

NON-PERFORMING ASSETS IN CHINA: WHAT NEXT?

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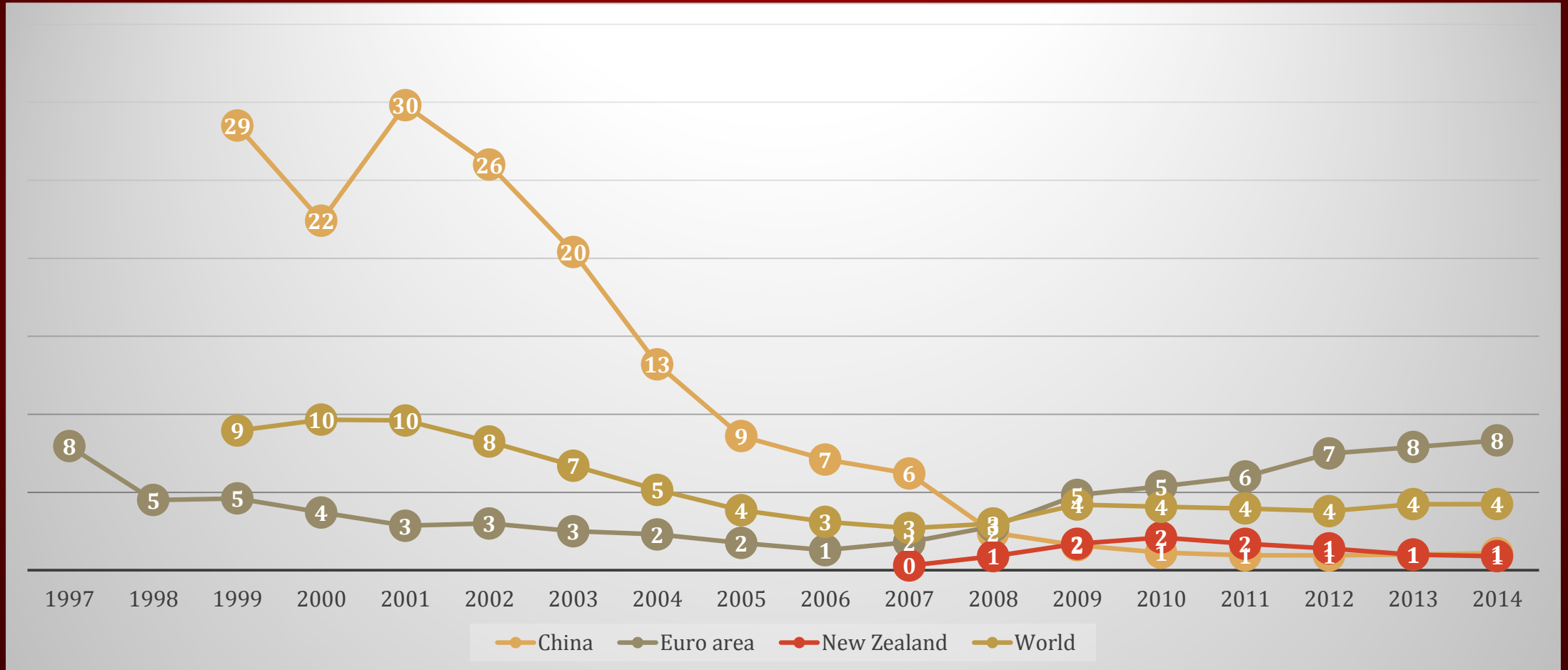
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CHINA BANKS: KEY PERFORMANCE METRICS (2014)

	State	Joint stock	City	Rural	Foreign
NPL ratio	1.23	1.12	1.16	1.87	0.81
Provisional coverage	233	218	249	237	232
ROA	1.41	1.21	1.24	1.51	0.96
Total CAR	14.1	11.2	12.2	13.8	17.1

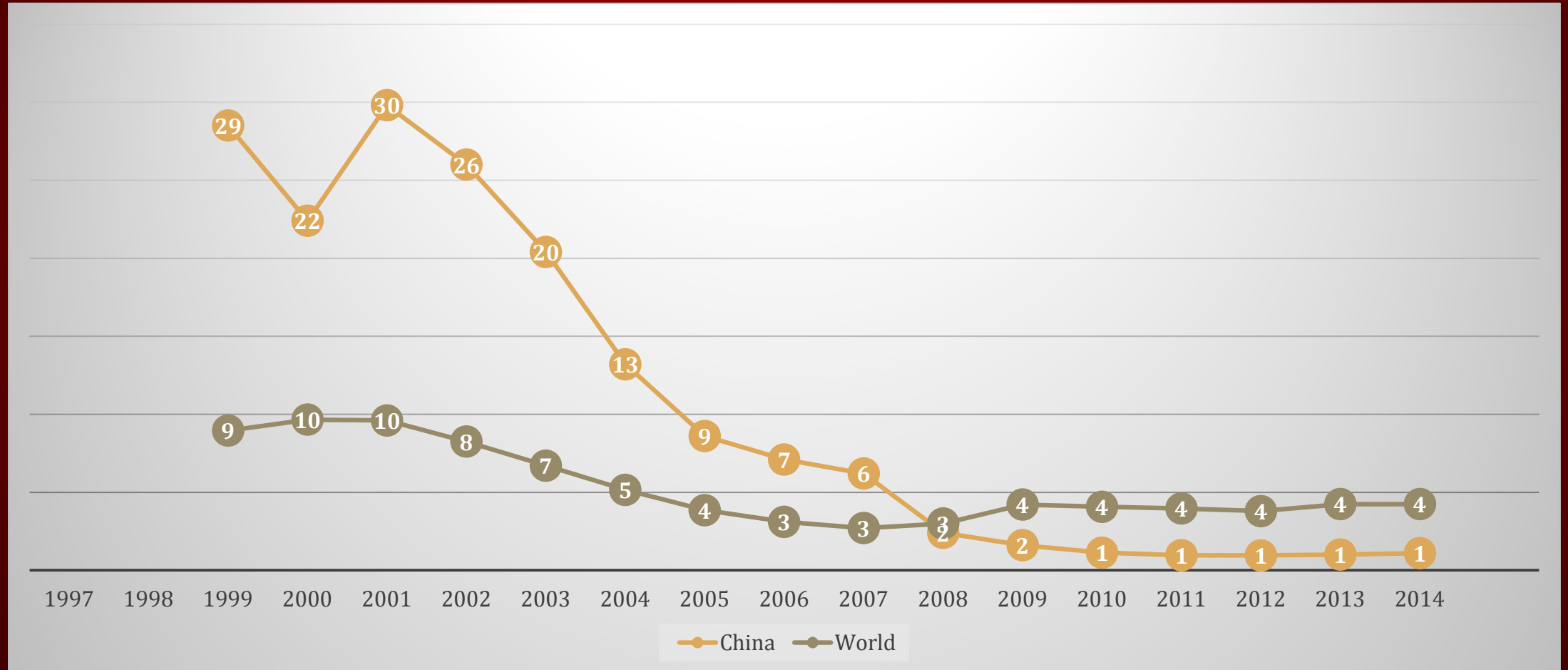
Source: CBRC

BANK NONPERFORMING LOANS TO TOTAL GROSS LOANS (%)—COMPARISON

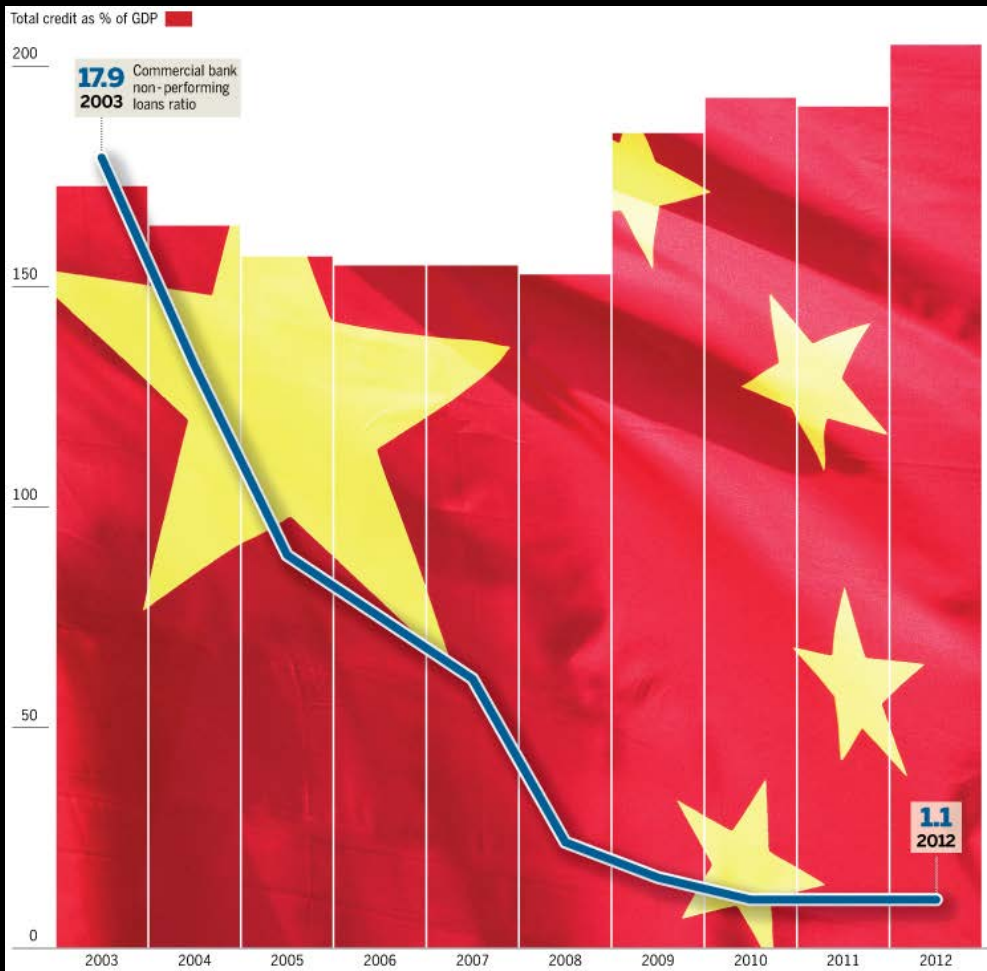


Source: World Bank

BANK NONPERFORMING LOANS TO TOTAL GROSS LOANS (%)—A CLOSE-UP SHOT OF CHINA



Source: World Bank



RISING CREDIT YET FALLING BAD LOANS

The big four state-owned banks account for 65% of the entire banking sector

High NPLs: policy lending and lax controls

Major reforms enacted in 1998:

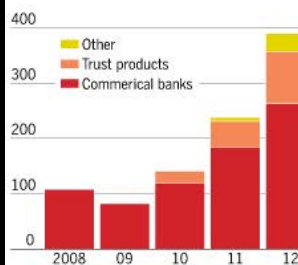
RMB 270 billion (\$33bn) government bonds to boost big four's capital base

Central bank structure modeled on the Fed

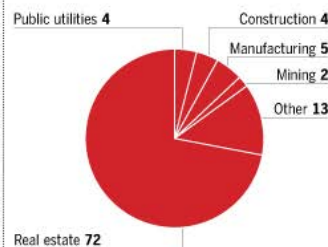
Credit quota and allocation plan abolished

Chinese loans

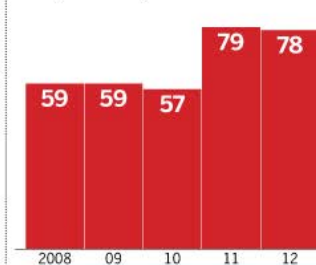
Non-performing assets (Rmb bn)



Non-performing assets by type, 2012 (%)

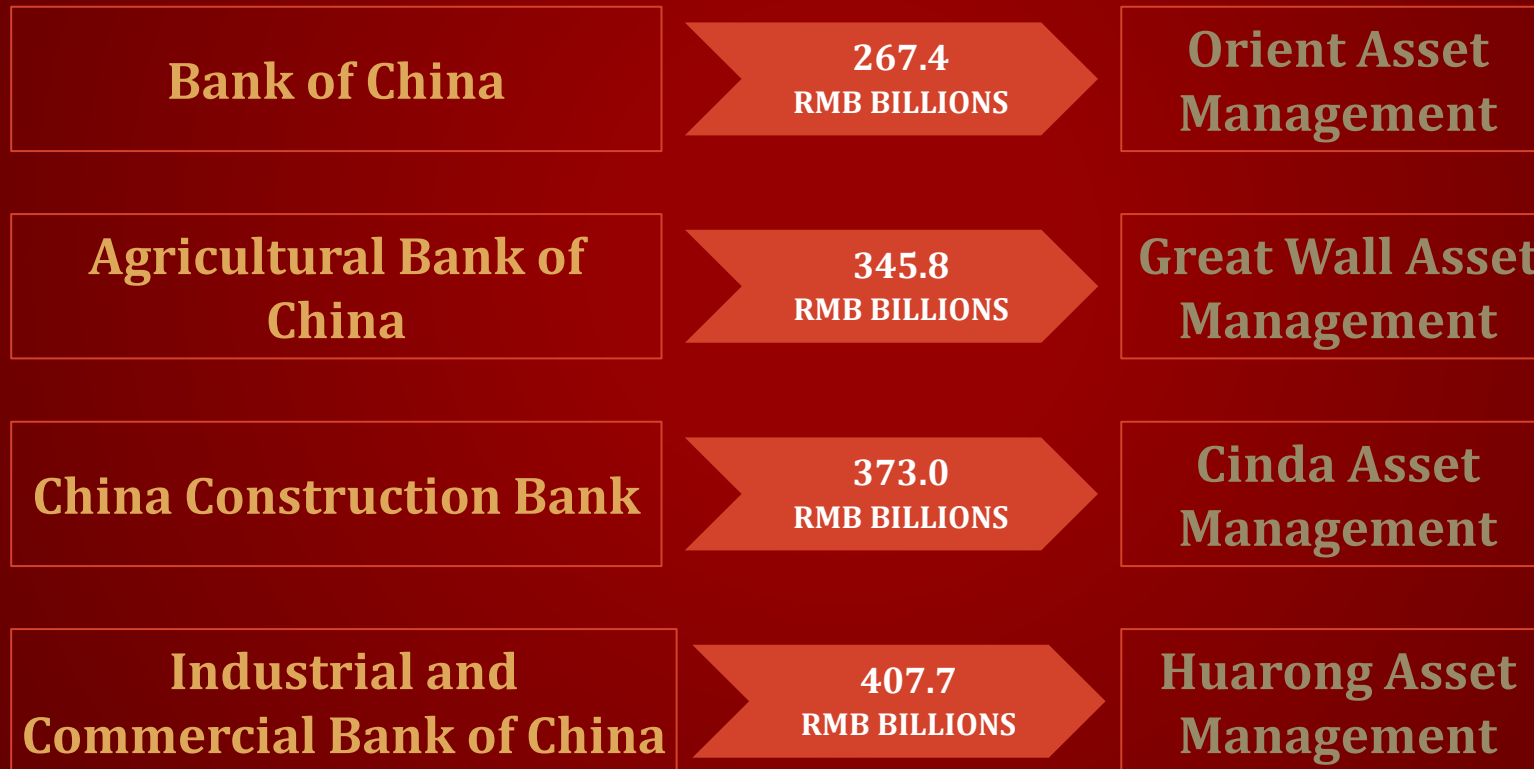


Asset management companies' non-performing assets (as % of total)



ASSET MANAGEMENT COMPANY

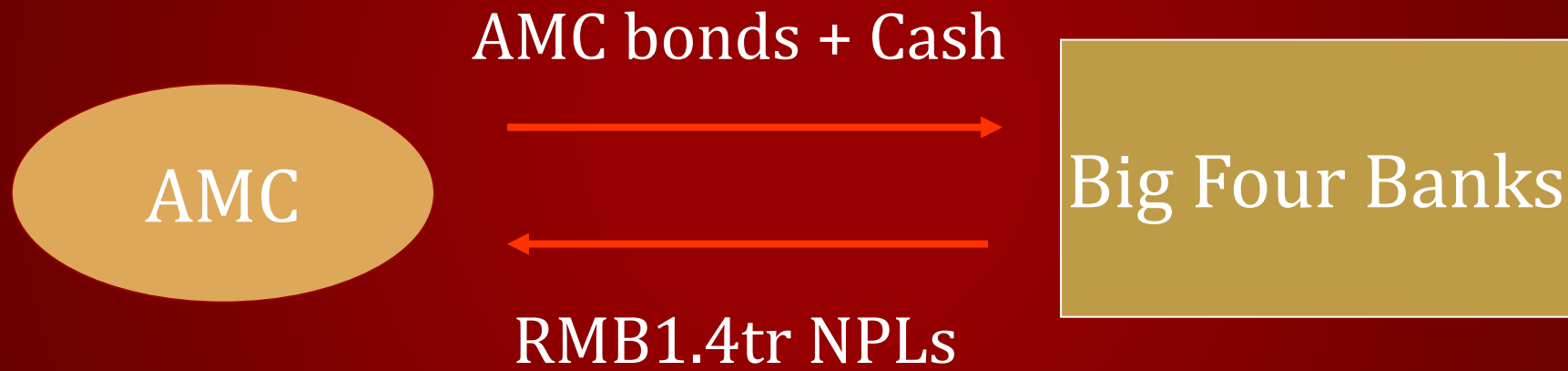
UNCOVER THE REALITY OF CHINA'S NPLS CONDITION BEHIND THE DECLINE



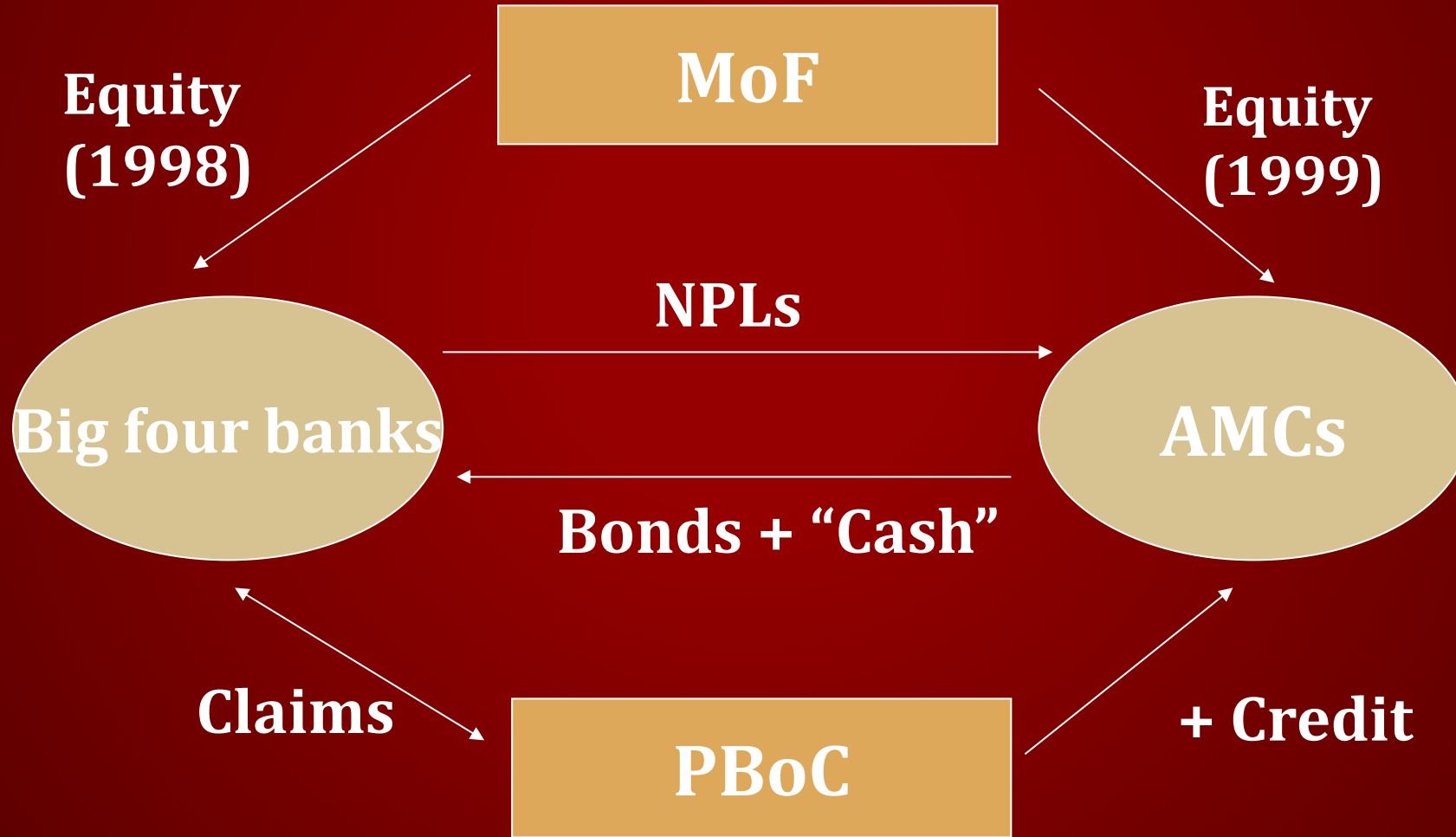
STEP 1: SETTING UP THE AMC



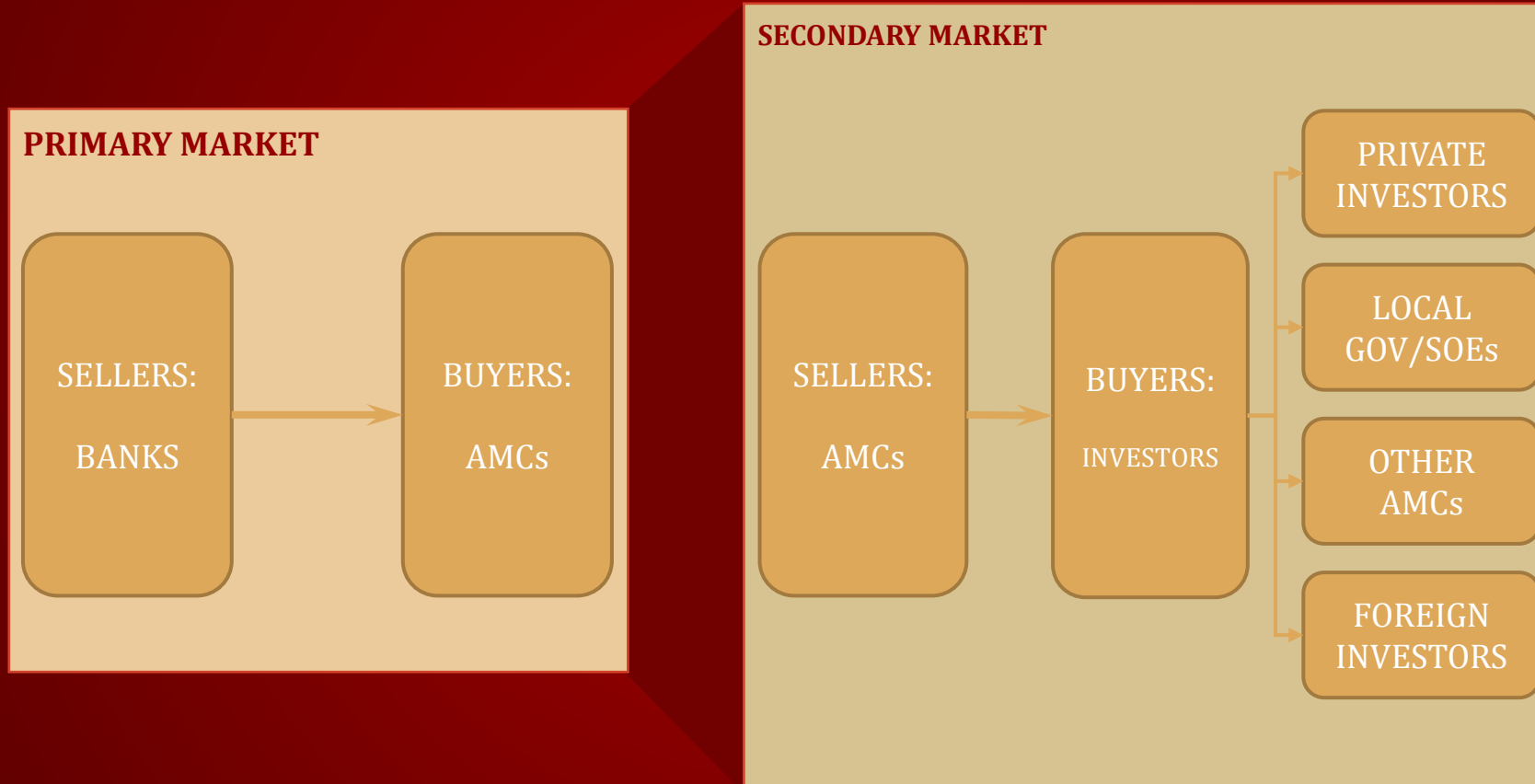
STEP 2: AMC BOND & NPL TRANSFER



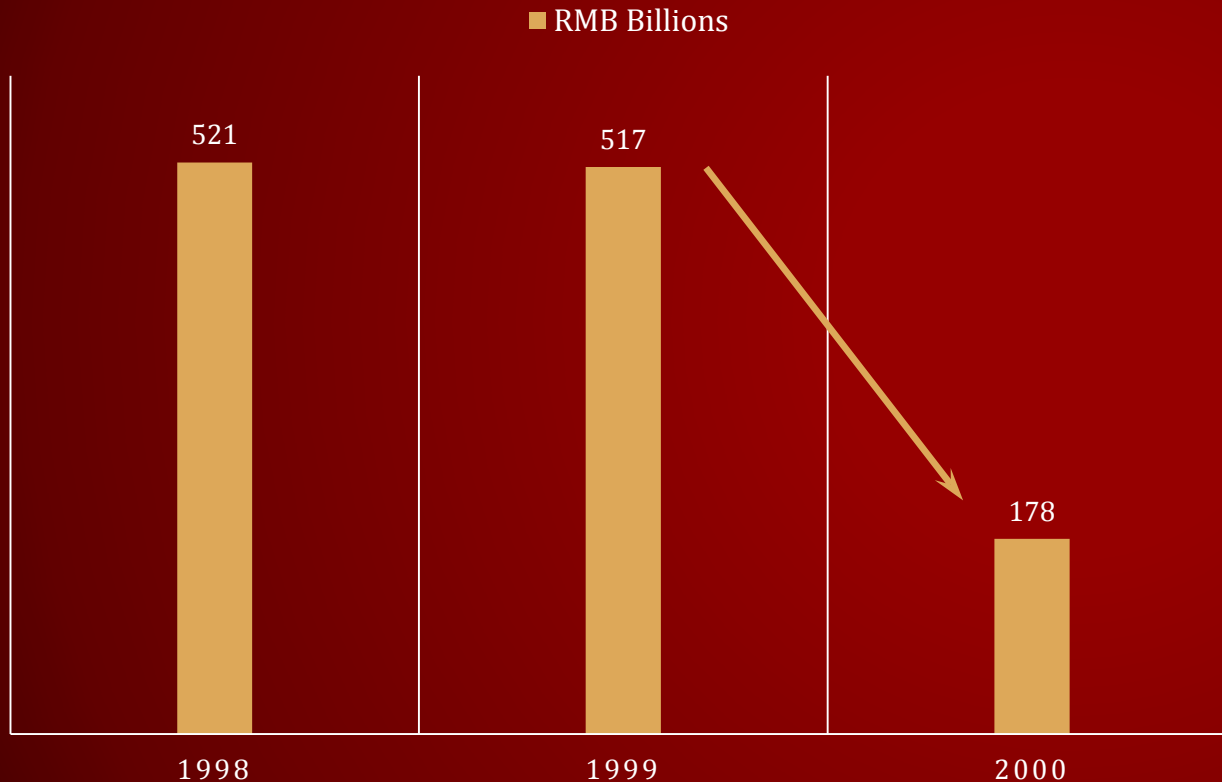
THE AMC STRUCTURE



CHINA'S NPL MARKET: KEY PLAYERS



THE 'BIG FOUR' LIABILITY

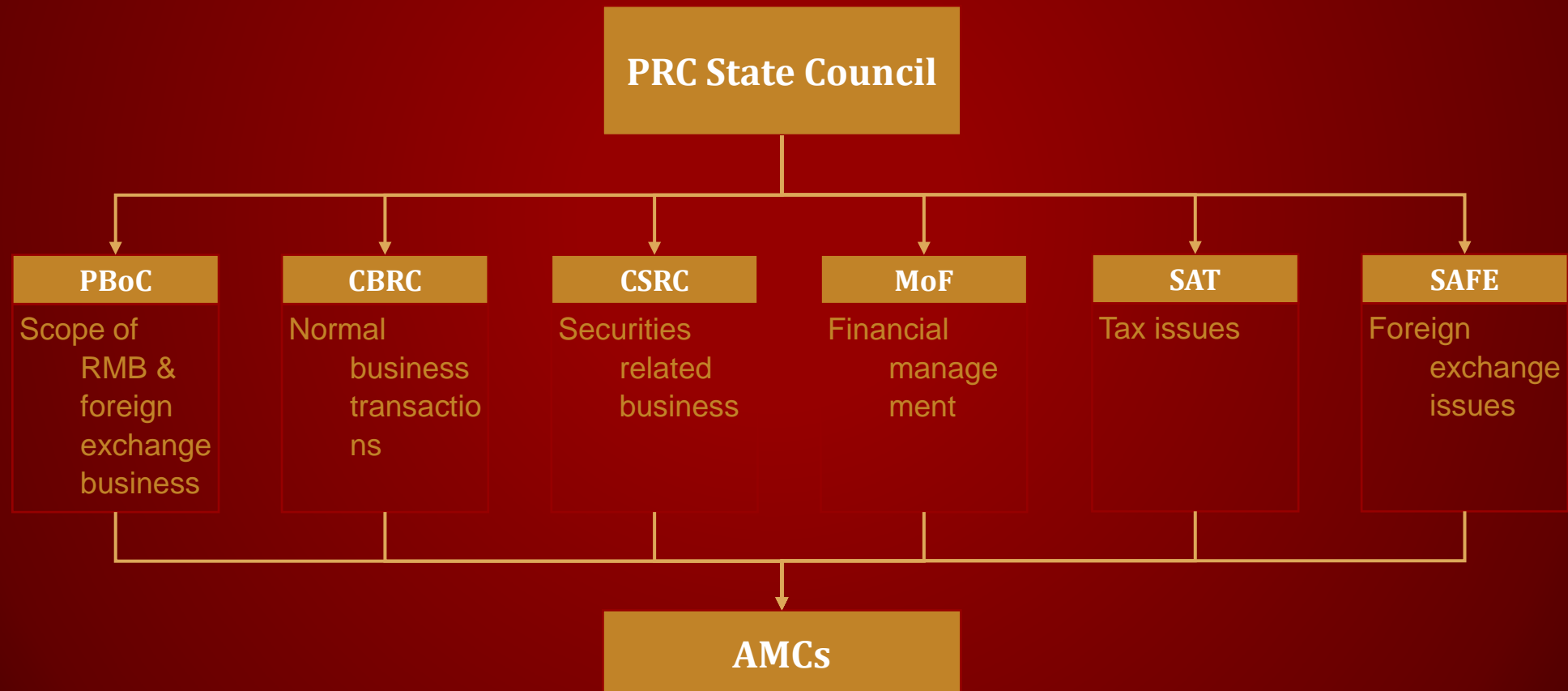


- Four AMCs pair up with the big four banks
- RMB10bn (\$1.2bn) MoF equity for each AMC
- RMB1.4trillion (\$169bn) NPLs transferred
- They represent less than half of the total NPLs at the big four banks

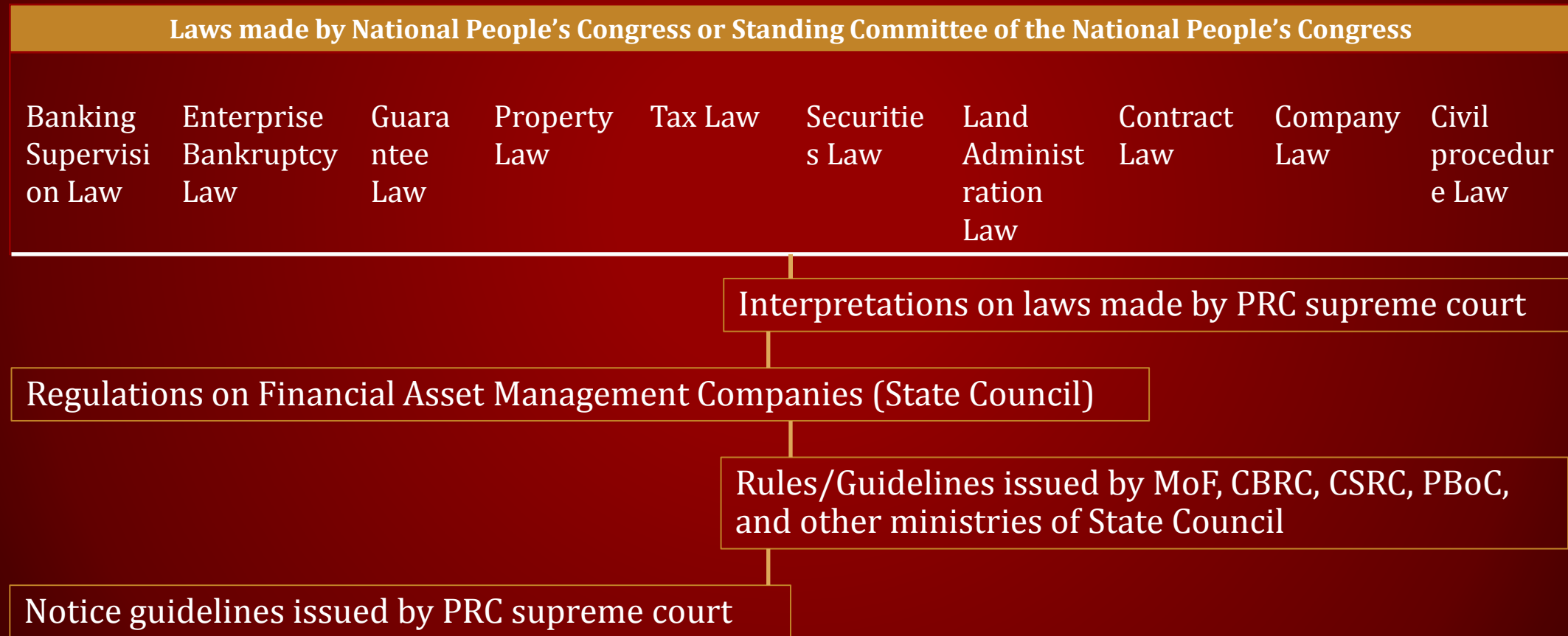
AMC FINANCIAL SUSTAINABILITY

- Annual interest payment obligations of the AMCs exceed RMB30bn
- Cash recoveries have fallen far behind their accrued interest payment already
- Some of the AMCs may not survive in cash flow terms for more than two years
- A call for additional MoF equity injection or PBoC credit to AMC before long?

CHINA'S SUPERVISORY STRUCTURE OF AMC

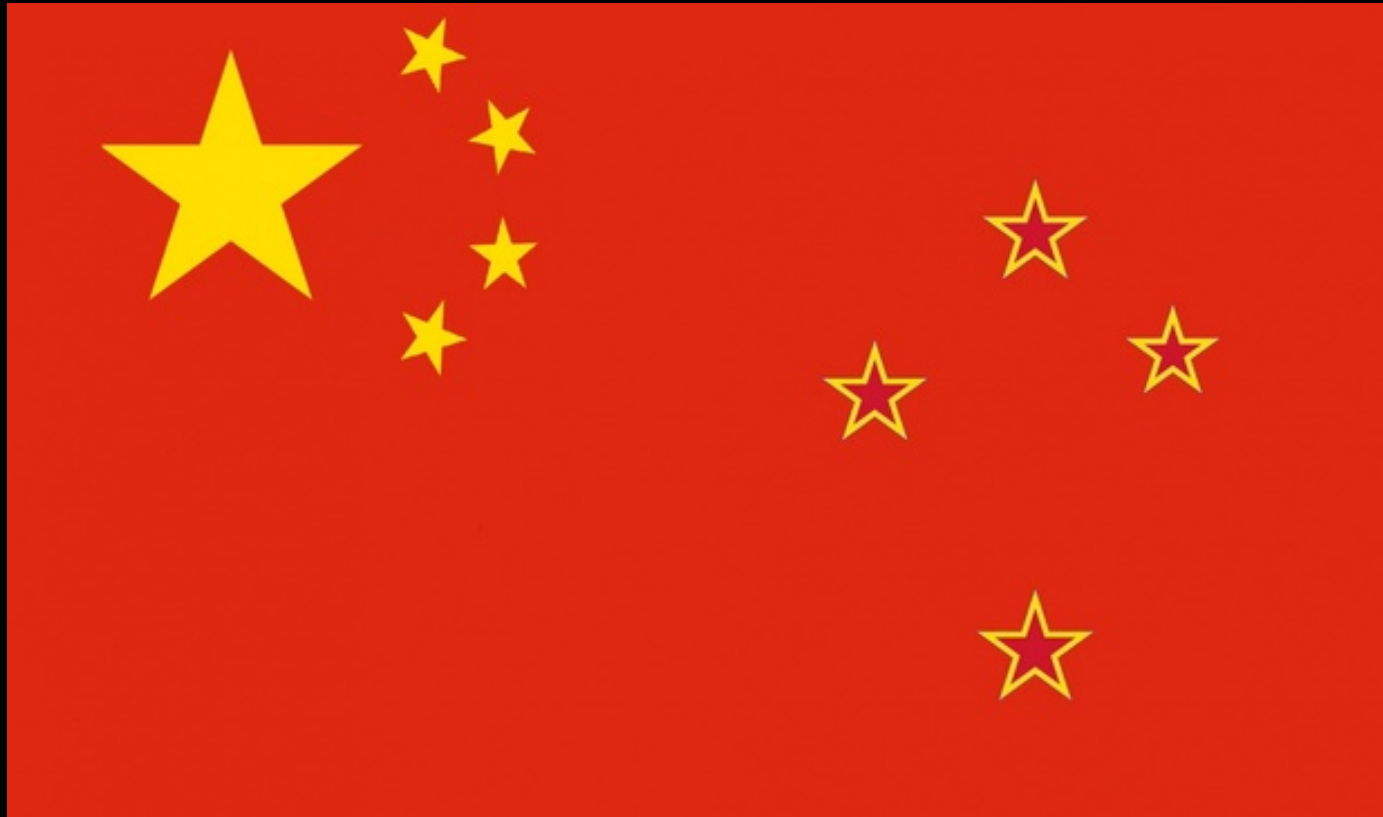


HIERARCHY OF THE LEGAL STRUCTURE FOR CHINA'S AMC



PROBLEMS OF THE CURRENT LEGAL REGIME REFLECTED BY THE UNSATISFACTORY PERFORMANCE

- Political influence over banks' practice
- Moral hazard created by an impractical bankruptcy regime
- Problems caused by the diversified supervisory mechanism
- Obstacles created by lack of a unified and consistent legal frameworks
- Burdens imposed by lack of an effective judicial system



THE RISE OF CHINA IN NEW ZEALAND?

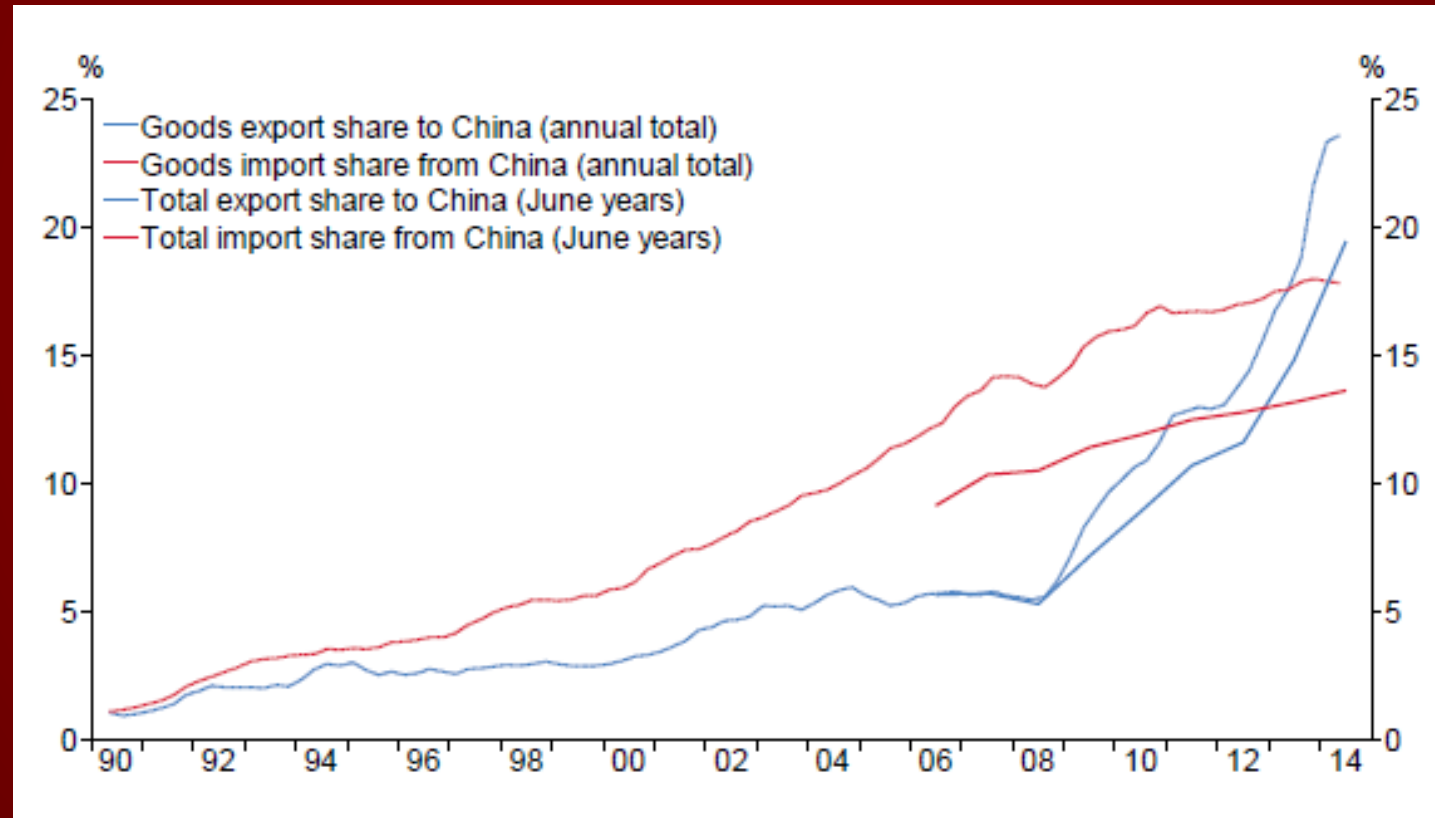
➤ **Core Question:**

What effect is China's growing NPLs on economy of New Zealand?

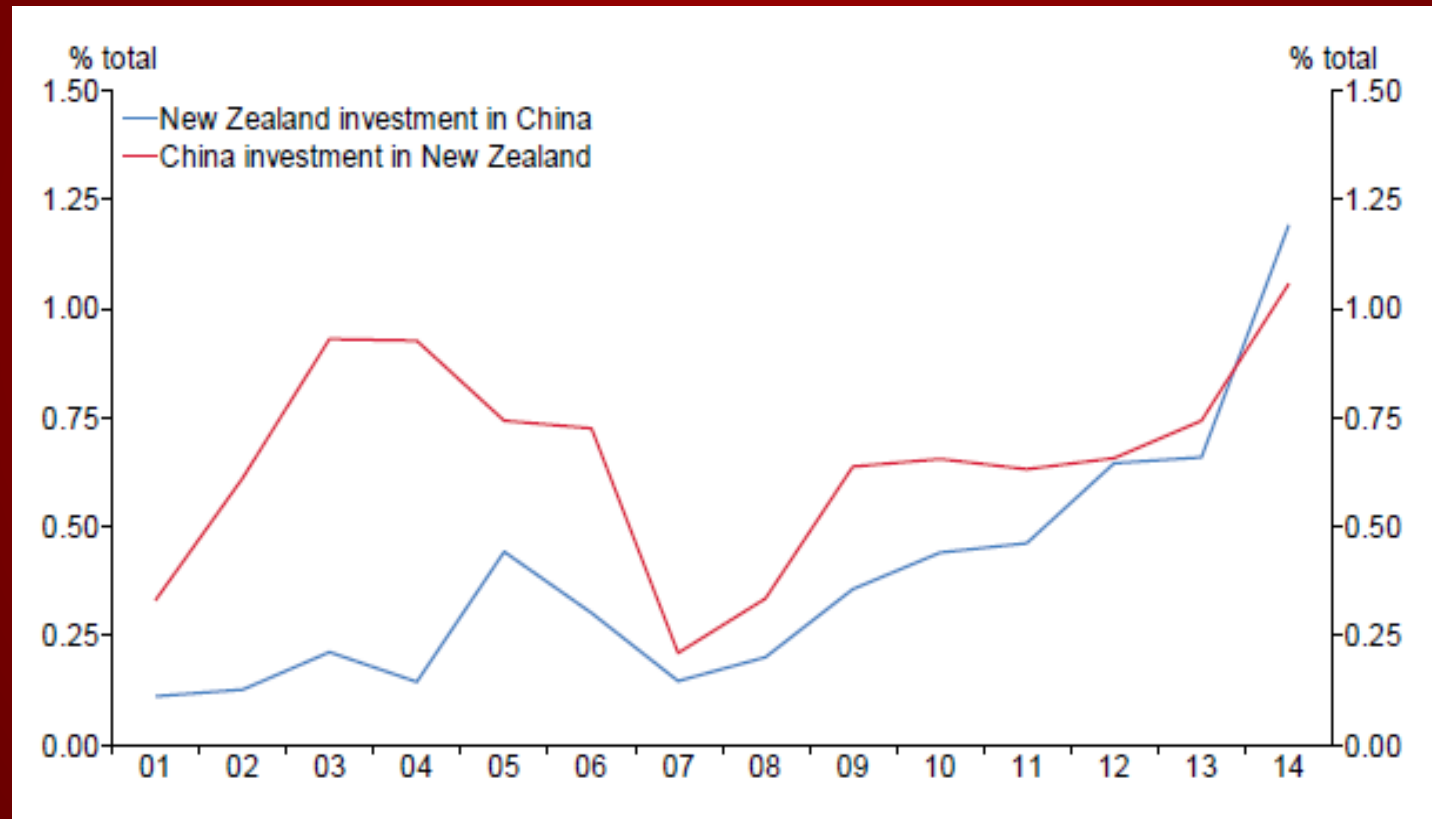
➤ **Main Economic Linkage between New Zealand and China:**

1. China's effect on New Zealand in terms of trade
2. Investment flows between New Zealand and China
3. Indirect impact

NEW ZEALAND GOODS AND TOTAL TRADE WITH CHINA



NEW ZEALAND-CHINA STOCKS OF INVESTMENT





MAJOR RISK: UNDERESTIMATE IT

Uncover the reality of China's NPL condition

- Separating NPLs from banks through transferring to asset management companies
- The loan basis enlarged by increased new lending
- Discrepancy between the reality and the banks' balance sheets
- NPLs offset by increased funds from major banks' IPO

THANK YOU