

Banking Reform in China
Non-Performing Loans Control and Disposal

By

Wang Haijun

Executive Director

Investment Banking Department

China Cinda Asset Management Corporation

Honolulu , Aug. 12-13, 2002



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 owned 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

AMC	NPL from	Amount (RMB)
CINDA	State Development Bank & China Construction Bank	394.4 Billion
HUARONG	China Industrial & Commercial Bank	407.7 Billion
GREAT WALL	Agricultural Bank of China	345.8 Billion
ORIENTAL	Bank of China	267.4 Billion
TOTAL		1415.3 Billion



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
- * AMC's 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 recoveratio 40.6 % , and in which cash recoveratio 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

Executive Director of Investment banking Dept. China Cinda Asset Management Corporation. Before joining Cinda AMC, he served as Deputy director general of International Business Dept. China Construction Bank and Deputy director general of Macro-Economic Reform Dept. State Commission for Restructuring Economic System. Dr.Wang graduated from Peking University and received his Ph.D in Economics from China Social Science Academy.