Banking Reform in China

Non-Performing Loans Control and Disposal

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Progress of China Bank Reform in Recent Year

* Recapitalization of four state bank by RMB 270 billion
* Restructuring of PBOC
* Strengthening banking supervision by adopting International loan classification
* Emphasis on risk management
* Formation of Asset Management Corp.(AMC) to working out Non-Performing Load(NPL)
Problems of China State Banks

* High level of NPL
* Weak capital levels
* Low profitability and operating efficiencies
* Weak loan loss reserve levels
* Inadequate regulatory supervision
Reasons for NPL of State Bank

* "Policy Lending" under planned economy and transitional period
* Negative impact of overheating growth in early nineties
* Poor performing of state enterprises
* Weak bank prudential norm
* Inadequately-Developed legal and accounting infrastructure
* Weak supervisory system
Key Information of AMCs

* Set up four Asset Management Corporations in 1999
* State owed Non-banking financial Institution
* From five state banks purchased non-performing loan
  1.4 trillion RMB at book value
* Objective: Maximizing Recovery
* RMB 10 Billion registered capital from Ministry of Finance to each AMC
## NPL Allocation in AMCs

<table>
<thead>
<tr>
<th>AMC</th>
<th>NPL from</th>
<th>Amount (RMB)</th>
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<tbody>
<tr>
<td>CINDA</td>
<td>State Development Bank &amp; China Construction Bank</td>
<td>394.4 Billion</td>
</tr>
<tr>
<td>HUARONG</td>
<td>China Industrial &amp; Commercial Bank</td>
<td>407.7 Billion</td>
</tr>
<tr>
<td>GREAT WALL</td>
<td>Agricultural Bank of China</td>
<td>345.8 Billion</td>
</tr>
<tr>
<td>ORIENTAL</td>
<td>Bank of China</td>
<td>267.4 Billion</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>1415.3 Billion</td>
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</tbody>
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### Characteristics of NPL

- **Majority of debtors are state-owned enterprises**
- **Most of NPL are unsecured**
- **NPL Breakdown by sectors**
  - Industry: 47%
  - Real Estate: 16%
  - Foreign Trade: 7%
  - Agriculture: 8%
  - Commerce: 7%
  - Others: 15%
- **Unbalanced NPL Geographical allocation**
Disposal Methods

* Debt collection
* Debt - Equity swap
* Enterprises restructuring
* Portfolio sales
* Auction
* Joint venture
* Assets backed securitisation
* Leasing
* Contract-out
Principles of NPL Disposal

* Final Say by Market
* Open, Fair and Transparent process
* Quick action before too late
* Important role of Intermediation
* Strengthening supervision and reducing moral hazard problem
Supporting Policies

* Regulation on Asset Management Corporations
* Regulation on attracting foreign investors to non-Performing loan disposal
* AMCs are exempted from following taxes and fees: VAT, Business tax, Real estate tax, Stamp tax, Land registration fee and so on
Progress in the Past Three Years

* Debt-equity swap with 580 SOEs involves total book value 400 billion yuan
* Worked out NPL 185 billion yuan, assets recovery ratio 40.6%, and in which cash recovery ratio about 20%
* Set up transparent and effective NPL disposal procedures, sound internal management and supervisory system
Faced Challenges

* Underdeveloped capital market
* Weak legal framework and enforcement
* Lay-off concerns
* Effectiveness of administration
* Limited NPL disposition experience
* Weak Creditability Culture
Conclusion

* Working out NPL is a critical and necessary step for banking reform in China despite tough challenges ahead.

* AMC only part of story, Deepening overall banking reform and preventing new NPL are most important.

* Control and Dispose NPL, Improve Banking Prudential norms, and Supervision, SOE and Social Security System Reform should go hand in hand.
Thank You & Welcome Qs
Dr. Wang Haijun