

Research on Non - Performing Loans of China Rural Commercial Bank

Tao-Wang¹, Xinya-Liu²

^{1,2}Xidian University

Abstract: China's economy has entered a new normal, With the developing of the "three rural" policy, rural commercial banks are gradually playing the role of developing local economy in China, supporting the burden of SMEs, stabilizing regional economy and promoting the building of a harmonious society. Loan is the most important factor in the assets of rural commercial banks. The size of the loan risk will affect the quality of the assets of rural commercial banks and will have a direct impact on the development of rural commercial banks. With the continuous deepening structural reforms in China's supply side and the implementation and promotion of "Three to drop one make up" the banking industry of China is confronted with multiple difficulties such as economic growth downturns, the deepening reform of interest rate liberalization and increased risk pressure, which makes the non-performing loan ratio of commercial banks rise continuously. The non-performing loan rate of national commercial bank has reached 1.74%. Therefore, it is necessary to study the situation of non-performing loans of rural commercial banks and put forward relevant suggestions for rural commercial banks to solve the problem of high NPLs.

Keywords: economy, rural commercial banks, non-performing loans

1. The Development Status of Rural Commercial Bank

In terms of the number of institutions, China Rural Commercial Bank set up its first rural commercial bank in 2001, and only 43 rural commercial banks have been developed by 2009, which is developing at a relatively slow pace. However, with the rapid development of rural economy and the support of government policies, the effect of restructuring of rural financial institutions in our country is remarkable. Rural Commercial Bank is developing rapidly, from only 43 in 2009 to the end of 2016 has grown to 1114 (Table.1.1). In recent years, China has gradually reduced the rural credit cooperative agencies and encouraged eligible rural credit cooperatives to set up rural commercial banks.

Table 1.1: The Comparison between the Number of Rural Commercial Banks and Rural Credit Cooperatives

year	total	Rural Credit Cooperatives	Rural Commercial Banks
2009	3467	3056	43
2012	3274	1927	337
2014	3566	1596	665
2016	3783	1125	1,114

Data Sources: wind information

In terms of total assets, to the end of 2016, the total assets of rural commercial banks reached 20,268 billion RMB, an increase of 5.0338 trillion RMB or 33.04% over the beginning of the year; total liabilities reached 18751.3 billion RMB, an increase of 4.7170 trillion RMB over the beginning of the year or 33.61%. From Fig 1.1, the total assets and liabilities of China's rural commercial banks increased rapidly from 2008.

Unit: 0.1 billion RMB

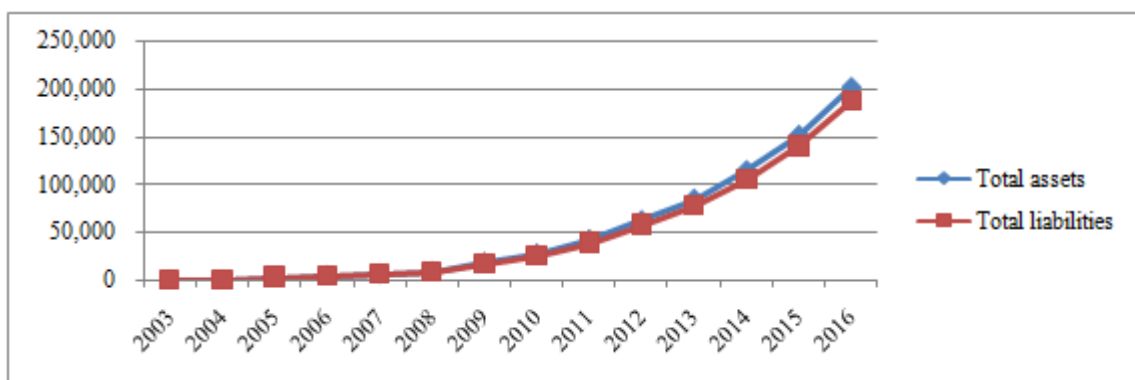


Figure 1.1: Total assets and liabilities of rural commercial banks (2003-2016)

Data Sources: CBRC Annual Report

From the shareholder equity, to the end of 2016, the owner's equity of rural commercial banks amounted to 1.5167

trillion RMB, an increase of 316.8 billion RMB or 26.40% over the beginning of the year. From Fig 1.2, since 2009, the

shareholder equity of rural commercial banks has been growing rapidly.

Unit: 0.1 billion RMB

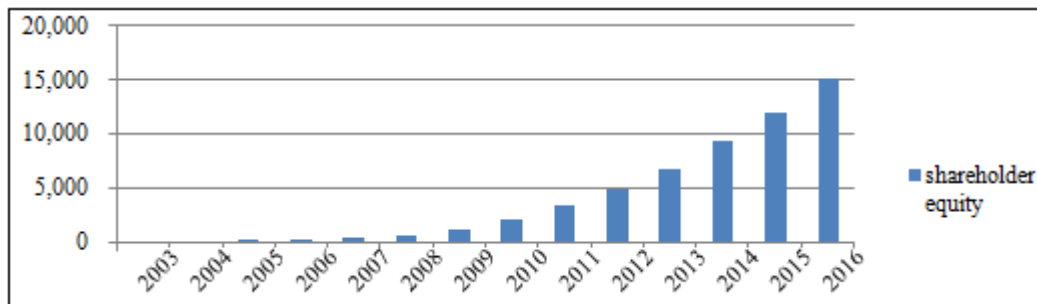


Figure 1.2: Shareholder equity of Rural Commercial Bank
 Data Sources: CBRC Annual Report

From the net operating profit post tax, to the end of 2016, China's rural commercial bank's profit post tax reached 178.5 billion RMB, an increase of 29.7 billion RMB over the beginning of the year, an increase of 29.24%. From Fig

1.3, starting from 2009, China's rural commercial banks profit post tax increases rapidly.

Unit: 0.1 billion RMB

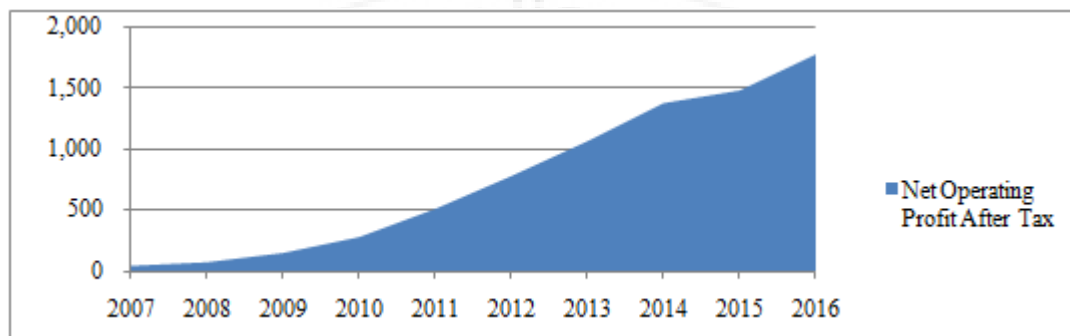


Figure 1.3: Rural Commercial Bank Profit Post Tax
 Data Sources: CBRC Annual Report

2. Analysis of Non - performing Loans in Rural Commercial Bank

In the terms of non-performing loans of rural commercial banks, we can see that the non-performing loan balance of rural commercial banks grew slowly from 2005 to 2010 from Fig 2.1, and non-performing loan balance grows faster from 2011 to 2014. it reached 234.9 billion RMB by the end of 2016. Since the beginning of 2010, the establishment of rural cooperative banks will no longer be allowed. Rural

credit cooperatives that meet the conditions will be directly restructured into rural commercial banks. The expansion of rural commercial banks to a certain extent has aggravated The Scale of Rural Commercial NPL Balances. The non-performing loan ratio of rural commercial banks dropped sharply from 2005 to 2010, dropping to 1.95% in 2010; from 2011 to 2014 and changed slightly from slight increase from 1.60% in 2011 to 2016 of 2.49%, which indicates that rural commercial banks non-performing loan ratio is still relatively high.

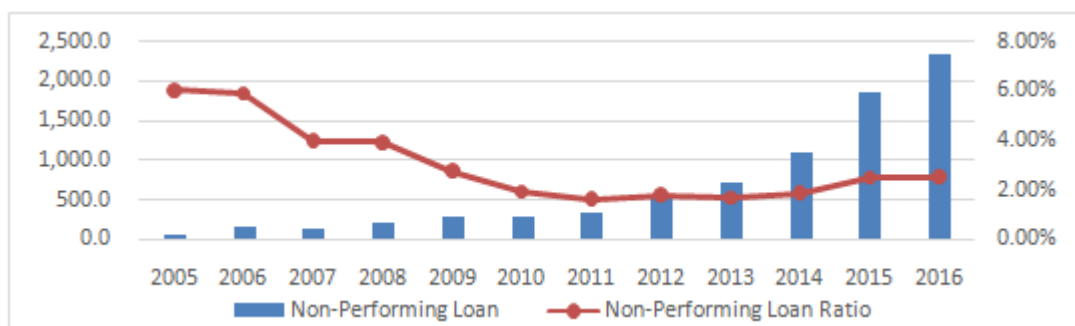


Figure 2.1: Non-Performing Asset of Rural Commercial Bank
 Data Sources: CBRC Annual Report

From the level of capital adequacy ratio of rural commercial banks, we can see that the capital adequacy ratio of rural commercial banks showed a downward trend in 2015 from Fig 2.2, reaching 13.81% at the end of the year, rising in 2016 and continuing decline in the first quarter and the

second quarter of 2017, but also maintained at above 13%, in line with the provisions of the state 10.5%.

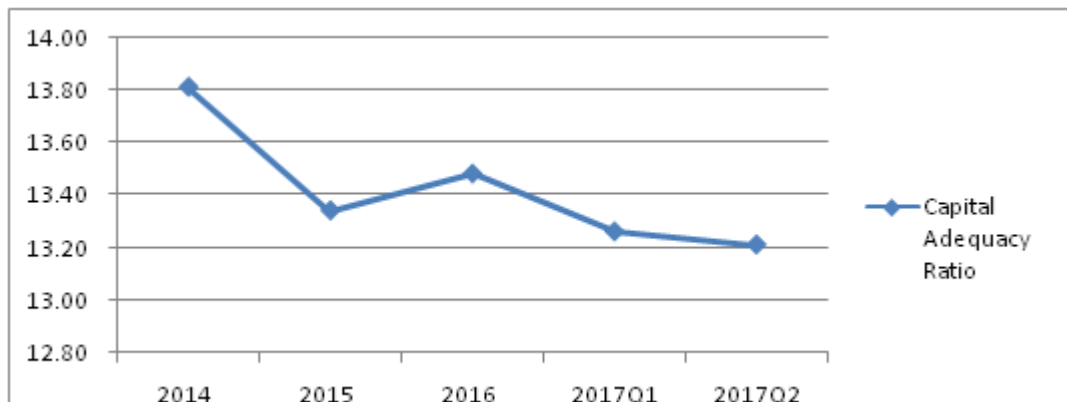


Figure 2.2: Capital Adequacy Ratio of Rural Commercial Bank

Data Sources: CBRC Annual Report

From Fig 2.3, we can see that the RRR of rural commercial banks showed a significant downward trend in 2015, with a certain degree of increase in 2016. In the first quarter of

2017 and in the second quarter, there was a slight downward trend.

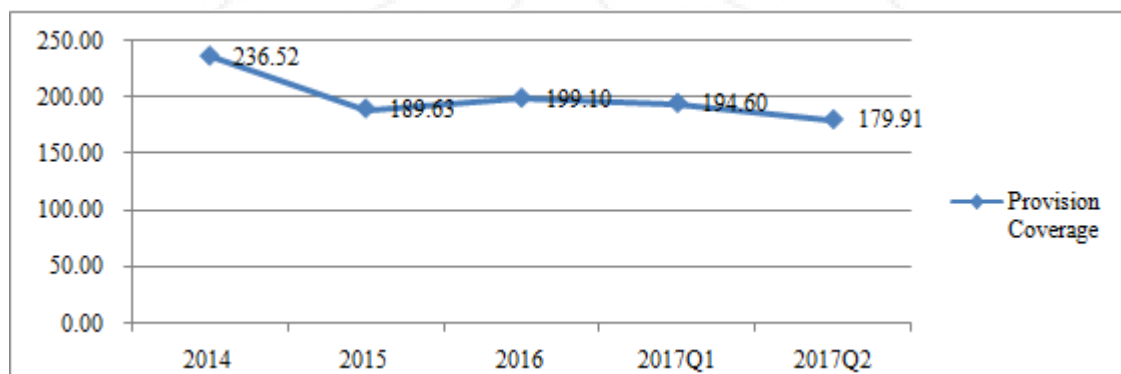


Figure 2.3: Provision Coverage Level of Rural Commercial Bank

Data Sources: CBRC Annual Report

3. Analysis of the Causes of the High Noncommercial Loan Ration in Rural Commercial Banks

The factors causing the non-performing loans of rural commercial banks are the comprehensive results. The following mainly analyzes the internal and external causes of the two major aspects.

In the internal reasons, first of all, the modern corporate governance structure of rural commercial banks is not perfect. The main source of profit for rural commercial banks is deposit and loan interest spread, which will drive banks to choose the most convenient way to issue high-yield loans to increase interest income so that banks can achieve the purpose of increasing bank profits. However, high returns are often accompanied by high risks, and the risks posed by these highly interest-bearing loan investments are relatively large, resulting in a sharp increase in

non-performing loans by banks.

Second, there are limits to the operation of rural commercial banks. The single channel of rural commercial bank business and the sole source of profit depend on the only channel of deposit and lending, which leads banks to over-pursue credit business, which in probability leads to a substantial increase in the total amount of bad total assets.

Finally, there are problems with the loan management system. In general, in order to reduce the risk of lending, banks should investigate the credibility, property, income, work, and the authenticity of family members of individuals for individuals. For example, enterprises should include their creditworthiness, business conditions and product markets Prospects, profitability in recent years. At present, the corporate customers of rural commercial banks are mainly small and medium-sized enterprises in rural areas. Banks may deviate their understanding of the basic conditions for applying for loan enterprises, but still give

loans

4. Measures to Deal with NPLs in Rural Commercial Banks

In response to the above problems, we can take measures to reduce non-performing loans to revitalize the funds from the following three aspects.

First of all, in the aspect of internal operation and management, we should establish and improve the internal operation and management mechanism, effectively implement effective measures for internal operation and management, and lower the NPL ratio of Agricultural Bank of China. First, the development of rules and regulations, effectively guide the prevention and control of non-performing loan risk. Second, improve the professional quality of bank employees. Third, in order to emphasize the strengthening of risk management, rural commercial banks should set up Risk Management Committees. The Risk Management Committee regularly monitors the Bank's risk profile and provides scientific advice on the status of the risks and strengthens overall risk management.

Second, in the aspect of credit management, it is necessary to strengthen the credit management of Agricultural Bank, adjust and optimize the credit structure of Agricultural Bank. First, strengthen the credit service model and investment in resources protection. Second, while ensuring high-quality loans, ABC actively took various measures to revitalize its stock. Third, strengthen the pre-loan risk prevention and control mechanism.

Finally, in the aspect of financial innovation, we should strengthen the innovation capability of ABC's financial business and broaden the bank's income sources. First, the Bank deepened the reform of asset management and financial market business, and increased the promotion of wealth management business. Second, to speed up business innovation in mobile finance and e-commerce finance, ABC continuously enriches the functions and product categories of e-banking. Thirdly, we should make full use of the advantages of "Internet +" to actively promote the innovation and application of the Internet and explore the feasibility of developing credit facilities for data networks. Fourthly, in the light of the application of new technologies and measures, we should vigorously develop inclusive finance. Fifth, open up new markets and enhance their own competitiveness.

5. Convolution

China's economy has entered a new normal, rural commercial banks are gradually playing the role of developing local economy in China. In this paper, we analyze the development status and the current situation of non-performing loans of rural commercial Banks. We find that the non-performing loan ratio of rural commercial Banks is still high in recent years. We also find some reasons about that. Last, we should take some measures to solve this

problem from three aspects Business management, Credit management and financial innovation.

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