Capital Rules for Commercial Banks
（Provisional）
# Table of Contents

| Chapter I | General Provisions | .......................................................... | 3 |
| Chapter II | Calculation of Capital Adequacy and Regulatory Requirements | .................................................. | 4 |
| Section 1 | Scope of Capital Adequacy Calculation | .................................................. | 4 |
| Section 2 | Formula for Capital Adequacy Calculation | .................................................. | 7 |
| Section 3 | Regulatory Requirements on Capital Adequacy | .................................................. | 8 |
| Chapter III | Definition of Capital | .......................................................... | 9 |
| Section 1 | Components of Capital | .......................................................... | 9 |
| Section 2 | Regulatory Deductions | .......................................................... | 11 |
| Section 3 | Treatment of Minority Interest | .......................................................... | 13 |
| Section 4 | Additional Requirements | .......................................................... | 14 |
| Chapter IV | Calculation of Credit Risk Weighted Assets | .................................................. | 16 |
| Section 1 | General Requirements | .......................................................... | 16 |
| Section 2 | Regulatory Weighting Approach | .......................................................... | 17 |
| Section 3 | Internal Ratings-Based Approach | .......................................................... | 23 |
| Chapter V | Calculation of Market Risk Weighted Assets | .................................................. | 26 |
| Section 1 | General Requirements | .......................................................... | 26 |
| Section 2 | Standardized Measurement Method | .......................................................... | 28 |
| Section 3 | Internal Models Approach | .......................................................... | 28 |
| Chapter VI | Calculation of Operational Risk Weighted Assets | .................................................. | 29 |
| Section 1 | General Requirements | .......................................................... | 29 |
| Section 2 | Basic Indicator Approach | .......................................................... | 30 |
| Section 3 | The Standardized Approach | .......................................................... | 31 |
| Section 4 | Advanced Measurement Approach | .......................................................... | 32 |
| Chapter VII | Internal Capital Adequacy Assessment Process | .................................................. | 32 |
| Section 1 | General Requirements | .......................................................... | 32 |
| Section 2 | Corporate Governance | .......................................................... | 33 |
| Section 3 | Risk Assessment | .......................................................... | 37 |
| Section 4 | Capital Planning | .......................................................... | 39 |
| Section 5 | Monitoring and Reporting | .......................................................... | 40 |
| Chapter VIII | Supervisory Review | .......................................................... | 42 |
| Section 1 | Contents of Supervisory Review | .......................................................... | 42 |
| Section 2 | Supervisory Review Process | .......................................................... | 43 |
| Section 3 | Pillar 2 Capital add-on | .......................................................... | 45 |
| Section 4 | Supervisory Actions | .......................................................... | 46 |
| Chapter IX | Information Disclosure | .......................................................... | 49 |
| Chapter X | Supplementary Provisions | .......................................................... | 52 |
Chapter I  General Provisions

Article 1 The Capital Rules for Commercial Banks (Hereinafter referred to as “the Rules”) are formulated, pursuant to the Law of the People’s Republic of China on Banking Regulation and Supervision, the Law of the People’s Republic of China on Commercial Bank, the Regulations of the People’s Republic of China on Administration of Foreign-funded Banks, and other applicable laws and regulations, with a view to strengthening the commercial banks’ capital regulation, thereby ensuring the soundness and stability of the banking system and protecting the interests of depositors.

Article 2 The Rules are applicable to commercial banks incorporated within the jurisdiction of the People’s Republic of China.

Article 3 The capital of a commercial bank shall be adequate to help the bank withstand the risks, including both the firm-specific risks and systemic risks.

Article 4 Commercial banks shall meet the regulatory requirements on capital adequacy ratios as prescribed in the Rules.

Article 5 The term “capital adequacy ratio” mentioned in the Rules refers to the ratio of a commercial bank’s eligible capital as specified in the Rules to the bank’s risk weighted assets.

The term “Tier 1 capital adequacy ratio” mentioned in the Rules refers to the ratio of the bank’s eligible Tier 1 capital as specified in the Rules to the bank’s risk weighted assets.

The term “Common Equity Tier 1 capital adequacy ratio” mentioned in the Rules refers to the ratio of the bank’s eligible Common Equity Tier 1 capital as specified in the Rules to the bank’s risk weighted assets.

Article 6 The capital adequacy ratios of a commercial bank shall be
calculated both on the consolidated and solo basis pursuant to the provisions of the Rules.

Article 7 The capital adequacy ratios of a commercial bank shall be calculated on the basis of making sufficient provisions for loan losses and other impairments of assets.

Article 8 A commercial bank shall have in place, pursuant to the Rules, the comprehensive risk management framework and the internal capital adequacy assessment process (ICAAP).

Article 9 The China Banking Regulatory Commission (Hereinafter referred to as the “CBRC”) shall supervise and examine a commercial bank’ capital adequacy and capital management status, and take appropriate supervisory measures or actions accordingly.

Article 10 A commercial bank shall disclose information about its capital adequacy pursuant to the Rules.

Chapter II Calculation of Capital Adequacy and Regulatory Requirements

Section 1 Scope of Capital Adequacy Calculation

Article 11 The calculation of a commercial bank’s capital adequacy ratios on the solo basis shall cover all the domestic and overseas operations of the bank, while the calculation of the bank’s capital adequacy ratios on the consolidated basis shall cover all the operations of the bank and of the financial institution(s) in which the bank has direct or indirect investment as specified in the Rules. A commercial bank and its invested financial institution(s) jointly constitute a banking group.

Article 12 When a commercial bank calculates its capital adequacy ratios on the consolidated basis, the following financial institution(s) in which the bank has investment both domestically and overseas shall be covered:
1. The financial institution with over 50% voting rights directly or indirectly owned by the bank;

2. The financial institution with less than 50% (inclusive) voting rights owned by the bank but under any of the following circumstances:
   (1) The bank, through contractual arrangements with other investor(s), practically owns over 50% voting rights of the financial institution;
   (2) The bank, pursuant to the articles of association or any agreement, has the right to make decisions on the financial and operational policies of the financial institution;
   (3) The bank has the right to appoint and/or dismiss the majority of the members of the board of directors or other equivalent decision-making bodies of the financial institution; and
   (4) The bank has the majority of voting rights in the board of directors or other equivalent decision-making bodies of the financial institution.

When determining the voting rights of the above-mentioned financial institution, the potential voting rights that carried by the bank’s direct and indirect investment in the current convertible bonds, the current exercisable warrants and other instruments of the financial institution shall be considered; that can be realized during the current period shall be counted as voting rights.

3. The bank has the de facto control of the financial institution as proven by other evidence.

The term “control” means for the purpose of the Rules that the bank can make decisions on the financial and operational policies of the financial institution and benefit from the operational activities of the financial institution.

Article 13 Where a commercial bank does not own the majority voting rights of a financial institution or control the financial institution, the financial institution shall be included in the calculation of the consolidated capital adequacy ratios of the bank under any of the following circumstances:

1. There are a number of such financial institutions with
homogeneous businesses within the banking group and the overall risk exposures combined of these financial institutions will have significant impact on the banking group’s financial and risk profile, even though the assets of each financial institution account for a small percentage of the banking group’s consolidated assets;

2. The compliance risk and reputational risk of the financial institution will have significant impact on the banking group’s reputation.

Article 14 Where the financial institutions specified in Article 12 and Article 13 of the Rules are insurance companies, they shall not be included in the calculation of the consolidated capital adequacy ratios of a commercial bank.

The bank shall make corresponding deductions from its capital of its investment in an insurance company. Where the insurance company in which the bank has investment faces a capital shortfall, additional deductions shall be made from the bank’s capital to compensate for the shortfall.

Article 15 A financial institution with over 50% voting rights owned by a commercial bank or being controlled by the commercial bank can be excluded from the calculation of the consolidated capital adequacy ratios of the bank under the following circumstances:

1. The financial institution has been closed down or announced bankrupt;

2. The financial institution is being liquidated as a result of termination; or

3. The financial institution is incorporated in another country/region and its capital movement is restricted due to foreign exchange control or other emergencies in the host country/region.

The commercial bank shall refer to the provisions in paragraph 2 of Article 14 of the Rules in the treatment of its capital investment in the financial institution under the above-mentioned circumstances.

Article 16 A commercial bank, when calculating its capital adequacy
ratios on the solo basis, shall deduct from its capital at different tiers the bank’s capital investment in the financial institution(s) specified in Article 12 and Article 13 of the Rules. Where such financial institutions face a capital shortfall, additional deductions shall be made from the bank’s capital to compensate for the shortfall.

Article 17 A commercial bank shall develop internal rules for calculating its consolidated and solo capital adequacy ratios pursuant to the provisions of the Rules. Any bank that makes adjustment to the calculation scope of its consolidated and solo capital adequacy ratios shall provide reasons and promptly file such adjustments with the CBRC.

Article 18 The CBRC has the right, in light of the equity structure changes, the scope of business activities and the risk profile of a commercial bank and its subsidiaries, to determine and adjust the calculation scope of the consolidated capital adequacy ratios of the bank.

Section 2 Formula for Capital Adequacy Calculation

Article 19 A commercial bank shall use the following formula to calculate its capital adequacy ratios:

Capital adequacy ratio = (total capital − regulatory deductions)/risk weighted assets x 100%

Tier 1 capital adequacy ratio = (Tier 1 capital − corresponding regulatory deductions)/ risk weighted assets x 100%

Common Equity Tier 1 capital adequacy ratio = (Common Equity Tier 1 capital − corresponding regulatory deductions)/ risk weighted assets x 100%

Article 20 The total regulatory capital of a commercial bank consists of the sum of Common Equity Tier 1 capital, Additional Tier 1 capital, and Tier 2 capital. The commercial bank shall calculate the capital at each tier and the corresponding regulatory deductions pursuant to the provisions in Chapter III of the Rules.
Article 21 The risk weighted assets of a commercial bank consist of the combined risk weighted assets for credit risk, market risk and operational risk. The commercial bank shall calculate its risk weighted assets for credit risk, market risk and operational risk respectively pursuant to the provisions in Chapters IV, Chapter V and Chapter VI of the Rules.

Section 3 Regulatory Requirements on Capital Adequacy

Article 22 The supervisory requirements on the capital adequacy of a commercial bank consist of the minimum capital requirements, conservation buffer, countercyclical buffer, capital surcharge for systematically important banks and Pillar 2 capital requirements.

Article 23 A commercial bank shall be subject to the following minimum capital requirements at all times:

1. Common Equity Tier 1 capital adequacy ratio no less than 5%;
2. Tier 1 capital adequacy ratio no less than 6%;
3. Capital adequacy ratio no less than 8%.

Article 24 A commercial bank shall be subject to the capital conservation buffer over and above the minimum capital requirements. The conservation buffer shall be 2.5% of total risk weighted assets of the bank and comprised of Common Equity Tier 1 capital.

Under certain circumstances, a commercial bank shall be subject to the countercyclical buffer in addition to the minimum capital requirements and the conservation buffer requirement. The countercyclical buffer shall vary between zero and 2.5% of total risk weighted assets of the bank and be comprised of Common Equity Tier 1 capital.

The detailed rules for countercyclical buffer shall be prescribed separately.

Article 25 A systemically important bank shall be subject to a capital surcharge in addition to the minimum capital requirements, conservation buffer and countercyclical buffer requirements specified in Article 23 and
Article 24 of the Rules.

The domestic systemically important bank shall be subject to a capital surcharge of 1% of total risk weighted assets of the bank and be comprised of Common Equity Tier 1 capital. The methodology for assessing domestic systemically important bank will be prescribed separately.

Where a domestic systemically important bank is identified as a global systemically important bank, the capital surcharge applied to the bank shall not be lower than the stipulations by the Basel Committee on Banking Supervision.

Article 26 In addition to the capital requirements specified in Articles 23, Article 24 and Article 25 of the Rules, the CBRC has the right to impose capital add on within the Pillar 2 framework so as to ensure that a commercial bank’s capital is adequate to support all the risks in its business. For this purpose, the CBRC may:

1. raise specific capital requirements on certain asset portfolio(s) based on the risk assessment; and
2. raise additional specific capital requirements on an individual bank based on supervisory review results.

Article 27 In addition to the afore-mentioned supervisory requirements on capital adequacy, a commercial bank shall meet the supervisory requirements on its leverage ratio.

The rules for calculating leverage ratio and the related supervisory requirements shall be prescribed separately.

Chapter III Definition of Capital

Section 1 Components of Capital

Article 28 Capital instruments issued by a commercial bank shall meet the eligibility criteria specified in Annex 1 of the Rules.

Article 29 Common Equity Tier 1 capital consists of the sum of the
following elements:
1. Paid-in capital or common shares;
2. Capital reserve;
3. Surplus reserve;
4. General reserve;
5. Undistributed profits; and
6. Minority interest that meets the criteria for inclusion in Common Equity Tier 1 capital.

Article 30 Additional Tier 1 capital consists of the sum of the following:
1. Instruments issued by a commercial bank that meet the criteria for inclusion in Additional Tier 1 capital and the stock surplus (share premium) resulting from the issue of such instruments; and
2. Minority interest that meets the criteria for inclusion in Additional Tier 1 capital.

Article 31 Tier 2 capital consists of the sum of the following:
1. Instruments issued by a commercial bank that meet the criteria for inclusion in Tier 2 capital and the stock surplus (share premium) resulting from the issue of such instruments;
2. Excess loan loss provisions.

(1) Where a commercial bank uses Regulatory Weighting Approach for credit risk, excess loan loss provisions can be included in Tier 2 capital subject to a limit of 1.25% of credit risk-weighted risk assets at maximum.

The term “excess loan loss provisions” mentioned in the preceding paragraph refers to the difference between the amount of actual loan loss provisions set aside by the bank and the amount of required minimum loan loss provisions. The required minimum loan loss provisions shall be the greater of the amount represented by 100% provisioning coverage ratio or the amount of the required specific loan loss provisions.

(2) Where a commercial bank uses Internal Ratings-Based Approach, excess loan loss provisions can be included in Tier 2 capital subject to a limit of 0.6% of credit risk-weighted risk assets at maximum.
The term “excess loan loss provisions” mentioned in the preceding paragraph refers to the difference between the amount of actual loan loss provisions set aside by the bank and the amount of the expected loss calculated under the Internal Ratings-Based Approach.

3. Minority interest that meets the criteria for inclusion in Tier 2 capital.

Section 2 Regulatory Deductions

Article 32 A commercial bank, when calculating capital adequacy ratios, shall deduct from its Common Equity Tier 1 capital the following items in full amount:
1. Goodwill;
2. Other intangible assets (except land use rights);
3. Deferred tax assets relating to operating losses;
4. Shortfall of loan loss provisions;
   (1) Where a commercial bank uses Regulatory Weighting Approach, the shortfall of loan loss provisions refers to the shortfall of the actual loan loss provisions set aside by the bank relative to the required minimum loan loss provisions.
   (2) Where a commercial bank uses Internal Ratings-Based Approach, the shortfall of loan loss provisions refers to the shortfall of the actual provisions set aside by the bank relative to the expected loss calculated under the Internal Ratings-Based Approach.
5. Gain on sales related to securitization transactions;
6. Defined benefit pension fund assets;
7. Direct and/or indirect investments in own shares;
8. Cash flow hedge reserve that relates to the hedging of items that are not fair valued on the balance sheet, meaning the positive amounts shall be deducted and negative amounts be added back; and
9. Unrealized gains and losses that have resulted from changes in the fair value of liabilities due to changes in the banks’ own credit risk.

Article 33 A commercial bank shall apply a “corresponding deduction approach” to its investments in the capital of other bank(s) that have
resulted in the reciprocal cross holdings of capital between banks, or any other capital investments deemed by the CBRC to have artificially inflated the capital position,

The bank shall also apply the “corresponding deduction approach” to its direct or indirect holdings of the Additional Tier 1 and Tier 2 capital instruments issued by itself.

The term “corresponding deduction approach” means that the deduction shall be applied to the same component of capital. Where a commercial bank makes deduction from a particular tier of capital and it does not have enough of that tier of capital to satisfy the deduction, the shortfall shall be deducted from the next higher tier of capital.

Article 34 A commercial bank shall apply the “corresponding deduction approach” to its non-significant minority investments in the capital of financial institutions that are outside the scope of regulatory consolidation where the aggregate of investments exceeds 10% of the bank’s Common Equity Tier 1 capital after applying the regulatory deductions.

The term “non-significant minority investments” refers to the bank’s investments (including direct and indirect) in the capital of another financial institution where the bank owns less than 10% (not inclusive) of the paid-in capital (common shares plus share premiums) of the financial institution and such investments do not fall within the categories of capital investments specified in Articles 12 and Article 13 of the Rules.

Article 35 A commercial bank shall treat its significant minority investments in the capital of financial institutions that are outside the scope of regulatory consolidation as such: where the aggregate of investments in the Common Equity Tier 1 capital of financial institutions exceeds 10% of the bank’s own Common Equity Tier 1 capital net of regulatory deductions, the difference shall be deducted from the bank’s Common Equity Tier 1 capital; the investments in the Additional Tier 1 capital and Tier 2 capital shall be deducted in full amount from the corresponding tier of capital of the bank.

The term “significant minority investments” refers to the bank’s
investments (including direct and indirect) in the capital of another financial institution where the bank owns more than 10% (inclusive) of the paid-in capital (common shares plus share premiums) of the financial institution and such investments do not fall into the categories of capital investments specified in Articles 12 and Article 13 of the Rules.

Article 36 In addition to deferred tax assets specified in paragraph 3 of Article 32 of the Rules, any other deferred tax assets that rely on a commercial bank’s future profitability to be realized and their aggregate amount exceeds 10% of the bank’s Common Equity Tier 1 capital net of regulatory deductions, the difference shall be deducted from the bank’s Common Equity Tier 1 capital.

Article 37 Where a commercial bank’s significant minority investments in the capital of financial institutions and the corresponding deferred tax assets are not deducted from the bank’s Common Equity Tier 1 capital pursuant to Articles 35 and Article 36 of the Rules, the aggregate amount shall not exceed 15% of the bank’s Common Equity Tier 1 capital net of regulatory deductions.

Section 3 Treatment of Minority Interest

Article 38 Minority interest arising from the issue of common shares by a consolidated subsidiary of a commercial bank to third party investors may in part receive recognition in regulatory capital.

Article 39 The portion of minority interest in the consolidated subsidiary’s Common Equity Tier 1 capital that is included in meeting the minimum Common Equity Tier 1 capital requirement and conservation buffer requirement may receive recognition in the consolidated Common Equity Tier 1 capital.

The minimum Common Equity Tier 1 capital requirement and conservation buffer requirement refer to the lesser of the following:

1. The consolidated subsidiary’s minimum Common Equity Tier 1 capital requirement plus conservation buffer requirement; or
2. The portion of the consolidated minimum Common Equity Tier 1 capital requirement plus the conservation buffer of the parent bank that relates to the subsidiary.

Article 40 The portion of minority interest in the consolidated subsidiary’s Common Equity Tier 1 capital that is included in meeting the minimum Tier 1 capital requirement and conservation buffer requirement shall be treated as such: after deducting the amount that has been recognized in the consolidated Common Equity Tier 1 capital, the remaining amount may receive recognition in the consolidated Additional Tier 1 capital.

The minimum Tier 1 capital requirement and conservation buffer requirement refer to the lesser of the following:

1. The consolidated subsidiary’s minimum Tier 1 capital requirement plus conservation buffer requirement; or
2. The portion of the consolidated minimum Tier 1 capital requirement plus the conservation buffer of the parent bank that relates to the subsidiary.

Article 41 The portion of minority interest in the consolidated subsidiary’s total capital that is included in meeting the minimum total capital requirement and conservation buffer requirement shall be treated as such: after deducting the amount that has been recognized in the consolidated Tier 1 capital, the remaining amount may receive recognition in the consolidated Tier 2 capital.

The minimum total capital requirement and conservation buffer requirement refer to the lesser of the following:

1. The consolidated subsidiary’s minimum total capital requirement plus conservation buffer requirement; or
2. The portion of the consolidated minimum total capital requirement plus the conservation buffer of the parent bank that relates to the subsidiary.

Section 4 Additional Requirements
Article 42 For Tier 2 capital instruments issued by a commercial bank that have a maturity date, during the last five years to maturity, the amount that is recognized in Tier 2 capital shall be 100%, 80%, 60%, 40% and 20% of the total amount respectively for each of the remaining 5 years prior to the maturity date.

Article 43 Unqualified Tier 2 capital instruments issued by a commercial bank prior to September 12, 2010 may receive recognition in regulatory capital by January 1, 2013. The amount that is recognized shall be reduced by 10% year by year starting from January 1, 2013 and be fully derecognized as of January 1, 2022.

The base for reducing the recognition amount of Tier 2 capital on a yearly basis mentioned in preceding paragraph is the nominal amount of the mentioned unqualified Tier 2 capital instruments outstanding on January 1, 2013.

A Tier 2 capital instrument with a call and a step-up or other incentive to redeem may receive recognition in regulatory capital provided that the instrument is not called at its effective maturity date and has met all the other eligibility criteria as specified in Annex 1 of the Rules.

Article 44 Tier 2 capital instruments issued by a commercial bank between September 12, 2010 and January 1, 2013 with no conversion or write-down mechanism but having met all the other eligibility criteria as specified in Annex 1 of the Rules may receive recognition in regulatory capital prior to January 1, 2013. The amount that is recognized in regulatory capital shall be reduced by 10% year by year starting from January 1, 2013 and be fully derecognized as of January 1, 2022.

The base for reducing the recognition amount of Tier 2 capital on a yearly basis mentioned in preceding paragraph is the nominal amount of the mentioned unqualified Tier 2 capital instruments outstanding on January 1, 2013.

Article 45 Unqualified Tier 2 capital instruments issued after January 1,
2013 shall not be recognized in regulatory capital.

Chapter IV Calculation of Credit Risk Weighted Assets

Section 1 General Requirements

Article 46 A commercial bank may calculate the credit risk weighted assets by using Regulatory Weighing Approach or Internal Ratings-Based Approach. A commercial bank adopting Internal Ratings-Based Approach to calculate credit risk weighted assets shall comply with the provisions of the Rules and be subject to the approval of the CBRC. For risk exposures not covered by Internal Ratings-Based Approach, the corresponding credit risk weighted assets shall be calculated by using the methodology of Regulatory Weighing Approach.

The bank may not change the method for calculating credit risk weighted assets unless such change is approved by the CBRC.

Article 47 Where a commercial bank applies for using Internal Ratings-Based Approach to calculate its credit risk weighted assets, the assets covered by Internal Ratings-Based Approach shall not be lower than 50% of total assets at the time of application and such coverage ratio shall reach 80% in three years thereafter.

The coverage ratio mentioned in preceding paragraph is determined via the following formula:

Coverage ratio under Internal Ratings-Based Approach = Risk weighted assets calculated by using Internal Ratings-Based Approach / (Risk weighted assets calculated by using Internal Ratings-Based Approach + Risk weighted assets calculated by using Regulatory Weighing Approach) x 100%

Article 48 A commercial bank that adopts Internal Ratings-Based Approach shall calculate its credit risk weighted assets pursuant to the provisions of Annex 3 of the Rules, categorize its credit risk exposures in the banking book pursuant to the provisions of Annex 4 of the Rules, and establish the internal ratings-based framework pursuant to the provisions
of Annex 5 of the Rules.

The bank using Internal Ratings-Based Approach may prudently recognize the risk hedging effects of credit risk mitigation tools pursuant to the provisions of Annex 6 of the Rules.

The bank using Internal Ratings-Based Approach may adopt the supervisory slotting criteria approach to calculate its credit risk weighted assets for specialized lending exposures pursuant to the provisions of Annex 7 of the Rules.

Article 49 A commercial bank shall calculate the risk weighted assets for counterpart credit risk in both the banking book and the trading book pursuant to the provisions of Annex 8 of the Rules.

Article 50 A commercial bank shall calculate the risk weighted assets relating to securitization exposures pursuant to the provisions of Annex 9 enclosed hereto.

Section 2 Regulatory Weighting Approach

Article 51 Under the Regulatory Weighting Approach, credit risk weighted assets are the sum of both on balance sheet and off-balance sheet items in the banking book.

Article 52 When calculating the on-balance sheet risk weighted assets, a commercial bank shall first deduct the corresponding provisions for asset impairment from the book value of assets, and then multiply by risk weight.

Article 53 When calculating the off-balance sheet risk weighted assets, a commercial bank shall first use credit conversion factors to convert the off-balance sheet items into the on-balance sheet credit exposure equivalents, and then calculate risk weighted assets in the way applicable to on-balance sheet assets.

Article 54 The risk weight for cash and cash equivalent is 0%.
Article 55 Risk weights for a commercial bank’s claims on the sovereign entities and financial institutions in an overseas jurisdiction shall be benchmarked to the external sovereign credit ratings of the underlying jurisdiction.

1. For claims on an overseas sovereign and central bank, the risk weight is 0% if the sovereign rating of the jurisdiction is AA- or higher; 20% if the sovereign rating is between A- (inclusive) and AA-; 50% if the sovereign rating is between BBB- (inclusive) and A-; 100% if the sovereign rating is between B- (inclusive) and BBB-; 150% if the sovereign rating is below B-; and 10% if the jurisdiction is unrated.

2. Risk weights for claims on the public sector entities in an overseas jurisdiction shall be the same as those applicable to the claims on the commercial banks incorporated in the same jurisdiction.

3. For claims on commercial banks incorporated in an overseas jurisdiction, the risk weight is 25% if the sovereign rating of the jurisdiction is AA- or higher; 50% if the sovereign rating is between A- (inclusive) and AA-; 100% if the sovereign rating is between B- (inclusive) and A-; 150% if the sovereign rating is below B-; and 100% if the jurisdiction is unrated.

4. The risk weight for claims on other financial institutions in an overseas jurisdiction is 100%.

Article 56 The risk weight for a commercial bank’s claims on multilateral development banks, the Bank for International Settlements and the International Monetary Fund is 0%.

Multilateral development banks include the World Bank Group, the Asian Development Bank, the African Development Bank, the European Bank for Reconstruction and Development, the Inter-American Development Bank, the European Investment Bank, the European Investment Fund, the Nordic Investment Bank, the Caribbean Development Bank, the Islamic Development Bank and the Council of Europe Development Bank.
Article 57 The risk weight for a commercial bank’s claims on the Chinese central government and the People’s Bank of China is 0%.

Article 58 The risk weight for a commercial bank’s claims on the domestic public sector entities in China is 20%. Domestic public sector entities in China include:

1. Public sector agencies, with the exception of the Ministry of Finance and the People’s Bank of China, whose main source of funding is from the Chinese central government; and
2. Provincial governments, and governments of autonomous regions and deputy provincial level municipalities.

The risk weight of 20% is not applicable to claims on commercial entities invested by public sector entities listed in the preceding paragraphs.

Article 59 The risk weight for a commercial bank’s claims on policy banks in China is 0%.

The risk weight for claims on the subordinated debts (un-deducted portion) of policy banks in China is 100%.

Article 60 The risk weight for a commercial bank’s claims on the earmarked bonds issued by financial asset management companies invested by the Chinese central government for the purpose of acquiring the non-performing loans of state-owned banks is 0%.

The risk weight for claims on other debts issued by financial asset management companies invested by the Chinese central government is 100%.

Article 61 The risk weight for a commercial bank’s claims on other commercial bank(s) in China is 25%; if the claims have an original maturity of 3 months or less, the risk weight is 20%.

Where the bank’s claims were pledged by financial assets with the risk weight of 0%, the risk weight for the pledged portion is 0%.

The risk weight for the subordinated debts (un-deducted portion)
issued by another commercial bank in China is 100%.

Article 62 The risk weight for a commercial bank’s claims on other financial institutions in China is 100%.

Article 63 The risk weight for a commercial bank’s claims on corporate is 100%.

Article 64 The risk weight for a commercial bank’s claims on a micro- and small enterprise that has met the following criteria is 75%:
   1. The enterprise meets the criteria defined by relevant government authorities for qualifying as micro- and small enterprise;
   2. The bank’s risk exposures to a single enterprise (or enterprise group) are no more than RMB 5 million; and
   3. The bank’s risk exposures to a single enterprise (or enterprise group) are no more than 0.5% of the bank’s aggregate credit risk exposures.

Article 65 Risk weights for a commercial bank’s claims on individual customers shall be the following:
   1. The risk weight for residential mortgage loans is 50%;
   2. Where the bank provides additional loans secured by the re-evaluated home equity of the mortgaged property to the mortgage loan borrower who has not yet fully repaid the previous mortgage loan, such additional lending exposures will be risk weighted at 150%; and
   3. The risk weight for other claims on individual customers is 75%.

Article 66 The risk weight for residual value of leased assets is 100%.

Article 67 The risk weight for the following assets is 250%:
   1. The bank’s equity investment in financial institutions (undeducted portion);
   2. Deferred tax asset relying on the bank’s future profitability to be realized (undeducted portion).
Article 68 Risk weights for a commercial bank’s equity investments in commercial entities shall be the following:

1. The equity investments in commercial entities passively held by the bank within the legally prescribed disposal period shall be risk weighted at 400%;

2. The equity investments in commercial entities made by the bank due to policy reasons and with the special approval of the State Council shall be risk weighted at 400%; and

3. Other equity investments made by the bank in commercial entities shall be risk weighted at 1250%.

Article 69 The risk weight for the real estate held by a commercial bank not for its own use is 1250%.

The non-own-use real estate held by the bank as a result of exercising foreclosure right within the legally prescribed disposal period shall be risk weighted at 100%.

Article 70 The risk weight for other assets of a commercial bank is 100%.

Article 71 A commercial bank shall apply the credit conversion factors for its off-balance sheet items as follows:

1. The factor for direct credit substitutes is 100%;

2. The factor for loan commitments with an original maturity up to one year and over one year is 20% and 50% respectively; for loan commitments that can be unconditionally cancellable at any time by the bank without prior notice is 0%;

3. The factor for unused credit line of credit cards is 50%; but for unused credit line of credit cards that has met all the following criteria, the factor is 20%;
   (1) The credit line is granted to an individual and is of unsecured revolving credit;
   (2) The credit line granted to the same cardholder is no more than RMB 1 million; and
(3) The bank assesses the cardholder’s credit ratings at least once a year and monitors the use of credit line on a quarterly basis; and if the credit rating of the cardholder is deteriorating, the bank has the right to lower or even cancel the credit line.

4. The factor for note issuance facilities and revolving underwriting facilities is 50%;

5. The factor is 100% for the lending of the bank’s securities or the posting of securities as collateral by the bank, including instances where these arise out of repo-style transactions;

6. The factor for the trade-related short-term contingent items is 20%;

7. The factor for transaction-related contingent items is 50%;

8. The factor is 100% for asset sale and purchase agreements where the credit risk remains with the bank;

9. The factor is 100% for forward asset purchases, forward time deposits, and partly-paid shares and securities; and

10. The factor for other off-balance sheet items is 100%.

Article 72 A commercial bank shall calculate its credit risk exposures arising from securities, commodities and foreign exchange transactions pursuant to the provisions of Annex 2 of the Rules.

Article 73 Under the Regulatory Weighting Approach, a commercial bank may recognize the risk mitigating effects of collaterals or guarantees in accordance with the provisions of Annex 2 of the Rules.

An exposure of the bank fully secured by the eligible collateral (including the exposure arising from securities trading transactions) receives the risk weight applicable to the collateral instrument, or treated as a direct claim on the protection provider in assigning the risk weight. Where the exposure is partly secured by the collateral, the collateralized portion of the exposure may receive a relatively lower risk weight.

An exposure fully secured by the eligible guarantee is treated as a direct claim on the guarantor in assigning the risk weight. Where the exposure is partly guaranteed, the guaranteed portion of the exposure may
receive a relatively lower risk weight.

Article 74 Under the Regulatory Weighting Approach, a commercial bank may not recognize the risk mitigating effects of the collaterals or guarantees if the collateralization or guarantee maturity is shorter than the maturity of the collateralized or guaranteed exposure.

Section 3 Internal Ratings-Based Approach

Article 75 A commercial bank shall categorize its banking book exposures into at least the following six asset classes according to the underlying credit risk characteristics:

1. Sovereign exposures;
2. Exposures to financial institutions, including banking and non-banking financial institutions;
3. Corporate exposures, including exposures to small- and medium-sized enterprises, specialized lending and ordinary companies;
4. Retail exposures, including mortgage loans, qualifying revolving retail exposures and other retail exposures;
5. Equity exposures; and
6. Other exposures, including those arising from the purchase of receivables and asset securitization.

Sovereign exposures, exposures to financial institutions and corporate exposures are collectively referred to as non-retail exposures.

Article 76 A commercial bank shall calculate its risk weighted assets for exposures in default and exposures not in default separately as follows:

1. Risk weighted assets for non-retail exposures not in default shall be calculated on the basis of the probability of default (PD), loss at given default (LGD), exposure at default (EAD), correlation and the effective maturity (M) of each individual exposure.

Risk weighted assets for retail exposures not in default shall be calculated on the basis of the probability of default (PD), loss at given default (LGD), exposure at default (EAD), correlation and the effective maturity of each individual asset pol.
2. Risk weighted assets for exposures in default shall be calculated on the basis of the loss at given default (LGD), expected loss and exposure at default (EAD).

Article 77 A commercial bank shall determine the PD as follows:
1. The PD of sovereign exposures is the bank’s internal estimates of the one-year PD;
2. The PD for corporate, financial institutions and retail exposures is the greater of the bank’s internal estimates of the one-year PD, or 0.03%;
3. For exposures secured by eligible guarantees or credit derivatives, the bank may use the PD of the guarantor to substitute with that of the obligator.

Article 78 A commercial bank shall determine the LGD as follows:
1. Where the bank adopts the Foundation Internal Ratings-Based Approach (F-IRB), the LGD for the senior claims and subordinated claims within non-retail exposures that are not secured by recognized collaterals shall be 45% and 75% respectively. For the senior claims secured by recognized collaterals and for the repo-style transactions under the master netting arrangement, the bank may adjust the LGD with recognition of the risk mitigating effect;
2. Where the bank adopts Advanced Internal Ratings-Based Approach (A-IRB), the bank should estimate the LGD for each individual non-retail exposure; and
3. The banks shall use its internally estimated LGD for retail asset pools.

Article 79 A commercial bank shall determine the EAD as follows:
The EAD shall not cover the impact of specific provisions and partial write-off. The EAD of on-balance sheet items shall be no less than the sum of: 1. the amount of decrease in regulatory capital after a complete write-off; and 2. the amount of various specific provisions and partial write-offs. If the bank’s estimated EAD is larger than the sum, the difference is treated as a discount. The calculation of risk weighted assets
is independent of any discounts, but the discounts may be included in the measurement of total eligible provisions when comparing the expected losses and eligible provisions.

1. The bank adopting the F-IRB approach shall calculate the on-balance sheet EAD by using the nominal value of the exposures, but may take into account the risk mitigating effect of eligible netting;

2. Where the bank adopts the F-IRB approach, credit conversion factor shall be 75% for loan commitments, notes issuance facilities, revolving underwriting facilities and other off-balance sheet items; and 0% for loan commitments that can be unconditionally cancelled at any time. The credit conversion factors for other off-balance sheet items are as specified in Article 71 of the Rules;

3. The bank adopting the A-IRB approach shall use its internally estimated non-retail EAD. For the off-balance sheet items that are subject to the credit conversion factor of 100% in Article 71 of the Rules, the EAD shall be estimated by using the credit conversion factor of 100%;

4. The bank shall use its internally estimated retail EAD. For off-balance sheet retail exposures, the bank shall calculate the EAD using its internally estimated conversion factors.

Article 80  A commercial bank shall determine the effective maturity (M) as follows:

1. Where the bank adopts the F-IRB approach, the M for non-retail exposures is 2.5 years and the M for repo-style transactions is 0.5 year;

2. Where the bank adopts the A-IRB approach, the M shall be the greater of one year or the internal estimate but capped by 5 years. The M for the exposures to small- and medium-sized enterprises SME may be 2.5 years; and

3. The M for short-term exposures listed below shall be the greater of the internal estimated effective maturity or one day:

   (1) Fully secured over-the-counter derivatives transactions, margin lending, repo-style transactions and securities lending transactions with an original maturity of less than one year, where the documentation contains the daily re-margining clauses as well as the provisions that
allow for the prompt liquidation or setoff of the collateral in the event of default or failure to re-margin.

(2) Self-liquidating trade finance with an original maturity of less than one year, including opened and confirmed letters of credit; and

(3) Other short term exposures with an original maturity of less than 3 months, including exposures arising from over-the counter derivatives transactions, margin lending repo -style transactions, securities lending, short term loans and deposits, securities and foreign exchange settlements, and cash settlements by wire transfer.

Chapter V Calculation of Market Risk Weighted Assets

Section 1 General Requirements

Article 81 The term “market risk” mentioned in the Rules refers to the risk of loss in on- and off-balance sheet positions arising from movements in market prices (interest rates, exchange rates, equity prices and commodity prices).

Article 82 The capital charge for market risk shall cover interest rate risk and equities risk in the trading book and foreign exchange risk and commodities risk in a commercial bank’s total positions.

The bank may exclude structural foreign exchange positions in capital charge for market risk.

Article 83 The term “trading book” mentioned in the Rules consists of positions in financial instruments and commodities held either with the trading intent or in order to hedge other elements in the trading book.

The positions held with the trading intent as mentioned in the preceding paragraph refer to those held intentionally for short-term resale and/or with the intent of benefiting from actual or expected short-term price movements, or to lock in arbitrage profits, and may include for example proprietary positions, positions arising from client servicing (e.g. matched principal broking) and market making. The financial instruments and commodities positions in the trading book shall in principle meet the
following criteria:
1. Being free of any restrictive covenants on their tradability;
2. Being able to be hedged completely;
3. Being frequently and accurately valued; and
4. The portfolio being actively managed.

Article 84 A commercial bank shall have clearly defined criteria for
distinguishing the trading book from the banking book, and have in place
the clearly defined policies and procedures for determining which
financial instruments and commodities exposures to be included in the
trading book as well as the conditions for their transfer between banking

Article 85 A commercial bank may calculate the capital charge for
market risk by using either the standardized measurement method or the
Internal Models Approach. Without the prior approval of the CBRC, the
bank may not change the method for calculating market risk capital.

Article 86 Where a commercial bank adopts the Internal Models
Approach and its models are unable to cover the entire market risk
exposures, the bank may choose to use a combination of the standardized
measurement method and the Internal Models Approach to measure their
market risks, but this flexibility is subject to approval by the CBRC;
however, the same entity within a banking group may not adopt different
methods to calculate market risk capital for the same risk category.

Article 87 A commercial bank adopting the Internal Models Approach
shall make sure that the Internal Models Approach coverage is no less
than 50%.

The Internal Models Approach coverage mentioned in the preceding
paragraph shall be calculated as follows:
Internal Models Approach coverage = capital charge calculated under
Internal Models Approach / (capital charge calculated under Internal
Models Approach + capital charge calculated under standardized
measurement method) x 100%

Article 88  Market risk weighted assets for a commercial bank shall be 12.5 times of market risk capital charge, i.e. market risk weighted assets = market risk capital charge x 12.5.

**Section 2 Standardized Measurement Method**

Article 89  A commercial bank adopting the standardized measurement method shall calculate the capital requirement respectively for each single risk category, i.e. interest rate risk, foreign exchange risk, commodities risk and equity position risk, and separately calculate the capital charge for options risk associated with various risk categories pursuant to the provisions in Annex 10 of the Rules.

Article 90  Market risk capital requirement is the sum of capital charges for interest rate risk, foreign exchange risk, commodities risk, equity position risk and options risk.

Capital charges for interest risk and equity position shall be the sum of capital charges for general market risk and specific risk.

**Section 3 Internal Models Approach**

Article 91  A commercial bank adopting the Internal Models Approach shall conform to the provisions of Annex 11 of the Rules and be subject to approval by the CBRC.

Article 92  For a commercial bank adopting the Internal Models Approach, the capital charge for general market risk is the sum of value-at-risk and stressed value-at-risk, i.e.

\[ K = \text{Max} \left( \text{VaR}_{t-1}, m_c \times \text{VaR}_{\text{avg}} \right) + \text{Max} \left( s\text{VaR}_{t-1}, m_s \times s\text{VaR}_{\text{avg}} \right) \]

Where:

1. VaR is the general value-at-risk which is the greater of the following two:
   (1) the previous day’s value-at-risk measured under the Internal
Models Approach (VaR\textsubscript{t-1}); or

(2) an average of the daily value-at-risk measures on each of the preceding 60 business days (VaR\textsubscript{avg}), multiplied by a multiplication factor (m\textsubscript{c}) where m\textsubscript{c} is determined by the back-testing result but shall be 3 at minimum.

2. sVaR is the stressed value-at-risk which is the greater of the following two:

(1) the previous day’s stressed value-at-risk measured under the Internal Models Approach (sVaR\textsubscript{t-1}); or

(2) an average of the daily stressed value-at-risk measures on each of the preceding 60 business days (sVaR\textsubscript{t-1}), multiplied by a multiplication factor (m\textsubscript{s}) which is 3 at minimum.

Article 93 A commercial bank calculating capital charge for specific risk by using the Internal Models Approach shall use the internal models to calculate the capital charge for incremental risk pursuant to the provisions of Annex 11 of the Rules.

Where the bank’s internal models do not meet the eligibility criteria for calculating the specific risk, or fail to cover the incremental risk, the standardized measurement method shall be used to calculate the capital charge for specific risk.

**Chapter VI Calculation of Operational Risk Weighted Assets**

**Section 1 General Requirements**

Article 94 The term “operational risk” mentioned in the Rules refers to the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This definition includes legal risk, but excludes strategic and reputational risk.

Article 95 A commercial bank may choose one of the three methods to calculate operational risk capital requirement, i.e. the Basic Indicator Approach, the Standardized Approach and the Advanced Measurement
Approach.

The bank adopting the Standardized Approach or the Advanced Measurement Approach for the calculation of operational risk capital requirement shall conform to the provisions of Annex 12 of the Rules and be subject to approval by the CBRC.

Without the prior approval by the CBRC, the bank may not change the method for calculating the operational risk capital requirement.

Article 96 Operational risk weighted assets for a commercial bank shall be 12.5 times of operational risk capital charge, i.e. operational risk weighted assets = operational risk capital charge x 12.5.

**Section 2 Basic Indicator Approach**

Article 97 A commercial bank adopting the Basic Indicator Approach shall calculate the operational risk capital requirement on the basis of the bank’s annual gross income. The gross income shall be determined pursuant to the provisions of Annex 12 of the Rules.

Gross income is the sum of net interest income and net non-interest income.

Article 98 A commercial bank adopting the Basic Indicator Approach shall calculate the operational risk capital requirement by using the following formula:

\[ K_{BIA} = \frac{\sum_{i=1}^{n} (GI_i \times \alpha)}{n} \]

Where:

- \( K_{BIA} \) is the capital charge under the Basic Indicator Approach;
- \( GI \) is the annual gross income, where positive, over the previous three years;
- \( n \) is the number of the previous three years for which gross income is positive;
- \( \alpha \) is 15%.
Section 3 The Standardized Approach

Article 99 A commercial bank adopting the Standardized Approach shall calculate the operational risk capital requirement on the basis of gross income generated in various business lines.

Article 100 A commercial bank adopting the Standardized Approach shall categorize its activities into nine business lines, i.e. corporate finance, trading & sales, retail banking, commercial banking, payment & settlement, agency services, asset management, retail brokerage, and other activities.

Article 101 A commercial bank adopting the Standardized Approach shall calculate the operational risk capital requirement by using the following formula:

\[
K_{TSA} = \frac{\left\{ \sum_{i=1}^{3} \max \left[ \sum_{t=1}^{9} (GI_i \times \beta_t), 0 \right] \right\}}{3}
\]

Where:

- \(K_{TSA}\) is the capital charge under the Standardized Approach.
- \(\max \left[ \sum_{t=1}^{9} (GI_i \times \beta_t), 0 \right]\) is the capital charge, where positive, for the operational risk in various years.
- \(GI_i\) is the gross income for various business lines.
- \(\beta_t\) is a fixed percentage, relating the level of required capital to the level of the gross income for each of the business lines.

Article 102 The for various business lines is defined as follows:

1. for retail banking, asset management and retail brokerage, the is 12%;
2. for commercial banking and agency service, the is 15%; and
3. for corporate finance, payment & clearing, trading & sales, and other activities, the is 18%.
Section 4 Advanced Measurement Approach

Article 103 A commercial bank adopting the Advanced Measurement Approach may choose the operational risk measurement models in accordance with the business scale and sophistication, product complexity, and risk management capability of the bank.

Article 104 A commercial bank adopting the Advanced Measurement Approach shall develop the operational risk measurement models on the basis of internal loss data, external loss data, scenario analysis, business operating environment and internal control factors. The internal loss data used for model development shall sufficiently reflect the actual profile of the bank’s operational risk.

Chapter VII Internal Capital Adequacy Assessment Process

Section 1 General Requirements

Article 105 A commercial bank shall establish firm-wide risk management framework and sound internal capital adequacy assessment process (ICAAP), develop clearly defined risk governance structure, prudently assess various risks, capital level and capital quality, develop capital planning and capital adequacy management plan, and thereby ensuring that the bank holds adequate capital to support its risks and ongoing business operations.

Article 106 The ICAAP of a commercial bank shall achieve the following objectives:
   1. Ensuring that all major risks are identified, measured or assessed, monitored and reported;
   2. Ensuring that the level of capital is commensurate with risk appetite and risk management capacity; and
   3. Ensuring that capital planning is in line with the status and trend
of the bank’s operational and risk profile, as well as the bank’s long-term development strategy.

Article 107 A commercial bank shall use stress testing as an important part of the ICAAP, which should be an indication of how much capital the bank needs to hold. Stress testing shall cover the principal risks of various business lines and take into full account the impact of economic cycle on the bank’s capital adequacy ratios.

Article 108 A commercial bank shall use the ICAAP as a component of internal management and decision making process and apply the result of the ICAAP in capital budgeting and allocation, credit decision making and strategic planning.

Article 109 A commercial bank shall develop reasonable compensation policies and make sure the compensation level, mixture and payout schedule are commensurate with the profile and the time horizon of risks, and reflect risk-adjusted level of long-term benefits, thus discouraging excessive risk-taking and maintaining financial stability.

Article 110 A commercial bank shall conduct the ICAAP on annual basis, and promptly review and update the ICAAP in the event of major changes in operating conditions, risk profile and external environment.

**Section 2 Corporate Governance**

Article 111 The board of directors of a commercial bank has the primary responsibility for the management of the bank’s capital by performing the following duties:

1. Setting the bank’s risk appetite and the desirable capital level commensurate with the bank’s development strategy and external environment, approving the bank’s ICAAP, and ensuring that capital is adequate in light of all major risks;

2. Approving the bank’s capital management policies and ensuring the bank’s compliance with the capital management policies and controls;
3. Monitoring the implementation of the bank’s ICAAP to ensure that it is comprehensive, forward-looking and effective;

4. Approving and monitoring the implementation of the bank’s capital planning to make sure that the bank’s needs for going-concern and contingency capital replenishment are satisfied;

5. Approving the bank’s capital management plans, reviewing the capital management report and the ICAAP report, and reviewing the audit reports on capital management and the implementation of the ICAAP, at least once a year;

6. Approving the policies, procedures and coverage for information disclosure of bank’s capital adequacy, and ensuring the integrity, accuracy and completeness of the disclosed information; and

7. Ensuring that the bank has sufficient resources to support the independent and effective performance of capital management functions.

Article 112 Where a commercial bank adopts advanced capital measurement approaches, its board of directors shall be responsible for approving the relevant frame work plans and the related management policies, overseeing the senior management in developing and implementing the policies and processes for the implementation of the advanced approaches, and ensuring that the bank has sufficient resources to support the implementation of the advanced approaches.

Article 113 The senior management of a commercial bank, by performing the following duties, shall be responsible for executing the bank’s capital management plans in consistency with the bank’s business strategies and risk appetite to ensure that the level of capital is commensurate with the status and trend of the bank’s business development and risk profile and that the various related controls are in place.

1. Developing and implementing the capital management policies and procedures;

2. Developing and implementing the ICAAP, clearly defining the roles and responsibilities of the related functions, and establishing and
improving the capital assessment framework, process and management policies, all in line with the policies and processes for the bank’s overall risk management, capital measurement and allocation;

3. Developing and implementing the bank’s capital planning and capital management plan;

4. Assessing the bank’s capital adequacy on regular or ad hoc basis, reporting to the board of directors the capital levels, capital management performance and the results of the ICAAP;

5. Organizing and performing stress tests, taking part in identifying the stress testing objectives, schemes and major scenarios, promoting the use of stress testing results in the bank’s risk assessment and capital planning, and ensuring the effectiveness of the bank’s contingency capital replenishment mechanism; and

6. Organizing the development and maintenance of the information system for the ICAAP to ensure that the system provides timely and accurate information required for the assessment.

Article 114 Where a commercial bank adopting advanced capital measurement approaches, its senior management shall regularly assess the reasonability and effectiveness of the approaches and the related tools, regularly discuss and review the reports on the validation of advanced capital measurement approaches, and perform the duties of developing, validating and continuously optimizing the advanced capital measurement framework.

Article 115 The supervisory board of a commercial bank shall oversee and evaluate the duty performance of the board of directors and senior management in capital management and the management of the advanced capital measurement approaches, and report to the general meeting of shareholders the duty performance of the board of directors and senior management at least once a year.

Article 116 A commercial bank shall designate the internal department(s) to perform the following capital management duties:
1. Developing the plans pertaining to the level, composition and quality of the bank’s capital, preparing and implementing the capital planing and capital management plans, reporting to the senior management the implementation performance of the capital planning and capital management plans.

2. Continuously monitoring and regularly calculating the capital adequacy ratios, and conducting stress tests on capital adequacy;

3. Developing the framework for the assessment and management of internal capital measurement, allocation and the calculation of the risk-adjusted returns;

4. Organizing the implementation of the ICAAP;

5. Developing the contingency capital replenishment mechanism, taking part in or organizing the capital raising activities; and

6. Preparing or taking part in preparing the capital adequacy information disclosure documents.

Article 117 Where a commercial bank adopts advanced capital measurement approaches, the designated department(s) shall perform the following additional duties:

1. Designing, implementing, monitoring and maintaining the advanced capital measurement approaches;

2. Improving the mechanism for the management of advanced capital measurement approaches;

3. Reporting to the senior management the measurement results; and

4. Organizing and conducting stress tests of various types.

Article 118 A commercial bank adopting advanced capital measurement approaches shall set up a validation department (team) responsible for validating advanced capital measurement approaches. The department (team) shall operate independently of the department (team) responsible for developing and operating the advanced capital measurement approaches.

Article 119 A commercial bank shall clearly define the duties and
responsibilities of its internal auditing function on capital management, which shall cover at least the following:

1. Assessing the bank’s corporate governance for capital management, the duty performance of the related functions, the professional skills of the staff, and the related resource sufficiency;

2. Reviewing the policies on the ICAAP and their implementation at least once a year;

3. Assessing the implementation of capital planning at least once a year;

4. Assessing the implementation of capital management plans at least once a year;

5. Reviewing the compliance and effectiveness of information system and data management pertaining to capital management; and

6. Submitting to the board of directors the audit reports on capital management, the audit reports on the implementation of ICAAP, and the audit reports on the management of advanced capital measurement approaches.

Article 120 Where a commercial bank adopts advanced capital measurement approaches, its internal auditing department shall also assess the viability and effectiveness of the advanced capital measurement approaches, examine the reliability and accuracy of measurement results, review the validation policies and procedures, and evaluate the independence and effectiveness of validation activities.

**Section 3 Risk Assessment**

Article 121 A commercial bank shall, pursuant to the relevant requirements of the CBRC and the provisions of Annex 13 of the Rules, develop the criteria for the identification and assessment of the major risks, with a view to ensuring the timely identification, prudent assessment and effective monitoring of all material risks.

The major risks include both the risks that may cause severe losses by themselves, and the low-severity risks that may lead to material losses when compounding with other risks. Risk assessment shall at least cover
the following types of risk:

1. Risks already covered and mentioned in Chapter IV, Chapter V and Chapter VI of the Rules, including credit risk, market risk and operational risk;

2. Risks mentioned but not fully covered in Chapter IV, Chapter V and Chapter VI of the Rules, including concentration risk and residual operational risk;

3. Risks not mentioned in Chapter IV, Chapter V and Chapter VI of the Rules, including interest rate risk in the banking book, liquidity risk, reputational risk, strategic risk and other risks with material impact on the bank; and

4. Risks resulted from changes in the bank’s external operating environment.

Article 122 A commercial bank shall effectively assess and manage various major risks as follows:

1. For the risks that may be quantified the bank shall develop and improve risk measurement techniques to ensure consistency, integrity and accuracy of the measurement of such risks, and on this basis strengthen the mitigation, control and management of the risks; and

2. For the risks that are difficult to quantify, the bank shall establish mechanisms for the identification, assessment, control and reporting of such risks, with a view to ensuring effective management of the risks.

Article 123 A commercial bank shall establish risk aggregation policies and procedures to ensure prompt identification of risks at various levels. The bank may adopt different kinds of risk aggregation methods, which at least cover the simple sum method without considering hedge and diversification effects, and the bank shall evaluate the reasonableness and prudence of risk aggregation results.

Article 124 A commercial bank shall take into full account the concentration risk and the contagion effects across risks when aggregating the risks. Where the bank takes into account the risk
diversification effect, the long-term empirical data should be used with the observation period of the data at least covering an entire economic cycle. Otherwise, the bank shall make prudent adjustments to risk aggregation methods and assumptions.

**Section 4 Capital Planning**

Article 125 A commercial bank shall develop capital planning by comprehensively considering risk assessment results, future capital needs, regulatory capital requirements and capital accessibility, with a view to ensuring that the bank’s capital level constantly meets the regulatory requirements. Capital planning shall at least cover the internal capital targets for 3 years.

Article 126 In its capital planning, a commercial bank shall make sure that its capital targets are commensurate with the bank’s business development strategy, risk appetite, risk management capacity and external operating environment. The planning shall also take into account both short-term and long-term capital needs and consider long-term sustainability of various sources for capital replenishment.

Article 127 In its capital planning, a commercial bank shall be prudent in estimating the fluctuations in its asset quality, profit growth and capital markets, and take into account all the factors that may lead to the material negative impact on the bank’s capital level, including the contingent risk exposures, the protracted severe recessions and other events of which the incurred risks are beyond the affordability of the bank.

Article 128 A commercial bank shall, in replenishing its capital, give priority to the raising of the Common Equity Tier 1 capital, enhancing its internal capital accumulation capability, improving capital structure and quality.

Article 129 A commercial bank shall, via stringent and forward-looking stress testing, calculate capital needs and availability
under different stress scenarios, and develop contingency plans to meet the unexpected capital needs, with a view to ensuring that the bank has adequate capital to withstand any adverse movements in market conditions.

With the results of stress tests under severe scenarios, the bank shall specify, in its capital contingency plans, corresponding capital-raising and response schemes where the capital-raising channels shall be reasonably designed by fully considering the potential liquidity changes in financial markets. The capital contingency plans of the bank shall cover, among others, cost and feasibility analysis of emergency capital raising, restrictions on the development of capital-intensive businesses, and the adoption of risk mitigation measures.

The senior management of the bank shall fully understand the potential risks under stress conditions as well as the interactions across such risks, the capacity of the bank’s capital instruments to absorb losses, and the bank’s business continuity plans. The senior management shall also assess whether the bank’s capital targets and the capital replenishment arrangements are reasonable and feasible.

**Section 5 Monitoring and Reporting**

Article 130 A commercial bank shall establish a reporting system on the ICAAP, which serves to monitor and report on a regular basis both the bank’s capital level and the trend of changes in the factors that may affect the bank’s capital level. The related reports shall at least cover the following:

1. Evaluation of the level and trend of material risks and the effect of these risks, the bank’s strategic goals and the impact of external environment on capital level;
2. Assessment of whether the bank is holding adequate capital to withstand material risks; and
3. Recommendations to ensure sufficient coverage of material risks by capital.

The bank shall clearly define the distribution scope, contents and the level of detail for each type of the related reports in accordance with the
materiality and intention of the type, with a view to ensuring that the information and frequency of the related reports are adequate for the purpose of capital management.

Article 131  A commercial bank shall have in place the management information systems for the measurement and management of risks and capital. Such systems shall perform the following functions:

1. Clearly and promptly providing the overall risk information to the board of directors and senior management;

2. Accurately and promptly aggregating the risk exposures in various business lines and providing the risk measurement results;

3. Supporting the dynamic identification of concentration risk and other potential risks;

4. Identifying, measuring and managing various risk mitigation tools as well as the risks arising from risk mitigation;

5. Supporting the multi-dimensional assessment of the uncertainties of the bank’s risk measurement, and evaluating the impact caused by the potential changes in the key risk assumptions;

6. Supporting the forward-looking scenario analysis, and assessing the impact of market changes and stress scenarios on capital levels; and

7. Monitoring and reporting the execution of risk limits.

Article 132  A commercial bank shall systematically collect, sort, track and analyze various risk data, establish data warehouse and risk data mart and the relevant information system for accessing, cleaning, converting and storing data, and put in place data quality control policies and procedures to ensure the integrity, comprehensiveness, accuracy and consistency of data and satisfy the needs of capital measurement and the conduct of the ICCAP.

Article 133  The internal information system of a commercial bank shall be able to provide the required supervisory returns on capital adequacy as well as the capital information disclosure function.
Article 134 A commercial bank shall have in place the complete documentation to support the internal audit department and the CBRC in the assessment of the bank’s capital management. The documents shall at least include the following:

1. Documents on the responsibilities, independence and duty performance of the bank’s board of directors, senior management and related departments/functions;
2. Documents on the bank’s capital management and risk management policies and processes;
3. Documents on capital planning, capital management plans, the ICCAP reports, risk measurement model validation reports, stress testing reports, audit reports and other related important reports; and
4. Meeting minutes and important decisions on capital management.

Chapter VIII Supervisory Review

Section 1 Contents of Supervisory Review

Article 135 Supervisory review on the commercial bank’s capital adequacy is an integral part of the CBRC’s prudential supervisory framework.

Article 136 The CBRC shall, in light of the changes in macro economic conditions, industrial policies and credit risks, identify material systemic risks and raise specific capital requirements on certain asset portfolio(s).

Article 137 The CBRC shall review and evaluate a commercial bank’s capital level to ensure that it is adequate to cover all material risks. The supervisory review on the bank’s capital adequacy includes but not limited to the following items:

1. Assessing the bank’s overall risk management framework;
2. Reviewing the composition of the bank’s capital instruments, the methods and results of risk-weighted assets calculation, and thereby assessing appropriateness and accuracy of the calculation of the bank’s
capital;

3. Reviewing the bank’s ICCAP, and evaluating the bank’s corporate
governance, capital planning, internal controls and auditing; and

4. Assessing various risks facing the bank, including, among others,
credit risk, market risk, operational risk, interest rate risk in the banking
book/liquidity risk, reputational risk and strategic risk, and reviewing the
conduct of stress tests by the bank.

Article 138  A commercial bank adopting advanced capital
measurement approaches shall file the application to the CBRC pursuant
to the provisions of Annex 14 of the Rules.

Article 139  The CBRC shall assess a commercial bank’s application
for adopting advanced capital measurement approaches pursuant to the
provisions of Annex 14 of the Rules, and make decision on whether or
not to approve the application based on the assessment results. Once
deciding to approve the bank to adopt the advanced approaches, the
CBRC shall continuously perform supervisory review on the application
and validation of the advanced approaches.

Article 140  Where a commercial bank fails to meet the requirements
on the continued use of the advanced capital measurement approaches as
specified in the Rules, the CBRC has the right to require correction
within a prescribed timeframe. Where the bank fails to correct as required
within the timeframe, the CBRC has the right to revoke the qualification
of the bank for using the advanced capital measurement approaches.

Section 2 Supervisory Review Process

Article 141  The CBRC shall establish the banking capital supervision
taskforce to perform the following tasks:

1. Assessing the major systemic risks facing the banking sector and
developing recommendations concerning Pillar 2 capital requirements on
specific asset portfolio;

2. Developing the master plan for reviewing and evaluating the
capital adequacy of commercial banks, and coordinating and overseeing
the conduct of the supervisory review on the bank’s capital adequacy;

3. Reviewing and making decisions on the regulatory capital
requirements for a commercial bank; and

4. Handling the defense filed by the bank regarding the results of
supervisory review to ensure the fairness and accuracy of the review
process and results.

Article 142 The CBRC shall conduct supervisory review on a
commercial bank’s capital adequacy by means of off-site surveillance and
on-site examinations.

In addition to the regular supervisory review process, the CBRC may,
in light of changes in the bank’s internal conditions or external market
environment, carry out ad hoc review and examination on the bank’s
capital.

Article 143 A commercial bank shall submit to the CBRC the ICAPP
report within four months after the end of a year.

Article 144 The CBRC shall go through the following procedures
when conducting supervisory review on a commercial bank’s capital
adequacy:

1. Review the ICAAP report submitted by the bank and develop the
supervisory review plan;

2. Conducting the on-site examinations on the bank’s capital
pursuant to the risk assessment criteria specified in Annex 13 of the
Rules;

3. Determining the preliminary regulatory capital requirements
based on the review results;

4. Communicating with the bank’s senior management about the
review findings, and delivering the review results to the bank’s board of
directors in writing; and

5. Overseeing the bank on continuously meeting the regulatory
capital requirements.
Article 145  A commercial bank may, within 60 days after receiving the supervisory review results on capital adequacy, file defense in writing to the CBRC. Where a bank having not filed the written defense within 60 days after receiving the supervisory review results, the bank shall be deemed to have accepted the results.

The bank filing the written defense shall submit to the CBRC its defense resolution endorsed by the board of directors, the detailed explanations for raising the defense and the related supporting documents

Article 146  The CBRC shall accept and review the written defense filed by a commercial bank, and verify the relevant issues as appropriate.

The CBRC shall, within 60 days after accepting the written defense filed by the bank, give written reply on whether the defense is agreed or not and provide reasons thereof.

Article 147  While the CBRC is reviewing the written defense filed by a commercial bank, the bank in question shall comply with the regulatory capital requirements determined after the supervisory review and take appropriate corrective actions as required by the CBRC.

Article 148  A commercial bank shall report to the CBRC both the solo and consolidated capital adequacy ratios. The consolidated capital adequacy ratios shall be submitted semi-annually and the solo ratios be submitted quarterly.

The bank shall promptly report to the CBRC any material events that may affect the bank’s capital adequacy ratios.

Section 3 Pillar 2 Capital Add-on

Article 149  Where a commercial bank has had in place the ICAAP and such process has met the requirements specified in the Rules, the CBRC shall refer to the ICAAP results in determining the regulatory capital requirements on the bank. Where a commercial bank has not had in place
the ICAAP or such process has not met the requirements specified in the Rules, the CBRC shall determine the regulatory capital requirements on the bank based on the results of supervisory assessments on the bank’s risk profile.

Article 150  The CBRC has the right to increase the regulatory capital requirements for operational risk on a commercial bank’s in light of the bank’s operational risk capacity and the occurrence of operational risk events.

Article 151  The CBRC has the right to increase the capital requirements on specific asset portfolio by making adjustments to the risk weights, correlation coefficient and effective maturity, which may include but not limited to the following:

1. Determine the capital charge for concentration risk pertaining to the loans to the local government funding platforms by taking into account the cash flow coverage of the underlying projects as well as the different risk profiles of different regions;
2. Determine the capital charge for mid- and long-term exposures by making adjustment to the maturity;
3. Determine the capital charge for concentration risk in certain sectors by taking into account the concentration of exposures to the sectors; and
4. Increase the capital requirements on residential mortgages by taking into account the risks arising from the speculative use of residential mortgages where the underlying property is not resided by the borrower.

Section 4 Supervisory Actions

Article 152  The CBRC has the right to take supervisory actions against a commercial bank that fails to meet the regulatory capital requirements, and to urge the bank to increase its capital level.

Article 153  The CBRC shall classify a commercial bank into one of
the following four categories in light of the status of the bank’s capital adequacy:

1. Category 1 cover those banks whose capital adequacy ratio, Tier 1 capital adequacy ratio and Common Equity Tier 1 capital adequacy ratio have met the capital requirements at all levels specified in the Rules;

2. Category 2 cover those banks whose capital adequacy ratio, Tier 1 capital adequacy ratio or Common Equity Tier 1 capital adequacy ratio has not satisfied the Pillar 2 capital add-on but have met all the other capital requirements;

3. Category 3 cover those banks whose capital adequacy ratio, Tier 1 capital adequacy ratio and Common Equity Tier 1 capital adequacy ratio have met the corresponding minimum requirements, but have not satisfied any of the other capital requirements; and

4. Category 4 cover those bank whose capital adequacy ratio, Tier 1 capital adequacy ratio or Common Equity Tier 1 capital adequacy ratio has not satisfied the corresponding minimum requirements.

Article 154 For a commercial bank falling into Category 1, the CBRC shall support the sound business development of the bank, and may take the following early warning supervisory measures with a view to preventing the rapid decline in the bank’s capital level:

1. Requiring the bank to intensify the analysis on the reasons in the event of decline in capital;

2. Requiring the bank to develop feasible and practical capital management plans; and

3. Requiring the bank to improve its risk control capability.

Article 155 For a commercial bank falling into Category 2, the CBRC shall, in addition to the supervisory measures specified in Article 154 of the Rules, take the following supervisory actions:

1. Arranging a prudential supervisory meeting with the bank’s board of directors and senior management;

2. Issuing a letter of supervisory opinions, which shall include, among others, the deficiencies of the bank’s capital management, the
proposed corrective actions and the correction deadline;

3. Requiring the bank to prepare feasible and practical plans for capital replenishment and for correction within the deadline;

4. Increasing the frequency of supervisory review on the bank’s capital adequacy; and

5. Requiring the bank to adopt risk mitigation measures for specific portfolios.

Article 156 For a commercial bank falling into Category 3, the CBRC shall, in addition to the supervisory measures and actions specified in Article 154 and Article 155 of the Rules, take the following supervisory actions:

1. Restricting the bank from paying out dividend and other income;

2. Restricting the bank from offering any forms of incentives to the board of directors and senior managers;

3. Restricting the bank from making equity investment or capital instruments buybacks;

4. Restricting the bank from major capital expenditure; and

5. Requiring the bank to control the growth of risk assets.

Article 157 For a commercial bank falling into Category 4, the CBRC shall, in addition to the supervisory measures and actions specified in Article 154, Article 155 and Article 156 of the Rules, take the following supervisory actions:

1. Requiring the bank to significantly reduce the size of risk assets;

2. Ordering the bank to stop all high-risk businesses;

3. Restricting or prohibiting the bank from establishing new offices or opening new businesses;

4. Requiring the bank to write off its Tier 2 capital instruments or convert them into common stock;

5. Ordering the bank to remove or restrict the rights of the directors and/or senior managers; and

6. Exercising that ake-over or initiating the restructuring of the bank, or in the worst scenario issuing the cease and desist order, pursuant to
applicable laws and regulations.

For the bank falling into Category 4, the CBRC may also take other necessary actions in light of the external factors.

Article 158 Where a commercial bank, in accordance with the provisions of the Rules, fails to file the capital adequacy returns or reports, fails to disclose information properly, provides false statements and/or reports, or intentionally conceals the material facts in the statements and/or reports, the CBRC shall impose sanctions pursuant to the applicable provisions of the Law of People’s Republic of China on Banking Regulation and Supervision.

Article 159 In addition to the afore-mentioned supervisory measures and actions, the CBRC may take other actions pursuant to the Law of People’s Republic of China on Banking Regulation and Supervision, and other applicable laws, regulations and rules.

Chapter IX Information Disclosure

Article 160 A commercial bank shall disclose relevant information to investors and the public through open channels, with a view to ensuring the information is aggregated and publicly accessible.

Article 161 Information disclosed by a commercial bank regarding its capital adequacy shall at least include the following:

1. Risk management framework that covers the objectives, policies, processes, organizational structure and functions of the related departments for the management of credit risk, market risk, operational risk, liquidity risk and other material risks;
2. Scope of capital calculation;
3. Amount and structure of capital instruments, and capital adequacy ratios at various tiers;
4. Measurement approaches for credit risk, market risk and operational risk, the major changes in risk measurement framework, and the related changes to capital requirements;
5. Qualitative and quantitative information pertaining to the exposures of and exposure assessment for credit risk, market risk, operational risk and other material risks;

6. Information pertaining to the ICAAP and other factors that may impact capital adequacy ratios; and

7. Qualitative and quantitative information pertaining to compensation practices.

The bank shall sufficiently disclose capital adequacy information pursuant to the provisions in Annex 15 of the Rules.

Article 162 A commercial bank shall ensure the integrity, accuracy and completeness of the disclosed information.

Article 163 The Rules set the minimum requirements on capital adequacy information disclosure by a commercial bank, and the bank shall, under the principle of sufficient disclosure, make timely adjustment to disclosure items pursuant to the changes of applicable supervisory policies.

Article 164 A commercial bank adopting advanced capital measurement approaches shall, during the parallel run period, at least disclose the qualitative information specified in the Rules and quantitative information about the bank’s capital floor.

Article 165 The commercial bank is not required to disclose specific information of proprietary or confidential items, but shall disclose the general information on the items, together with the reasons why the specific information are not disclosed.

Article 166 A commercial bank shall disclose the information on ad hoc basis, as well as on a quarterly, semi-annual or annual basis. The bank shall make ad hoc information disclosure as soon as practicable, make the quarterly and semi-annual information disclosure within 30 business days after the end of each period; and make annual information
disclosure within four months after the end of each accounting year. Where the bank is unable to make disclosure as scheduled due to exceptional reasons, it shall file an application to the CBRC for postponing disclosure at least 15 days in advance.

Article 167 A commercial bank shall disclose relevant information respectively at the following frequencies:

1. Information about changes in paid-in capital or common stock and other capital instruments shall be disclosed as soon as practicable;

2. Important information concerning, but not limited to, Common Equity Tier 1 capital, Tier 1 capital and total capital net of regulatory deductions, minimum capital requirement, conservation buffer and countercyclical buffer, capital surcharge for the systemically important banks: Common Equity Tier 1 capital adequacy ratio, Tier 1 capital adequacy ratio and total capital adequacy ratio, shall be disclosed on a quarterly basis; and

3. Important information concerning, but not limited to, the scope of capital adequacy calculation, total amount of credit risk exposures, total amount of overdue and non-performing loans, loan loss provisions, net exposures after mitigation of credit risk portfolio, net exposures of asset securitization, capital charge for market risk, end period Value-at-Risk and average Value-at-Risk for market risk, capital charge for operational risk, equity investment and the related loss/profit, interest rate risk in the banking book shall be disclosed on a semi-annual basis.

Article 168 A commercial bank that meets following qualifications may use a simplified disclosure template with the approval of the CBRC, provided that the bank has met the general requirements on information disclosure:

1. Having the deposits outstanding of less than RMB 200 billion;

2. Not listed in domestic or overseas market; and

3. Not involved in cross-provincial operations.
Chapter X  Supplementary Provisions

Article 169  The Rules may apply, where relevant, to the rural cooperative banks, village/township banks, rural credit cooperatives, rural mutual cooperatives, lending companies, finance companies of enterprise groups, consumer finance companies, financial leasing companies, and auto finance companies. The Chinese branches of foreign-funded banks shall refer to the risk weights provided in the Rules in calculating the RMB-denominated risk weighted assets.

Article 170  The term “advanced capital measurement approaches” mentioned in the Rules include the Internal Ratings-based Approach for credit risk, the Internal Models Approach for market risk and the Advanced Measurement Approach for operational risk. A commercial bank adopting advanced capital measurement approaches shall establish the framework for validating these approaches pursuant to the provisions of Annex 16 of the Rules.

Article 171  The CBRC will determine the parallel run period for a commercial bank approved to adopt the advanced capital measurement approaches. The parallel run period shall last for at least three years starting from the end of the year when the bank is approved to adopt the advanced approaches. During the parallel run period, the bank shall calculate its capital adequacy ratios under both advanced approaches and standardized approaches, and shall conform to the capital floor requirements as specified in Annex 14 of the Rules.

Capital floor adjustment coefficients are set at 95%, 90% and 80% respectively for Year one, Year two and Year three of the parallel run period.

During the parallel run period, if the bank’s actual loan loss provisions exceed the bank’s expected losses, the amount of excess loan loss provisions capped by the provisioning coverage ratio of 150% are qualified as Tier 2 capital up to 0.6% of credit risk weighted assets; the amount of excess loan loss provisions beyond the cap of 150% are all qualified as Tier 2 capital.
Article 172  Commercial banks shall meet the regulatory capital requirements provided in the Rules no later than the end of 2018 while commercial banks are also encouraged to meet the requirements at an earlier date.

Article 173  During the phase-in period, a commercial bank shall develop and implement the feasible and practical plans for complying with the capital requirements and submit the plans to the CBRC for approval. The CBRC will take appropriate supervisory actions based on the bank’s performance to carry out the plans.

Article 174  During the phase-in period, a commercial bank shall calculate and disclose its capital adequacy ratios both on solo and consolidated basis pursuant to both the Rules on Capital Adequacy of Commercial Bank and the Rules.

Article 175  During the phase-in period, a commercial bank may disclose the relevant information by using a simplified template, but shall at least disclose the key information including the scope of capital adequacy calculation, capital instruments at different tiers and the corresponding regulatory deductions, risk weighted assets for credit risk, market risk and operational risk, compensation practices, and the capital instruments and regulatory adjustments qualified for transitional arrangements.

Article 176  For a commercial bank calculating capital adequacy ratios on a consolidated basis, where the amount of minority interest qualified to be included in the components of capital is reduced because of the adoption of new criteria, the amount for inclusion may be phased in as such: 20% be excluded from the relevant component of capital in the first year; 40% in the second year; 60% in the third year; 80% in the fourth year; and 100% in the fifth year.
Article 177 While the rating symbols of Standard & Poor's are referred to in the Rules, no requirements are provided on the selection of external credit rating agencies by a commercial bank; the use of external ratings by commercial banks shall conform to the provisions of Annex 17 of the rules and shall maintain consistency in this respect.


1. Annex 1: Eligibility Criteria for Capital Instruments;
5. Annex 5: Supervisory Requirements on IRB Approach;
7. Annex 7: Calculation Rules for Specialized Lending Exposures
8. Annex 8: Calculation Rules for Counterpart Credit Risk Exposures;
15. Annex 15: Requirements on Information Disclosure;

Article 179 The power of interpretation of the Rules shall be vested in the CBRC.