.

Selection of Bids...

The submitted expressions of interest (EOIs) will go through a pre-selection process through a tender process. From the indicative bids a short list of preferred bidders is selected who will be invited to undertake detailed review of NPL loan data upon signing a confidentiality or non-disclosure agreement.

Confidentiality Documentation...

After the pre-selection process, short listed asset managers/investment advisors/investors will sign Confidentiality/Non-disclosure Agreements with ZAMCO prior to any substantive discussions regarding the NPLs and prior to the asset managers/investment advisors' review of any of the loan files.

Due Diligence

After signing the confidentiality agreement the successful asset managers/investors will be allowed access to the data room to enable them to undertake a due diligence of the NPLs including valuations of the underlying security/collateral.

To facilitate this process ZAMCO will make its own due diligence and appraisals/valuation reports used in the acquisition of NPLs freely available to qualifying bidders.

Purchase and Sale Agreement (PSA)

If the bid is accepted by ZAMCO, an NPL Loan Purchase and Sale Agreement (PSA) will be signed between the two parties. The PSA will incorporate a Deed of Assignment envisaging an unconditional and irrevocable sale of assets.

Payment and Transfer of NPLs...

Upon payment for the NPLs by the asset managers/investors, the NPLs will be transferred from the books of ZAMCO to the AMCs/Investment Advisors and ultimately to the investors.

4.4.2 Auction Sale

ZAMCO can also dispose NPLs through auctions sales that are conducted in a public and transparent fashion. The auction should meet the following criteria:

- a) Widely advertised: Auctions will be advertised well in advance in newspapers and media of general circulation and, on the ZAMCO website. Any qualification criteria will be fully explained;
- b) Freely Accessible: All potential bidders who meet the qualification criteria will be allowed to attempt to qualify;
- c) Publicly Visible: Auctions are publicly held, with sealed bids opened in a public location. Bids can be immediately posted or posted shortly after closing of sales; and
- d) Competitive: ZAMCO will conduct outreach programs to ensure as many players as possible participate.

4.4.3 Private Sale

This method entails ZAMCO or its appointed agent identifying potential investors for bilateral deals as well as targeting specialist investors for specific sub-portfolios/tranches of NPLs. The offer is sent to at least three targets in order to obtain a true market value. A private sale can also be initiated by investors or AMCs who may approach ZAMCO requesting or bidding to buy certain types of NPLs held by ZAMCO