


Theory & Practice of Distress Assets Innovation and Development in China

Ms Hu Ying


Assistant President

China Huarong Asset Management Co.,Ltd.

Nov.8,2016 Shanghai China



I. Playing its role as “safty net” and” stabilizer” and making important contribution to helping the reform of the state owned banks out of stuck and maintaining the financial stability during the policy-oriented phase.



II. Financial holding group model based on diversified financial services while keeping NPL operation as its foundation during the commercial business phase.



III. The innovating traisition of financial AMCs under new situation.

I. Policy Phase

Playing its role as “safty net” and “ stabilizer” and making important contribution to helping the reform of the state owned banks out of stuck and maintaining the financial stability

The four China Financial AMCs were set up during the Asian crisis. Since their inception in 1999, Huarong, Cinda, the Great Wall and the Orient had successfully completed their missions of resolving the NPLs of RMB1.4 trillion designated by the Chinese government. It provided a solid foundation for the reform of China state-owned banks and played an important role as “safety net” and “stabilizer” to maintain the stability of financial system and mitigate the financial risks.

Selective D-E Swap

Approved by China government in 1999, the 4 AMCs signed 561 Debt to Equity Swap agreements with the companies, with the total equity of over RMB25 billion.

In 2003, the four AMCs took over the 1st batch of military and non-ferrous companies, among which equities of RMB5.8 billion were D-E swap enterprises.

At present, the three AMCs excluding the China Great Wall have implemented outright purchase to the remaining policy D-E swap assets.



main
roles

1、 Greatly alleviate the companies' burdens and improve their financial status.

2、 Effectively prevent and mitigate the financial risks.

3、 Help to establish the modern corporate system and improve the corporate governance structure.

The D-E swap implementation reduced the impact on financial market and credit system to the maximum, through which the financial AMC played a role as “safety net” and “stabilizer” to effectively reduce financial risks by resolving the debt crisis of SOEs and vitalize the bank assets.

**Huarong
highlights**

In 2001, China Huarong initiated the first international auction of NPL and the international bidders including Goldman Sachs bid for the portfolios. This started the new JV model for resolving the China NPLs.

In 2001, the first AMC using on-line bidding and disclosing publicly the NPL resolution cases.

In 2003, the first AMC promoting leveled-trust beneficiary products (sub-securitization)

In 2001, the first financial institution resolving and applying liquidation to entrusted distressed company—China New Tech VC Investment Corp., a mission entrusted by PBoC. In 2004, the first financial AMC to manage a large private company—D' Long Group under trusteeship to relieve the systemic risk, a mission entrusted by the State Council.

II. Commercial Phase

Evolving into a financial holding group model based on diversified financial services with NPL operation as its foundation, to mitigate financial risks, promote reform on supply side and contribute to the transition of economic entities.

The financial AMCs urgently needed transition for survival to change its dilemma of less resource of NPL assets after their mission was soon to complete since 2006. They started to thier long way of commercial transition and spent 10 years to establish their framework of large state-owned financial holding group.

Transition
process

1. China Cinda finished their shareholding structure in June, 2010 and introduced four strategic investors including National Council for Social Security Fund of the P. R. C., United Bank of Switzerland (UBS), CITIC Capital Holdings Limited, and Standard Chartered in April, 2012. It became the first Chinese financial AMC listed in HK Stock Exchange, the international capital market.

2. China Huarong completed its shareholding structure on Oct. 2012 and introduce 8 strategic investors including China Life, Warburg Pincus, CITIC Securities Int'l, Khazanah Nasional, CICC, COFCO Group, Fosun Int'l and Goldman Sachs. On Oct. 30, 2015, China Huarong was listed on the main board of HK Stock Exchange and becoming a large state-owned financial AMC ranking at the top in terms of assets, profitability, ROE, financial license, aggregate market value and its brand power.

3. China Orient finished their shareholding structure reforming in Oct. 2016 and identified its strategy of dual-focus of “asset management + bank & insurance”. The Great Wall is still processing its shareholding structure reform.

Business activities

1. NPL Portfolio purchasing and resolution of financial institutions refers to the situation that AMC purchased NPL of three or more assets/borrowers via bidding or individual negotiation transferred from financial institutions. AMCs then collected cash or retained the assets for appreciation by way of managing, operating and resolving.

2. NPL acquisition from FI and its restructuring were the assets of special-mention category acquired from commercial banks, and the distressed assets from the non-bank institutions including trust companies, security companies and asset management companies. The NPL acquisition and restructuring practice promoted the debt value by matching the debtor's payment ability with restructured factors after removing the unfavourable conditions which might influence creditors' rights.

3. Acquisition & restructuring the distressed assets of non-FI is a kind of model that releases the distressed company from operation difficulties by debt restructuring, asset integration, debt recovery and trusteeship, etc. to help the target companies realising asset appreciation upon the market principles of NPL acquisition.

4. Restructuring distressed companies is an important innovating business model in recent years to expand its business and help economic entities by solving the liquidity problem of distressed companies so that they can survive the crisis. This kind of restructuring merge together many spectrum of resolution as NPL portfolio acquisition, debt restructuring and acquisition of non-FI assets etc. so that the debtors has less debt and unfavourable factors for its operation and returned to the normal status of operation, thus the debt values were upgraded.

Business activities
(Cont'd)

5. China financial AMC's have many practices and attempted a few times on innovation of securitization, sub-securitization and structured products, esp in the field of securitization, so that the efficiency, liquidity and vitality of assets were improved and released. Capital pressure was then lowered and the Company raised investment efficiency.

6. Using more financial tools and trying to cover our business to the whole industrial chain, we provide diversified financial services to economic entities including asset management, bank, securities, trust, financial leasing, funds, futures, insurance, investment, PE etc.



Main
roles



1. Financial AMCs play key role in resolving NPLs of FI and preventing financial systematic risk.

2. Financial AMCs contribute significantly to the growth of China distress assets management and entities' asset vitality.

3. Financial AMCs applied its function to push the real economy move forward through offering financial aid in countercyclical period, helping the distressed companies getting out of trouble by restructuring.

III. The Innovating Transition of Financial AMCs in New Situation.

The Present Economic Situation

GDP growth is slowing down

NPLs of bank area are rising

Limited profitability space for enterprises

Various risks are aggregating

Financial policy of China government

Structural reform on supply side with focuses on cutting overcapacity, destocking, deleveraging, reducing corporate cost and shoring up weak fields.

Vital opportunities

On the basis of strengthening the core business, the financial AMC's shall take the advantages to enlarge its product varieties, vitalize the operation philosophy, transform the business model and expand their vision for development so as to contribute to the transition and upgrading of China economy.

✓ The industry of China financial AMC has formed a competing pattern of “4+1”

1. In 2014, CBRC implemented the policy that each province can set up one local AMC, according to their own condition, to have NPL wholesale acquisition and resolution. Based on the public statistics, as of Oct. 2016, China has established 30 local AMCs, among which 28 are included into CBRC's qualification list.

2. On Oct. 14, 2016, CBRC adjusted the policy of setting up local AMC. On the previous basis of one local AMC, each province is allowed to set up one more local AMC. CBRC also removed its restrictions on buyers which permitted them trading NPLs to local buyers only. Now, the local AMCs have no limit of trading partners and they can also adopt debt restructuring and transfer to foreign partners.

✓ The transition direction of financial AMC

A. Diversifying the business spectrum and transiting from traditional style to innovating business. The whole industrial chain product system will be shaped by actively exploring the measures of “stock + increment”, “acquisition + operation”, “contribution + credit enhancement”, “discretionary funds + structured financing”. Supported by our comprehensive financial services and on the basis of NPL operation, a business model with financial AMC features of “full-cycle operation” can be built up while shaping the new profit pole of providing service of third-party asset management.

B. Innovating our operation philosophy and managing the transition in a more balanced way while conducting NPLs resolution from NPL resolution to attaching equal importance to asset resolution, asset management and asset retaining. A path of asset resolution as “asset operation-value added-exit with asset resolution-benefits returned” will be gradually identified through diversified ways. To raise the competing capability, we have to promote the asset value when operating and strengthen the pricing ability with enhanced operating

C. To change our operation mode from passive AM to active AM. We need enhance our market awareness, improve management and the ability of foreseeing the risks. We shall look for various AM business opportunities proactively from governments, enterprises, financial institutions etc., and provide professional services on restructuring, transferring, M&A, trusteeship and consultation. Risks have to be controlled and managed through innovative and reasonable way so as to make risk assets safe. We also have to insure the value of state-owned assets via combination of four ways of “technical innovation+synergerial paltforms+clients+social resources” .

D. To enlarge our vision for business growth by focusing on both domestic and international market instead of soly relying on domestic market. We have to grasp the opportunities of global asset allocation and make good use of the two markets and resources of both markets.

✓ **The transition growth path of China Huarong**

- A.** To further strengthen the core business and play our role of financial aid to economic stability. China Huarong will take fully its professional advantages accumulated over the past years and act more aggressive in the NPL open market and put more focus on NPL acquisition.
- B.** To make more efforts on innovation and get more involved into the supply side reform via different trade modes and resolution measures. We shall engage into more practices as securitization, funded trust and structured products. To realise its changing into “real asset management and wealth management”, new ways of fund-raising will also be implemented, like off-sheet fund raising, so as to expand the AM scale.

✓ **The transition growth path of China Huarong**

C. To improve the ability of providing comprehensive financial services, China Huarong will fully use of its advantage and systematic functions of the Group's superiority on its domestic footprint, diversified licenses and full-cycle products, to serve humbly under the new norm to the reform on supply side. It shall make sound synergy in-between its branches and various subsidiaries to build up a comprehensive modern financial holding group with prominent core business.

Dear friends, ladies and gentlemen,

Let's work together through mutual cooperation and support to seek common development. We shall have mutual benefit and reciprocity and realise win-win situation in a wider Asian asset management market. Let's hold hand-in-hand to play greater role in promoting the welfare of Asian people, preventing Asian financial risks and guranteeing the financial stability of Asian financial market.

Thank you!