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MAXIMISING VALUE OF NON- PERFORMING ASSETS

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AMCs in China

by

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Ladies and Gentlemen:

Good morning!

I'm very glad to be here, this beautiful city, with you—everyone, to discuss the NPL issue. This is my first time to visit Korea. I got deeply impression on Seoul and its hospitality. Today, I would like to give you a general picture about the NPL resolution in China, and to discuss the practices and issues in this field.

First, the AMC in China

In 1999, China established four state-owned asset management corporations, so called Cinda, Huarong, Orient and us---Great Wall. The four AMC totally purchased 1400 billion Yuan RMB (about USD1700 billion) of NPL from four state-owned commercial banks. As a result, the NPL in financial statement of those commercial banks decreased 10% of the rate; we have done the transaction of the debt to equity swap for more than 400 state-owned enterprises, which made those enterprises' business getting significantly improved; for four years, we disposed about 450 billion Yuan of the NPL in book value, the cash recover rate reached to 15-20% roughly. The main measures we have taken include the creditor's right restructuring, transferring, lawsuit and resuming the solvency.

Second, our practice

1. To set up a NPL management system to meet the Chinese characteristics, including how to evaluate the NPL; how to find out the buyers, how to negotiation; how to make the policy; which kinds of the working links we have to pass when we deal with a NPL; what's kind of documents need to work out.
2. To sale the creditor's right in public auction. The NPL we purchased are mostly (over 90%) creditor's right. Those assets (enterprises of creditor's right) have complicated situation , which make the disposition more difficult. We have no both time and labor to do the investigation one by one. A feasible way is to recommend those assets to the market, by means of the public auction, to get the maximum of the value.
3. To choose the potential enterprises as the assets restructuring. In doing this, we have many cases. For example, we are successful to do the portfolio for a chemical industrial pant in Chongqing, a papermaking factory in Hubei, and a sugar processing factory om guangxi respectively, which got recognized by the financial sector in China.
4. To wholesale distribute the small size of the assets to the local government or financial institutions. The size of the assets we purchased are relatively small and the clients are widely disperse. The China Great Wall AMC took over about 2 million enterprises/natural debtors, totally about 4 million contracts, averagely \$20,000 US Dollar for each debtor, and \$10,000 US Dollar for each contract. Basis on such condition, the wholesale is obviously the best choice.
5. To product a group of expertise in NPL business. There are totally 11,000 employees in four Chinese AMC, in which, most are excellent professionals; some are skilled in NPL assessment; some are good at negotiation; some are familiar to the auction, some are knowledgeable on leasing; some are the expert in legal affairs, and others are ones in restructuring. That is a huge valuable fortune. The investment business needs those talented people if the AMC explores its

new scope of the business, same as to the foreign investors if they want to tap the Chinese market. By contrast, it would be impossible for the Chinese state-owned commercial banks to create such kind of the talents.

Third, main issues

1. The legislation in China is not fully matching the real. There are no laws especially for AMC. There are still the barriers in investigating the debtors' status and recovering the property right.
2. To purchase the NPL in the price of the book value was a non-market way that impacted on the whole society's credit as well as the assets' recovering value.
3. The business function of the AMC needs to be improved, in particular the authorized right to increase the investment in some potential reproduced enterprises.
4. The efficiency couldn't be optimistic.

Fourth, the future of the AMC

Recently, the central government and the banking supervision authorities are study the operational mechanism of the financial AMC and the policy of the development. The direction of the AMC's development has been further recognized. The government will give the policy to guide the AMC to expand the business to evenly transfer to commercialization. In the expecting future, the Chinese AMC will develop to be a comprehensive AMC focusing on the NPL resolution as a main business, meanwhile, with the function of the assets management and the investment bank.

The scope of the business for AMC will be expanded to the following aspects: firstly, the AMC will be authorized the right to investment to be allowed to use the capital invest in some NPL that have the potential value increasing; secondly, to follow the market rules to purchase and dispose the NPL of the banks and other financial institutions, and to commercially do the business in assets delegated disposition; thirdly, to develop the investment bank's business such as enterprises' listing underwriting, financial advice, etc. to explore the NPL securitization; fourthly, to join the inter-bank market to do the business of the securities repurchasing.

The development of the Chinese financial AMC in commercialization provides a bright prospect for international cooperation in NPL resolution and assets management. One hand, China needs to absorb the international advanced management mechanism and operational methods. On the other hand, China's experiences in practice explored are also important reference for other countries. Both developed and developing countries need a broader dimension of the cooperation in business, technology and personnel exchange, further to develop a all-round cooperation in capital, employees, management and information.

Thank you!