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2015 ANNUAL REPORT
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In 2015, facing the complex and challenging international economic and financial situation as well as the downward pressure on domestic economy, the CBRC actively adapted to, grasped and led the new normal of China’s economy under the strong leadership of the CPC Central Committee and the State Council. Taking into account the arrangements as well as major concerns of the central government regarding economic and financial work, the CBRC put forward a series of enabling regulatory policies for the banking sector to deepen reform and realize sound development. The CBRC guided banking institutions to firmly capture the opportunities and actively rise to the challenges under this new normal, and achieved notable progress in pushing forward the reform, growth and supervision of the banking industry.

The CBRC remained committed to the fundamental goal of promoting the banking sector to better serve the real economy, and vigorously supported the real economy to grow better and stronger. As President XI Jinping emphasized, we should always bear in mind the growth of the real economy and the development of enterprises with core competitiveness when making and implementing economic policies, so as to lay a solid foundation for China’s market economy. Through asset securitization and NPL disposal, the CBRC revitalized
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over RMB 1 trillion loans. These loans, together with the incremental capital, were mainly invested in supporting key projects of the three strategies (i.e. the Belt and Road Initiative, the coordinated development of Beijing, Tianjin and Hebei, and the Yangtze River Economic Belt Initiative) as well as weak areas including micro and small enterprises (MSEs) and agro-related developments. Chinese banks were supported to improve their overseas network, and made-in-China products and equipment as well as Chinese enterprises were encouraged to "go global". The CBRC actively explored counter-cyclical regulatory policies, and changed the regulatory indicator of "loan-to-deposit ratio" into a monitoring one, thus addressing the impact of banks’ month-end deposit hike on the real economy. The CBRC supported the establishment of special construction fund and railway development fund, alleviating the constraints of concentration requirements for granting loans to relevant sectors. As for shantytown renovation projects, the differentiated regulatory policies were adopted for loan collection and re-lending so as to motivate the banking sector to support those projects. The banking sector was encouraged to explore “One Enterprise, One Policy” loan mechanism to avoid the one-size-fits-all practice of simply withholding, withdrawing or terminating loans, and support enterprises with promising futures to tide over short-term difficulties. The overall policy framework for inclusive finance was improved, with continuous fee concessions offered to cut social financing cost and the “three no lower than” targets for MSE loans met, thereby effectively improving financing availability and affordability as well as financial inclusiveness. Through timely policy pre-adjustment and fine-tuning, banking institutions were better at revitalizing the idle capital and utilizing the incremental capital, and therefore contributed more effectively to the growth and restructuring of the real economy as well as people’s welfare.

The CBRC defended the bottom line of no systemic or regional financial risks by seeking risk mitigation while pursuing development. As Premier LI Keqiang noted, we need to maintain sound financial operation, effectively control and mitigate financial risks, and guide and stabilize social expectations. The CBRC continuously strengthened risk monitoring and early warning, and followed the principle of “risk transparency, segregation and controllability” to prevent and control the contagion of cross-sector and cross-market risks. The CBRC facilitated the replacement of existing debts as well as follow-up financing in a lawful and compliant way, and disposed of non-performing assets in a bulk and market-based manner, thus enabling banking sector to withstand multiple pressures of economic downturn, corporate earnings drop, and capital market plunge. The CBRC placed equal emphasis on mitigating existing risks and preventing risks associated with key institutions or loans to key sectors like local government financing platforms (LGFPs), real estate and overcapacity industries. In the meantime, great attention was paid to preventing potential new risks while
mitigating existing ones. Therefore, positive developments were obtained in mitigating risks as well as in improving the long-term risk control mechanism. In response to the capital market volatilities, the CBRC launched relevant measures in time to avoid the contagion of market risks. Rules on liquidity risk management were amended and issued to highlight active liability management and information disclosure, with a view to improving commercial banks’ liquidity management capacity. The CBRC conducted special examinations including the “two reinforces and two contains” campaign (i.e. to reinforce internal controls and external monitoring while containing illegal operations and criminal activities) to severely punish any regulatory violations or breaches, thus reining in operational risks. The risk prevention in social financing was continuously enhanced, with remarkable achievements in risk identification of illegal fund-raising and thematic rectification. Thanks to the concerted efforts of multiple parties, the banking sector maintained safe and sound operation with risks well under control, thereby contributing greatly to the sustainable and sound social and economic development.

The CBRC insisted on seeking development, reform and innovation to address issues propping up on its way ahead, and facilitated the banking sector to deepen reform and further open up so as to inject more market vitalities. With the approval of the CPC Central Committee and the State Council, the CBRC promulgated the guiding opinions on reform and development of private banks, financing guarantee and financial leasing. We also rolled out Agricultural Bank of China’s practice of setting up the agro-related financial business unit and the pilot program of consumer finance companies nationwide. The formulation and implementation of reform plans for policy banks, China Development Bank, and Bank of Communications were facilitated, shareholding reform of the Postal Savings Bank of China achieved substantial progress, and four small- and medium-sized financial institutions were listed in Hong Kong. The rules for implementing the regulations on administration of foreign-funded banks were amended, relaxing the requirements for foreign banks to engage in RMB business. The banking supervisory policies for China (Shanghai) Pilot Free Trade Zone were applied to the other three free trade zones in Guangdong, Tianjin and Fujian. Through multi-dimensional and multi-tiered reform and innovations, the banking sector’s capacity was further improved in adapting to, grasping and leading the economic new normal.

The CBRC adhered to law-based regulation, and streamlining administration and delegating powers, with supervisory effectiveness continuously enhanced. Bearing in mind President XI’s instruction that one must be strong to forge iron, the CBRC tapped the unleashed potentials, and alleviated the conflict between insufficient regulatory resources and heavy regulatory tasks, with positive progress achieved. Through the restructuring of supervisory framework, the main supervisory focuses were highlighted, supervisory process and
Chairman’s Statement

procedures optimized, and regulatory resources more effectively utilized. A series of lists were compiled and published, specifying the scope of authorities, responsibilities and limitations of the CBRC and its departments, so as to improve regulatory transparency and ensure power exercised in an open way. The guiding opinions of the CBRC Party Committee on implementing the decisions of the CPC Central Committee were issued to improve law-based regulation. All the five administrative licensing regulations and implementation rules concerning banking institutions’ market access were amended, which further improved the process and procedures on off-site surveillance, on-site examinations and administrative penalties. On-site examinations were conducted to make them better targeted, more authoritative and effective. Regulatory effectiveness was increasingly improved as administration streamlining and power delegation further progressed and the combination of regulation and deregulation was further emphasized.

The CBRC always considered Party building as the key to bringing out the Party’s leadership role to its full. The CPC Central Committee emphasized that Party building should be the paramount performance indicator for government work. Party governance should be strict, and leadership of the Party committee should shoulder collective responsibilities with the Secretary assuming primary responsibilities and other leadership team members accountable for their respective work scopes. Following the principle of strict Party governance, the CBRC became more aware of the need to uphold political integrity, keep in mind the bigger picture, follow the CPC as the core of the Chinese leadership, act consistently with CPC Central Committee policy, so as to translate the Party’s political advantages into ideological, institutional and organizational advantages benefiting banking reform and development as well as supervisory work. The CBRC conducted educational campaigns on “Three Straights and Three Honests” (i.e. To be strict in cultivating one’s morality, using power, and exercising self-discipline; and to be honest in making decisions, doing business, and conducting oneself) and on “increasing Party awareness, obeying Party rules and strengthening Party discipline”, with a view to forming a positive political ecology featuring entrepreneurship and integrity. The CBRC comprehensively reviewed all cases of complaint letters, and maintained a high-handed posture to investigate into and prevent violations, so as to ensure that discipline and rules prevail. The election and appointment of leadership team as well as the monitoring and management mechanism were improved so as to ensure strict procedures for staff recruitment and appointment. Overall speaking, the CBRC scored positive progress and remarkable achievements in cultivating a management team equipped with iron-strong belief, conviction, discipline and responsibilities.

As a new year comes around, everything looks fresh and new. The year 2016 marks the beginning of the 13th Five Year Plan and the critical stage of comprehensively building
a moderately prosperous society, and also kick-starts the supply-side structural reform. Sound banking reform, development and supervision bear on China’s overall reform and development. The CBRC will further digest and implement the essence of the central government’s new theories, thinking and strategies on national governance, continue to actively conform to, grasp and lead China’s new normal, analyze the opportunities and challenges facing the banking sector, and follow the five development concepts on innovation, coordination, greenness, openness, and sharing. The CBRC will also adhere to the policy guidance of keeping macro policies stable, industrial policies targeted, micro policies flexible, and reform policies practical, while making sure social policies meet people’s basic needs. The CBRC will work to cut overcapacity and excess inventory, deleverage, reduce costs, and strengthen points of weakness. The CBRC will consolidate banking capital to support supply-side structural reform, cut social financing cost while optimizing financial services, and prevent major risks so as to defend the risk bottom line. Moreover, the CBRC will enhance Party building, improve Party leadership, and usher in a new era for China’s banking reform, development and supervision, thus contributing new financial impetus for China’s stable economic growth and sound social development.

尚福林

SHANG Fulin
Chairman of the CBRC
April 2016
About the CBRC

I. Our mandates, objectives & missions

**Mandates:** Regulating and supervising banking institutions and their business operations in China.

**Objectives:** To protect fair competition in the banking sector and enhance the industry’s competitiveness, and thereby promoting the safety and soundness of the banking sector and maintaining public confidence in the banking sector.

**Supervisory missions:** Protecting the interests of depositors and other customers and maintaining public confidence in the banking sector through prudential supervision; increasing public knowledge about modern financial products, services and the related risks through education and information disclosure; and reducing banking-related crimes to maintain financial stability.

II. Our philosophy, approach & criteria

**Principle:** Supervision by law, and supervision for the people.

**Supervisory philosophy:** Conducting consolidated supervision, ensuring the supervised institutions having in place effective risk management and internal control systems, and enhancing transparency.

**Supervisory approach:** Conducting risk-based prudential supervision to ensure accurate loan classification, sufficient loss provisioning, appropriate write-offs, acceptable profitability and adequate capital of banking institutions.

**Supervisory criteria:** Enabling financial stability while facilitating financial innovation; enhancing the international competitiveness of the banking sector; setting scientific and appropriate supervisory criteria and standards and refraining from unnecessary restrictions; encouraging fair and orderly competition; subjecting both the supervisors and supervised institutions to a strict and well-defined system of accountability; and allocating supervisory resources in a cost-efficient manner.

III. Code of conduct

In performing their official duties, the CBRC staff must:

1. NOT interfere in regulated banking institutions’ credit (including loans, guarantees, acceptances and discounts), asset disposal and project investment activities;
2. NOT interfere in the internal affairs of regulated banking institutions, such as human resources, constructions and bidding process; and
3. NOT accept any advantages from regulated banking institutions, such as servings, entertainments, vacations, cash, valuable securities, certificates of payments and other valuable gifts.
IV. Management

Chairman SHANG Fulin
Responsible for the overall work of the CBRC.
About the CBRC

Vice Chairman

ZHOU Mubin

Responsible for the supervision of large commercial banks, rural commercial banks, rural cooperative banks, rural credit cooperatives and new-type rural financial institutions, overseeing activities related to policy research, financial inclusion, anti-illegal fund raising (banking security & safeguard), and the coordination with the China Financing Guarantee Association and the China Micro-credit Companies Association.

Vice Chairman

GUO Ligen

Responsible for the supervision of banking information technology, overseeing the CBRC’s on-site examination, human resources management, the activities of the CPC Committee of the CBRC Headquarters, the Party School, the CBRC Staff Union, the CBRC Youth League Committee and the China Financial Staff Union.

Vice Chairman

WANG Zhaoxing

Responsible for the supervision of policy banks and foreign-funded banking institutions, overseeing activities related to prudential regulation, banking consumer protection, international affairs, and the coordination with the Large Financial Institutions Supervisory Board.

Disciplinary Commissioner

DU Jinfu

Responsible for the CBRC staff compliance and inspection.

Vice Chairman

CAO Yu

Responsible for legal & regulation affairs, the supervision of business and product innovation activities, joint-stock commercial banks, and city commercial banks, overseeing the CBRC accounting activities, the staff service function, affairs of the education base in Langfang, and the coordination with the China Central Depository & Clearing Co., Ltd.

Assistant Chairman

YANG Jiacai

Responsible for the supervision of trust companies and other non-bank financial institutions, overseeing the CBRC’s administrative affairs, publicity, and the coordination with the China Banking Association, the China Trustee Association, the China National Finance Companies Association, and the China Rural Finance Magazine.

Note: As of end-2015.
VII. International Advisory Council (IAC)

Established with the approval from the State Council, the IAC of the CBRC consists of well-known international financial specialists. The IAC provides consulting services on issues related to long-term development strategies of Chinese banking sector and banking supervision. The IAC members meet on a regular base.

Foreign IAC members

**Mr. Andrew Sheng**
Chief Advisor of the CBRC, former Chairman of the Hong Kong Securities and Futures Commission.

**Mr. Gerald Corrigan**
Chairman of Goldman Sachs Bank USA, former President of the New York Federal Reserve Bank.

**Sir Howard Davies**
Director of Prudential PLC, Chairman of the Royal Bank of Scotland (RBS), former Director of London School of Economics and Political Science, former Chairman of the U.K. Financial Services Authority.
Mr. Roger Ferguson
President and CEO of TIAA-CREF, former Vice Chairman of the Board of Governors of the Federal Reserve System (FED), former voting member of the Federal Open Market Committee, and former Chairman of the Financial Stability Forum.

Mr. Tom de Swaan
Chairman of Zurich Insurance Group Ltd., former Chairman of the Basel Committee on Banking Supervision (BCBS).

Ms. Sheila Bair
Chairman of the Systemic Risk Council, President of Washington College, former Chairman of Federal Deposit Insurance Corporation (FDIC).

Mr. Stuart Gulliver
Group Chief Executive of HSBC Holdings plc. Chairman of The Hongkong and Shanghai Banking Corporation (HSBC)

Mr. Jean-Claude Trichet
Former Governor of the Bank of France, former President of the European Central Bank.

Ms. Laura Cha
Chairman of Hongkong's Financial Services Development Council, member of Executive Council of Hong Kong, Non-Executive Director of The Hongkong and Shanghai Banking Corporation (HSBC), former Deputy Chairman of Hong Kong’s Securities and Futures Commission, and former Vice Chairman of the China Securities Regulatory Commission (CSRC).

Former IAC member

Mr. Ian Macfarlane
Non-executive Director of the ANZ Bank, former Governor of the Reserve Bank of Australia.
VIII. Organizational structure

As of end-2015, the CBRC departments and local offices include: various departments at the head-office (listed below), Supervisory Boards, the China Financial Staff Union, 36 provincial offices, 306 field offices and 1,730 supervisory agencies. In addition, the CBRC maintains 4 training centers in Beidaihe, Shenyang, Shunde and Langfang.

1. Head Office

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<td>YANG Jiacai</td>
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<tr>
<td>Policy Research Bureau</td>
<td>LIU Chunhang</td>
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<tr>
<td>Prudential Regulation Bureau</td>
<td>XIAO Yuanqi</td>
</tr>
<tr>
<td>On-site Examination Bureau</td>
<td>HAN Yi</td>
</tr>
<tr>
<td>Legal Department</td>
<td>LIU Fushou</td>
</tr>
<tr>
<td>Financial Inclusion Department</td>
<td>LI Junfeng</td>
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<tr>
<td>Banking Information Technology Supervision Department</td>
<td>XIE Chongda</td>
</tr>
<tr>
<td>Banking Innovation Supervision Department</td>
<td>LI Wenhong (Ms)</td>
</tr>
<tr>
<td>Banking Consumer Protection Department</td>
<td>ZHAO Jiangping</td>
</tr>
<tr>
<td>Policy Bank Supervision Department</td>
<td>ZHOU Minyuan</td>
</tr>
<tr>
<td>Large Commercial Bank Supervision Department</td>
<td>YANG Liping (Ms)</td>
</tr>
<tr>
<td>National Joint-stock Commercial Bank Supervision Department</td>
<td>YU Longwu</td>
</tr>
<tr>
<td>City Commercial Bank Supervision Department</td>
<td>LING Gan</td>
</tr>
<tr>
<td>Rural Financial Institution Supervision Department</td>
<td>JIANG Liming (Ms)</td>
</tr>
<tr>
<td>Foreign Bank Supervision Department</td>
<td>DUAN Jining (Ms)</td>
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<td>Department</td>
<td>Person in Charge</td>
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<tr>
<td>Trust Institution Supervision Department</td>
<td>DENG Zhiyi</td>
</tr>
<tr>
<td>Non-bank Financial Institution Supervision Department</td>
<td>MAO Wanyuan (Ms)</td>
</tr>
<tr>
<td>Anti-illegal Fund Raising Office (Banking Security &amp; Safeguard Bureau)</td>
<td>YANG Yuzhu</td>
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<td>Accounting Department</td>
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<td>FAN Wenzhong</td>
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<tr>
<td>Staff Compliance &amp; Disciplinary Bureau</td>
<td>CHEN Qiong (Ms)</td>
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<td>Human Resources Department</td>
<td>XIAO Pu</td>
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<td>Publicity &amp; Information Department</td>
<td>MEI Zhixiang</td>
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<td>CBRC Headquarters CPC Committee</td>
<td>JIE Hongwei</td>
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<td>Party School</td>
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<td>CBRC Staff Union</td>
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<td>Financial Youth League Committee</td>
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<td>Headquarters Service Center</td>
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Note: As of end-2015.
## 2. Provincial Offices

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<td>The CBRC Beijing Office</td>
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About the CBRC

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<td>The CBRC Shenzhen Office</td>
<td>Wang Xiaohui</td>
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Note: As of end-2015.
Economic & Banking Developments

- Macroeconomic and financial environment
- Latest development of China’s banking sector
I. Macroeconomic and financial environment

1. International economic and financial environment

In 2015, the world economy grew by 3.1 percent, down by 0.3 percentage point year-on-year. The commodity price of international trade plummeted, and the growth of trading volume in real terms also declined. The trade in goods and services increased by 2.8 percent, down by 0.7 percentage point year-on-year\(^1\). The world economic recovery was sluggish with most economies facing grave challenges, and the economic balancing and re-balancing of different countries were diversified and multi-paced. The landscape of global monetary policy became increasingly complicated, in that the Federal Reserve was officially on track for interest rate hike and major economies adopted notably diverging monetary policies. Geopolitical conflicts remained unsolved with increasing uncertainties, and the challenge of growth in the post-crisis era became increasingly apparent.

Firstly, developed economies continued moderate yet unbalanced recovery, with heavy deflationary pressure. In 2015, developed economies grew by 1.9 percent, up by 0.1 percentage point year-on-year. Overall inflation was only 0.3 percent, significantly lower than the policy target and down by 1.1 percentage points from that of the previous year\(^2\). The economic recovery in the United States was stronger than expected. In 2015, the US economy grew by 2.4 percent, leveling off with that of 2014; the CPI increased by 0.1 percent, lower than 1.6 percent in 2014; and the unemployment rate in December was 5.0 percent\(^3\). The euro zone witnessed weakening growth momentum as a result of the slow economic restructuring, heavy public debt and geopolitical events. In 2015, the euro zone grew by 1.6 percent, 0.7 percentage point higher year-on-year\(^4\). Its CPI grew by 0.0 percent, lower than 0.4 percent in 2014. The unemployment rate in the zone was 10.4 percent with no significant improvement in employment market\(^5\). In Japan, in the three arrows of Abenomics, the marginal effect of the stimulus monetary policy and fiscal policy continued to diminish. The negative impact of consumption tax increase was greater than expected. In 2015, Japan saw its economic growth by 0.5 percent, up by 0.5 percentage point year-on-year; and the CPI grew by 0.8 percent, lower than the 2.7 percent in 2014\(^6\).

Secondly, the growth momentum of emerging economies continued to slow down as a result of more complex risk factors. In 2015, the emerging economies grew by 4.0 percent, down by 0.6 percentage point year-on-year, continuing the decline since 2010. India grew by 7.3 percent, almost the same with that of 2014. South Africa grew by 1.3 percent, down by 0.2 percentage point from that of 2014. Brazil and Russia saw negative growth for the first time since the financial crisis at –3.8 percent and –3.7 percent respectively\(^7\). Affected by the strong USD and sluggish commodity prices, emerging

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\(^1\) World Economic Outlook, The International Monetary Fund, January 2016.
\(^2\) World Economic Outlook, The International Monetary Fund, January 2016.
\(^3\) Wind.
\(^4\) World Economic Outlook, The International Monetary Fund, January 2016.
\(^5\) Wind.
\(^6\) Wind.
\(^7\) World Economic Outlook, The International Monetary Fund, January 2016.
Part One Economic & Banking Developments

Economies experienced substantial currency devaluations, with Indonesian Rupiah, Chilean Peso, Turkish Lira and Brazil Real depreciating by 9.0 percent, 12.0 percent, 20.0 percent and 45.0 percent against USD respectively, close to the lowest points in recent years. Cross-border capital flows became more turbulent, with emerging economies undergoing greater pressures of capital outflow. The capital withdrawn by global investors and companies from emerging markets amounted to USD735 billion in 2015, almost seven times that of 2014.

Thirdly, the international financial market turmoil became acute, with the overall demand remaining sluggish. In 2015, the international crude oil price dropped by 47.2 percent on average and non-fuel commodity prices declined by 17.5 percent on average. In 2015, the stock markets in major developed economies witnessed mixed performances. The US Dow Jones, London FTSE 100 and Nikkei 225 closed at 17,425.03, 6,242.32 and 19,033.71 points respectively, increasing by -2.2 percent, -4.9 percent and 9.1 percent respectively from the year beginning.

Asia-Pacific Composite index for emerging markets slightly dropped by 1.1 percent.

2. China’s economic and financial developments

Under the new normal in 2015, the Chinese economy generally operated within a reasonable range featuring slow yet steady growth, innovation amid progress and higher quality through innovation. While holding the bottom line of no systemic or regional risks, agricultural production witnessed a sound momentum, industrial production registered steady growth, and the tertiary industry played a bigger role in supporting the economic growth. Residential income continued to grow, the CPI remained stable, and economic restructuring made positive progress.

Firstly, domestic economy enjoyed sound performance. Based on preliminary calculations, China’s GDP recorded RMB67.7 trillion, up by 6.9 percent year-on-year in constant prices. The CPI grew by 1.4 percent. Agricultural production was good. Grain output exceeded 600 billion kilos for two consecutive years, up for the 12th consecutive year. From January to December, the value added of industrial enterprises over designated scale increased by 6.1 percent year-on-year. Total urban fixed asset investment (excluding rural households) registered a nominal year-on-year increase of 10.0 percent. Retail sales of social consumer goods went up by 10.7 percent. The total imports and exports declined by 7.0 percent year-on-year.

Secondly, economic restructuring showed positive progress. Strategic emerging industries maintained rapid growth. The integration of new information technologies such as mobile internet, big data and cloud computing with traditional industries was accelerated. In 2015, the service industry increased by 8.3 percent, 2.3 percentage points higher than that of the secondary industry. The adjustment of overcapacity industries was promoted. Pollution prevention and control was strengthened. Emissions of major pollutants, especially nitrogen oxide, were reduced significantly. The energy consumption per unit of GDP fell by 5.6 percent year-on-year.

Thirdly, China continued to implement proactive fiscal policy and prudent monetary policy. In 2015, China’s fiscal revenue stood at RMB15.2 trillion, up by 8.4 percent year-on-year. Total government expenditure was RMB17.6 trillion, up by 15.8 percent year-on-year. Credit extension grew steadily.

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1. IIF.
2. World Economic Outlook, The International Monetary Fund, January 2016.
3. Wind.
M₂ stood at RMB139.2 trillion at the end of December, up by 13.3 percent year-on-year. While maintaining the continuity and stability of macroeconomic policies, China actively innovated the philosophy and methodology of macro-control, conducted targeted economic pre-adjustment and fine-tuning, and supported the service industry and micro- and small enterprises (MSEs) through tax reliefs such as expanding the scale of “replacing business tax with value-added tax (VAT)” and increasing tax preferential policies. Targeted RRR cuts, refinancing, rediscounting and loan-to-deposit (LTD) ratio adjustment were taken, together with the issuance of special financial bonds to better support the real economy.

Fourthly, China’s financial market maintained steady growth on the whole. In 2015, China’s stock market witnessed slight increase in major indexes, but with significant turbulence and remarkably amplified trading volume. The scale of bond issuance was expanded. As of the end-December 2015, Shanghai Composite Index closed at 3,539.18 points, 9.4 percent higher than that of the year beginning. The number of companies listed on the Shanghai Stock Exchange and Shenzhen Stock Exchange amounted to 2,827, with an aggregate market value of RMB53.13 trillion. The aggregate amount of financing (including IPO, Seasoned Equity Offering, rights offering) was RMB2.06 trillion. According to the statistics from ChinaBond, the aggregate value of bonds issued stood at RMB16.82 trillion, 53.13 percent higher than the previous year.

Thematic column 1  Banking development strategies in the new normal

1. Characteristics of the banking sector in the new normal
The economic “New Normal” refers to a new era where the Chinese economy shifts its gear away from the previous high-speed growth but maintains relative stable development. The banking development is also entering into a new normal in terms of serving the real economy. Banking institutions need to fully understand the five major characteristics of banking sector’s new normal.
(1) Fully understanding the trend of moderating loan growth and swiftly shifting the focuses from the previous growth rate, quantity and percentage to gear change, quality and strategies respectively.
(2) Fully understanding the trend of narrowing interest spread and actively shifting profit models. Banks need to explore how to make profit through improved management, pricing, risk control and service.
(3) Fully understanding the trend of changing social financing means and vigorously improving innovation-driven capabilities. Banks need to explore ways to strengthen business innovation by using IT, including innovations on non-credit and off-balance business, liability business and credit business.
(4) Fully understanding the trend of rebounding non-performing loans (NPLs) and effectively preventing and resolving risks. Banks need to write off NPLs in time, actively revitalize NPLs, endeavor to restructure NPLs and explored ways to transform NPLs.
(5) Fully understanding the trend of “easy market entry with strict management” and enhancing compliance. Banks’ awarenesses for compliance, risk management and responsibility need to be strengthened.

2. Strategies of banks under the “New Normal”
Facing the new normal, the CBRC focused on deepening reform and opening up of the banking sector, promoting innovations of institutional mechanisms, and improving effectiveness of supervision. Therefore, banks’ capabilities in corporate governance, risk management, financial innovation, competition and serving the real economy were significantly improved, the safety and soundness of the banking sector were enhanced, and a modern banking system tailored to China’s socialist market economy and effective in supporting the real economy was built.
(1) Promoting financial market liberalization. The key was to introduce market forces into institutions, fund pricing and market exit, with a view to letting the market play a decisive role in allocating financial resources while balancing reform and stability.
(2) Promoting differentiated transformation of development models. Through reasonable strategic transformation and adjustment of operational models, a multi-layered and broad banking system was established featuring differentiation and efficiency.

(3) Enhancing institutional, product and service innovations to effectively satisfy the new economic needs. Banks leveraged financial innovations to improve the efficiency in serving the real economy and promote the shift of the economic growth model.

(4) Defending the bottom line of no systemic or regional risks. Banking institutions should strengthen their risk awareness, prudential operation and compliance, build a prudential risk appetite framework, strengthen industry self-disciplinary mechanism and safeguard the orderly competition and credit environment.

(5) Supporting private capital to enter banking institutions of various types through multiple channels. To promote the development of private banks, the CBRC summarized experiences from the first batch of pilot programs and improved continuous supervisory framework for private banks by following the *Guiding Opinions on Promoting the Development of Private Banks*. The CBRC also expanded the pilot scope of consumer finance companies and attracted qualified private capital. The CBRC further introduced more private capital into village and township banks, supported private capital to participate in originating or investing in village and township banks, thus increasing the proportion of private capital. The CBRC also expanded the scope of private capital participating in institutional restructuring, promoted the mixed ownership reform of banking institutions and expanded the channels for private capital to enter into the banking sector.

(6) Actively promoting the reform of banking business management structure and improving professionalism of banks. The CBRC deepened the structural reform of banks and promoted the shift from “department-based banks” to “process-based banks”. Reform on franchising departments, integrating businesses rationally and reducing management scope was also pushed forward. And reform on turning some business units and business lines into subsidiaries was still under exploration.

(7) Actively promoting reform of banking supervisory system. The CBRC continued to step up the administration streamlining and power delegation, and established the “three lists”. The CBRC improved the division of supervisory powers, disclosed the approval process and procedures, and enhanced supervisory transparency. The CBRC promoted the reform of supervisory framework, and improved supervisory procedures, thereby tilting supervisory resources towards supervisory focuses. The CBRC strengthened in-process and post-ante management, improved on-site examinations by setting up dedicated department, with a view to improving its on-site examination quality and problem identification.

(8) Consolidating the five systems in the banking sector and accelerating financial infrastructure development: firstly, product registration system, mainly exploring to develop the registration system for trust, wealth management and financial leasing products; secondly, asset transfer system, promoting regular development of credit asset securitization; thirdly, mutual liquidity support system, satisfying the liquidity need of small- and medium-sized financial institutions; fourthly, client risk and fraud information system, sharing client risk information among banks; fifthly, news and information release system, establishing a unified platform for news and information release.

II. Latest development of China’s banking sector

As of end-2015, China’s banking sector consisted of three policy banks, five large commercial banks, 12 joint stock commercial banks, 133 city commercial banks, 5 private banks, 859 rural commercial banks, 71 rural cooperative banks, 1,373 rural credit cooperatives (RCCs), 1 postal savings bank, 4 asset management companies, 40 locally incorporated foreign banking institutions, Sino-German Bausparkasse, 68 trust companies, 224 finance companies of corporate groups, 47 financial leasing companies, 5 money brokerage firms, 25 auto financing companies, 12 consumer finance companies, 1,311 village or township banks, 14 lending companies and 48 rural mutual cooperatives. The number of
incorporated banking institutions in China totaled 4,262 with 3.8 million employees as of end-2015\(^1\).

1. Banking assets

As of end-2015, the total assets of China’s banking sector increased to RMB199.3 trillion, up by RMB27 trillion or 15.7 percent year-on-year; the total liabilities rose to RMB184.1 trillion, up by RMB24.1 trillion from the year beginning or 15.1 percent year-on-year. In terms of institution types, large commercial banks, joint stock commercial banks, small- and medium-sized rural financial institutions and the postal savings banks respectively accounted for 39.2 percent, 18.6 percent, 12.9 percent and 11.4 percent of the total financial assets.

\(^1\) Trust Protection Fund is included in the total number of China’s banking institutions and their numbers of employees are also included. But it is excluded in other statistics in this annual report.
2. Bank deposits and loans

As of end-2015, the outstanding balance of LCY and FCY deposits maintained by banking institutions increased by RMB15.3 trillion from the year beginning or 12.4 percent year-on-year to RMB139.8 trillion, among which the savings deposit grew by RMB2.7 trillion to RMB48.7 trillion from the year beginning. The outstanding balance of LCY and FCY loans maintained by banking institutions went up by RMB11.7 trillion from the year beginning or 13.4 percent year-on-year to RMB99.3 trillion, among which the short-term loan balance stood at RMB35.9 trillion, up by RMB2.3 trillion and mid-to-long term loan balance was RMB53.8 trillion, up by RMB6.6 trillion.

3. Capital Adequacy Ratio (CAR)

Since 2013, China's commercial banks implemented the Capital Rules for Commercial Banks (Provisional). By the end of 2015, the Common Equity Tier 1 (CET-1) Capital Adequacy Ratio (CAR) of commercial banks was 10.91 percent, an increase of 0.35 percentage point from the year beginning; the Tier 1 CAR was 11.31 percent, an increase of 0.55 percentage point from the year beginning; and the CAR was 13.45 percent, an increase of 0.27 percentage point from the year beginning.

4. Asset quality

As of end-2015, the outstanding balance of NPLs in China’s banking sector stood at RMB1.96 trillion, up by RMB529 billion from the year beginning. The NPL ratio of all banking institutions registered at 1.94 percent, up by 0.34 percentage point from the year beginning. For commercial banks, the outstanding balance of NPL was RMB1.27 trillion, up by RMB431.9 billion from the year beginning; the NPL ratio was 1.67 percent, up by 0.43 percentage point from the year beginning.
5. Risk-absorbing capacity

As of end-2015, the loan loss provisions set aside by commercial banks increased by RMB349.3 billion to RMB2.3 trillion, while the provisioning coverage ratio dropped by 50.86 percentage points from the year beginning to 181.18 percent. The provisioning ratio (provisions against total loans) reached 3.03 percent, up by 0.13 percentage point from the year beginning.

6. Net profitability

In 2015, banking institutions realized an after-tax profit of RMB2 trillion, representing a year-on-year increase of 2.4 percent, with year-end ROE and ROA dropping by 2.8 percentage points and 0.13 percentage point from the year beginning to 14.35 percent and 1.06 percent respectively. The after-tax profit of commercial banks amounted to RMB1.6 trillion, up by 2.4 percent year-on-year, with year-end ROE and ROA dropping by 2.61 percentage points and 0.13 percentage point from the year beginning to 14.98 percent and 1.1 percent respectively.
7. Liquidity

As of end-2015, the liquidity ratio of commercial banks increased by 1.57 percentage points from the year beginning to 48.01 percent. The RMB loan-to-deposit ratio was 67.24 percent, up by 2.15 percentage points from the year beginning; RMB excess reserve ratio was 2.1 percent, down by 0.55 percentage point from the year beginning.
Thematic column 2  Banking development during the 12th Five-year Plan period

During the 12th Five-year Plan period, under the leadership of the CPC Central Committee and the State Council, the CBRC diligently performed its supervisory responsibilities and continued to improve the supervisory effectiveness, thus successfully holding the bottom line of no systemic or regional risks and effectively promoting the reform and development of the banking sector. As of end-2015, asset, liability and equity of the banking sector reached RMB199.3 trillion, RMB184.1 trillion and RMB15.2 trillion respectively, featuring a moderate growth. Average ROA and ROE of commercial banks stood at 1.1 percent and 15.0 percent respectively, while the cost-income ratio decreased to 30.6 percent, with improved efficiency in operation. The provisioning coverage ratio of commercial banks’ NPLs was 181.2 percent and the CAR was 13.5 percent, with continued strong risk resilience. The NPL ratio of banking institutions was 1.9 percent, down by 0.5 percentage point from the year end of 2010, with credit asset quality generally under control.

Over the past five years, the CBRC continued to enhance the philosophy of prudential supervision, promoting the banking sector to serve the real economy while preventing financial risks, with major emphasis on the following aspects:

1. The CBRC made new achievements in promoting the banking sector to serve the real economy. The CBRC was always dedicated to promoting the banking sector to better serve the real economy, and encouraging banks to innovate their philosophies, approaches and products and therefore improve service quality and efficiency. First, loans to major areas of the national economy grew fast. As of end-2015, the outstanding balance of loans to infrastructure industry was RMB19.4 trillion, up by 53.8 percent from the end of 2010; the outstanding balance of loans to affordable housing projects was RMB2.3 trillion, an increase of 309.3 percent from the end of 2011. Support for people’s livelihood was strengthened. The outstanding balance of loans to enterprises in the service industry and individuals was RMB43.4 trillion and RMB19.2 trillion respectively, up by 88.5 percent and 140.6 percent from end-2010 respectively. Second, financial inclusion was better promoted. China’s banking sector had 4,261 incorporated banking institutions and 224,000 operating outlets domestically, basically realizing the full coverage of financial services in both urban and rural areas. Also, credit extension for financial inclusion was intensified; the outstanding balance of MSE loans was RMB23.5 trillion, up by 90.5 percent from end-2011; agro-related loans (excluding bill financing) was RMB26.4 trillion, up by 124.0 percent from end-2010. Third, progress was made in resolving over-capacities and developing green credit. Banking institutions insisted on a differentiated credit policy, i.e. ensuring credit support for some industries while limiting credit extension to others, with a view to promoting enterprises to resolve over-capacities and transforming and upgrading traditional industries. Banking institutions also developed green credit, and supported energy-saving and environmental protection projects; as of end-2015, the outstanding balance of green credit was approximately RMB7.0 trillion. Fourth, success was made in lowering social financing cost. The banking institutions strengthened pricing management of deposits and loans, cleaned up fee items, shortened financing chain, and improved loan approval and issuance efficiency, etc., which further lowered the social financing cost. As of end-2015, weighted average interest rate for corporate and other departments was 5.3 percent, among which the average interest rate for general loans was 5.6 percent, and that for bill financing was 3.3 percent, a decrease of 0.9 percentage point, 0.7 percentage point and 2.2 percentage points from end-2010 respectively.

2. The CBRC made improvement in urging the banking sector to strengthen risk management and control. The CBRC adhered to institutional and mechanism reform to urge the banking sector to strengthen the long-term mechanism of risk prevention and control, with initial progress made. First, corporate governance was improving. Commercial banks improved corporate governance and internal control rules, with better corporate governance structure, incentive mechanism and internal control mechanism. Second, the banking institutions set up comprehensive risk management framework. The CBRC guided the banking institutions to take into account their characteristics when designing and implementing risk appetite, management and control strategies and risk disposal mechanism, with significant improvement in comprehensive risk management. Third, risks in major areas were effectively prevented and controlled. The banking institutions actively prevented the default risk of loans through financing vehicles, and guarded against risks associated
Part One Economic & Banking Developments

with loans to real estate and over-capacity industries as well as inter-bank, wealth management and off-balance sheet businesses, preventing external risks from contagion and keeping risks under check. Since April 2015, when six banks officially implemented advanced capital rules, banks improved their capacities for quantified risk management and refined management, which accelerated the shift of banks’ growth models.

3. The CBRC supported the banking sector to deepen reform and opening up. The CBRC attached great importance to the reform and opening up to drive forward banking development with positive progress achieved. First, reform on banking institutions was under way. Policy banks, large commercial banks and postal savings bank implemented their institutional reforms in an all-round way; rural credit cooperatives basically unified incorporation on county- and city-level. Private capital was moving steadily into the banking sector. As of end-2015, five private banks, eight private financial leasing companies and two private consumer finance companies were opened; private capital was taking a relatively large proportion in banking institutions including city commercial banks, rural commercial banks, village or township banks and trust companies. Second, pilot programs of integrated operation in financial industry took effect. As of end-2015, the CBRC approved 13 commercial banks to set up fund management companies, 11 to make equity investment in insurance companies, 31 to set up or make equity investment in financial leasing companies, 5 to make equity investment in trust companies, 10 to set up consumer finance companies and 6 to make equity investment in auto finance companies, which created synergies to some extent. Third, the banking sector’s reform and opening up was further improved. As of end-2015, Chinese banks set up 1,298 branches in 59 countries and regions, and foreign banks set up 40 locally incorporated institutions, 114 branches and 174 representative offices, which showed stronger competence in serving the “going global” strategy.

4. The CBRC stepped up its supervisory competence. The CBRC insisted on improving its supervisory effectiveness, upholding the philosophy of law-based regulation, people-oriented regulation and scientific regulation with a view to improving regulatory effectiveness. (1) Regulatory laws and regulations were improved, forming the legal framework for prudential regulation covering all types of institutions, businesses and corporate governance, risk management, capital, provisioning, etc.. (2) The regulatory toolkit was diversified, including NPL ratio, liquidity ratio, provisioning coverage ratio, etc.. (3) Regulatory framework became more scientific. According to the philosophy of separating regulatory rule-making from enforcement, prudential regulation from behavior regulation, administrative affairs from regulatory affairs, on-site examinations from regulatory penalties, the CBRC reorganized the regulatory structure by strengthening regulation as the major responsibility, and streamlining and delegating powers. (4) Regulatory emphases were highlighted. The CBRC continued to enhance systemic risk analysis and monitoring, promoted macro-prudential regulation, strengthened the supervision of systemically important banks (SiBs) and standardized the development of shadow banking. (5) Regulatory coordination was more effective. The CBRC made initial progress in unifying regulatory standards, preventing regulatory arbitrage, guarding against systemic financial risks and improving coordination among monetary, fiscal, industrial and regulatory policies. In supporting local economy, preventing financial risks and handling illegal fund-raising, the CBRC was also widely recognized in its communication with local governments. (6) Regulatory cooperation was deepened. As of end-2015, the CBRC signed bilateral regulatory memorandums of understanding (MOUs) or cooperation agreements with financial regulatory authorities of 63 countries and regions, participated in international financial regulatory reforms and high-level bilateral and multilateral conferences, and held the 18th International Conference of Banking Supervisors (ICBS). International Monetary Fund (IMF) and the World Bank fully recognized China’s banking regulatory performance in relevant assessment reports.

In general, managing the “five combination” is of great significance to improving and strengthening banking regulation. (1) Combining risk prevention and stable growth, and coordinating and balancing the two against changes of the situation. (2) Combining macro prudential regulation and micro prudential regulation, defending the bottom line of no systemic or regional financial risks. (3) Combining innovation encouragement and regulation enhancement, injecting new vitalities into the reform and development on the premise of strong risk control. (4) Combining internal controls, external oversight and industry governance, enhancing external oversight, stressing the major responsibility of institutions and strengthening the self-discipline of industry governance in a coordinated way. (5) Combining international standards and China’s realities, flexibly applying international best practices to China’s development.
Part Two

Banking Reform and Development

• Reform and transformation of the banking sector
• Opening up
• Financial innovation
2015 was a key year of comprehensively deepening reform. The CBRC paid great attention to and made full use of the driving force derived from the reform and opening up. Plans and trials were made before practice, experience was summarized afterwards, and basic ideas were promoted gradually. The CBRC motivated the reform and opening up of the banking sector, and ensured its sound development. In 2015, the reform of the banking system went well, private capital steadily entered the banking sector, comprehensive operation trials of the financial industry started to work, and the opening up of the banking sector were improved.

I. Reform and transformation of the banking sector

1. Reform of the governance mechanism

In 2015, tangible progress was made in special business unit (SBU) and franchising department reforms of banks. Supporting mechanisms with regard to product registration, asset transfer, mutual support and self-discipline developed rapidly. The banking sector was more involved in monetary market, credit market and direct financing.

Firstly, prominent effects were obtained in SBU and franchising department reforms. Commercial banks generally set up wealth management SBUs, and the wealth management business enjoyed sound development. Based on their own characteristics, commercial banks set up industry SBUs and product SBUs, extended customer base, and improved business quality and efficiency as well as specialized services. Most commercial banks established inter-bank business franchising departments and basically completed inter-bank business franchising reforms. Inter-bank business has been brought under comprehensive risk management. Business line model, internal control mechanism, and supervision and accountability system have been ever improved.

Secondly, trials on credit asset securitization, registration and transfer were gradually implemented. The CBRC propelled reforms on filing system, improving and streamlining filing process, and issued the Notice on Centralized Registration of Credit Asset Transfers in the Banking Sector, promoting the standardized and transparent development of credit asset transfer and registration. Credit assets registration institutions were established. The CBRC guided the China Central Depository & Clearing Co., Ltd. (CCDC) to establish a branch in Shanghai to provide services for the bond market in Shanghai Free Trade Zone.

Thirdly, risk information sharing system advanced smoothly. The CBRC strengthened information sharing on group credit extension, long-maturity credit extension, over credit extension, inter-bank differences of corporate financial reports, guarantees etc., and enhanced risk identification and alarm capacity. National anti-fraud information management system was established to integrate fraud information among banking institutions to ensure that related information can be shared.

Fourthly, under the guidance of banking associations, the banking sector becomes more self-disciplined. The banking associations played the role of coordination and self-discipline management. The China Micro-credit Companies Association and Financial Leasing Industry Self-disciplinary Organization were established; China National Association of Finance Companies issued the Rules on Rating of Finance Companies of Corporate Groups; Auto Finance Committee of the China Banking Association studied on drafting guidelines on the rating of auto finance companies.
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Box 1 Trust Protection Fund

The Trust Protection Fund is a non-governmental mutual support fund jointly raised by market participants of the trust industry to resolve and address risks. The fund will be subscribed by market participants including trust companies and financiers, and the returns will be shared by them, too. The fundamental objective is to build up a risk resolution system, so as to protect the legitimate rights and interests of relevant parties, control risks, and ensure the sound development of the industry.

The Trust Protection Fund has the following features. It is an industry mutual support fund without fiscal budget or central bank financing, dedicated to making full use of the power of the industry to resolve risks. The design concept is to combine pre-prevention with post-assistance, aiming to resolve risks at the lowest cost. The Fund is established to restore market confidence as well as to address risks, and ensure the sound development of the industry. Besides, the Fund follows market principles when resolving risks, thus lowering the possibility of "moral hazard".

Approved by the CBRC, the China Trustee Association and 13 trust companies with sound operation voluntarily co-funded the establishment of the China Trust Protection Fund Co., Ltd. The company is responsible for the management of the China Trust Protection Fund, aiming to resolve and address risks of the trust industry.

Box 2 Banking Asset Registration and Transfer Center Co., Ltd.

The Banking Asset Registration and Transfer Center Co., Ltd., (hereinafter referred to as the Center) aims at providing a unified registration system and transfer platform for credit assets and other banking assets, and propelling unified, standardized, efficient, and orderly development of the asset transfer business. In 2015, the Center actively participated in system development, standardized working procedures, and steadily developed asset registration and transfer business. The functions of the registration system and transfer platform were optimized: long-distance registration could be conducted through the client; negotiating transfer function was established, and listing transfer function was improved, thus creating favorable conditions for market participants to transfer assets and search for the counterparty. The Center also focused on publicity, training, and market expansion, so as to better serve market participants and tap the idle assets. By the end of 2015, 281 accounts had been established in the Center, with the aggregate registration amount standing at RMB39.3 billion and aggregate transfer amount at RMB38.2 billion.

Box 3 Exploring a unified registration system for trust products

In 2015, the CBRC communicated and coordinated with the Ministry of Finance, the People’s Bank of China (PBOC), and the China Securities Regulatory Commission (CSRC) to thoroughly discuss and amend the plan for establishing the China Trust Registration Company (hereinafter referred to as the “Company”). At the beginning of 2016, the State Council approved to set up the Company. The establishment will be initiated within 2016, and the goal is to operate within the year. The CBRC conducted thorough research on formulating regulatory rules for the China Trust Registration Company, to ensure that it will operate in compliance with laws and regulations. The CBRC also established a unified registration system for trust products, developed a registration platform, explored to set up a unified and standard trading market, expanded channels for issuance and sales, standardized information disclosure, and built a regular price discovery and risk warning mechanism.

The establishment of the Company will contribute to strengthening financial service platform development, ensuring sound development of the industry, clarifying market accountability, consolidating market discipline, and tracking the operation of the industry. It is of great importance to form a unified and effective trust market, promote reforms of trust companies, better serve the real economy and strengthen regulation.
Box 4  The establishment of the China Micro-credit Companies Association

In January 2015, the China Micro-credit Companies Association (CMCA) was set up. The CMCA is under the administration of the CBRC, and accepts guidance from the PBOC. With the functions of “self-discipline, rights protection, service, and coordination”, the CMCA is to release important information and dynamics of the industry, and will focus on regulation legislation, financing channels, fiscal and taxation policies, information system and other aspects of great concern within the industry, aiming at exploring a proper way for the sustainable development of micro-credit companies. By the end of 2015, 224 micro-credit companies had become members of the CMCA, covering most of the provinces.

2. Institutional reforms

(1) Policy banks and the CDB

In 2015, policy banks and the China Development Bank (CDB) further clarified their function orientations to play more important roles in serving the real economy and national strategies. The CDB improved its corporate governance mechanism, let the board make strategic decisions, strengthened the supervision function of the supervisory board, perfected its internal audit system, built up international business SBU structure, and firmly propelled the reforms of subsidiaries. The Export-Import Bank of China (China Exim Bank) strengthened its position as a policy bank, proposed detailed working plans on business planning and operation mechanism within capital constraints, designed development plans for comprehensive risk management system and initial plans for upgrading internal structure and procedures, systematically promoted modern governance mechanism, and formed a market-based human resource management system. The Agricultural Development of China (ADBC) implemented reform policies, steadily propelled internal reforms, clarified function orientations, targets and measures, and formed an overall development strategy.

(2) Large commercial banks

In 2015, large commercial banks continued to improve corporate governance, strengthen the capacity building and enhance the performance assessment mechanisms. They pushed forward reforms of SBU and franchising departments, made full use of the advantage of conglomeration and specialization, and established pilot pension fund management companies within the banking sector. Large commercial banks accelerated IT construction, conducted stress tests, propelled the practice
of advanced capital management measures, and improved their capacity in risk management and resolution. The Bank of Communications explored to establish a corporate governance mechanism with Chinese characteristics and suitable for large commercial banks, deepened the reforms of internal operating system, and promoted transition and innovation of its operating models.

(3) Small- and medium-sized commercial banks

In 2015, small- and medium-sized commercial banks accelerated strategic transition and innovative development, expanded comprehensive operation, and enhanced market competitiveness in response to interest rate liberalization, disintermediation, internet finance, and other challenges. They served major construction projects as well as national and regional strategies, provided improved financial service for the micro and small enterprises (MSEs), agro-related areas, and other disadvantaged groups, developed Fintech, and supported mass entrepreneurship and innovation. They also fully embraced the development of Internet finance, expanded service channels, and explored business innovation and differentiated development path. The small- and medium-sized commercial banks explored ways to develop in groups, and set up mechanisms for mutual support. The capital management has been strengthened, capital replenishment channels expanded, sustainable development capacities enhanced. The Bank of Qingdao, the Bank of Jinzhou, and the Bank of Zhengzhou were listed in Hong Kong, and the Bank of Qilu was listed in the National Equities Exchange and Quotations (NEEQ).

◎ CBRC Shandong Office urged city commercial banks to strengthen development of risk management systems

In 2015, the CBRC Shandong Office promoted a joint project of comprehensive risk management and new capital rules implementation initiated by Shandong City Commercial Bank Association and involving participation of 9 city commercial banks, to enhance risk management capacity from the basic level. Firstly, a sophisticated risk management structure was established. According to the new capital rules and peer experience, city commercial banks in Shandong revised and amended 400 items of policies and rules, adjusted and clarified 200 items of risk management responsibilities, and set up a comprehensive risk management structure. Secondly, risk management systems were developed. City commercial banks in Shandong implemented risk management upgrading projects and built up information systems to realize more standardized and information-based risk management. By the end of 2015, 49 risk management systems of different kinds had been established. Thirdly, risk quantification management capacity was enhanced. Five city commercial banks initiated risk quantification management projects, among which, the Bank of Qilu’s project has covered its main credit risks, and the quantitative data have been widely used in credit extension approval, credit limit management, performance assessment, loan pricing, asset classification, etc..

◎ China Merchants Bank Transformed under the “Asset-light Banking” Strategy

The China Merchants Bank proactively conducted its “One Body with Two Wings” strategy, and further optimized the customer experience, product design, risk management framework and organizational structure in a systematic and comprehensive manner, with an aim to highlight its competitive advantages and to implement
its strategic transformation towards “Asset-light Banking” direction. In 2015, China Merchants Bank reduced the cost-to-income ratio to its record low, with the non-interest income accounting for over 30% of the total income. The significant increase of non-capital-consuming and non-interest income along with the continuous reduction of risk-weighted assets demonstrated that the bank had basically built the endogenous capital-generating capabilities. In the meantime, efforts to build a bank with a light balance sheet, efficient banking platform, and streamlined operating procedures achieved progress, thanks to the continuous improvement of the bank in terms of its asset structure, customer structure, and channels to connect with clients.

(4) Small-and medium-sized rural banking institutions

In 2015, restructuring of rural credit cooperatives into rural commercial banks made steady progress. Throughout the year, 241 new rural commercial banks were established and the total number of rural commercial banks reached 966, accounting for 43 percent of rural cooperative financial institutions. The assets of rural commercial banks made up 64 percent of the total. Anhui, Hubei, and Jiangsu completed the restructuring work. Village and township banks enjoyed stable development. By the end of 2015, 1,377 village and township banks were established, up by 144 compared with the year beginning, and 62.3 percent of them were located in the middle and western regions. Full coverage at the county level was realized in Hainan and Jiangsu. Community auditing center were restructured to be under the direct guidance of the provincial level office. In 2015, 21 regional auditing centers were newly established, with the total number reaching 91, and city and regional offices were revoked in 8 provinces. Rural commercial banks followed the examples in the industry, improved business and governance, expanded talent pools, and enhanced their capacities in sustainable operation and financial service. Pilot mutual support mechanisms were implemented in Jiangsu and Guangdong, and progress was made in the development of mutual liquidity support mechanism.

◎ CBRC Hainan Office propelled full coverage of village and township banks at the county level

The CBRC Hainan Office actively introduced private capital to participate in the establishment of village and township banks, and propelled the development of village and township banks in Hainan, so as to enrich rural financial business, improve rural financial service system, promote a full county coverage of village and township banks, and support the development of agro-related areas and MSEs. By the end of 2015, the outstanding balance of loans of village and township banks in Hainan stood at RMB 2.325 billion, among which 86.3 percent was from rural households and MSEs.

◎ The first village and township bank went public on NEEQ

Kunshan Lucheng County Bank successfully went listed on the National Equities Exchange and Quotations (NEEQ) on August 12, 2015, the first village and township bank listed on NEEQ becoming a market pioneer in China. The bank was mainly initiated by Bank of Nanjing in December 2009, associated with 3 corporate shareholders and 6 individual shareholders in Kunshan. Since its establishment, the bank has developed steadily at a high speed in various business activities, with sustainable improvement in operating efficiency, and its asset size ranked 1st for many consecutive years among all village and township banks in Jiangsu province.
(5) Postal Savings Bank

In 2015, the shareholding reform of the Postal Savings Bank made substantial progress. Over 10 domestic and international strategic investors, including UBS AG and China Life Insurance, were introduced to optimize the equity structure, improve the corporate governance system, enhance risk control capacity and pave the way for the transformation of the bank towards a modern commercial bank. The cooperation and communication between banking service and postal service was improved, and guidance to business agencies was enhanced. The Postal Savings Bank persisted in the development direction as a retail commercial bank, actively developed differentiated competitive advantages, took advantage of its large network and wide coverage, and adopted vigorous measures to provide financial service for farmers, agriculture, rural areas, urban and rural residents and MSEs.

◎ Postal Savings Bank of China introduced strategic investors to further improve corporate governance

In December, 2015, in consideration of strategic collaboration, trade prices, financial strength, brand influence and other factors, Postal Savings Bank of China introduced 10 strategic investors, including 6 globally well-known financial institutions: United Bank of Switzerland, J. P. Morgan Chase, Development Bank of Singapore, CPP Investment Board, Temasek and International Finance Corporation, 2 large state-owned enterprises, namely China Life Insurance and China Telecom, and 2 internet enterprises, namely Ant Financial and Tencent. The introduction of strategic investment was carried out through new share issuance, with a large number and a wide variety of investors and a broad coverage of cooperation fields. A total of RMB45.1 billion was raised, with the proportion of issued stocks standing at 16.92 percent. This is the largest equity financing for a single time among Chinese financial enterprises, and the total scale is also the largest in the past five years.

(6) Financial asset management companies

In 2015, financial asset management companies continuously pushed forward commercialization, improved their organizational structures and financial functions, enhanced comprehensive operation and gradually developed core competitiveness and gained sustainable profitability. They actively conducted acquisition of financial and non-financial non-performing assets, resolved non-performing assets through debt restructuring, debt-to-equity swap and debt settlement, and played an important role in maintaining financial stability, mitigating financial risks and supporting economic structural adjustment. China Huarong Asset Management Company was listed in Hong Kong. The restructuring plans of the China Great Wall Asset Management Corporation and the China Orient Asset Management Corporation were approved by the State Council.

◎ China Huarong Listed on the Main Board of Hong Kong Stock Exchange

On October 30th, 2015, China Huarong Asset Management Co., Ltd. was listed on the Main Board of the Hong Kong Stock Exchange, garnering HKD19.697 billion of investment. This marks the completion of China Huarong’s three development steps, namely “transforming into a shareholding company, introducing strategic
investors and going public”. With the successful debut on the international capital market, China Huarong embraced a new chapter of growth characterized by market orientation, diversity, comprehensiveness and globalization. Meanwhile, China Huarong’s IPO also demonstrated financial asset management companies’ new success in building modern financial corporate system and implementing strategic transformation.

(7) Trust companies

In 2015, trust companies followed the principle of “managing wealth for others when entrusted”, continuously expanded their business scope of asset management and wealth management and continued to provide diversified means for investors to increase the value of their wealth. They enhanced operation and management to protect the legitimate interests of clients. The preparation for the establishment of the China Trust Registration Company and the development of the trust product registration platform made significant progress. The China Trust Protection Fund was set up to serve as the anchor and stabilizer of the industry.

© The China Trust Protection Fund Co., Ltd. finished 3 phases of fund raising

In 2015, the China Trust Protection Fund Co., Ltd. improved the working procedures of fund subscription, settlement, revenue distribution and financial management to clarify the operational requirement of fund raising and management and established working mechanisms on continuous communication, periodic analysis, problem identification and settlement and major event report. The Company standardized business scope and statistical calibers of fund subscription, studied technical details of statistical analysis and verification, and gradually streamlined the working system. By the end of 2015, the Company finished 3 phases of fund raising. A total of RMB26.214 billion of the fund was subscribed by 68 trust companies, of which RMB3.162 billion was subscribed as 1 percent of the net asset balance, RMB23.047 billion was in the form of 1 percent of newly issued money trust and RMB5 million was in the form of 5 percent of the paid-in return of newly established property trust.

(8) Financial leasing companies

In 2015, the State Council issued the Guidance on Promoting Sound Development of the Financial Leasing Industry (Guo Ban Fa No.69, 2015), and provided top-level design for the industry from the national strategy perspective for the first time. Financial leasing companies seized the strategic opportunity of economic restructuring, transformation and upgrading to steadily sharpen core competitiveness, improve development quality and performance and better serve the development of the real economy. They explored the specialized path towards development and set up professional subsidiaries to carry out specialized management and operation. By the end of 2015, the total asset value of financial leasing companies reached RMB1.63 trillion, among which leasing asset was RMB1.50 trillion, accounting for 90 percent of the total; the balance of the leasing business for micro-, small- and medium-sized enterprises was RMB542.478 billion, 38.25 percent higher than the beginning of the year, which was mainly invested in engineering machinery, printing and health sectors.
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CBRC Tianjin Office continuously guided the financial leasing industry to give full play to aggregation effect

In 2015, the CBRC Tianjin Office continued to enhance guidance for new financial leasing companies and strengthened communication and cooperation with local government and tax and judicial departments. It approved the opening of Huayun Financial Leasing Company, which is the first financial leasing company established by private capital and by equipment manufacturing enterprise. The CBRC Tianjin Office approved the establishment of a financial leasing company by the Bank of Tianjin, so as to provide support for diversified development of banks in Tianjin; it also steadily promoted the application by the Aviation Industry Corporation of China, the China Railway Construction Corporation and the China Coal Technology & Engineering Group to establish financial leasing companies. By the end of 2015, there were 7 financial leasing companies under the administration of the CBRC Tianjin Office, with a total asset value of RMB484.6 billion, about 30 percent of the whole financial leasing industry; the total net profit of these companies was RMB5.036 billion. The aggregation effect of the financial leasing industry has taken shape in Tianjin.

(9) Finance companies of corporate groups

In 2015, finance companies of corporate groups enhanced innovation of product and service while controlling risks, and provided platforms for capital collection, capital settlement, capital monitoring, financing and operation, and the financial service for corporate groups. They actively improved business development plans to support over 60,000 enterprises to improve work quality, reduce cost, increase efficiency, promote transformation and enhance competitiveness of corporate groups. In 2015, finance companies saved more than RMB70 billion for corporate groups.

(10) Auto financing companies

In 2015, auto financing companies continued to enhance corporate governance and strengthened innovation of products and service to play its role in promoting automobile production and sales and meeting people’s need for new vehicles, which achieved steady progress. They optimized loan management and loan approval procedures for new energy vehicles, actively provided loans for buyers to boost the development of the new energy vehicle industry. In 2015, auto financing companies provided RMB621.025 billion of wholesale loans for more than 3.65 million vehicles, RMB257.287 billion of retail loans for 2.93 million vehicles and RMB2.121 billion of new energy vehicle loans, with a year-on-year increase of 94.94 percent, for 11,592 vehicles.

(11) Consumer finance companies

In 2015, consumer finance companies achieved steady progress. With the approval of the State Council, the pilot program of consumer finance companies was promoted nationwide to encourage various forms of ownership with consumer finance resources to establish consumer finance companies. Consumer finance companies fully utilized differentiated financial service advantages, innovated financial products and expanded to third-tier and fourth-tier cities to meet people’s credit demands for durable consumer goods, tourism and education, which enhanced the accessibility and inclusiveness of consumer credit products. In 2015, consumer finance companies served 7.1 million clients and provided RMB59.871 billion of loans. The number of loans with an amount less than RMB50,000 was 9.89 million, about 94.05 percent of the total number of loans; the number of loans with an amount less than RMB5,000 was 5.71 million, about 54.35 percent of the total number of loans.
Money brokerage firms

In 2015, the business volume and revenue of money brokerage firms kept rising. Money brokerage firms enhanced profitability, continuously improved their system and service and played an active role in increasing financial market efficiency and transparency. In 2015, five money brokerage firms completed RMB brokerage business worth RMB120.64 trillion and foreign exchange brokerage business worth RMB7.1 trillion.

Entry of private capital into the banking sector

The CBRC adheres to the principle of fairness and equal treatment to enable private capital to invest in banking institutions in an orderly manner. There are no additional legal or regulatory barriers or preconditions inhibiting the flow of private capital into banking institutions. In 2015, private capital entered the banking sector faster, with more entry channels, more institutions; increased capital volumes and rising proportions. It has now realized normalized development for private capital to enter the banking sector.

There are mainly four models for private capital to enter banking institutions: the first is that private capital independently establishes small and medium-sized banking institutions at its own risk; the second is that private capital and main organizing bank co-establish village and township banks with the organizing bank responsible for risk resolution; the third is that private capital participates in the restructuring of existing banking institutions as a strategic investor, to help resolve existing financial risks; the fourth is that private capital invests in banking institutions and shares the results of banking reform through capital and share increases, equity transfer and shareholding in the secondary market. Now the channels and institutions for private capital to enter the banking sector have all been liberalized. By the end of 2015, private capital accounted for more than 50 percent in over 100 small and medium-sized commercial banks, about 70 percent of institutions of the same type. Private capital accounted for 53 percent in city commercial banks, around 90 percent in rural cooperative financial institutions and over 72 percent in village and township banks.

1. Private banks entering a period of opportunities for development and reform

The CBRC promulgated guidelines to promote the development of private banks and formulated licensing policies and operational rules for private banks, so as to lay an institutional foundation for normalized development of private banks. It organized training on administrative licensing for private banks to boost the synergy effect of normalized development. Following the principle of "establishing one bank when it grows mature", the CBRC pushed forward the establishment of private banks and encourage eligible private enterprises to set up private banks. The CBRC adhered to full-course supervision, innovative supervision and coordinated supervision and attached equal importance to risk control and innovative development to guide private banks to develop long-term risk control mechanisms, control connected transaction risks and risk spillovers, and keep the risks of private banks under control. The CBRC actively studied relevant policies supporting the differentiated development of private banks and guided private banks to appropriately complement and compete with other commercial banks. In addition, the CBRC enhanced communication and coordination with local governments on private bank information sharing and risk management, further clarified the responsibility of different parties and enhanced institutional constraints.

2. Encouraging private capital to invest in small- and medium-sized rural financial institutions

The CBRC continued to support and encourage private capital to invest in small- and medium-sized financial institutions in rural areas through participating in initiating, restructuring and reform, or private placement. As a result, the total volume of private investment was constantly increasing. By the end of 2015, RMB684.77 billion of equity of rural cooperative institutions and RMB72.47 billion of equity of village and township banks were held by private capital, up by RMB87.19 billion and RMB8.09 billion respectively compared with the beginning of the year.

With more private capital investing in rural financial institutions, the ownership reform of rural credit cooperatives was speeded up. In 2015, 241 new
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rural commercial banks were set up, reaching a record high. Moreover, the participation of private capital further diversified types of rural financial institutions, promoted financial inclusion, strengthened effectiveness of corporate governance, formed diversified and localized equity structures with private nature, gave full play to local private capital's advantages in information and resources, so as to improve financing to MSEs and support the development of rural economy.

3. Guiding private capital into non-bank financial institutions

The CBRC continued to guide and channel private capital into non-bank financial institutions. Private corporate groups in line with national industrial policies, with strong competitiveness, excellent core business and capital management experience were encouraged to set up finance companies; private enterprises with consumer finance resources were supported to establish consumer finance companies, and eligible private initiators were encouraged to establish financial leasing companies and auto financing companies. Until now, there are 62 private holding non-bank financial institutions in total, including 12 trust companies, 34 finance companies, 8 financial leasing companies, 6 auto financing companies and 2 consumer finance companies, among which 16 were opened for business in 2015, including 7 finance companies, 4 financial leasing companies, 4 auto financing companies and 1 consumer finance company.

Box 5 The first five pilot private banks

The five private banks of the first pilot project were all open for business and operating well. Their corporate governance system and internal control capacity kept improving; various kinds of business were carried out; the function of serving the real economy came into play. By the end of 2015, the total asset volume of the five private banks reached RMB79.432 billion; the loan balance was RMB23.604 billion; the total liability was RMB65.09 billion; and the deposit balance was RMB19.943 billion.

1. KinCheng Bank of Tianjin

The KinCheng Bank of Tianjin (KCB) focused on differentiated services. At the same time, the loans and deposits are mainly from corporate units. The KCB’s strategy is to be a valued bank and a leader of specialized markets, aiming to serve small- and medium-sized enterprises. In addition, it has a sound corporate governance structure, including the shareholder meeting, board of directors, board of supervisors and senior management. Currently, KCB’s business has well started, the system is under development, and risk management keeps improving. By the end of 2015, total assets reached RMB15.723 billion, total liability registered RMB12.752 billion, and owner's equity was RMB2.971 million. On the whole, its asset quality was good and there were no non-performing loans (NPLs).

2. Shanghai HuaRui Bank (SHRB)

With the strategic goals of serving MSEs, technology and innovative startups, and free trade zone reforms, Shanghai Huarui Bank carries forward many innovative reforms and aims to position itself as an asset management bank leveraging the latest technological advancements. As a bank in the Shanghai Free Trade Zone, SHRB is aggressively building up its free trade account services, enhancing its cross-border financial service competency, and adopting new technologies to meet the financial demands of its customers. By the end of 2015, total asset for Shanghai Huarui Bank reached RMB20.81 billion. Outstanding loan balance reached RMB7.02 billion, with total liability at RMB17.81 billion and total deposit balance at RMB9.73 billion with no NPLs. SHRB basically broke even in the first year of establishment.

3. Zhejiang MYbank

Utilizing the innovation in Internet technology, data and channel, Zhejiang MYbank has effectively met the financing demand of the real economy. It focuses on MSE clients and rural markets, facilitating the development of “micro credit”. By exploring on-line operation mode, it developed the massive, low-cost and production-line type credit approval and granting model, and provided on-line clients with “310” type of financial service experience [loan application only needs 3 minutes, granting of a loan only needs 1 second, and zero (0) human intervention]. It launched the pilot program “Wangnong Loan” for farmers and small business owners in rural areas, from which rural clients could benefit. By the end of 2015, MYbank’s total assets reached RMB30.199 billion; total liabilities reached RMB26.261 billion; total equity registered
RMB3.94 billion; NPL balance was RMB13 million, and the NPL ratio stood at 0.18 percent.

4. Wenzhou Minshang Bank
Wenzhou Minshang Bank, which is based on local market, adheres to its market position of serving MSE clients. It strives to promote a mass marketing mode of “a small industrial park driving a group of micro and small businesses, a commercial market driving a circle of trade area, and a core enterprise driving a chain of supply” and has introduced distinctive financial products such as “business flourishing loan”, “businessman loan”, etc.. The bank actively built a good brand image of “no wasting time, no charging fees and no waiting for approval” and strengthened the credit management by establishing a customer entry standard of “stable family relationship, operation and investment” and establishing a credit investigation mode of “asking about personality, flowing, and usage”. By the end of 2015, the bank’s total assets reached RMB3.082 billion with a loan balance of RMB808 million; total liabilities were RMB1.071 billion with deposit account balance standing at RMB1.033 billion and no NPL. In 2015, net profit achieved RMB10 million.

5. Qianhai WeBank in Shenzhen
WeBank aims at building an open and inclusive financing platform, providing individual deposits and micro credit, using big data technology as its foundation and leveraging inter-bank cooperation. WeBank targets at both individual clients, including white collars, self-employed individuals, migrant workers, as well as MSEs and startups. Last year, WeBank built China’s first IT banking platform without involving “IOE”, the western tech giants IBM, Oracle and EMC, and initiated a new way of inter-bank cooperation to share capital, clients and products. WeBank has launched several Internet finance products focusing on general public and MSEs. Currently its three main product lines are retail credit “Weilidai”, online wealth management platform “WeBank APP”, and “Platform Finance” targeting at different life scenarios. By the end of 2015, WeBank had a total asset of RMB9.62 billion and a loan balance of RMB3.86 billion, and had already reached out to almost 4 million active clients, with an NPL ratio of 0.12 percent.

Media perspective 1  The door is fully opened to private banks

The General Office of the State Council recently distributed the Guidance on Promoting the Development of Private Banks (hereinafter referred to as the “Guidance”) formulated by the CBRC, which makes further arrangements to encourage private capital to establish financial institutions such as small- and medium-sized banks, including market entry conditions, licensing procedures, steady growth and strengthened supervision. The issuance of the Guidance fully opens the door to private banks, and private capital has been entitled to enter different types of institutions.
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through various channels.
At the press conference held by the State Council on June 26, the CBRC Chairman SHANG Fulin introduced on private capital entering the banking sector.

Approval time for establishment of private banks was shortened by 2 months
With strengthened supervision and improved approval efficiency, the Guidance encourages eligible private capital to establish financial institutions such as small- and medium-sized banks to vitalize the private economy. From the date of issuance of the Guidance, the CBRC officially started to take eligible private capital’s application to set up private banks.

SHANG Fulin emphasized that private banks should stick to serving medium, small, and micro-sized enterprises, farmers, agriculture, rural areas and communities, as well as mass entrepreneurship and innovation. Based on that, four market entry conditions should be met: capital shall be privately owned; capital owners shall enjoy good personal reputation and abide by law with integrity and professionalism, and with no organizational structure that could lead to related party transaction or bad record; private banks shall have well-designed equity structure and corporate governance structure, risk management system, IT structure, and appropriate market position; institutional arrangement to deal with residual risks, appropriate qualifications to run banks and risk control capacity, and recovery and resolution plan shall be in place.

To improve efficiency and shorten approval time for private banks, the CBRC has set a time limit for approval procedures, which requires that a decision to approve or disapprove shall be made within 4 months once the application is officially taken, shortened by 2 months compared with the “6 months” time limit in existing rules.

At the same time, power has been delegated to CBRC provincial offices to take application for preparing establishment and to approve application for opening business of private banks.

Shareholders should take risk responsibilities
SHANG Fulin stressed that the highest and most fundamental requirement for a bank, a special type of corporation involving currency operation and risk management, was to prevent risk spillover and avoid operational risks that might damage interests of depositor and taxpayer.

"According to the market principle, risk and profit should be matched with each other. Shareholders will share the profits made by a bank, not depositors; therefore depositors should not take the results when a banks runs into a problem, and shareholders should shoulder the risks," said SHANG Fulin.

The Guidance specifies “institutional arrangement to deal with residual risks” as one of the principles for private capital to establish private banks, which requires banks to make "living wills”. It must be clearly defined that shareholders are liable to bail in and try utmost to recover normal operation in case of crisis; if recovery to normal operation is unlikely, banks ought to split business modules to ensure key service functions could sustain.

“The key of the institutional arrangement is that shareholders should take risk responsibilities during the whole lifecycle of a bank,” said SHANG Fulin. As a new type of banking institution, a private bank should take the initiative to make arrangements to bear residual risks at its birth, so that innocent depositors will not be involved once problems occur. This will also enhance market confidence and competitiveness of private banks.

SHANG Fulin introduced that all five private banks of the first pilot project were open for business with stable operation. “The pilot private banks have the following characteristics: motive to commit to bank operation and dedication to long-term and steady development; differentiated market position and distinctive business orientation; sound mechanism of corporate governance and risk control; robust risk bearing capacity; originating shareholders being fully privately owned domestic enterprises; supported by advanced technology and innovative business models.”

Channels and institutions for private capital to enter the banking sector have all been liberalized
According to SHANG Fulin, there are mainly four models for private capital to enter banking institutions: private enterprises independently establish small and medium-sized banking institutions; private capital and main organizing bank co-establish village and township banks; private capital participates in the restructuring of existing banking institutions; private capital invests in banking institutions.

“We can say that the channels and types of institutions for private capital to enter the banking sector have all been liberalized. Private capitals can make independent choices according to their own investment interests, risk appetite and risk bearing capacity.” SHANG Fulin said, “to encourage private capital to establish banks is of great significance in improving the banking system and enhancing the banks’ service to the real economy.”
According to SHANG Fulin, large- and medium-sized enterprises have better access to financing, while expensive or inaccessible financing for MSEs remains an issue to be solved through financial reform. Therefore, as private banks are from private sector, close to public and well understand private business, they can complement existing banking service to MSEs, so as to better serve the real economy. As for the banking structure, given the fact that the structure of large- and medium-sized banks is more developed than that of smaller ones, the effort to promote development of small-sized banks is conducive to the vitality of the banking system. In addition, as private banks have no advantage in conventional banking business, they must from the very beginning seek differentiated development by offering distinctive products and services, in order to drive the transformation of the banking industry and improve quality and efficiency of the service to the real economy through their unique competitiveness.

(Source: People’s Daily, by Ouyang Jie, June 27, 2015)

II. Opening up

1. Overseas development of Chinese banking institutions

In 2015, Chinese banking institutions continued to expand their overseas development and support Chinese enterprises to go global. The institutional layout was improved, and a global service network was formed. By means of syndicated loans, bonds issued abroad, etc., fund support was available for key Chinese clients in overseas countries and regions. Banks also provided a package of financial services, including overseas investment loans, project contract loans, trade financing and financial advisory. RMB cross-border settlement was improved, providing ongoing fund trading service globally. By the end of 2015, 22 Chinese banks set up 1,298 outlets in 59 countries and jurisdictions, including 213 subsidiaries, first tier branches, and representative offices.

© CBRC Guangxi Office deepened financial reform in border areas to benefit people’s lives

The CBRC Guangxi Office promoted integrated financial service in 6 border cities, covering a population of 20 million within its jurisdiction. The financial service integration in Guangxi played a leading role nationwide, with
its banking industry reducing fees and charges by RMB200 million each year. Outlet network along the border continued to improve. In 2015, 173 outlets were established or upgraded in the financial reform experimental area, up by 65 compared with the number of last year. The CBRC Guangxi Office encouraged financial service innovation, supported banks to develop overseas loan business, and made great efforts to build the “Guangxi-ASEAN RMB Remittance and Transfer Highway”, reducing remittance and transfer cost by 80 percent. As a result, the cross-border RMB settlement volume in Guangxi continued to rank first among border provinces.

On June 8th, 2015, China CITIC Bank and CTBC Financial Holding Co., Ltd. (CTBC Holding) signed an equity cooperation agreement in Beijing. China CITIC Bank has become the first joint-venture commercial bank of Mainland China to invest in Taiwan as well as the first financial institution of Mainland China taking share in financial holding company in Taiwan. As a strategic investor of CTBC Holding, China CITIC Bank will carry out extensive cooperation with CTBC Holding in credit card co-issuing, mutual support and services for retail customers, cross-border RMB and trade financing, cross-border financing, syndicated loans, bond underwriting, credit investigation and other fields, in order to achieve mutual development of cross-strait banking business.

2. The development of foreign banking institutions in China

By the end of 2015, banks from 15 countries and regions established 37 wholly foreign-owned banks (with 306 branches under them), 2 joint-venture banks (with 4 branches under them) and 1 wholly foreign-owned finance company. 69 banks from 26 countries and regions established 114 branches, and 153 banks from 46 countries and regions established 174 representative offices in China. 38 locally incorporated foreign banks and 86 foreign bank branches were approved to conduct RMB businesses. 31 locally incorporated foreign banks and 31 foreign bank branches were authorized to operate financial derivative business. 6 locally incorporated foreign banks were approved to issue RMB financial bonds; 4 locally incorporated foreign banks were authorized to issue credit cards; and 1 locally incorporated foreign bank was authorized to conduct credit card acquiring service. Foreign banks maintained presence in 69 cities of 27 provinces in China, forming a service network composed of head offices, branches and sub-branches with certain degree of market coverage and penetration. The total operating outlets amounted to 1,044, of which around 17 percent were located in northeast, middle and west of China.
By the end of 2015, the total assets of foreign banking institutions were RMB2.68 trillion, down by 3.94 percent year on year. The liabilities stood at RMB2.33 trillion, down by 6.17 percent year-on-year. The loans issued by these institutions totaled RMB1.13 trillion, with a year-on-year decrease of 4.62 percent, and total deposits were RMB1.44 trillion, down by 7.10 percent year on year. Financial derivatives business amounted to RMB9.42 trillion, with a year-on-year growth of 16.47 percent. In 2015, net profit by foreign banking institutions totaled RMB15.298 billion, with the NPL ratio standing at 1.15 percent and liquidity ratio at 69.53 percent.

Table 2  Foreign banking assets in China (2010-2015)

<table>
<thead>
<tr>
<th>Item/Year</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset</td>
<td>17,423</td>
<td>21,535</td>
<td>23,804</td>
<td>25,577</td>
<td>27,921</td>
<td>26,820</td>
</tr>
<tr>
<td>As of the total banking assets in China</td>
<td>1.85</td>
<td>1.93</td>
<td>1.82</td>
<td>1.73</td>
<td>1.62</td>
<td>1.38</td>
</tr>
</tbody>
</table>

The CBRC revised and issued the *Rules for Implementing the Regulation of the People's Republic of China on the Administration of Foreign-funded Banks*, which provides a more favorable and convenient policy environment for foreign banks to establish institutions and operate in China with the prerequisite of effective supervision. Policies to support foreign bank branches under the provincial level were formulated to facilitate their growth in tier 2 and tier 3 cities. *Notice on Issues concerning Foreign Banks Investing in Inter-bank Bond Market and Trading Corporate Bonds* was issued, allowing foreign banks to participate in investment and trading of corporate bonds in inter-bank bond market. For the first time, foreign banks were approved to issue tier 2 capital instruments, gaining access to new channels and instruments to enhance capital management and risk resistance capacity. Foreign banks were encouraged to make full use of their global network and leverage cross-border service experience to provide specialized financial support for Chinese enterprises’ going global, foreign companies’ coming in, internationalization of RMB, free trade zones, as well as implementation of the Belt and Road Initiative.

The CBRC continued to support sound development of Hong Kong, Macao and Taiwan banks in China. Firstly, as outlined by the agreement on primarily free trade and services between Guangdong and Hong Kong/Macao, the CBRC explored the model of “Pre-establishment National Treatment and Negative List” to facilitate the development of Hong Kong and Macao banks in Guangdong. Secondly, under the condition of controllable risks, the CBRC supported reasonable demands of Taiwan banks to establish institutions and expand business in Mainland China. In 2015, 1 subsidiary and 14 branches of Taiwan banks were approved. By the end of 2015, 14 Taiwan banks established 59 operating outlets and 3 representative offices in Mainland China, and another 8 operating outlets were under preparation.

**Box 6  Internationalization of large commercial banks and supporting enterprises to “go global”**

With the implementation of the “go global” national strategy, more and more Chinese enterprises are developing business overseas through diversified means, resulting in their various financial needs. To meet these requirements and support the “go global” process of Chinese enterprises, large commercial banks accelerated their overseas development and internationalization, carried out
international peer cooperation and exchange, and innovated financial products and service. By the end of 2015, large commercial banks set up 171 tier 1 institutions (including representative offices) 57 overseas countries and jurisdictions, increased by 105 compared with 2003, among which 51 institutions were located in 23 countries along the Belt and Road Initiative. Overseas merger and acquisition is an important approach of globalization adopted by large commercial banks. By the end of 2015, large commercial banks had altogether USD1.5 trillion of assets abroad, up by around 7.5 times over 2003; total capital and working fund reached USD36 billion, up by around 3.1 times over 2003; total net profit was USD10.4 billion, around 3.3 times of the number in 2003. Large commercial banks also actively developed tailor-made products to provide robust support for Chinese enterprises in areas of infrastructure construction, export of strong capacity, and energy and resource cooperation.

◎ CBRC Inner Mongolia Office Implemented “Open to the North” Policy

The CBRC Inner Mongolia Office issued the Guidance on Banks to Support Inner Mongolia’s Openness to the North to promote the implementation of national strategy by banking industry in Inner Mongolia and support Inner Mongolia to become a new growth point along the Silk Road Economic Belt. The Office actively guided banking institutions to support Manzhouli and Erenhot in port development, including the opening-up pilot zone, and encouraged banking institutions to expand footprint and financial services across the border. In 2015, Baoshang Bank established an office in Mongolia; financial services provided by the Inner Mongolia Branch of China Development Bank were extended to Turkey, Mongolia, Myanmar, and other countries along the Silk Road; Bank of Inner Mongolia, Baoshang Bank and Harbin Bank signed with the Savings Bank of Russian Federation the first China-Russia inter-bank lending agreement, with an amount of RMB1 billion; the Inner Mongolia Branch of Bank of China and Bank of Inner Mongolia signed the memorandum of cooperation on direct allocation and transportation of Tugric and memorandum of strategic cooperation with banks from Mongolia; the cross-border RMB business center to Mongolia of Agricultural Bank of China Inner Mongolia Branch was officially open for business.

◎ ICBC steadily pressed ahead with international development

In 2015, ICBC continued to improve its global service network and optimized its service layout, especially in the Belt and Road countries, which further strengthened its financial support to Chinese enterprises’ going global and the implementation of the Belt and Road Initiative. By the end of 2015, ICBC had established a service network covering 42 countries and regions, becoming the Chinese financial institution with the widest global coverage. With shares in the Standard Bank in South Africa, ICBC managed to expand its financial services to 20 African countries indirectly, constituting a service network spanning Asia, Africa, Latin America, Europe, America and Australia, and significantly enhanced its global service capacity.

III. Financial innovation

In 2015, CBRC continued to guide banking institutions to abide by the principles of “improving efficiency to serve the real economy, lowering financial risks, and protecting the legitimate interests and rights of investors and creditors”. Financial innovation was closely promoted along with improving
development quality and effectiveness of the real economy. Under the prerequisite of compliance and controllable risks, banks conducted innovations in financial products and business models to support the reasonable financing needs of enterprises.

Financial innovation was widely conducted by banks to promote the development and penetration of “Internet + Finance”. First, exploring innovation in institutional reform. Banks promoted intensified, flattened and standardized corporate governance, and improved their business models, risk control models, service measures, so as to form a healthy operating model with clear procedures, enhanced services and controllable risk level. Second, pushing forward business innovation. Banks enhanced their remote services, including internet banking, phone banking, mobile banking and e-commerce, and built remote service platforms integrating functions of payment, settlement, financing, wealth management, etc., to promote in-depth development of e-banking business. Third, strengthening IT innovation. Banks further consolidated their teams of IT professionals and explored the transformation of IT-driven business models, incorporating big data, cloud computing, Internet of Things and data mining into financial services, operation and management. Fourth, widely innovating cooperation models. In terms of IT support, data analysis, business promotion, and product and services, commercial banks carried out cooperation with IT companies, investment banks, and fund management companies to better guide clients’ engagement in consumption, credit, and investment activities and bring financial services to various areas. Fifth, improving product innovation. With the utilization of information technology, banks furthered their innovation in credit business, non-credit business, off-balance sheet business and liability business, in a bid to provide differentiated financial services and products.

◎ Multiple measures were taken by the ICBC to promote smart banking

In 2015, ICBC was dedicated to promoting smart banking, for the purpose of providing more customized, diversified, and efficient financial service. By conducting intellectualized reconstruction to 150 branches in Beijing, the service efficiency of ICBC improved significantly. A new APP named “where is the ICBC” was also launched, to help customers locate the branch by navigation and mapping function, and make online appointments as well, making banking services more time-saving. One-stop taxation service initiated by the ICBC also makes the tax service more convenient.

◎ China Guangfa Bank created “financial convenience stores” with 24/7 around-the-clock service

China Guangfa Bank (CGB) improved its customer-centered intelligent financial service system by setting up “finance convenience stores” using remote video teller machines (VTMs) to provide community residents with 24/7 around-the-clock service, enabling customers to enjoy one-to-one professional bank services directly with service staff through remote video while all that is needed is their ID cards. As of the end of 2015, CGB had installed over 136 VTMs covering 52 cities throughout the country, providing professional and efficient financial services to community residents.
Part Two Banking Reform and Development

◎ Harbin Bank actively explored “internet+rural finance” service model

Firstly, Harbin Bank built farmer-assistance e-stations to fill the service blank. Through farmer-assistance e-stations, Harbin Bank could handle small-amount withdrawals, transfers, remittances, consumption payment and other business for farmers. At the end of 2015, there were around 1,700 farmer-assistance e-stations. Secondly, Harbin Bank used mobile phone banking to improve rural mobile financial service. Through mobile phone banking, farmers could submit loan applications, and obtain and pay off loans at any time, and more than 300 loan applications and more than 120 loan repayments have been successfully handled. Thirdly, conduct rural channel cooperation with known e-commerce companies. Harbin Bank signed strategic agreement with Jingdong Mall (“JD”), with farmer-assistance e-station as the service station for JD channel marketing, which achieved a capital closed cycle service system of “rural consumption credit granting—JD payment after arrival of goods-Farmer-assistance e-station deposit”.

◎ Baoshang Bank built an “online commercial bank” through its platform “Oxygen Finance”

Baoshang Bank launched its digital banking platform “Oxygen Finance” on August 28th, 2015, without the involvement of paper, outlets, or cash in transactions, in order to adapt to new trends of digital economy, sharing economy and “Internet + Finance”. Baoshang Bank was one of the first to establish an SBU to serve MSEs and those individual consumers known as “digital natives” existing in “new economy”, especially relating to eight kinds of scenes of people’s basic necessities of life, education, entertainment and healthcare. Oxygen Finance endeavors to extend service channels, create new products and optimize user experience, based on big data, mobile internet and other new technologies, meanwhile combining traditional banking practices on risk control and process management. Besides “Oxygen Account” and “Oxygen Package”, its “Oxygen Finance” will provide more payment, deposit, micro-credit and other convenient and safe products and services.

Box 7 Large commercial banks utilized Internet finance to better serve the real economy

In 2015, large commercial banks seized the historical opportunity of “internet+” and adopted new information technology of big data, cloud computing, and mobile internet to conduct direct marketing and e-commerce business, steadily drive service innovation and procedure innovation, and upgrade risk control system. As a result, problems of difficult access to financing and expensive financing were relieved, financial services and products were enriched, and the coverage of financial services was expanded.

Firstly, top-level design was enhanced, with the new trends being taken account. Based on advantages in clients, business, data and management, Internet thinking and information technology were adopted to establish operation models integrating on-line and off-line business, in order to explore new business types of Internet finance to better serve the real economy. Secondly, multi-dimensional information was utilized to realize precise credit granting, making financing more accessible. Commodity flow, capital flow and information flow were integrated to improve analysis of customer behavior and business situation, client credit rating, and risk pricing. In this way, financial service became more affordable and could be provided with less reliance on collaterals.

Thirdly, new pricing models were being developed to reduce financing cost. Internet technology was
used to establish standardized whole-process credit approval models, into which parameters like approval criteria, corporate data, capital flow characteristics, historical default were embedded for comparison and analysis, so as to calculate enterprise risk cost, estimate reasonable risk pricing, and drive down the real interest rate of loans.

Fourthly, new technology was used to achieve precise management and increase financing efficiency. Remote identity verification and remote credit granting could be gradually realized through utilization of remote verification technology and whole-process automation technology.

Fifthly, new products were designed to ensure support to MSEs and to farmers, agriculture and rural areas, promoting the development of financial inclusion. Strength of internet technologies was explored and utilized to reduce information asymmetry, which could also benefit product innovation, service coverage and service quality to support MSEs and to farmers, agriculture and rural areas.

Sixthly, platforms were built to provide all-around service for targeted clients and improve customer experience. Comprehensive on-line financial service platforms were established to provide a variety of business as well as one-stop and package services. Customer behavior analysis was conducted to achieve precise targeting and improve service quality.

Box 8  The CBRC further promoted credit asset securitization

In 2015, the CBRC continued to promote innovation in credit asset securitization, for the purpose of improving market efficiency and tapping into the credit in stock, so as to contribute to steady growth and restructuring of the real economy.

First, streamlining administration and delegate power, improving issuance efficiency. Credit asset securitization business shifted from former approval system to a combination of business qualification approval and product registration, and approval power of credit asset securitization business qualification was delegated to lower levels to improve product issuance efficiency. Average time spent on procedures at the CBRC headquarters or provincial offices reduced from 40 workdays to 8 workdays.

Second, specifying policy orientation to effectively support the real economy. Banks were encouraged to prioritize credit assets in line with national industry policy as underlying assets, considering profitability and orientation at the same time. Credit extension also focused on MSEs, farmers, agriculture and rural areas, railway construction, shantytown renovation, development in central and western China, and reform in key industries.

Third, guarding against risks and conducting market innovation in a steady manner. Securitization of non-performing assets was explored to expand channels for commercial banks to resolve their non-performing assets; pilot projects of credit asset securitization with a circulating structure were carried out; mismatch between underlying assets and asset-backed securities (ABS) was gradually addressed. In addition, credit asset securitization in free trade zones was under research and study to enlarge the scope of qualified ABS investors.

Fourth, setting up good examples and letting policy finance play an important role. Policy banks were encouraged to tap into their credit assets in stock in the form of ABS. The China Development Bank was supported to explore the pilot project of credit asset securitization in shantytown renovation, so as to optimize the credit structure, reduce pressure of capital constraints, and improve capital efficiency.

By the end of 2015, 61 banking institutions issued 104 ABS in the inter-bank market with a total value of RMB398.7 billion, a year-on-year increase of 41 percent, among which RMB10 billion was shantytown renovation loan-backed securities, RMB31.9 billion was automobile loan-backed securities, and RMB26 billion was housing mortgage-backed securities.
Bank of Communications successfully issued RMB5.022 billion asset-backed securities by credit card installment in China inter-bank market in November 2015, the first attempt in local market. This is also an icebreaking move after the implementation of securitizations registration of such type of underlying assets by the PBOC, a symbol of credit card assets of people’s livelihood expenses being included in China’s ABS sector, and moreover, a further step of Chinese banks’ services to boost public consumption.

As of end-2015, RMB2.309 billion principal of such ABS products was paid in due, 46 percent of its total principal. A total of RMB19 million interests were paid to investors, with its accumulated default rate controlled at 0.57 percent.
Part Three

Promoting the Banking Industry to Better Serve the Real Economy

- Financial inclusion
- Financial services to key areas and industries
- Green credit
- Promoting balanced regional development
In 2015, the CBRC guided banking institutions to firmly grasp new opportunities under the new normal of economic growth, allocate financial resources according to the market-oriented principle, tap their idle capital while making good use of incremental capital, properly arrange the credit allocation, optimize the credit structure and improve the efficiency of credit funds, thus better serving the real economy and effectively supporting the sound growth and restructuring of the real economy.

I. Financial inclusion

In recent years, the CBRC pressed ahead with improving the overall policy framework for financial inclusion, and gave more policy support to financial services for weak areas. In December 2015, the State Council issued the Notice on Issuing the Plan for Promoting the Inclusive Finance (2016-2020) (Guo Fa No. 74, 2015), setting forth the guidelines, principles and goals for the promotion of financial inclusion, outlining policy measures for inclusive financial service providers, products, infrastructure development, laws and regulations, and education and publicity, and arranging financial inclusion promotion, strengthening organization and coordination, and carrying out demonstration and pilot projects. The goal of financial inclusion is to improve the coverage and availability of and people’s satisfaction with financial services, constantly meet people’s increasing financial needs, and particularly ensure timely access to reasonably-priced, convenient and secured financial services for MSEs, rural residents, low-income groups in urban areas and poverty stricken population.

1. Financial services for Micro and Small Enterprises (MSEs)

Firstly, strengthening regulatory guidance

The CBRC issued the Guiding Opinions on Improving Financial Services for MSEs in 2015, which requires a three-dimensional review of MSE loan growth by adding a third “no-lower-than” growth target (i.e. MSE loan approval ratio is no lower than that of the previous year) to the previous the two (i.e. the growth rate of MSE loans is no lower than average loan growth rate and the number of MSE borrowers is no lower than that of the previous year, provided that the incremental loans are effectively increased). Commercial banks were required to develop separate annual credit plans for MSEs and avoid diverting or misappropriating loans approved, so as to ensure strong credit support to MSEs. The CBRC issued the Notice on Further Implementing the Supervisory Policies on Financial Services for MSEs, aiming to deepen the innovation of regulatory policies with regard to improving loan repayment methods, defining clear tolerance of NPLs and strengthening the measures for exempting those that have diligently fulfilled their duties from liabilities. In addition, the CBRC continued to strengthen the inspection and examination, and organized local offices and banking institutions to conduct special inspection over financial services for MSEs, thereby ensuring effective implementation of relevant policies.

Secondly, strengthening the role model effect

The CBRC held the 2015 National MSE Financial Service Award Conference where awards were given to model organizations and individuals for their outstanding contribution to MSE financial services. The CBRC launched the Notice on Further Implementing the Supervisory Policies on Financial Services for MSEs, aiming to deepen the innovation of regulatory policies with regard to improving loan repayment methods, defining clear tolerance of NPLs and strengthening the measures for exempting those that have diligently fulfilled their duties from liabilities. In addition, the CBRC continued to strengthen the inspection and examination, and organized local offices and banking institutions to conduct special inspection over financial services for MSEs, thereby ensuring effective implementation of relevant policies.

The CBRC held the 2015 National MSE Financial Service Award Conference where awards were given to model organizations and individuals for their outstanding contribution to MSE financial services. The CBRC launched the 4th MSE Financial Service Monthly campaign with the theme of “Supporting MSEs and Benefiting People”, during which a variety of publicity activities, such as exhibitions and shows, bank-enterprise dialogues, media columns were organized to promote experiences and good practices in MSE financial services.
Thirdly, strengthening innovation-driven development

Banks were guided to develop innovative approaches to MSE financial services by developing "government-bank cooperation", setting up MSE-oriented sub-branches, collecting and compiling MSE performance index, and leveraging Internet technologies. Large commercial banks were guided to believe that "big banks are also able to do small business well" and continue improving the organizational system for specialized operations, specific policies and mechanisms, exclusive products and services and professional teams, thus becoming the major providers of financial services to MSEs. Small- and medium-sized commercial banks were encouraged to make clear strategic positioning and build dedicated brands for MSE financial service. Financial leasing firms and finance companies were encouraged to leverage their expertise to explore MSE leasing in the forms of manufacturer leasing and joint leasing, and further expand the pilot coverage of the industrial chain financing, in a bid to effectively bring down MSEs' financing cost.

As of end-2015, the outstanding balance of MSE loans reached RMB23.5 trillion, accounting for 23.9 percent of all loans. The growth rate of MSE loans was 0.4 percentage point higher than that of all loans. The number of MSE borrowers was 13,226,000, up by 1,780,000 year-on-year. The MSE loan approval ratio stood at 92.8 percent, up by 2.1 percentage points year-on-year. Hence, the three “no-lower-than” targets well achieved.

◎ The CBRC Qingdao Office encouraged local banks to develop the “Bank-Port Connect” system to address financing difficulties facing MSEs in foreign trade

To address the issues of repeated pledges and false warehousing certificates, the CBRC Qingdao Office took the lead to encourage local banks to develop the “Bank-Port Connect” Commodity Trade Financing Information System. With functions including information inquiry, online processing, automatic commodity control, risk alerting, etc., the system directly connects the ports’ internal production system with banks’ financing system, and builds a safe, efficient and smart monitoring system, which eliminates banks’ worries about lending to MSEs in foreign trade. Enabling online real-time interaction among banks, ports and companies, the system helps to shorten the processing time from 5 days to 1 day, noticeably improving the efficiency of loan approval and extension.

◎ BYK provided tremendous support for SME developments

BYK actively supported SME brands. Through the years, BYK built the SME-targeted multi-partite sharing platform for information, technology and services, initially founded “Chinese SME brand club”, issued prime card within the club and signed favorable business agreements with club member enterprises, which would stimulate sales and upgrade brand value. BYK offers prime card-holders online shopping discount, donations and other functions, to further upgrade its brand value. By the end of 2015, BYK granted RMB4.99 billion loans for 286 SME club members and advanced product output of RMB10.3 billion, which is 19 percent increase, or RMB2 billion higher than year beginning.
Box 9  The “Bank-Tax Interaction” mechanism helped to boost MSEs

In July 2015, the Notice of the State Administration of Taxation and the CBRC on Promoting “Bank-Tax Interaction” to Support MSEs was issued, pursuant to which the “Bank-Tax Interaction” program was rolled out nationwide. The program was established to link the CBRC local offices, tax authorities and banking institutions, thereby ensuring MSE taxpayer trustworthiness rating can be shared effectively with banks. The mechanism has, to some extent, removed the information barrier and resolved the guarantee dilemma, thereby mitigating the issue of financing difficulties.

First, the issue of lacking collateral was resolved, thus improving credit availability. The program effectively bridges taxpayer trustworthiness with corporate financing, and offers trustworthy companies with “credit enhancement”, which helped MSEs to get bank loans by turning the taxpayer trustworthiness into credit assets.

Second, the issue of information asymmetry was resolved and banks’ operational efficiency improved. Fully leveraging the MSE taxpayer trustworthiness rating results, banks were able to actively reach out to new clients, accurately identify new borrowing needs, rapidly review clients’ credit standing, and effectively guard against financial risks, thus achieving targeted extension of loans.

Third, innovative financial products were developed for MSEs and banks’ service capacity improved. Based on the taxpayer trustworthiness rating results, amount of tax paid, continuous tax payment record time, and other information, banks developed a range of tax-payment-based credit products for MSEs in line with their operational features. As a result, the financing needs of MSEs were effectively met.

Fourth, the social credit system was further improved and the financial ecosystem was maintained. As an innovative example in building credit information exchange and coordination, particularly in enhancing positive incentives to trustworthy MSEs and utilizing their credit rating results, the “Bank-Tax Interaction” mechanism effectively maintained proper financial ecosystem that rewards MSEs honoring honesty and integrity.

◎ China Guangfa Bank (CGB) developed “Tax-Financing Interaction” dedicated for MSEs

CGB launched an innovative special financing program “Tax-Financing Interaction” dedicated for MSEs. This program mainly uses the corporate tax payment credit rating and information obtained through cooperation with tax authorities as the basis in providing customized special financing services for MSEs with reliable tax payment record. The program gave priority to high-quality MSEs with tax-payment rating of A, B or above, and extended credit through diversified arrangements, such as combining real estate mortgage, guaranty from guarantee company, equipment mortgage/pledge, intellectual property/account receivable pledge, risk compensation, credit guarantee insurance and loans, etc., with the maximum amount of RMB30 million, to meet diversified customer needs for financial services. The program aimed to create a tax-payment credit culture based on social integrity, using methods like tax-based loan extension and loan-based tax payment, to promote standardized management and upgrading of enterprises, and boost local economic development and tax revenue growth. As of end-2015, CGB had established partnership with tax authorities in many cities, including Guangzhou, Beijing, Nanjing and Jiangmen, and 5 special programs of “Tax-Financing Interaction” approved with the credit volume totaling RMB700 million.
The CBRC Hubei Office implemented the “grid-based financial services” strategy

The CBRC Hubei Office promoted the banks to work with the local government, and realized accurate positioning and improvement in financial inclusion by grid-based approach. Centering around the principle of “information coverage, accurate positioning, efficient service and accountability-to-person”, the aim was to realize full coverage of both urban and rural areas and all the regions with non-differentiated service. The CBRC Hubei Office planned to build a financial service system with grid-based accountability, standardized filing, diversified products and refined services. According to the plan, the year 2015 is for launch and exploration, the year 2016 for dissemination and the year 2017 for consolidation and improvement. It is required that the coverage increase by over 30 percent annually, so as to realize that the growth rate of agro-related loans and loans to SMEs is no less than the average of all loans and the increment is no less than that of last year. County-level loan-to-deposit ratio should be improved by 1-2 percentage points. By the end of 2015, Hubei province set up 10,600 “Grid-based Financial Inclusion Work Stations” and issued RMB40.23 billion worth of loans, benefiting 27,600 MSEs. The loan approval ratio was 91.7 percent, up by 3 percentage points year-on-year. The issue of MSE financing difficulty and affordability was effectively relieved.

Thematic column 4  Supporting the reduction of companies’ financing cost

In recent years, the CBRC has taken a variety of measures to bring down the high cost of corporate financing, and encourage banks to dedicate some profits to the real economy, consolidate the foundations for their own development, and achieve a win-win result.

First, unreasonable fees and charges were eliminated to reduce companies’ burden with specific examinations and inspections conducted in this regard. In 2015, the fees and charges for banking services were included into the “on-site examinations targeted at reinforcing internal controls and external supervision and containing misconducts and illegal acts”. The CBRC organized all banking institutions to review and check their service fees and charges and implemented the sector-wide inspection and examination. These efforts produced remarkable results: the number of service fees and charges of 21 major banking institutions dropped significantly, and the average weighted interest rate paid by non-financial companies and other sectors fell by 1.07 percentage points.

Second, the policies regarding financial services for weak areas were improved. In 2015, efforts were made to further optimize the MSE financial service appraisal system, and improve and implement differentiated regulatory policies regarding exempting those that have diligently fulfilled their duties from liabilities, internal appraisal, and supervisory incentives and restraints. The CBRC established the “Bank-Tax Interaction” mechanism jointly with the State Administration of Taxation, innovated working capital loan service model for MSEs, advanced the reform of agro-related financial institutions, thereby constantly improving financial services for MSEs, agro-related development and other weak areas.

Third, efforts were made to increase the competitive supply of finance. Insisting on “reforming the incremental capital” and “transforming the idle capital”, the CBRC encouraged private capital to participate in the banking sector. The efforts to normalize the development of private banks were well underway. The applications for establishing private banks were reviewed on a case-by-case basis in accordance with the law, with no quota imposed. Private banks were encouraged to operate primary businesses, such as deposit, loan, remittance, etc., thereby increasing the number of market players to activate market competitiveness.

Fourth, the CBRC pushed forward reforms in wealth management and inter-bank business to curb unreasonable increase of funding costs in the banking
sector. Efforts were made to advance the research and development of policies for managing the quality of commercial banks’ liabilities. Commercial banks were supported to develop innovative financing channels, diversify their liability structures, and develop more sources of liabilities. The statistics and monitoring mechanism of deposit fluctuation was established, and banks with high deposit deviation or illegal deposit taking would be subjected to penalties and supervisory corrections. The CBRC also conducted specific inspections on the implementation of the new rules governing inter-bank business, with a view to improving the internal and external management of inter-bank business. Banks were encouraged to transform the wealth management business into a strategic business unit, and further advanced the pilot program to promote two innovative practices, i.e. “direct financing instruments for wealth management” and “bank wealth management plan”.

Fifth, the credit capacity was effectively unleashed. The statutory limit on loan-to-deposit ratio was replaced with the liquidity risk-monitoring indicator. As for credit asset securitization, the reform of replacing the approval system with the registration system was pushed forward, thereby expanding the scope of originators and underlying assets. The rules governing credit asset transfers were improved, in an effort to promote the credit asset transfers conducted by the Banking Industry Credit Asset Registration & Exchange.

Sixth, the financing guarantee policies were improved. The CBRC facilitated the promulgation of the Opinions on Accelerating the Development of the Financing Guarantee (Guo Fa [2015] No. 43), and supported the legislative review and consultations with regard to the Regulation on the Administration of Financing Guarantee Companies. The CBRC accelerated the development of government-led financing guarantee and re-guarantee institutions, coordinated local finance and other agencies to strengthen policy support for financing guarantee institutions, and enhance the role of these institutions in offering credit enhancement for MSE and agro-related financing.

As of end-2015, the average weighted interest rate paid by non-financial companies and other sectors was 5.27 percent, down 1.51 percentage points year-on-year. Among others, the average weighted interest rate for bills financing was 3.33 percent, down 2.34 percentage points year-on-year. As a result, the financing difficulty and affordability issue faced by corporates has been substantially mitigated.

2. Rural financial service

The CBRC issued the Notice on Improving Rural Financial Services in 2015, guiding banks to strengthen the awareness of agro-related services. The CBRC pressed ahead with the reform of systems and mechanisms, increased the number of financial service providers in the rural areas, improved the capacity of serving agriculture, rural areas and farmers, supported the agricultural modernization drive, enhanced the efficiency and quality of agro-related lending services, and ensured that the outstanding agricultural loans continued to rise and the share of agro-related loans was no lower than the previous year.

The CBRC Vice Chairman Guo Ligen addressed the National “Financial Knowledge to Countryside” Work Conference
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Firstly, advancing the reform of agro-related banking institutions’ systems and mechanisms to strengthen the development of the “agriculture, rural areas and farmers” service capacity. The pilot program of the ABC to set the Agro-related Financial Business Unit was further advanced, and the pilot was rolled out to all county-based sub-branches. The scope of the ADBC’s policy business was clearly defined, with the policy-based functional positioning further strengthened. The CDB was urged to develop innovative financing approaches to serving the “agriculture, rural areas and farmers” and extend more medium to long-term credit to agriculture and rural development. Rural credit unions deepened the reform and played a bigger role in providing agriculture-supporting financial services. As of end-2015, there were 966 rural commercial banks, an increase of 241 compared with the year beginning. The PSBC was guided to steadily develop agro-related micro loan business and gradually expand the scope of agro-related business. Other commercial banks were encouraged to establish outlets at lower levels, optimize the outlet network in rural areas, and appropriately increase the coverage of outlets in rural areas.

Secondly, diversifying rural financial service providers to increase the competition in rural financial markets. Efforts were made to steadily foster village banks, particularly in old revolutionary base areas, areas with concentrations of ethnic minorities, border areas, poor areas, main grain-producing areas, and areas with concentration of MSEs. As of end-2015, there were 1,377 village banks, an increase of 144 compared with the year beginning. Among village banks, 62.3 percent are based in central and western China, and village banks covered all counties and cities of Hainan, Jiangsu, etc.. The CBRC supported the incorporation of financial leasing firms positioned to boost the agricultural modernization and mainly serve the “agriculture, rural areas and farmers”. Trust companies were guided to offer diversified financial services to support the rural real economy. Auto finance firms and consumer finance firms were encouraged and guided to support the development of consumer credit in rural automobile, home appliance and education markets. The development of micro-loan firms, financing guarantee institutions and re-guarantee institutions was coordinated and regulated to provide better agro-supporting services.

Thirdly, promoting financial inclusion in rural areas and improving the quality and efficiency of rural financial services. Efforts were made to further promote the full coverage of basic financial services in rural areas and gradually achieve full coverage of financial outlets at towns and townships. Steps were taken to promote access to basic financial services for administrative villages where conditions permitted. As of end-2015, basic financial services were made accessible to 560,000 administrative villages, accounting for 95 percent of the total. Support was extended to returned migrant workers, rural young residents, rural women, grads-turned-village officials and technology commissioners to create businesses and/or work in rural areas. Financial services were improved for people with disabilities or special needs in rural areas. More credit was extended to contiguous areas with acute difficulties. As a result, the sound development of micro-finance for poverty reduction was promoted.

Fourthly, Strengthening financial support to the agricultural modernization and accelerating the transformation of agricultural development pattern. The financial support to major grain-producing provinces and counties was strengthened with a view to increasing the grain productivity. Efforts were made to support the use of local competitive resources, development of agriculture with unique features, and further restructuring of agriculture. In order to boost innovation in agricultural technology, more financial support was extended to companies engaged in research and development of agricultural technologies. The financial policies for supporting external cooperation on agriculture were improved, and the export and trade of competitive agricultural produces was effectively supported. More credit was extended to specialized animal husbandry, agricultural produce processing, rural
services, rural tourism and recreation, thereby promoting the integration of rural industries.

Fifthly, Promoting the innovation of business and products, developing and improving the financial product system that is aligned with the needs of “agriculture, rural areas and farmers”, and improving people’s satisfaction for rural financial services. In approved areas, banks were guided to participate in the pilot program to promote the development of mortgage loans with rural land contract management rights as collateral, steadily and prudently push forward the pilot program to promote the use of farmers’ residential property rights as pledge, and continuously increase the size of forest-right-secured loans.

As of end-2015, the outstanding agro-related loans extended by banking institutions reached RMB26.4 trillion, an increase of RMB2.9 trillion compared with the year beginning or up 11.7 percent year on year.

◎ The CBRC Qinghai Office developed the “grassroots-level interaction” cooperative lending model

In a bid to bridge the “last mile” for party organizations at grassroots level to serve the public and for agricultural and pastoral areas to have access to financial services, the CBRC Qinghai Office developed the “grassroots-level interaction” cooperative lending model. The model runs in the following ways. First, banking institutions at grassroots level assign credit officers to work part-time at party organizations at grassroots level, with banking institutions extending loans to farmers and urban residents; party organizations at grassroots level assign cadres to work part-time at banking institutions at grassroots level, with the cadres participating in pre-lending investigation and post-lending management, supervising the performance of loan officers and reporting material information. Second, both sides enter into agreements that stipulate their respective duties and obligations for delivering results. Third, both sides jointly set up the cooperative lending office at the office of local village committee to provide services to farmers at fixed time periods. Fourth, both parties jointly control credit risks through organizing or participating in credit management activities. As of end-2015, 123 banking institutions were engaged in this cooperative lending practice and 555 village-level grassroots cooperative lending offices were established, benefiting 150,000 residents in 408 administrative villages (communities). These offices developed around 20 innovative credit products and extended RMB928 million of loans, with the average farmer loan processing time shortened by 20 business days.

◎ The CBRC Tibet Office promoted the development of financial inclusion

The CBRC Tibet Office urged banks in Tibet to implement the requirements on the development of financial inclusion, effectively improve the availability of financial services, actively boost service innovation, and improve the means for delivering services. With the use of self-service facilities, telephone banking, online banking, cellphone banking and WeChat banking, the financial transactions conducted via electronic channels within its jurisdiction accounted for over 80 percent of the total. Banks actively developed and launched a range of innovative financial products. Combining mobile services with modern tools, a full-range service system consisting of “physical outlets + electronic tools + financial service stations serving agriculture, rural areas and farmers + mobile financial services” has been built in the agricultural and pastoral areas. As of end-2015, 3,771
financial service stations were set up, an increase of 1,299 compared with the year beginning, covering 99.56 percent of the townships/towns and 57.87 percent of the administrative villages, with the level of basic financial services at grassroots level remarkably improved.

◎ The CBRC Zhejiang Office substantially promoted the application of micro-lending technologies in rural areas

The CBRC Zhejiang Office issued the *Notice on Promoting the Application of Micro-lending Technologies in Rural Areas*, requiring banking institutions to insist on the strategic positioning for their micro-lending business. Rural small and medium-size financial institutions were encouraged to independently develop or introduce micro-lending technologies, set up the micro-lending business unit or quasi business unit, promote the integration of micro-lending and conventional agricultural lending, develop the micro-lending customer management system, gradually add new modules, such as customer scoring, interest rate pricing, post-lending early warning, etc., promote the application of mobile terminals, and make the front-office marketing and mid and back-office management more intensive. As of end-2015, 31 rural financial institutions in Zhejiang adopted micro-lending technologies, with 170,000 micro loans worth RMB18.5 billion extended.

Micro-lending business of rural small and medium-sized financial institutions in Zhejiang in 2015

In 2015, the CBRC Beijing Office issued the *Opinions on Carrying out the Pilot Financing Program on Market Reform of Collective-Owned Rural Commercial Construction Land*, guiding banking institutions in Beijing to provide financing with the use of collective-owned rural commercial construction land as the pledge or the use of the right to expected earnings from tenancy agreements. The purpose of the pilot program is to ensure the collective-owned rural commercial construction land can be used for pledge financing in the same way as state-owned land. As of end-2015, banking institutions in Beijing involved in the pilot program granted RMB4.488 billion of pledged loans in this manner.

◎ The CBRC Beijing Office pushed forward the pilot program to promote the market reform of collective-owned rural commercial construction land
First agricultural product Price Index Investment Trust (PIIT) by COFCO Trust Co., Limited

Based on the practical experience of two “Breeding investment trust”, COFCO Trust set up a Beef PIIT in 2015, which further extended the coverage of financial services towards biological assets and guided social capital to support agriculture. Beef PIIT selected the cattle industry where the beef price was relatively stable for the previous year, and one of the largest cattle breeding company in Inner Mongolia as an investment manager for cattle fattening and selling. The return is linked with the beef price. Beef PIIT is the first agricultural products PIIT in China and further increases financial support of agriculture development.

3. Supporting poverty reduction

Banks were guided to properly position themselves in the course of poverty reduction, actively involve in providing financial support to poverty reduction efforts, strengthen and improve financial services for poverty-stricken areas and population, and improve the coverage, availability and satisfaction for financial services. The CBRC further strengthened the differentiated licensing policies, encouraging banking institutions to set up offices and service outlets in poor areas; in areas where conditions permitted, the CBRC encourage banks to achieve full coverage of banking outlets at township level and full coverage of financial services in townships and counties and achieve full coverage of banking outlets at administrative village level. Banks strove to be better targeted in poverty reduction, by developing targeted poverty reduction plans, making accurate credit allocation, adopting proper supporting approaches and targeting the right beneficiary groups. The CDB and the ADBC continued to increase loans for infrastructure projects, poverty-reduction relocation projects and educational poverty reduction projects in poor areas, while commercial financial institutions continued to strengthen credit support to production and employment in poverty-stricken areas. As a result, the banking industry improved the efficiency of their efforts in supporting poverty reduction.

Thematic column 5 Improving financial services for development-oriented poverty reduction

In recent years, the CBRC actively promoted financial services for development-oriented poverty reduction. It guided banks to strengthen service capacity building, improve the level of comprehensive financial services for poverty reduction and development, strengthen the extension of credit for poverty reduction and ensure equal access to financial services. These efforts have effectively helped targeted population to increase their income and poor areas to achieve sustainable social and economic development.

First, the regulatory policies governing financial services for poverty reduction were improved. The CBRC facilitated the issuance of the Outline for Development-oriented Poverty Reduction for China’s Rural Areas (2011-2020), and issued a number of documents jointly with other ministries, including the Guiding Opinions on Improving Financial Services for Development-Oriented Poverty Reduction and the Guiding Opinions on Innovative Development of Microloans for Poverty Reduction. The licensing policy governing the establishment of banking institutions in poor areas became more flexible, thereby driving the amount of loans extended to poor areas to grow continuously. The CBRC issued the Notice on Relevant Issues Regarding Banking Institutions’ Efforts to Improve Financial Services for Old Revolutionary Base Areas, Areas with Concentrations of Ethnic Minorities, Border Areas.
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**and Poor Areas**, urging banks to constantly improve the level of rural financial services to poor areas.

Second, the loans on poverty reduction continued to grow and played an effective role in poverty reduction. The loans extended to poor areas grew faster than all loans, and the total amount of loans to poor rural households increased significantly. The CDB’s capacity to build and foster market infrastructure in poor areas continued to improve, with majority of poor counties having access to development-oriented loans. The ADBC actively provided loans for the purchase of grain, cotton and edible oil, construction of infrastructure, and poverty reduction for relocation; it also actively provided loans to leading enterprises for industrialization. Commercial financial institutions extended more credit support to industrial projects and poor farmers involved in production or business creation; rural credit unions, village banks and other small and medium-sized financial institutions actively involved in issuing subsidized loans on poverty reduction.

Third, the needs for basic financial services in poor areas were largely satisfied. Building on the full coverage of basic financial services at township level, efforts were made to promote access to basic financial services at village level. Banking institutions were guided to actively set up outlets in poor counties and below county level. An extensive network of ATMs, POS machines and service points was established, with the business scope covering minimum living allowances, direct subsidies for grain production, and agriculture-supporting subsidies.

Fourth, the efforts for targeted poverty reduction produced positive results. The CBRC attached great importance to poverty reduction in Hezheng County of Linxia Hui Autonomous Prefecture in Gansu Province. The number of poor people in this county dropped dramatically. In recent years, the CBRC system donated RMB4,409,000 of cash and in-kind gifts worth RMB2.32 million to Hezheng County; it has implemented 7 projects, and introduced RMB530 million of external capital for 24 projects in the fields of agriculture, finance, culture, tourism and education.

**◎ The CBRC Jiangxi Office focused on the oil-tea camellia industry in driving banking institutions to support poverty reduction through industrial development**

The CBRC Jiangxi Office issued the *Guiding Opinions on Banking Institutions Supporting the Development of the Oil-Tea Camellia Industry*, urging agro-related banking institutions to have in place special credit policies for the oil-tea camellia industry and develop credit products specifically designed to support oil-tea camellia planting, production and processing. As of end-2015, the ABC Jiangxi Branch granted 10,200 clients with loans worth RMB1.7 billion (with the outstanding balance of loans standing at RMB1.6 billion) under the “Oil Tea Camellia Loan” scheme, supporting the planting of 71,800 hectares of oil-tea camellia trees.

**◎ The CBRC Ningxia Office guided local banking institutions to develop innovative approaches to poverty reduction**

The CBRC Ningxia Office guided local banks to develop and implement innovative approaches to poverty reduction. A “Five in One” development-oriented poverty reduction model involving governments, banks, companies, communities and residents has initially taken shape. As of end-2015, the Huanghe Rural Commercial Bank granted loans worth RMB12.751 billion to 866 project villages under the “Providing Credit to 1,000 Villages” scheme, benefiting 316,200 rural households. The CDB Ningxia Branch granted loans worth RMB14.82 billion to shantytowns, up 150.94 percent year on year, supporting 154,900 households in shantytown projects across Ningxia. In its “13th Five-year Plan”, the ADBC Ningxia Branch has evaluated 6
poverty-alleviation migration projects applying for mid to long-term loans and approved loans worth RMB3.108 billion for these projects.

© ADBC fully supported poverty alleviation

In 2015, ADBC became the first financial institution in China to set up Poverty Alleviation Finance Department, aiming at financing relocation of poverty-stricken population as a breakthrough to boost the poverty alleviation finance business, and expanding the scope and products of poverty alleviation finance in all aspects to fully support the priority poverty alleviation. Credit products tailored for such relocation debuted in August. By the end of 2015, 412 projects totaling RMB270 billion have been approved, and RMB80.97 billion of loans has been granted.

II. Financial services to key areas and industries

In 2015, the CBRC and the NDRC jointly issued the Guiding Opinions on the Banking Industry Supporting Major Projects in Key Areas, guiding banking institutions to integrate national strategies and commercial sustainability, promoting policy implementation with optimized financial service, promoting transformation and upgrading with financial innovation, and serving the real economy while guarding against financial risks. Banks were also encouraged to leverage their positioning and advantages in improving working mechanisms and credit policies, supporting major construction projects, and ensuring effective implementation of major policies and prevention of financial risks, thus promoting economic growth of higher quality.

1. Supporting national strategies

Banking institutions were guided to follow closely and support national strategies and grasp the opportunities arising from major policies. They were guided to support national strategies, such as the Belt and Road initiative, the Coordinated Development of the Beijing-Tianjin-Hebei Region program, and Yangtze River Economic Belt Initiative. First, greater loan approval authority was delegated to bank branches located along the Belt and Road and in the Beijing-Tianjin-Hebei region and the economic development belt along the Yangtze River, on condition that effective management and risk control could be ensured. These bank branches were encouraged to optimize credit procedure and apply refined and differentiated credit management policies. Second, efforts were made to explore the establishment of inter-bank information communication mechanism and initiate exchanges and cooperation regarding financial services and project resources, thus leveraging complementary strengths for mutual benefits. Third, in order to extend the coverage of financial services, banks focused on countries along the Belt and Road as their strategic priorities for enhancing their global presence, and took the Beijing-Tianjin-Hebei region and the economic development belt along the Yangtze River as key markets to expand their financial services, thus contributing to the multi-layered, differentiated banking service system with wide coverage.
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Box 10   Banks supported the Belt and Road Initiative

In 2015, the CBRC guided banks to actively support the countries along the Belt and Road by leveraging their financial strengths. First, the top-level design was strengthened, and the master plan for providing financial support to the Belt and Road initiative and corresponding implementation plans were developed. Second, banks improved their network. As of end-2015, 9 domestic banks had 56 tier-1 offices (including 16 branches, 32 sub-branches and 8 representative offices) in 24 countries along the Belt and Road. Third, banks strengthened efforts to develop innovative products and services. They actively offered innovative products concerning cross-border trade, investment and M&As, global credit extension, investment banking, cash management and hedging, so as to meet the needs of key projects for diversified financial services. Fourth, more credit support was extended to infrastructure projects in the countries along the Belt and Road to increase the interconnectivity, to overseas resource development projects for international industrial capacity cooperation, and to the “Going Global” of Chinese companies to boost foreign trade development. In addition, the CBRC actively expanded and deepened the cross-border regulatory cooperation with the countries along the Belt and Road, thus strengthening the prevention of cross-border risks and creating a favorable external environment for the development and cooperation of domestic and foreign-funded banking institutions. As of end-2015, the CBRC entered into MOU or exchanged letters on cooperation with the financial regulators of 27 countries along the Belt and Road initiative.

◎ The CBRC Fujian Office pushed banking institutions to support the Belt and Road initiative

In response to the Implementation Plan of Fujian Province Regarding the Core Area of the 21st Century Maritime Silk Road issued by Fujian Province, the CBRC Fujian Office issued the Notice on Further Strengthening and Improving Financial Services under the New Normal. It established the statistical analysis system concerning financial support to the Belt and Road initiative, and facilitated banks under its jurisdiction to promote the sharing of information among banks, governments and companies. It promoted the innovation of cross-border investment and financing-related products and the facilitation of services, and expanded the cooperative mechanism for facilitating industrial funds to support continental and maritime programs, thus fully supporting the efforts of Fujian Province to build the core area of the 21st Century Maritime Silk Road. As of end-2015, 1,749 projects under the Belt and Road initiative received support from the banks, an increase of 446 compared with the year beginning.

◎ Bank of China dedicated to building the financial artery of the “Belt and Road” Initiative

In 2015, Bank of China (BOC) successively issued the “Belt and Road” bond, the first bond denominated in four currencies and listed on five exchanges simultaneously. The BOC actively followed up approximately 330 overseas material projects and expressed the intention to lend approximately USD87.0 billion. At the end of 2015, the Bank has established 57 institutions in 18 countries along the “Belt and Road”, thus further improving its capacity to serve Chinese enterprises’ “Going Global” initiative.
Media perspective 2  
Banks accelerated their presence to boost the Belt and Road Initiative

Banks have been actively engaged in the Belt and Road initiative since it was announced. The implementation of the initiative requires credit support and therefore sets new requirements on financial services. Since the beginning of 2015, the CBRC has clearly indicated that it will, pursuant to the strategy of the Belt and Road initiative, continue to guide banks to provide more financial support. Currently, banks are accelerating their presence and leveraging diverse channels to provide financial support to companies going global. In addition to traditional financing, some banks created consortiums to extend loans to projects with heavy financing needs and long maturities. Some projects adopted the PPP model to attract private capital investment.

In this process, banks leveraged their own strengths to address challenges facing companies at multiple levels. Policy banks mainly provided long-duration, low-interest loans to large projects. Riding on their universal banking operations and overseas outlets, big commercial banks participated in the projects along the “Belt and Road”. Joint-stock commercial banks, though small yet flexible, became intensively engaged in relevant domestic projects in early phases of the Belt and Road initiative.

It is worth noting that most countries along the Belt and Road are underdeveloped and their exchange rates are unstable. While meeting the financial needs in all dimensions and aspects, banks also adopt measures such as forward FX settlement and purchase, RMB swap, option, currency swap, and cross-border RMB settlement, to guard against exchange rate risk. Along with the liberalization of Renminbi, banks are developing new hedging products available in offshore markets with a view to bringing down companies’ financing cost.

While financial services are growing, non-financial services are taking roots. Given that many companies lack international experience, many banks are leveraging their overseas outlets to provide investment advisory services. They help companies to analyze country-specific risks, and strengthen the communication with local governments and relevant authorities in the course of project implementation, thus minimizing the potential issues that the companies may encounter.

Opportunities are there for both companies and banks. As projects under the Belt and Road initiative tend to be quite large, loans extended by banks are far bigger. In addition to the increase in direct credit, banks are also making changes to meet the needs of companies during their course of “Going Global”; they are constantly improving their overall competitive strengths and actively exploring businesses in project financing, overseas investment, loans for contractors, export buyers’ credits, cross-border M&As and restructuring, cross-border cash management, etc. In addition, banks are localizing their overseas operations, thus accelerating their internationalization progress.

Currently, banks continue to get deeply involved in the projects under the Belt and Road initiative. Many CBRC provincial offices have started to build the statistical system and strengthen the window guidance and appraisal on banks with regard to improving financial support to companies involved in the Belt and Road initiative. In the future, as more companies “go Global”, new features will continue to emerge. Banks will also make constant innovations and improve the quality of financial services, so as to grasp the opportunities and make successful transformation.

(Source: Financial Times, on November 24, 2015; Journalist: Zhang Modong; edited)

Box 11  
Banks supported the Coordinated Development of the Beijing-Tianjin-Hebei Region Program

In 2015, the CBRC urged banks to support the coordinated development of the Beijing-Tianjin-Hebei region by integrating financial services across the three areas. First, banks were encouraged to give more credit support to the construction of major projects and innovate credit products and service on
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the premise of controllable risks. Second, relevant regulatory policies applicable to the China (Shanghai) Pilot Free Trade Zone were extended to other pilot free trade zones in Tianjin and other provinces, thus effectively supporting the successful establishment of additional pilot free trade zones. Third, efforts were made to explore and improve the pro-technological-innovation investment and financing mechanisms. Efforts were made to support the Ministry of Science and Technology and other ministries and commission to improve the pro-technological-innovation investment and financing mechanisms and continuously implement the Implementation Plan Regarding the Technology-Finance-Connection Pilot Program. The Zhongguancun National Innovation Demonstration Zone and the Tianjin Municipality were pushed to give full play to the role of pilot areas, and the Shijiazhuang City of Hebei Province was guided to extend financial services to support technology-related activities. These efforts have generated positive results.

◎ Export-Import Bank of China Gave Strong Support to the Connectivity of the Transportation Network of the Beijing–Tianjin–Hebei City Cluster

The Export-Import Bank of China (China EximBank) seized the strategic opportunities from the coordinated development of Beijing, Tianjin and Hebei Province and provided all-round funding support to the transportation network construction in the region, with priority given to ports, railways and civil aviation. The Bank provided loans totaling RMB5.319 billion to support the construction of the Tianjin-Qinhuangdao Railway and the Tianjin-Baoding Railway and facilitate the improvement of transportation and investment environment and the upgrading of industrial structure in the region. All these efforts are aimed at enhancing Tianjin’s capability to drive forward the development of Bohai Economic Rim and strengthening cooperation in logistics, transportation and other economic sectors in Northeast Asia.

Box 12    Banks supporting the development of the Yangtze River Economic Belt Initiative

In 2015, the CBRC leveraged the licensing mechanism to guide banks to improve financial services for supporting the development of Yangtze River economic belt, thus boosting balanced development within the Belt. First, efforts were made to support major infrastructure projects. Banks were encouraged to focus on supporting the building of integrated vertical transport corridors, modern industrial corridors, and green ecological corridors along the Belt. Second, the weak points of financial services were strengthened. Banks were guided to step up the establishment of outlets within the Yangtze River basin so as to expand the access to basic financial services in rural areas, support the development of new-type urbanization within the Belt and meet the financing needs of low-income
housing projects and support the development of the targeted poverty reduction systems. Third, efforts were made to support industrial transformation and upgrading. Financial support was given to the development of competitive industries in provinces and municipalities along the Yangtze River, so as to promote orderly inter-regional transfer of industries and the development of export-oriented industrial parks, trading platforms and cross-border e-commerce parks as well as export brands within the Belt. Banks were guided to provide small and medium-sized tech firms with specially designed financial services, thus encouraging mass entrepreneurship and innovation. As of end-2015, the outstanding balance of loans extended by policy banks and the Postal Savings Bank of China (PSBC) stood at RMB4.8 trillion, an increase of RMB742.18 billion or 18.3 percent compared with the year beginning.

China Everbright Bank was fully supportive of the Yangtze River Economic Zone in several aspects such as enhanced marketing activities, more efficient approval of credit projects and other comprehensive financial services. By focusing on local development policies and investigating into major investment projects, China Everbright Bank enhanced marketing of relevant credit projects and provided comprehensive financial solutions to satisfy customer needs.

2. Supporting low-income housing projects

Banking institutions were guided to strengthen credit support for low-income housing projects with innovative financing models on the basis of risk control and sustainable business development. The China Development Bank constantly improved the management of the Housing Finance Unit with a view to efficiently supporting the renovation of shantytowns. The CBRC worked with local governments to establish the financing model with centralized “rating, credit granting, borrowing and repayment”, thereby putting in place the mechanism for ensuring repayment by local governments. It improved the rules governing loans to shantytown renovation projects and continued to issue such loans through provincial financing platforms, and carried out a pilot program for securitization based on assets related to shantytown renovation, thus tapping the idle capital to support the renovation of shantytowns. As of end-2015, the outstanding balance of loans for low-income housing projects stood at RMB1.99 trillion, an increase of RMB1.50 trillion or 309.27 percent compared with that of end-2011.

3. Supporting infrastructure development

The CBRC supported banks to leverage their strength to provide stable, low-cost credit with reasonable maturities for major projects regarding ecological and environmental protection, agriculture, forestry, water conservancy, as well as railway, highway and urban infrastructure in western China, provided that financial sustainability could be ensured. To support railway construction, the CBRC issued the Notice on Issues Regarding Specific Trust Business of Trust Companies to Establish Railway Development Fund, which clearly sets forth the eligibility criteria. The CBRC also continued to urge banks to mitigate the constraints on railway-related loans on account of high concentration risk under the principle “unchanged rules with flexible implementation”. As of end-2015, the outstanding balance of loans for infrastructure projects stood at RMB19.4 trillion.
4. Supporting strategic emerging industries

The CBRC encouraged banking institutions to develop credit policies and credit management mechanisms in line with the features of strategic emerging industries, create the bank-government-business cooperation mechanism, develop innovative financing approaches, and strengthen credit support for strategic emerging industries, such as energy conservation and environmental protection, new-generation information technologies, biology, advanced equipment manufacturing, new energies, new materials, new-energy vehicles under the principle of controllable risks. As of end-2015, the outstanding balance of loans to strategic emerging industries extended by 21 major banks\(^1\) reached RMB2.3991 trillion, an increase of RMB186.5 billion or 8.4 percent compared with that of the year beginning.

° Financial leasing firms support China-made large passenger aircraft

On November 2, 2015, China’s home-developed large passenger aircraft C919 rolled off the production line in Shanghai. To support the production of China-made large passenger aircrafts, financial leasing firms provided supportive financial services building on their expertise in aircraft leasing. Statistics show that a number of domestic financial leasing firms, including the ICBC Financial Leasing and the CDB Leasing, ordered approximately 300 aircrafts, representing majority of the COMAC’s initial orders for C919. The support from financial leasing firms effectively boosted China’s aircraft industry.

° The CBRC Shaanxi Office launched the “Golden Bridge Program” to support key projects

The CBRC Shaanxi Office launched the “Golden Bridge Program” and worked with Shaanxi Provincial Development and Planning Commission to guide banks to support major projects. In order to expand the coverage of this program, it required all local offices to know the capital supply and demand for major construction projects and make quarterly analysis of the challenges and problems facing banking institutions in supporting the construction. As of end-2015, 86 major projects received credit support from the banks in Shaanxi province, with the outstanding balance of loans reaching RMB163.584 billion, an increase of 49.92 percent compared with that of the year beginning. As a result, the funding for major projects in key areas and

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\(^1\) Including policy banks, large commercial banks, joint-stock commercial banks and PSBC.
industries was effectively ensured.

Box 13  Banks supported the Mass Innovation and Entrepreneurship Drive

In 2015, banks continued to strengthen product and service innovation, and optimize credit allocation to address the financial needs of key players, including MSEs, tech firms and college students and graduates in the Mass Innovation and Entrepreneurship drive.

First, efforts were made to improve financial services for MSEs. Banks focused on supporting the financing needs of those MSEs that conformed to national innovation-driven strategies and industrial and environmental protection policies; the organizational structure of micro finance was optimized to expand the coverage of micro finance. As of end-2015, there were over 5,000 micro and small sub-branches and community sub-branches. The CBRC launched the “bank-tax interaction” program, under which the tax payment records of MSEs were converted to bank credit, which could in turn improve the availability of finance for MSEs. The pilot program on serving MSEs through “bank-insurance cooperation”, such as micro-finance guarantee insurance and credit guarantee insurance, has been rolled out steadily.

Second, efforts were made to support innovative tech firms and tech start-ups. Banks set up specialized tech-oriented financial units, tech-oriented branches (or sub-branches) and tech-oriented financial service teams in areas with rich technological resources; as a result, a multi-tiered vertical service system has largely taken shape. Banks adopted innovative management mechanisms that addressed the “light asset with high growth” feature of tech firms, tailored financial products for tech firms, such as intellectual property pledge, equity pledge, receivables pledge, orders pledge, export tax refund pledge, etc., developed innovative risk control technologies, integrated all kinds of resources to build a “1 plus N” comprehensive tech-related financial service platform, and established multi-tiered risk sharing mechanisms.

Third, efforts were made to improve financial support to college students, college graduates and those returned home to start business. Banks worked with local youth leagues, start-up parks, science and technology authorities and guarantee institutions to give more lending support to college students and graduates who started business, improve loan management mechanisms with green channels, lower threshold and higher approval efficiency, improve the credit rating system, provide more comprehensive and professional financial information services, all in an effort to strengthen credit support for returned migrant workers and young rural residents who started business.
Part Three Promoting the Banking Industry to Better Serve the Real Economy

◎ The CBRC Shanghai Office advanced the development of “6S Mechanisms” for tech-related finance and explored new approaches for tech-related financial services

In line with international practices and banks’ practical experiences in Shanghai, the CBRC Shanghai Office issued the Guiding Opinions on Promoting Specialized Operations and Risk Management Capacity of Banks in Shanghai to Further Support Technological Innovations in August 2015, pursuant to which efforts were made to advance the development of the “6S Mechanisms” (namely, Specific Planning, Specific Mechanism, Specifically-Designed Products, Specific Rules, Specific System, and Specialization), and focus on innovations of policies concerning “investment-loan interaction”, risk sharing and loss offsetting. As of end-2015, the outstanding balance of loans extended by 9 banks under its jurisdiction to 105 micro and small tech firms reached RMB1.02 billion, which offered banks with experiences in investment-loan interaction.

◎ Wuhan rural commercial bank providing full-cycle financing services for scientific and technological enterprises

Aimed at the science and technology enterprises with financing needs featuring “asset-lite, technology-heavy” and “short, frequent, urgent”, Wuhan Rural Commercial Bank explored to accept new types of guarantee including patent, equity, pledge of accounts receivables, etc, “tailored” 9 categories, 12 products of “Financing for Tech Companies”, meeting different financing needs of different development stage. The outstanding balance of loans to science and technology enterprises at the end-2015 reached RMB8.84 billion, cumulative loans issued stood at RMB26.79 billion, credit conversion rate was above 60 percent, and rural science and technology loan application approved rate was 95 percent.

◎ Shanghai Pudong Development Bank rendered full support for “little giants of science and technology”

Shanghai Pudong Development Bank (SPDB) actively implemented the national strategy of “mass entrepreneurship and innovation” by further constructing a comprehensive service platform for science and technology finance and providing exclusive services for startups throughout their growth. Firstly, constructing a three-dimensional, multi-tiered service network featuring science and technology sub-branches, science and technology financial service centers and sub-branches specialized in science and technology finance. Secondly, building a comprehensive service platform across different types of businesses, markets, platforms and O2O models based on the “little giants of science and technology” service system. Thirdly, launching Angel Alliance, Growth Alliance, Listed Company Alliance and Strategic Alliance to focus on the entire growth process of science and technology enterprises and provide differentiated, featured and whole-process financial services based on specific growth stages of science and technology enterprises. As of the end-2015, Shanghai Pudong Development Bank had served over 15,000 science and technology enterprises with a total financing amount of RMB140 billion.
5. Supporting the development of pilot free trade zones (FTZs)

The CBRC guided and urged banking institutions to implement the framework plans for pilot free trade zones, push forward the reform of systems and mechanisms and develop innovative financial products and services, thereby effectively supporting the development of pilot free trade zones. First, the regulatory policy system was improved. Since the establishment of the China (Shanghai) Pilot Free Trade Zone (SFTZ) in September 2013, the CBRC has built the regulatory policy system governing banking businesses in pilot free trade zones by issuing 4 regulatory documents. In 2015, it issued the Notice on Issues Relating to Regulating Banking Institutions in Pilot Free Trade Zones, with a view to extending relevant regulatory policies to the extended area of the SFTZ and other pilot FTZs in Guangdong, Tianjin and Fujian. Second, the organizational foundation for conducting pilot projects in FTZs was built by guiding banks to delegate more powers to their branches. The head offices of four domestic commercial banks (BoCom, SPDB, CMB and Ping An Bank) with offshore banking business licenses have authorized their branches in the pilot FTZs to conduct offshore banking business. The CBRC appropriately adjusted the standards for appraising the performance of relevant businesses and institutions in the FTZs, and delegated more business autonomy to banking institutions. Third, efforts were made to strengthen inter-agency communication and cooperation and publicize the new regulatory policies for FTZs. The CBRC actively strengthened the communication and collaboration with relevant ministries and commissions, local governments and overseas regulators, and guided banking institutions at home and abroad to form banking business clusters in pilot FTZs.

Positive progress was made in reforming and developing the banking industry in the pilot FTZs. First, clusters of financial institutions were formed, with synergy effects gradually emerging. There were an increasing number and types of banking institutions at various levels. As of end-2015, approximately 700 banking institutions of various types and at various levels had operations in the four zones. The banking industry in the four zones embarked on differentiated paths, with the SFTZ aiming to become an international financial center, the SFTZ focusing on the integration of Guangdong, Hong Kong and Macau, the Tianjin FTZ giving top priority to financing and financial leasing, and the Fujian FTZ developing Taiwan-related banking businesses. Second, the innovative businesses thrived, with diversified service approaches. The businesses of offshore finance, cross-border lending and cross-border financing were booming and a great number of “Internet Plus” innovations were made. Third, risks in the banking sector were effectively controlled. The CBRC guided relevant local offices to include the Special Monitoring Statement for the Banking Industry in the FTZs into the scope of off-site surveillance, whereby the liquidity risk, market risk and country risk of free trade accounts were tracked and monitoring, thus effectively guarding against the risks in the pilot FTZs.

◎ The CBRC Shanghai Office initiated the “Innovation –Regulation Interaction Mechanism Regarding Banking Businesses in the STFZ”

Drawing on the international practices of financial regulators interacting with banking institutions, the CBRC Shanghai Office developed the “Business Innovation-Regulation Interaction Mechanism, allowing banking institutions to, under the principle of prudent operation, conduct pilots in the SFTZ on innovative products or services whose field is not clear or that are not covered by existing regulations but are demanded in the real economy. As of end-2015, 10 pilot businesses with regard to overseas M&As, offering of industrial-chain financial services by finance companies, and green credit, were supported and commenced operations in the
zone. These pilots are conducive to facilitating the amendments and improvement of the regulatory system and driving banking institutions to meet the overall requirements on supply-side structural reform.

SPDB innovated transaction clearing service model to serve the construction of factor trading market in SFTZ

In August 2015, SPDB became one of the first clearing banks approved for the clearing project of bulk commodity spot trading in SFTZ, an important measure for the construction of bulk commodity spot market of SFTZ. On the first day after the approval, the bank helped complete the clearing of several spots including electrolytic copper and cold-rolled sheet with a total value of around RMB7 million for a number of international clients and electronic platforms through the Free Trade Account (FTA) system. This innovation helped SFTZ take the lead in establishing a standardized factor trading market and pricing center for international bulk commodity trading to attract more overseas and domestic investors and further drive the development of modern service industry, logistic industry and shipping industry. SPDB developed customized financial products based on the characteristics of clients participating in bulk commodity trading, allowing them to share the achievements of financial innovation.

III. Green credit

1. Improving regulatory policies and strengthening window guidance

The CBRC issued the Guiding Opinions on Banking Industry to Better Support the Real Economy, with a view to guiding banks to strengthen credit support to the M&A, restructuring, transformation and technical renovation projects in overcapacity industries so as to facilitate the upgrading and transformation of overcapacity and conventional industries under the principle of differentiated treatment. As for companies suffering temporary financial challenges, banks were guided to meet the reasonable credit needs provided that they conformed to industrial policies, had certain market share and could make profit, and avoid withdrawing, stopping or withholding loans in a one-size-fits-all manner. Banks were required to implement differentiated credit granting policies in light of local economic and financial performance, and strengthen credit support by means of joint or syndicated loans to those companies in overcapacity industries but with advanced technologies, market shares or orders while improving the risk identification capabilities. As of end-2015, the outstanding balance of loans extended by 21 major banking institutions to industries with severe overcapacities, including iron & steel, cement, flat glass, aluminum smelting, and metal ship building, reached RMB1.61 trillion, with the contribution to all loans dropping by 0.2 percentage point year on year.

1 The statistical coverage of the iron & steel industry and the ship building industry has been expanded. The iron & steel industry covers “08 Ferrous Metal Ore Mining” and “31 Ferrous Metal Smelting and Rolling Processing” and the ship building industry covers “373 Ship & Related Equipment Manufacturing” in the Industrial Classification for National Economic Activities.
2. Promoting green credit to support energy conservation and environmental protection projects

Banks were guided to develop innovative financial products and services in support of key national energy conservation and environmental protection projects and technological upgrading and renovation projects that adopt advanced energy conservation and environmental protection technologies. Banks strengthened their support to energy conservation, emission reduction and environmental protection, and actively supported industrial restructuring and technological upgrading of enterprises. As of end-2015, the outstanding green loans extended by 21 major banking institutions reached RMB7.01 trillion, an increase of 16.42 percent compared with the year beginning and accounting for 9.68 percent of all loans. The projects funded by these loans are expected to save 221 million tons of standard coal and 756 million tons of water, and cut the emissions of carbon dioxide, sulfur dioxide, COD, nitrogen oxide and ammonia nitrogen by 550 million tons, 4,849,600 tons, 3,552,300 tons, 2,270,000 tons and 384,300 tons respectively.

Box 14 The Guidelines on Energy Efficiency Credit were issued

“Giving Top Priority to Energy Saving” is a fundamental policy regarding China’s energy development. During economic transformation and upgrading, there emerges a fast-growing financing need to tap the enormous potential in the energy conservation and environmental protection industry. Consequently, the banking industry is facing challenges from granting energy efficient credit and conducting technical evaluation and risk assessment for energy efficient projects.

In January 2015, the CBRC and the NDRC jointly issued the Notice on Issuing the Energy Efficiency Credit Guidelines, with a view to encouraging and guiding banking institutions to actively conduct energy efficiency credit business, effectively preventing risks associated with energy efficiency credit, and supporting industrial restructuring and technological upgrading of enterprises, and thereby giving full play to banking institutions’ role in promoting energy conservation, emission reduction and green development. The Guidelines provide clear eligibility requirements for energy efficiency projects, energy consuming entities and energy service companies and set forth clear risk control requirements; prescribe implementable guidelines with regard to the features of energy efficiency projects, focus of energy efficiency credit business, eligibility requirements, points of risk control, process management and product innovation, and specify professional and pertinent requirements on business innovation and risk control. These requirements and guidelines will help banking institutions to improve their capacity for serving the industries.
Agricultural Bank of China issued the first Chinese Financial Institution Green Bond in London

Agricultural Bank of China (ABC) issued the green bond denominated in both RMB in London Stock Exchange (LSE) in Oct. 2015, with the total volume equivalent of USD1 billion. The green bond listed in LSE by the ABC is the first green bond issued by a Chinese financial institution and the first green bond denominated in RMB by an Asian issuer. Green bond is an innovative financing instrument around the world, directing financial resources to environmental protection industries and projects. This bond issue was over-subscribed by around 140 institutional investors, and the proceeds will be used in green projects that are in line with Green Bonds Principle (GBP) and certified by eligible third parties, covering multiple areas including clean energy, biomass power generation and urban waste and sewage disposal.

Hua Xia Bank supports green development by promoting green financing

In cooperation with the World Bank, AFD and Asian Development Bank (ADB), Hua Xia Bank has successfully utilized low-cost funding organized by these international financial organizations to promote green lending in the way of sub-loans, bringing in advanced concepts and project operation practices in green financing area. So far, Hua Xia Bank has disbursed sub-loans from foreign government to 49 projects of 34 enterprises nationwide, cumulatively granted loans of EUR 109.35 million and USD 240.23 million (in total equal to about 2.42 billion RMB) matched with parallel lending of RMB4.8 billion. More than a dozen industries including power supply and renewable energy are involved, covering energy efficiency areas such as waste heat recovery, co-generation of heat and power and system optimization. Renewable energy sector was also covered, ranging from wind power, photovoltaic power generation to bio-fuel power generation etc.. These green credit projects have benefited 18 localities and provinces including Beijing and Hebei, saving 1.92 million tons of standard coal and reducing 3.38 million tons of CO$_2$ per year. Social benefits of Hua Xia Bank’s green financing have been prominent.

IV. Promoting balanced regional development

In 2015, the CBRC urged banks to implement the central government’s regional development policies, adjust their regional credit allocation, and optimize the allocation of credit resources for developed and underdeveloped regions. Efforts were made to develop and improve the financial system in central and western China and improve the availability of financial services. As of end-2015, the outstanding balance of loans in central, western, and northeastern regions grew at 2.5 percentage points higher than that in eastern China; majority of the top 10 provinces (or autonomous regions or municipalities) in terms of loan growth rate, including Tibet (31.2 percent), Gansu (24.4 percent), Guizhou (21.7 percent), Hainan (21.5 percent), Heilongjiang (21.0 percent), Jilin (20.8 percent), Qinghai (19.6 percent), Jiangxi (18.6 percent), Hubei (16.9 percent) and Hu’nan (16.6 percent), were in central and western China.
1. Supporting the development of northeastern China

First, supporting the shantytown renovation in northwestern China. The CDB was urged to give more credit support to the shantytown renovation in northwestern China and implement differentiated regulatory policies regarding re-lending of repaid soft loans. As of end-2015, the outstanding balance of loans extended by the CDB to shantytown renovation projects in the northeastern region reached RMB140.872 billion, and the loans extended in 2015 amounted to RMB63.97 billion.

Second, supporting key projects under the Northeast China Revitalization program. In 2015, the CDB extended loans worth RMB209.1 billion to northwestern China, up by 9.04 percent year on year. Special development funds worth RMB25.5 billion were offered to the three northwestern provinces mainly for urban rail transit projects and relocation and redevelopment of the old urban industrial areas and independent industrial and mining areas. The ADBC actively provided funds for the purchase and storage of grain, cotton and edible oil, and continued to strengthen the support for agricultural infrastructure projects, major water conservation projects, and highway projects in poor areas. As of end-2015, the outstanding balance of loans for the storage of grain, cotton and edible oil, mid and long-term loans for rural infrastructure construction, and bridge loans for major water conservation projects reached RMB707 billion, an increase of RMB246.6 billion compared with the year beginning.

Third, supporting companies based in northeastern China to “Go Global”. The China Exim Bank fully played its role in promoting foreign trade development and supporting companies to “Go Global”. By offering export seller credit, import credit and preferential loans, it supported local companies to explore the overseas markets and boost the northeast revitalization. As of end-2015, the outstanding balance of loans extended by the China Exim Bank to the northwestern region reached RMB127 billion, an increase of RMB20.5 billion compared with the year beginning.

2. Supporting the development of Xinjiang

First, efforts were made to support the development of the core area of the Silk Road Economic Belt and strengthen the financial support for key projects, key industries and basic industries. As for emerging industries, Silk Road-related industries, mass entrepreneurship projects and public service projects that conform to national policies, the CBRC guided banking institutions to participate in PPP project financing, and strengthen the financing support by means of “Bank-Tax Interaction” and syndicated loans. Second, the development of financial inclusion was boosted. Financial support for MSEs, agro-related areas, poor areas, urbanization in the Xinjiang Production and Construction Corps, and other weak areas was strengthened. The targeted poverty reduction endeavors and efforts to ensure access to financial services for rural villages were strengthened. Efforts were also made to make accurate credit allocation, adopt proper supporting approaches and target the right beneficiary groups, and effectively improve areas of weakness in financial services. Third, efforts were made to continuously support the development of the four prefectures in Southern Xinjiang. Banks were guided to improve the financial service system in Southern Xinjiang and focus on supporting infrastructure construction, differentiated industries and livelihood-related projects in the four prefectures.

As of end-2015, the outstanding balance of loans extended by banking institutions in Xinjiang reached RMB1.39 trillion, up by 11.82 percent year on year, including RMB821.4 billion of agro-related loans (up 6.79 percent year on year) and RMB227.697 billion of MSE loans (up 13.47 percent year on year). The CDB Kashgar Branch, the China Exim Bank Kashgar Branch, 8 offices of 5 major commercial banks in Southern Xinjiang, the China Minsheng Bank Urumqi Branch, the Bank of Beijing Urumqi
Branch, the Tianjin Binhai Rural Commercial Bank Urumqi Branch, the Aksu Rural Commercial Bank and the Korla Rural Commercial Bank have launched their operations; the preparation for the Bank of Xinjiang and the HBL Pakistan Urumqi Branch was well in progress. There were 133 banking institutions of 15 types and 3,773 banking operation outlets in Xinjiang. Full coverage of basic financial services was achieved for 5,419 administrative villages, accounting for 62.74 percent of the total.

3. Supporting the development of Tibet

First, making good use of preferential policies. Efforts were made to align credit policies with regional economic development policies and ensure effective implementation of various policy measures. Second, continuously allocating credit resources to key construction projects and infrastructure projects. Third, constantly enhancing the level of financial inclusion. Efforts were made to promote the "grid-based" service approach, extend the coverage of financial services, and effectively address the lack of access to basic financial services in remote agricultural and pastoral areas, especially in towns and townships without banks. Fourth, implementing differentiated performance appraisal mechanisms. The headquarters of banking institutions were encouraged to develop and implement differentiated performance appraisal rules for local offices in Tibet, and separately appraise their performance against operating targets in light of the market conditions, customer base, financial infrastructure development, manpower and management cost, etc..

As of end-2015, the outstanding balance of loans extended by banking institutions in Tibet reached RMB2,124.49 billion, up by 31.19 percent year on year, including RMB41.304 billion of agro-related loans (up 35.97 percent year on year), RMB29.308 billion of subsidized loans on poverty reduction (up 26.6 percent year on year), and RMB33.506 billion of MSE loans (up 42.85 percent year on year). The China CITIC Bank Lhasa Branch and the Tibet Financial Leasing Co., Ltd. officially began operations; the SPDB gained the approval for preparation of the Lhasa Branch. There were 3,771 cash withdrawal stations in Tibet’s agricultural and pastoral areas, an increase of 1,299 compared with the year beginning and covering 99.56 percent of the townships/towns and 57.87 percent of the administrative villages.
Law-based Regulation

- Building the regulatory framework
- Internal organizational reform
The year of 2015 was the grand opening year to fully implement the law-based governance. Following the spirit of the Fourth Plenary Session of the 18th CPC Central Committee, the CBRC adhered to the law-based market reform of the banking industry. The CBRC strictly followed the strategic goal of building a moderately prosperous society, strived to enhance law awareness and perfected legal and regulatory framework of the banking industry. The CBRC strictly promoted law enforcement and strengthened the monitoring and assessment of law enforcement accordingly to improve the standard of law-based supervision and administration. The CBRC also proactively promoted the modernization of governance framework and capacity building in the banking industry to promote sustainable and sound development of the economy and the society.

I. Building the regulatory framework

1. Enhancing regulatory legal framework

(1) Pushing forward the revision of the *Law of the People’s Republic of China on Commercial Banks* (hereinafter referred to as the “Law”), which was incorporated into the legislative plan of the Standing Committee of the National People's Congress (NPC) and the State Council. In 2015, the CBRC actively pushed forward the revision of the Law and adjusted the Loan to Deposit (LTD) ratio from the statutory supervisory indicator to a liquidity risk monitoring indicator, which was reviewed and approved by the NPC Standing Committee as a kick-off for the all-round revision of the Law.

(2) Drafting the *Trust Company Regulations*. The CBRC summarized good experience of regulatory practices in the trust industry and drafted the *Trust Company Regulations* to regulate trust companies' business activities from the administrative regulation perspective.

(3) Improving the framework of supervisory rules and regulations. The CBRC formulated and issued 10 rules including the *Rules on Leverage Ratio Management of Commercial Banks (Revised)*, *Rules of the CBRC on Administrative Penalties*, *Rules on Liquidity Risk Management of Commercial Banks (Provisional)*, *Interim Rules of the CBRC on On-site Examination*, etc. It also formulated and issued the *Notice on Issuing the Interim Rules for Off-site Surveillance*, *Notice on Issuing the Rules Governing Information Disclosure of Liquidity Coverage Ratio of Commercial Banks*, *Notice on Issuing the Rules Governing Banking Agents of Postal Savings Bank of China (Revised)*, and other documents to further standardize administrative licensing, administrative penalties, on-site examination, off-site surveillance and other regulatory activities and strengthen risk management of banking institutions.

Box 15 Promoting law-based regulation in the banking sector

In July 2015, the CBRC issued the *Guidance on the Implementation of the “CPC Central Committee's Decision on Major Issues to Comprehensively Advance the Rule of Law”* to promote law-based regulation in the banking sector.

Firstly, improving working system. The CBRC established a legality review mechanism for major decisions, explored and formulated an indicator system and assessment criteria for law-based governance in the banking industry. The CBRC also established legal counsel mechanism in CBRC headquarters and provincial offices to provide strong support for promoting law-based regulation in the banking sector.

Secondly, enhancing the quality of legislation. The CBRC established a mechanism that the drafting
and justification of laws, administrative regulations, rules and other key regulatory documents should be led by the legal department, continued to improve legal review and filing process to promote legal enforcement and inspection, cleaning-up and post-assessment of rules and other regulatory documents in an orderly manner, and ensured the clear interpretation of rules and other regulatory documents as well, improving the foresight and appropriateness of legislation.

Thirdly, strengthening law-based supervision. The CBRC optimized the tiered enforcement mechanism and promoted the streamlining of administration and delegation of power, standardized legal enforcement activities, improved legal enforcement procedures, enhanced legal enforcement in critical areas and maintained the order in the banking industry. It also focused on roles and responsibilities, strengthened the monitoring function of administrative review, enhanced supervision over legal enforcement to ensure the exercise of power strictly following laws and relevant procedures.

Fourthly, deepening the learning and application of laws. The CBRC strengthened the learning activities by setting up regular law studying mechanism to improve the studying and application of laws for staff in supervisory positions. The CBRC encouraged banking institutions to set up the position of full-time general legal counsel and strengthen the function of legal and compliance departments, so as to improve compliance of business in the banking industry.

Based on relevant laws and regulations, the CBRC supervised banking institutions’ business activities and staff behaviors, encouraged banking staff to take the initiative to learn, understand and comply with laws and enhanced the awareness of law in the banking industry.

◎ CBRC Xinjiang Office organized the activity “Year of Law-based Financial Regulation of Xinjiang Banking Industry”

The CBRC Xinjiang Office held over 70 lectures regarding the financial laws and more than 100 sessions of tours in sub-branches with total participants exceeding 50,000 and realized the full coverage of institutions and regions in Xinjiang. More than 30 media reports were published, fostering a culture of integrity, soundness and compliance of laws. The Office also organized compliance knowledge competitions, enhanced on-site examinations and strictly enforced penalties to further strengthen the effect of the activities. In 2015, the CBRC Xinjiang Office enforced administrative penalties for 36 violations in 18 banking institutions, with total fines amounting to RMB 6.31million. Both the volume and amount of administrative penalties reached the highest in the past years. As a result, the awareness of compliance was further enhanced in banking institutions in Xinjiang.

◎ CBRC Sichuan Office promoted learning and compliance of laws for senior management in Sichuan banking industry

The CBRC Sichuan Office drafted the “Reading Materials of Legal Knowledge for Senior Management in Sichuan Banking Industry” with more than 1.7 million words. Meanwhile, the Office also held 4 special trainings regarding laws and regulations for senior management of banks in Sichuan. A total of 7,000 senior managers joined the trainings, which achieved positive feedbacks.
Box 16  Issuance of the *Guiding Opinions on Promoting the Sound Development of Internet Finance* (Yin Fa No. 221, 2015, hereinafter referred to as the "Guiding Opinions") was issued. The *Guiding Opinions* states that internet finance is a new business model of financial services where traditional financial institutions and internet companies utilize internet technologies and information technologies to realize financing, payment, investment and information intermediary services. The main businesses of internet finance are as follows: internet payment, online lending, equity-based crowd funding and financing, online funds sales, internet insurance, internet trust and internet consumer finance.

Following the general requirements of "encouraging innovation, controlling risks, seeking advantages while avoiding disadvantages, and developing in a sound manner", the *Guiding Opinions* put forward a set of policies and measures to encourage innovation and support the steady development of internet finance. The *Guiding Opinions* encourages innovations of internet finance platforms, products and services, supports institutions to collaborate with each other and to broaden financing channels. At the same time, it aims to fully implement the streamlining of administration and delegation of power, optimize fiscal and tax policies, and promote the development of credit infrastructure and corresponding service system.

In accordance with the principles of "law-based supervision, appropriate supervision, classified supervision, coordinated supervision, and innovative supervision", the *Guiding Opinions* sets forth the supervisory roles and responsibilities and clarifies the business scope for major internet business models, including internet payment, online lending, equity-based crowd funding and financing, online funds sales, internet insurance, internet trust and internet consumer finance. Meanwhile, the *Guiding Opinions* also puts forward specific requirements in areas such as internet industry management, third-party depository rules for customer funds, information disclosure, risk warning and qualified investors mechanism, consumer protection, network and information security, anti-money laundering and financial crime prevention, strengthening self-discipline in internet finance industry, regulatory coordination and data collection and monitoring.

Following the roles and responsibilities specified in the *Guiding Opinions*, the CBRC is responsible for monitoring online lending business. Currently, the *Provisional Rules on Business Activities of Online Lending Information Intermediaries* drafted by the CBRC, has finished soliciting public opinions and will be revised and issued in due course.

2. Improving prudential regulation framework

In 2015, the CBRC conducted a comprehensive review and planning for prudential regulation in the banking sector. Firstly, a regulation review team and consultant team were established with expertise fully supporting development of rules. Secondly, the CBRC reviewed nearly 400 banking prudential regulatory documents including rules, guidelines, notices and risk warnings and built up a prudential regulation framework covering corporate governance, capital management, risk management, internal control and auditing, information disclosure and main business areas, which is clear and easy to understand. Thirdly, the 2015-2020 Rule-making Plan for Prudential Supervision was issued by the CBRC, which clarifies the general targets, basic principles, major tasks, safeguard measures and roadmap for prudential regulation development during 2015-2020. Fourthly, the issuance of the Rules on Prudential Regulation Development Work (Provisional) further refined and improved the work mechanism and procedures for prudential regulation development.
3. Participating in the formulation of laws and regulations

Coordinating with the National People’s Congress, the State Council Legislative Affairs Office and other ministries, the CBRC participated in the formulation of the *Law on the Administration of Tax Collection*, *National Security Law (Draft)*, *Insurance Law (Proposal)*, *Pricing Law (Revised Draft)*, and provided suggestion on some administrative rules including *Express Provisional Rules (Draft)*, *Provisional Rules on Commercial Passwords*, *Provisional Rules on Cash Management*, *Rules on the Implementation of the Budget Law (Revised Draft)*, etc.

II. Internal organizational reform

In 2015, the CBRC conducted a reform on its internal supervisory structure, re-clarified the roles and responsibilities of its internal departments and adjusted the internal organizations. The key of the reform was to streamline administration and delegate power, clarify the key responsibility of risk supervision and strengthen in-process and ex-post supervision. In addition, the CBRC built up the “three lists and one website”, namely the regulatory power list, the responsibility list, the constraint list and the supervisory service website, with an aim to further enhance regulatory transparency and strengthen self-discipline.

Following the guideline of “four segregations” (segregation of rule-making from implementation, segregation of prudential regulation from conduct supervision, segregation of administrative affairs from supervisory matters, and segregation of investigation from administrative penalty and review), the CBRC adjusted its internal departments by four functionalities covering rule-based supervision, functional supervision, institutional supervision and supervision support. The CBRC removed the Training Center and Information Technology Center and established the City Commercial Bank Supervision Department responsible for supervision of city commercial banks and private banks and Trust Institution Supervision Department responsible for supervision of financial institutions engaged in the trust industry. Three departments (Statistics Department, Banking Case Inspection Department and Credit Guarantee Supervision Department) were reorganized into three new departments: Prudential Regulation Bureau for leading the off-site supervision work and making rules and regulations for prudential banking operation; On-site Examination Bureau in charge of on-site examinations on nationwide banking institutions; Financial Inclusion Department responsible for the promotion of financial inclusion work in the banking industry. Some supervisory departments were re-named base on their supervisory responsibilities: Banking Supervision Department I renamed into Large Commercial Bank Supervision Department; Banking Supervision Department II into National Joint-Stock Bank Supervision Department; Banking Supervision Department III into Foreign Bank Supervision Department; Banking Supervision Department IV into Policy Bank Supervision Department; and Cooperative Finance Supervision Department into Rural Financial Institution Supervision Department.

Firstly, the reform strengthened supervision as core business by allocating more resources to supervisory departments to make supervision more proficient. After the reform, the number of supervisory departments increased from 11 to 17, which accounted for 77.3 percent of all departments. The reform enhanced the differentiation and specialization of the supervisory framework and further clarified the responsibilities of departments.

Secondly, the reform enhanced law-based supervision with full authorization by law to enhance the
supervision deterrence. The On-site Examination Bureau integrated the on-site inspection resources across the CBRC and strengthened the investigation and punishment for non-compliant and illegal business or cases. The Legal Department further improved its duties of drafting and reviewing supervisory laws and regulations and took on the work of the Administrative Penalty Committee Office and the Administrative Review Committee Office to emphasize the regulatory authority and expertise.

Thirdly, the reform further clarified the roles and responsibilities, streamlined administration and delegated power to create room for innovation. Following the principle of risk-based supervision, legal entity oriented supervision, and territorial oriented supervision, the CBRC further defined the risk supervision responsibilities and powers between CBRC headquarters and local offices. For the nation-wide institutions, relevant supervisory departments in the CBRC headquarters shall take the main responsibility for risk supervision, while local offices shall assist with the supervision. For local institutions, the CBRC headquarters shall be responsible for reviewing and approval of establishment, market exit, restructuring and bankruptcy of legal entities, while delegating other market access power to local offices. CBRC local offices in the registered area shall take the main responsibility for risk supervision and relevant CBRC supervisory departments shall provide guidance. The due diligence post-assessment mechanism was set forth for CBRC local offices. If local offices fail to supervise the institutions within their jurisdictions, the CBRC may constrain or withdraw the supervisory power, which aims to realize the differentiated authorization and strict accountability of CBRC local offices based on their performing capabilities.

Fourthly, the reform reinforced top-level design with unified standards to promote overall planning of policies and regulations. The Prudential Regulation Bureau is responsible for the standardization of various types of prudential regulatory rules. The leading role of the Policy Research Bureau is stressed for top-level design and organization and implementation in comprehensively deepening reform of the banking industry. The Policy Research Bureau is responsible for drafting key policies in the banking industry to serve the real economy, and conducting the forecast analysis and prospective studies on macroeconomic and financial trends and major supervision issues, in order to better promote sound operation and fair competition of the banking industry.

Fifthly, the reform improved financial services and consolidated functional supervision to reinforce supervision for the people and service force in weak areas. The CBRC strengthened the leading role of the Financial Inclusion Department in under-serviced areas such as micro and small enterprises (MSEs) and agriculture, rural areas and farmers, and also in regulating and coordinating non-licensed institutions such as micro-credit companies, Internet lending companies, and financing guarantee companies. The reform also further clarified and strengthened the responsibilities of functional supervisory departments, such as Banking Innovation Supervision Department, Banking Consumer Protection Bureau, and Banking Information Technology Supervision Department, establishing effective cooperation system between functional supervision and institutional supervision.
The CBRC Regulatory Framework after Restructuring

**Policy Research Bureau**
- Draft prudential regulation rules for the banking sector.

**Prudential Regulation Bureau**
- Undertake the top-level design, organization and implementation of further deepening reform of the banking sector.

**On-site Examination Bureau**
- Draft and develop supervision laws, administrative regulations, department rules, and normative documents, and plan and coordinate the market entry work.

**Legal Department**
- Conduct nationwide on-site examinations of the banking sector.

**Financial Inclusion Department**
- Oversee IT risks of banking institutions.

**Banking Information Technology Supervision Department**
- Take the lead to promote financial inclusion work by banking institutions, and regulate and coordinate the development of financing guarantee institutions, micro-credit companies and P2P business.

**Banking Innovation Supervision Department**
- Coordinate the functional supervision on financial innovation.

**Policy Bank Supervision Department**
- Responsible for banking consumer protection.

**Banking Consumer Protection Department**

**National Joint-stock Commercial Bank Supervision Department**
- Regulate and supervise five major commercial banks.

**Large Commercial Bank Supervision Department**
- Regulate and supervise twelve national joint-stock commercial banks.

**City Commercial Bank Supervision Department**
- Regulate and supervise city commercial banks and private banks.

**Rural Financial Institution Supervision Department**
- Regulate and supervise foreign banking institutions.

**Foreign Bank Supervision Department**
- Regulate and supervise trust institutions.

**Trust Institution Supervision Department**
- Regulate and supervise non-bank financial institutions, including financial asset management companies, finance companies affiliated to corporate groups, etc.

**Non-bank Financial Institution Supervision Department**
- Handle illegal fund-raising cases and safeguard the security of the banking sector.

**Anti-Illlegal Fund Raising Office (Banking Security & Safeguard Bureau)**

The main responsibilities of General Office, Accounting Department, International Department (Office of Hong Kong and Macao & Taiwan Affairs), Staff Compliance & Disciplinary Bureau, Human Resources Department, Publicity & Information Department, CBRC Headquarters CPC Committee, Party School, CBRC Staff Union, Financial Youth League Committee, and Headquarters Service Center remain unchanged.
Box 17  The On-site Examination Bureau was established integrating on-site examination resources

In January 2015, the CBRC conducted a major reform of its organizational restructure. One of the key changes was to centralize on-site examination responsibilities in the newly established On-site Examination Bureau, therefore the different institutional supervisory departments which used to perform the on-site examinations no longer need to do so. In total 12 divisions were set up in the On-site Examination Bureau to perform the following functions: drafting the on-site examination plans for banks and non-bank financial institutions and organizing the implementation accordingly; coordinating the overall on-site examination related work in the CBRC system covering project setup, implementation and post evaluation; organizing and coordinating the comprehensive examinations as well as key and cross-regional case investigation for the banking industry; investigating the illegal and non-compliant cases; guiding and supervising CBRC local offices to conduct case investigation and on-site examinations.

After the establishment of the On-site Examination Bureau, the Interim Rules of the CBRC on On-site Examination and relevant implementation rules were issued, which explored the establishment of horizontal cooperation and communication mechanism between on-site examination and off-site surveillance, promoted the vertical interaction between CBRC headquarters and local offices, and actively built up a sound on-site examination network. The On-site Examination Bureau continued to strengthen the investigation and punishment on illegal business and non-compliant cases in banking institutions and further promoted the professionalism, independence and authority of on-site examination.

◎ CBRC Shanxi Office implemented online administrative approval process within target timeline

The CBRC Shanxi Office standardized the e-forms including administrative licensing application acceptance notice, administrative licensing review and approval forms, etc. based on its online office platform, and established the whole-process electronic approval process covering correction, acceptance, review and approval which moved the “offline” approval process to “online”. The CBRC Shanxi Office also made commitments about the processing time for administrative licensing approval, specifying the timeline in the acceptance notice to clarify the responsibility, which improved the processing efficiency significantly. The CBRC Shanxi Office approved more than 500 licensing applications in 2015, among which institution preparation and establishment applications took an average approval time of 40 days; the institution opening applications took an average of 28 days; sub-branches of community banks and small and micro-sized banks applications took an average of 15 days; senior management qualification approval took an average of 18 days. The average processing efficiency increased by 30 percent.

◎ CBRC Heilongjiang Office announced its power list by sorting out the functions

The CBRC Heilongjiang Office actively promoted the establishment of the “three lists and one website” to effectively clarify its administrative authority. By July 2015, the CBRC Heilongjiang Office finalized the power list with 6 categories, 271 items of administrative powers which plays an active role in the following 2 aspects. Firstly, the CBRC Heilongjiang Office actively disclosed government information, fulfilled the public’s requirements including disclosing bank supervisory responsibilities and accepted external oversight. Secondly,
the CBRC Heilongjiang Office clarified its responsibilities identified the ambiguous and overlapping parts between the provincial office and field offices, and further improved the power division and decentralization by delegating 13 administrative approval items to CBRC field offices.

Media perspective 3 Three highlights of CBRC organizational reform: establishment, decentralization and innovation

On January 20, 2015, the CBRC announced its supervisory organizational reform with main focus on strengthening supervision. Three highlights are as follows: “establishment” of separate supervisory departments for fast-growing financial institutions; “decentralization” regarding certain approval power, and “innovation” of supervision on financial inclusion.

Establishment: new departments set up to conduct more targeted supervision
The CBRC’s organizational reform allocated more resources to the supervisory departments. After the reform, the number of supervisory departments increased from 11 to 17, which accounted for 77.3% of the total 22 departments.

ZENG Gang, head of the Banking Research Office under the Institute of Finance and Banking of the Chinese Academy of Social Sciences said that the reform of the banking supervision structure was a targeted adjustment following the development of banking institutions. “More supervisory resource shall be allocated to those fast-growing institutions to promote the professionalism of supervision”.

After the reform, the CBRC established the City Commercial Bank Supervision Department responsible for supervision on city commercial banks and private banks and Trust Institution Supervision Department responsible for supervision on financial institutions engaged in the trust industry.

Decentralization: delegating power to further liberalize market players
Delegation of administrative power was the key of CBRC’s organizational reform. For the nation-wide institutions, the CBRC headquarters shall take the main responsibility for risk supervision, while local offices shall assist the supervision. For local institutions, the CBRC headquarters shall be responsible for reviewing and approval of establishment, market exit, restructuring and bankruptcy of legal entities while delegating other market access power to local offices.

“China is a country with vast territory, and various regions developed differently. Within the unified supervisory framework, it is quite difficult to establish regulatory standards in line with the actual conditions of different regions.” ZENG Gang believed that the decentralization could enhance discretion of CBRC local offices, facilitate differentiated supervision, improve supervisory efficiency, and optimize the existing supervisory resources.

Besides, the CBRC also streamlined the processes and delegated power regarding financial products approval. Launch of financial products, such as asset securitization was changed from approval to filling process. The CBRC mainly focused on business scope rather than specific products to further unleash vitality of market players.

Innovation: promoting financial inclusion through innovation
In addition, the CBRC also established the Financial Inclusion Department and incorporated internet finance into financial inclusion channels for the first time. In the future, the CBRC will take the lead to advance the financial inclusion work, strengthen the leading role of the Financial Inclusion Department in underserviced areas such as MSEs and agriculture, rural areas and farmers, and also in regulating and coordinating non-licensed institutions such as micro-credit companies, online lending companies, and financing guarantee companies.

ZENG Gang said that the Financial Inclusion Department re-organized and concentrated the functions previously allocated in different departments, which would help to advance the financial inclusion work in line with the national development strategy.

With the rapid development of internet finance, the CBRC will also adapt to the new trend of economic development to incorporate internet finance business such as P2P into the scope of financial inclusion supervision, aiming to ensure the sound and steady development of internet finance.

(Source: Xinhuanet, by Wu Yu and Li Yanxia, January 20, 2015)
In 2015, following the deployment of the State Council, the CBRC further streamlined administration and delegated power, cut down or delegated certain approval power, strengthened in-process and ex-post supervision, and continuously improved the effectiveness of supervision.

Firstly, cutting down CBRC’s administrative approval items. In 2015, the CBRC further cut down its 9 existing administrative approval items by planning to cancel 2 items, delegating 1 item to lower levels, and adjusting 1 item, and the drafted concrete plan was submitted to the Approval Reform Office of the State Council.

Secondly, reducing local administrative approval items required by the CBRC headquarters. The CBRC cancelled the item of “approval for qualifications of directors, supervisors and senior management of financing guarantee institutions”, and meanwhile studied to establish corresponding measures to further strengthen in-process and ex-post supervision.

Thirdly, cleaning up intermediary services related to administrative approval. Following the requirement of the State Council, the CBRC studied and cleaned up 13 intermediary service items related to administrative approval.

Fourthly, revising and issuing 5 administrative licensing rules. The CBRC revised the Implementation Rules of the CBRC on Administrative Licensing of Chinese Commercial Banks, Implementation Rules of the CBRC on Administrative Licensing of Small- and Medium-sized Rural Financial Institutions, Implementation Rules of the CBRC on Administrative Licensing of Foreign-funded Banks, Implementation Rules of the CBRC on Administrative Licensing of Non-bank Financial Institutions, and issued the Implementation Rules of the CBRC on Administrative Licensing of Trust Companies. Besides, the CBRC also promulgated corresponding documents including the Implementation Rules on Market Access and the Document Catalog and Format Requirement for Administrative Licensing Application, further promoting the administrative approval system reform as well as CBRC’s supervisory organizational reform through legal process. Approval power was further decentralized by delegating three approval items including tier-2 branch preparation to CBRC local offices to further improve the efficiency of administrative licensing.

Fifthly, further intensifying the combination of decentralization and supervision. The CBRC issued the Notice on Issuing the Working Plan for Streamlining Administration, Delegating Power and Optimizing Services, which clarified the overall requirements, main tasks, specific requirements and timeline and strengthened in-process supervision and ex-post supervision to fully implement the combination of decentralization and supervision.

The CBRC recently drafted and revised 5 administrative licensing rules, cancelled a large number of administrative approval items, and further shortened the approval process, which was a successful initiative of financial supervisory reform. The CBRC revised the Implementation Rules of the CBRC on Administrative Licensing of Chinese Commercial Banks, Implementation Rules of the CBRC on Administrative Licensing of Rural Small- and Medium-sized Financial Institutions, Implementation Rules of the CBRC on Administrative Licensing of Foreign Banks, Implementation Rules of the CBRC on Administrative Licensing of Non-bank Financial Institutions, and issued the Implementation Rules of the CBRC on Administrative Licensing of Trust Companies. The 5 rules are now in the process of soliciting public opinions.

The administrative approval items cleaned up are as following: deferral of institution preparation and opening;
institution degradation and temporary closedown; amendment of articles caused by modification of institution name, equity, registered capital, and business scope; change of the organization form for non-bank financial institutions; credit card articles; QFII custodian business launched by Chinese-funded commercial bank or rural commercial bank; internal parallel transfer qualification of senior management in policy bank, commercial banks or financial asset management companies.

In terms of delegating approval authority, for the administrative licensing items for nation-wide banking institutions at the legal entity level, including tier-1 branch and branch-level franchising institution preparation, establishment of overseas institutions, amendment of articles, change of registered capital, name, address, significant change of equity, major investment matters, cross-border mergers and acquisitions, qualifications for chairman, president, directors and other senior management at the head office, and new business shall be approved by the CBRC. For the administrative licensing approval items for local banking institutions, preparation and establishment, reorganization and restructuring and termination matters shall be approved by the CBRC while the remaining matters, such as amendment of articles, modification of institution’s name, qualifications for directors and senior management, and adjustment of business scope shall be approved by CBRC local offices.

Unleashing the vitality of market players also put forward the question of how to effectively control risks in the banking industry. Officials from the CBRC said that the CBRC would further strengthen in-process supervision and ex-post-supervision, optimize allocation of supervisory resources, tilt limited resources to off-site surveillance and on-site examination, reinforce administrative penalties for illegal and non-compliant conducts, and improve regulatory deterrence as well.

To standardize supervision by its local offices, the CBRC set forth the post-assessment mechanism on the performance of administrative approval by local CBRC offices. Any local office failing to fulfill its obligations shall be held accountable, and the CBRC could constrain or withdraw the supervisory power.

“Emphasizing the supervisory responsibilities of CBRC local offices, meanwhile establishing internal constraints and retaining the power to withdraw delegated approval authority will facilitate to improve the supervisory capacity of local offices and push them to assume the legal responsibilities as well,” said Chen Bingcai, Deputy Director-General of the Advanced Study Department of the Chinese Academy of Governance.

(Source: Xinhuanet, by Li Yanxia and Su Xueyan, April 10, 2015)
Supervisory Capability Building

- Market access
- Off-site surveillance
- On-site examinations
- Supervisory accountability and penalties
- Supervisory exchanges and cooperation
- Organizational development
I. Market access

With an open mindset, the CBRC ensured proper channels for private capital to enter the banking sector and hence increase market dynamism. The CBRC developed the private bank licensing policy and detailed rules, which were incorporated into the *Implementation Rules on Market Access (Provisional)*. Eligible private enterprises were encouraged to set up private banks, with the first five pilot private banks already under sound operations. Private capital was guided to invest in small- and medium-sized rural financial institutions by ways of joint origination, restructuring and private placement. Eligible private capital was supported to set up non-bank financial institutions.

To promote financial inclusion, the CBRC optimized the institutional system of the banking sector and improved the coverage and availability of financial services. The CBRC supported the China Development Bank (CDB) and the China Export and Import Bank (China Exim Bank) to establish branches in Southern Xinjiang, required the new establishments of large commercial banks to render greater support to national technological innovation centers and micro and small enterprises (MSEs), and guided the Agriculture Bank of China (ABC) to roll out its pilot program of Agro-related Finance Business Unit to its county-level branches. The establishment of rural commercial banks was steadily pushed forward in the principle of serving agro-related developments, maintaining county-level legal entity status and ensuring the integrity of banking system. Village or township banks were guided to distribute network in central and western regions, major grain-producing counties and MSE-clustered areas.

To promote innovation, the CBRC promoted product and service innovation as well as institutional reform of the banking sector, thus improving the sector's market competitiveness and efficiency in serving the real economy. Large commercial banks were guided to reform their dedicated business functions or lines into subsidiaries. The CBRC supported large commercial banks, joint-stock commercial banks and Postal Savings Bank of China (PSBC) to improve their institutional networks in the pilot free trade zones in Tianjin, Fujian and Guangdong. With a view to implementing the “Belt and Road Initiative”, the CBRC supported banking institutions to improve their overseas network distribution and inject more capital into their overseas operations. Large commercial banks were supported to issue multi-currency-denominated preferred shares and tier-2 debt instruments in overseas markets for capital replenishment. To encourage green credit, the CBRC guided the ABC to issue green bonds worth USD1 billion in overseas markets, and approved the China Industrial Bank and the Shanghai Pudong Development Bank (SPDB) to issue green financial bonds. The CBRC further advanced the securitization of credit assets to tap the idle capital of the banking industry, and supported commercial banks to develop new products and services riding on internet technologies.

II. Off-site surveillance

The off-site surveillance system was constantly improved. The CBRC regulated off-site surveillance activities and promulgated the *Notice on Issuing the Interim Rules Governing Off-site Surveillance* and the *Code of Practice for Managing Off-site Surveillance Reporting Requests*. The CBRC improved the off-site surveillance framework for small- and medium-sized rural financial institutions, optimized off-site surveillance reporting system for financial asset management companies, and explored counter-cyclical regulatory measures, adjusting the “loan-to-deposit” ratio.
from a mandatory indicator to a monitoring one. The *Rules Governing the Information Disclosure of Liquidity Coverage Ratio of Commercial Banks* were issued.

The banking institutions’ operations as well as risk monitoring and early-warning were strengthened. First, the CBRC monitored and analyzed the performance of the banking sector on a monthly, quarterly and annual basis, focusing on key areas, key regions and key institutions, and communicated its macro adjustments and regulatory directions through supervisory talks and meetings. Second, stress testing was conducted to assess the robustness of the banking industry and identify potential risks. Third, the function of the early-warning module of the banking risk early warning system was improved to make it more forward-looking, thereby defending the bottom line of no regional or systemic risks.

The guidance on off-site surveillance was intensified. The CBRC issued the *Working Opinions on Further Strengthening Off-site Surveillance* with a view to providing clear guidelines in this regard. The CBRC accelerated the institutional development in 10 aspects, namely organization & leadership, risk early-warning, technology application, data quality guarantee, regulatory cooperation, information sharing, supervision over banking branches, application of supervisory results, post-supervision evaluation, and human resource support, thus enhancing the quality and efficiency of off-site surveillance.

Off-site surveillance cooperation was improved. Efforts were made to optimize the supervisory procedures, rationalize the supervisory processes and reasonably allocate supervisory resources. In a bid to promote supervisory synergies, a number of actions were taken, including conducting joint review and examination of administrative licensing items by internal departments, improving intra- and inter-departmental communication mechanisms, building a supervisory cooperation meeting platform between the CBRC departments and local offices, and holding international supervisory college meetings in partnership with overseas regulatory authorities.

The cross-border banking regulation and supervision was strengthened. A cross-border crisis management group (CMG) was organized to assess the resolvability of systemically important banks. The *Agreement on Cross-border Cooperation of Systemically Important Banks* was drafted, and the Core Supervisory College on Globally Systemically Important Banks was held. The *Notice on Issues Regarding the Aggregation of Large Banks’ Risk Data and Risk Reporting* was promulgated with a view to improving large commercial banks’ data management capability and pushing them to meet international regulatory requirements as scheduled.

**Box 18 The practice of using supervisory big data in the banking industry began to take shape**

In 2015, based on the EAST system, the CBRC developed and improved the regulatory data system and framework, comprehensively collected standardized data, and leveraged big data technologies to identify and track industry risks, and improved the relevance and effectiveness of supervision and services, thus holistically facilitating the prevention of regional and systemic risks.

First, the regulatory data in the banking industry was further consolidated. As of end-2015, 97T standardized regulatory data concerning major banking institutions was collected, including 166 million business accounts and 8.6 billion other accounts, up 55.45 percent, 208.5 percent, and 167.6 percent year on year respectively. The collected data covered both on- and off-the-balance sheet activities, including wealth management, inter-bank business, futures, options, swaps, etc.. As a result, the banking industry’s capability to identify and control risks was further strengthened on the whole.
Second, the EAST application was further expanded. The EAST was applied to 65 out of the 131 on-site examination items initiated by the CBRC in 2015, accounting for 49.6 percent. These items with EAST application included credit loans, credit cards, employee behaviors, fee-charging business, and bank management, and covered key risk areas such as staff misconduct, deposit missing, irrational deposit touting, off-book operations, etc. Those examinations turned out to be very effective, thus exerting a deterrent effect on misconducts or breaches in the industry.

Third, banking institutions’ management capabilities were further improved. While applying big data to banking supervision, the CBRC urged banking institutions to firmly improve the awareness for data assets and recognize the value of data. Banking institutions actively reviewed their own structure and data quality, improved their data governance, explored the value of data, and strengthened the use of data. As a result, their capabilities to identify and prevent risks, manage their operations and serve the real economy were remarkably improved.

◎ The CBRC Chongqing Office established a “Five-dimensional” evaluation system for banking institutions in Chongqing

With a view to adapting to the new trend of supervisory tasks and diversified regulated entities and the new requirement on coordinating supervisory approaches under the “New Normal”, broadening the scope of evaluating, and improving the relevance and effectiveness of supervision, the CBRC Chongqing Office issued the “Five-dimensional” Holistic Evaluation Rules for the Banking Industry of Chongqing (Provisional) pursuant to which the banking institutions in Chongqing would be subject to holistic evaluation in five dimensions, including contribution to development, reform progress, compliance, cooperation with supervisors, and public satisfaction. The Rules combine existing rules and indicators regarding regulatory rating, livelihood-related services, green credit, data quality and consumer protection, and new indicators relating to compliance, proper conducts, reform progress, cooperation with supervisors, implementation of national and local strategies, etc.. 39 indicators in 5 categories are provided for, including 34 existing indicators (accounting for 87%) and 5 new indicators. These Rules has helped to effectively cover diversified supervisory tasks and requirements with fewer supervisory resources.

◎ The CBRC Hebei Office established the information platform to improve the level of regulatory resources sharing

In 2015, actively following the new trend of information development, and adapting to the new demands of financial reform and business development, The CBRC Hebei Office developed the “Comprehensive Regulatory Information System”, which includes the following five elements: the “Comprehensive Secretarial Platform”, the “Rules and Regulations Platform”, the “Off-site Surveillance Platform”, the “On-site Examination Platform”, and the “Internal Management Platform”. This system addressed such problems as information missing, dormant information and decreasing information, and handled the mismatch between regulatory resources and tasks. By incorporating the information capturing, analysis, handling, and sharing into daily work, and combining static information with dynamic work in an organic manner, this information system optimized regulatory information sharing, consolidated the foundation of regulation and improved the scientific level of regulatory work.
III. On-site examinations

The working concepts of on-site examinations were reformed. The three fundamental guidelines of serving the real economy, stringently guarding against risks, and carrying out examinations according to the law were followed. The on-site examinations were focused on policy implementation, potential risk identification, and investigation into illegal operation and crimes, and conducted against three criteria, i.e. accurate definition of examination items, in-depth investigation of problems, and strict compliance with rules.

The framework and system for on-site examinations were built. The working mechanisms were rationalized, with on-site examination functions centralized and coordinated. The shift from separate on-site examinations for different business lines to integrated on-site examinations was largely achieved. The development of regulatory rules was commenced, the “top-level design” for on-site examination rules was strengthened, and on-site examination infrastructure was improved. Important rules governing on-site examinations were improved, the Interim Rules Governing On-site Examinations were issued, and the system for supervisory talks or warnings regarding major cases or risks was established.

On-site examinations became more professional. The examination items were planned in light of the new requirements on institutional reform and development and the new features of risk exposure and evolution, thereby making on-site examinations more accurately targeted. The on-site examiner pool was built and efforts were made to ensure proper “selection, recruitment, development and retention” of on-site examiners. The examination plans and penalty criteria were unified. Efforts were made to innovate the use of on-site examination results, make full use of the EAST system to improve the efficiency of on-site examinations. Efforts were made to facilitate the building of the on-site examination archive and the information-sharing platform and enhance the capacity of on-site examination management.
The CBRC Jilin Office promoted the use of the EAST system in supervisory activities

In 2015, the CBRC Jilin Office further advanced the application of the EAST system to on-site examinations and broadened the scope to cover asset and capital verification of rural commercial banks. When conducting examinations and asset and capital verification in 21 banking institutions, it used the EAST system to build 98 analytical models; and 41,837 doubtful pieces of data were identified. As a result, targeted identification in mass data was achieved, greatly improving the efficiency of examinations.

Box 19 Major on-site examination projects

Large commercial banks: on-site examinations on steel-related credit risk profile of the ICBC, BOC, CCB and BoCom in Jiangsu, Zhejiang and Shanghai areas; on-site examination on the risk management of the BOC Frankfurt Branch.
Joint-stock commercial banks: on-site examinations on the internal controls and asset quality of the Hua Xia Bank, Ping An Bank and Hengfeng Bank; on-site examinations on the steel trade-related credit risk profile of the China CITIC Bank, CMBC, China Guangfa Bank Shanghai Branch.
Policy banks: on-site examinations on overseas credit extension of the CDB and the China Exim Bank, on the case prevention of the PSBC, and on the commercial business of the China Cinda Asset Management Corporation.
Foreign banks: full-scope examinations on the Deutsche Bank (China), Standard Chartered Bank (China), Citibank China, and Bank of East Asia (China).
In addition, a number of specific examinations on banking institutions were conducted, covering “Two Reinforces and Two Contains”, “Looking back”, risks of major clients, notes business, and the implementation of regulatory policies regarding MSE financial services.

Box 20 The CBRC reviewed the specific examinations on “Two Reinforces and Two Contains”

In the first half of 2015, the CBRC organized specific examinations on “Two Reinforces and Two Contains”, through which a number of illegal activities were investigated and rectified, thereby effectively curbing the violations and breaches in the banking industry and significantly enhancing banking institutions’ awareness and consciousness of full compliance. In order to consolidate the achievements of the specific examinations on “Two Reinforces and Two Contains” and strength the long-term institutional development, the CBRC held videoconference and teleconference on mobilizing efforts to review specific examinations on “Two Reinforces and Two Contains”. The reviewing work was conducted in the forms of self-scrutiny, supervisory examination and inspection. It focused on the following two aspects: first, treatment and punishment on identified problems; second, constant investigation into recurring problems, cases and operational risks. Through “looking back”, 21 potential cases involving RMB21.111 billion were blocked; 5,802 potential risks of violations or breaches were identified, involving 28,800 transactions worth RMB1.77 trillion; and RMB12.681 billion of capital was retrieved. While ensuring effective penalties on problems identified in specific examinations on “Two Reinforces and Two Contains”, persons responsible for new problems identified were held accountable.
IV. Supervisory accountability and penalties

In 2015, the CBRC cumulatively examined 28,000 banking institutions, imposed forfeitures worth RMB530 million \(^1\) on banking institutions, revoked the qualifications of 68 senior managers, took 3,207 prudential supervisory actions, and instructed examined institutions to hold 56,000 persons accountable. Administrative penalties were imposed on banking institutions that violated laws and regulations in their operations and employees who breached internal rules and polices.

Thematic column 7  The CBRC amended the *Rules on Administrative Penalties*

In 2015 the CBRC issued the amended *Rules on Administrative Penalties* (Yin Jian Fa No.8, 2015) (hereinafter referred to as the Rules). There are 6 revisions regarding administrative penalties. First, the “two-layer penalty” principle is clarified. The new Rules prescribe that when a banking institution is punished, directly responsible directors, senior managers and other persons directly involved shall be held accountable and be investigated for differentiated administrative penalties. Second, the investigation rules are clarified and the procedure and evidence awareness are reinforced. The new Rules specify comprehensive and detailed rules and clear-cut requirements on investigation and evidence collection, with a view to enhancing the quality of administrative penalties and avoiding procedural deficiencies and flawed evidences, thereby protecting the lawful rights of those being punished. Third, the investigation and review functions are separated. The inspection and examination department is responsible for filing the cases, investigation, and providing advice for administrative penalties, while the office of the administrative penalty committee is responsible for trying the cases and organizing hearings and review meetings, and the administrative penalty committee is responsible for reviewing and making decisions on the cases. Fourth, the system for collectively reviewing and deciding on administrative penalty cases by the administrative penalty committee is established. The new Rules prescribe that the administrative penalty committee shall be established, with its roles, responsibilities, rules of order, working procedures and decision-making mechanism clearly stated, so as to guarantee the legitimacy, soundness and impartiality of administrative penalties. Fifth, the evidence admission and conversion system is developed and the time limits for different penalty procedures are clearly stipulated. The new Rules stipulate that law enforcement officials shall perform their duties lawfully and timely, and confirm the enforcement evidence admission system so as to avoid repeated evidence collection. Sixth, a transparent administrative penalty information disclosure mechanism is set up. The new Rules specify that administrative penalty information shall be disclosed, with scope and methods of information disclosure clearly stipulated, in order to improve the transparency of administrative penalties.

The CBRC also issued the *Notice on Issuing the Rules Governing the Work of the Administrative Penalty Committee and the Rules Governing the Administrative Penalty Hearings* and the *Notice on Issuing the Rules of Order for the Administrative Penalty Committee*, with a view to improving the administrative penalty mechanisms and providing for concrete processes and rules regarding the acceptance, trial, review, hearing, notification, decision, execution, closing and archiving of administrative penalty cases. The format of administrative penalty documents was revised accordingly. In addition to existing 11 document forms, 26 document formats were added. What’s more, the *Standards on Integrity and Self Discipline for Administrative Penalty Officials, the Division of Administrative Penalty Roles and Responsibility*, and the *Administrative Penalty Working Flowchart* were developed at the same time.

\(^1\) The cumulative amount of fines transferred to the dedicated accounts of fine collection entities designated by the CBRC.
◎ The CBRC Hunan Office imposed accountability concerning poor quality of MSE financial service data

The CBRC Hunan Office conducted a full-scope examination on MSE financial service data with a view to reflecting the actual progress in MSE financial services and imposing internal and external accountability for data quality. In 2015, administrative penalties and fines worth RMB11.70 million were imposed on 57 banking institutions that misreported MSE financial service data; these institutions were instructed to hold 261 employees accountable. In addition, it imposed disciplinary actions on 58 supervisory offices that were charged with supervisory responsibilities: 55 disciplinary talks were conducted; 5 persons were asked to make written self-criticism; 4 persons were disqualified for excellent awards; 11 persons were criticized publicly; 3 persons were transferred from current positions; and 4 were imposed disciplinary punishment.

V. Supervisory exchanges and cooperation

1. Domestic supervisory cooperation and information sharing

In 2015, the CBRC continued intensifying the exchanges and cooperation with relevant government agencies, local governments and other financial regulatory authorities. First, the CBRC further enhanced the coordination and information sharing with the PBC, the CSRC and the CIRC. The CBRC worked with the PBC to revise and improve the plan for deepening the reform of the BoCom, supported CSRC’s effort to clean up securities accounts, and started to provide monthly data on securities investment business in October 2015. Second, the CBRC strengthened the coordination with relevant government agencies and local governments. It worked with the Supreme People’s Court, the Supreme People’s Procuratorate and the Ministry of Public Security to investigate and control networks of funds in accounts involved in criminal cases, develop data interaction standards and specifications, gradually advance the system design and build dedicated cable for interconnectivity; it established a long-term mechanism for reporting the results of supervision on finance companies to their parent groups and competent administrative authorities, and informed the SASAC of the results of supervision on central government-administered enterprises’ finance companies in 2014; it worked with its provincial offices to strengthen the communication with local governments and pushed provincial governments to accelerate reforms to dispose risks facing
rural credit cooperatives; it organized and conducted supervisory evaluations on provincial rural credit cooperatives and informed provincial governments of the results, thereby facilitating provincial governments to effectively finalize the responsibility for disposing risks facing rural credit cooperatives and giving fully play to the two-layer supervisory system.

◎ The CBRC Henan Office stepped up internal and external coordination to effectively enhance supervisory synergies

The CBRC Henan Office actively strengthened the communication with local people’s courts, people’s procuratorates and public security organs, coordinated the Provincial Higher People’s Court to deepen the financial-judicial cooperation and promoted the full coverage of financial trial courts across the province. There were 99 financial trial courts and 33 financial executive tribunals in Henan province, and solid progress was made in safeguarding the financial claims in the banking industry. It worked with the Provincial Public Security Department to establish the Work Mechanism for Jointly Crackdown on and Prevention of Frauds by Spreading False Information, under which the Henan Provincial Center for Preventing Frauds by Spreading False Information was established to further crack down and prevent the illegal acts and maintain an impartial and just financial environment.

2. Cross-border supervisory cooperation and exchanges

(1) Cross-border bilateral supervisory cooperation. In 2015, the CBRC signed MOUs or EOLs on bilateral supervisory cooperation with the Reserve Bank of New Zealand, the Central Bank of Kuwait, the Financial Services Authority of Indonesia (OJK), the Bank of Lithuania and the Prudential Regulation Authority of the Bank of England. As of end-2015, the CBRC had signed agreements on bilateral supervisory cooperation with its foreign counterparts from 63 countries and jurisdictions.

(2) Cross-border supervisory consultations. In 2015, the CBRC successfully held the 8th Trilateral Seminar on Banking Regulation & the 6th China-Japan-Korea Trilateral Financial Regulators’ High-Level Meeting, the 8th China-U.S. Banking Supervisors Conference, the 9th China-Singapore Banking Supervisors Conference, and the 1st China-U.K. Banking Supervisors Conference, and participated in the 4th EMEAP Unofficial Meeting of Central Bank Governors and Heads of Supervision and the 38th Meeting of EMEAP WGBS. The CBRC set up a cross-departmental working group to hold discussions with supervisory authorities of respective countries and implement results of high-level dialogues.

(3) Active participation in multilateral and regional cooperation mechanisms. In 2015, the CBRC participated in a range of multilateral and regional cooperation mechanisms, including the IMF, the World Bank, the G20, the UN, the OECD, the APEC, the EMEAP, the IIF, the China and 16 Central and Eastern European Countries Framework, the China-Africa Forum, the Shanghai Cooperation Organization, the BRICS framework and the Asian Infrastructure Investment Bank. It actively provided comments and suggestions for the policy documents drafted by the World Bank and other international organizations, participated in the meetings of the EMEAP Working Group on Banking Supervision and the consultations of the IMF, and took part in a variety of cross-agency organization and coordination efforts, thus increasing the engagement of Chinese regulators in multilateral and regional cooperation mechanisms.

(4) Coordination with regulatory authorities in countries where Chinese banks had operations. In 2015, the CBRC held a thematic seminar on IT supervision of the banking industry with the OJK; and
held the Core Supervisory Colleges for the ICBC, the ABC, and the BOC, with a view to strengthening information sharing and supervisory communication with the host supervisors.

(5) Communication and coordination with home supervisors of foreign banks operating in China. In 2015, the CBRC carried out regular working-level talks with Hong Kong Monetary Authority (HKMA), Financial Supervisory Service (FSS) of the Republic of Korea, etc., and held the first working level conference to share the operating status, risk profile and supervisory focus of Singaporean banks’ operations in China with its Singaporean counterpart. The CBRC also attended 12 supervisory colleges held by the host supervisors of the HSBC, the SCB, the Deutsche Bank, the UOB, etc., thus enhancing cross-border supervisory cooperation.

(6) Active participation in international financial reform. As a member of the Financial Stability Board (FSB) and the BCBS, the CBRC attended plenary meetings, task forces and research programs, and participated in the agenda design, standard-setting and implementation assessment of the international financial reform. The CBRC actively perform its international responsibility, learn best practices and improve the prudential regulatory framework of China’s banking sector.

**Box 21 The 12th Meeting of the International Advisory Council (IAC)**

From March 19 to 20, 2015, the 12th Meeting of the CBRC IAC was held. Topics discussed ranged from improving the banking recovery and resolution mechanism, enhancing commercial banks’ corporate governance capability, effectively regulating shadow banking, addressing the risks and challenges of internet finance, promoting financial inclusion and strengthening consumer protection. The CBRC informed the international advisers of China’s macroeconomic and financial landscapes, the reform progress and supervisory innovations in China’s banking industry. The CBRC stressed that under the New Normal, China’s banking industry must make timely adjustments, push forward the reform and opening-up, improve the regulatory regime, and actively advanced financial innovations and the rule of law. The international advisers highly recognized the regulatory and supervisory achievements and put forward constructive advices and recommendations on major areas of the banking reform.

**Box 22 The 5th Cross-Straits Meeting on Banking Supervision**

On September 14, 2015, the 5th Cross-Straits Meeting on Banking Supervision was held in Taiwan, during which cross-strait banking regulators exchanged views on the economic and financial landscapes and had in-depth discussions on further strengthening supervisory cooperation and promoting cross-strait financial ties. Both sides agreed to further push forward supervisory cooperation and hold a cross-strait seminar to exchange supervisory experiences in Taiwan in 2016. Both sides would continue to support cross-strait banks to establish closer partnerships and support Taiwanese banks to set up outlets and operations in Mainland China. In addition, both sides agreed to encourage financial institutions across the Straits to explore equity cooperation.

Since the first cross-strait banking supervision and cooperation meeting held in 2011, remarkable progress was made in cross-strait banking cooperation. As of end-2015, 15 Taiwanese banks set up 2 incorporated banks (with 4 branches and 15 sub-branches) in Mainland China, 26 parent-administered branches (with 12 sub-branches) and 3 representative offices; the banking institutions of Mainland also set up 3 branches and 1 representative office in Taiwan; the ABC Representative Office in Taiwan obtained the approval for establishment.
VI. Organizational development

1. The “Three Stricts and Three Honests” campaign

Pursuant to the instructions of the CPC Central Committee, the CBRC carried out the “Three Stricts and Three Honests” educational symposium since May 2015, covering leadership cadres at the county level and above of the CBRC departments and local offices and middle and senior management of the CBRC-administered financial institutions, associations and Rural Financial Magazines. The party committees at various levels gave top priorities to the campaign, stayed problem-oriented, ensured that the cadres assume full responsibility, focused on the “key minority”, and properly implemented “key activities” such as thematic party lectures, thematic seminars, thematic “democratic life” meetings, rectifications and rule making and enforcement. Party secretaries and party committee members at various levels gave 551 thematic party lectures; 627 major slack and dishonest behaviors were identified and corrected; the entire CBRC system adhered to taking immediate actions to rectify the problems, making proper rules and ensuring fair implementation.

The CBRC Party Committee upheld the principle of top leaders setting good examples. The members of the Party Committee gave 17 thematic party lectures, including 4 by Party Secretary SHANG Fulin; thematic seminars were organized to enhance the ideological and behavioral self-conscientiousness required by the “Three Stricts and Three Honests”; high-quality thematic “democratic life” meetings were held focusing on practicing the “Three Stricts and Three Honests” as per the requirements of the CPC Central Committee. The thematic education efforts made by the CBRC Party Committee were highly recognized by the Organizational Department of the CPC who publicized the practices of the CBRC Party Committee in Volumes 1, 7 and 13 of its Three Stricts and Three Honests Thematic Education Campaign Newsletter; and the People's Daily published an article to cover the thematic seminars entitled “Be Strict in Exercising Power” held by the CBRC Party Committee. Through the thematic education campaign, all party members and cadres of the CBRC system strengthened their ideology, work style and party spirit, thereby creating a strong momentum for driving the reform and supervision of the banking industry.

2. Ensuring clean and honest party building with a strict accountability and monitoring mechanism

In 2015, the CBRC Discipline Inspection Committee stringently implemented the strategic instructions of the CPC Central Committee and the State Council on strengthening the development of party conduct and clean government and the fight against corruption, effectively implemented the CPC
Central Politburo’s “Eight Point Code of Conduct”, gave top priority to the implementation of party disciplines and rules, strengthened the accountability with regard to oversight and rules implementation, and improved the duty-performing capability. The CBRC made the following efforts to implement the “two responsibilities”:

(1) Reforming the disciplinary inspection system and mechanisms. The CBRC Discipline Inspection Committee developed the rules for nominating and appraising the secretary and deputy secretary of the Committee with a view to implementing the “two priorities”; the party committees of the CBRC local offices and the CBRC-administered financial institutions developed detailed rules for assuming full responsibilities; individual and collective talks were held with principal leaders and discipline inspection committee secretaries of the CBRC local offices and the CBRC-administered institutions to urge the implementation of the “two responsibilities”; through case investigation and handling, the performance of the supervisory responsibilities by the discipline inspection committees was reviewed, and as a result, 4 cases of ineffective implementation of the “two responsibilities” were handled with persons involved held accountable.

(2) Thematic education symposium aiming to strengthen “Party spirit, rules and disciplines. A Thematic Education column was launched on the intranet; a WeChat public account was created to spread quotations that inspire clean practices and had attracted about 110,000 followers. The Clean Government Knowledge Test System was established; 21,748 Party cadres took online tests with a 100% pass rate.

(3) Application of information systems to disciplinary inspections. The CBRC Disciplinary Inspection Information System went live, ensuring whole process information support for the referral, processing and circulation of complaint letters, to handling of leads and case investigation, and enabling the shift from manual registration to system administration. The leads handling process was regulated to facilitate the shift from scattered to centralized acceptance of petition cases; the leads handling standard and procedures were established and improved to facilitate the shift from handling the leads on individual basis to centralized decision-making; the disciplinary inspection behaviors were regulated to facilitate the shift from case investigation and handling to disciplinary review.

(4) The supervisory inspection was intensified. Efforts were made to focus on key links and prominent problems and conduct specific inspections. Six working groups were formed to specifically investigate and handle problems reported via petitions concerning 36 CBRC local offices, 8 CBRC-administered financial institutions and the China Banking Association, pushed forward the harmonization of standards and procedures for investigating and handling petition cases. Approximately 800 petitions and cases were investigated with 90 problems identified and 25 rectification recommendations proposed.
(5) The inspection and auditing was strengthened. Inspections and audits were conducted to identify problems with responsible persons held accountable, thus ensuring the implementation of responsibilities. Specific inspections on 4 asset management companies and 5 CMB institutions were conducted, and regular inspections were conducted on 2 CBRC provincial offices. 260 problems were identified, with 31 rectification recommendations proposed. Key leaders of 13 CBRC provincial offices including Hainan and Zhejiang were subject to accountability audit, and the CBRC Party School and the CBA were subject to specific audits. 140 problems were identified, with 116 rectification recommendations proposed.

(6) Investigation and handling of petitions and cases. The CBRC system received 839 petitions and handled 626 leads. The Discipline Inspection Committees of the CBRC headquarters and local offices investigated and handled 23 cases involving 30 staff (6 director-generals, 15 directors, and 9 staff below director level) and imposed 27 party disciplinary penalties and 13 administrative penalties, among which 10 people received double disciplinary punishments. The discipline inspection committees of the CBRC-administered financial institutions investigated and handled approximately 1,000 discipline violations and imposed 10 party disciplinary penalties and nearly 1,000 administrative penalties. 10 persons were investigated and arrested. In 2015, 15 breaches of the CPC Central Politburo’s “Eight Point Code”, 39 persons were handled and 14 persons were subject to party disciplinary or administrative penalties; these cases and handling results were circulated across the CBRC system.

Thematic column 8  No. 12 Central Inspection Team conducted on-site inspection on the CBRC

On November 11, 2015, No. 12 Central Inspection Team held a meeting at the CBRC, during which the head of the team Wu Zaiping explained the purpose, significance and tasks of the specific inspection on the CBRC. The CBRC Party Secretary and Chairman Shang Fulin addressed at the meeting and stressed that the specific inspection was a medical check-up as well as a political check-up to identify problems, if any, involving cadres and leadership members at various levels; and it demonstrated the importance that the CPC Central Committee attached to the CBRC Party Committee. He also said that the departments and offices under the CBRC should take the inspection as an opportunity to strengthen the party discipline, work style and cadre team building across the CBRC system and see to it that Party committees shoulder the major responsibility, and the Party committees for discipline inspection are responsible for supervision. According to the work plan, the Inspection Team mainly handled letters of complaints from the people and the calls and visits they make to lodge complaints about the problems and issues concerning the CBRC Party Committee leadership members, members of lower-level Party committees and leaders on key positions, particularly in relation to violations of the “Six Disciplines” and the “Eight Point Code of Conduct”. Whistle-blowing telephones, mailboxes and complaint boxes were provided for people to make complaints. During the inspection, the Team focused on key items, adopted the fact-based approach, looked at problems from historic, dialectic and objective perspectives, and gave top priority to disciplines and rules. It worked hard to identify the issues and problems and have a deterrent effect, thereby forcing relevant entities to take reform steps, rectify the problems, and criticize former mistakes firmly to prevent them from happening again. As a result, effective support was extended to comprehensively strengthening Party discipline, comprehensively deepening the reform and supervising the banking industry according to laws and regulations. The departments and entities under the CBRC system gave top priority to and extended great support to the work of the Central Inspection Team. To that end, the CBRC Party Committee set up a Leading Group for Supporting the Inspection Work consisting of Shang Fulin as the chair, Du Jinfu and Guo Ligen as the vice chairs, and members of the Central Inspection Team.
Under the Leading Group, several teams, including the Liaison Team, Documents, Coordination, and Logistics, were formed to effectively support the inspection work. These teams made concerted efforts to support the inspection work while ensuring effective banking supervision. They provided effective liaison and coordination services, maintained the order of petitioning through letters and visits, ensured proper security and logistic services, thus enabling smooth communication and coordination as well as effective and timely support. They made timely presentations on the disciplinary inspection and supervision of the CBRC to the Central Inspection Team, and made preparations for organizing talks and interviews according to the Central Inspection Team’s arrangement, making sure the persons named would attend talks or interviews upon request and present the facts in an objective, truthful, accurate and holistic manner; they timely delivered the documents requested by the Central Inspection Team so that the Team could timely and sufficiently learned about relevant situations. According to rough estimates, 2,800 petition letters received since 2007 and approximately 110,000 pages of files and their photocopies were provided to the Central Inspection Team. To address the problems identified by the Team, the CBRC took it seriously and made immediate rectifications. During the inspection, the CBRC seriously investigated and handled 4 discipline-breaking cases involving Director General-level cadres and submitted the case reports to be announced on the website of the Central Commission for Discipline Inspection.

3. Human Resource

As of end-2015, the CBRC system had a total of 23,683 employees, including 662 at the head office, 5,626 at provincial offices, 13,210 at field offices and 4,185 at supervisory offices at the county level, accounting for 2.80 percent, 23.76 percent, 55.78 percent and 17.66 percent of the total respectively. Of all, female staff numbered 8,564 or 36.17 percent, staff holding undergraduate or higher degrees numbered 19,932 or 84.19 percent of the total, and staff under the age of 45 numbered 11,969 or 50.55 percent.

4. Leadership training

With a view to strengthening cadres’ faith, belief and party spirit, the CBRC enhanced the leadership training for all cadres, thereby improving their political competence and party spirit.

(1) Leadership cadres training for selection or transfer purpose. As per unified arrangement of the Central Committee, the members of the CBRC leadership participated in training classes of provincial or ministerial-level cadres at the Central Party School or other institutions. 35 director general-level cadres were selected to attend the training classes held by the Central Party School and other five institutions; 5 department or bureau-level cadres were selected to participate in the “Optional Courses” program; and the director general-level cadres of the CBRC system took online courses offered by the cadre network colleges.

(2) Enhancing the party spirit and improving the effectiveness of leadership. Efforts were made to organize trainings for director general-level cadres. Four workshops were held to help cadres study the spirit of General Secretary Xi Jinping’s important speeches and improve their skills and competences for promoting the reform and opening-up of the banking industry, preventing and resolving financial risks, and improving financial services.

(3) Developing strict and honest work style and enhancing the duty-performing capability. Efforts were made to organize trainings for director-level leadership cadres. In line with the unified arrangements for the “Three Stricts and Three Honests” education campaign and in light of the banking supervision
conditions and tasks, the CBRC organized workshops for directors at the CBRC head office to improve their capability to implement the “Three Stricts and Three Honests” and perform their duties. 136 directors (including deputy directors managing division affairs) participated in the workshops, thereby improving their duty-performing capability and strengthening their sense of responsibility. As a result, the director team building at the CBRC head office was further promoted.

5. Staff training

In order to improve the supervisory effectiveness, the CBRC pushed forward the supervision-related trainings and strengthened the building of supervisory capability. In 2015, the CBRC organized a total of 35 training workshops for more than 3,500 participants.

(1) Classification of training workshops. The training workshops were divided into seven categories, including “spirit of General Secretary Xi Jinping’s important speeches”, “rule of law” etc., with a view to promoting training on various types of supervisory work.

(2) Different focuses for cadres at different levels. For leadership cadres, the training workshops focused more on strengthening political awareness, strategic thinking, leadership skills and global perspective; for key supervisory cadres, the workshops focused more on enhancing the awareness of the full picture, sense of responsibility and capability to get the job done; as for young cadres, the workshops focused more on enhancing the professional knowledge and skills, strengthening practical experiences and increasing the identification with shared cultural values.

(3) Leveraging on international expertise. The CBRC held a number of overseas training workshops, including the Commercial Banks’ International Strategy and Regulatory Reform in the UK, and the Regulation on MSE Financial Services in the Republic of Korea. The overseas internship program was intensified. Twelve persons were recommended to take internships in overseas regulatory authorities and financial institutions. To capitalize on outstanding overseas educational resources, 22 persons were recommended to study abroad under government-sponsored scholarship programs.

6. Cultural building

The CBRC devoted to understanding staff’s ideas, enriching their cultural lives, strengthening the socialist core value education, and promoting the supervisory culture across the CBRC system.

(1) Organizing public-oriented cultural activities and building a platform for cultural activities. Based on the principle of staff-
orientation, wide participation, tailored arrangement and thrift, the CBRC encouraged local offices to organize entertainment and sports activities both on a regular basis and on festive occasions. Entertainment and sports equipment and facilities were given to front-line offices, especially at grass-root level and in remote areas or areas under harsh conditions.

(2) Consolidating the work-related competition platform and fostering the supervisory culture of devotion and dedication. A number of work-related contests relating to Prudential Regulation & Supervisory Statistics, Application of EAST System, etc., were organized in a bid to inspire and motivate the employees, enhance the capacity of the supervisory teams and boost the work of the supervisory centers.

(3) Caring and build a harmonious home for staff. The CBRC provided financial aid to staff in need both on special occasions and on a regular basis, allocated special funds to improve the living conditions of the CBRC staff at villages in Tibet, set up the Mutual Assistance Fund for Female Staff with Special Diseases, and distributed financial aid for those female staff with special diseases.

(4) Encouraging young staff to contribute to banking supervision and reform. In a bid to “contribute to regulatory framework reform and improve supervisory quality and performance”, the “Glamour of Youth” for Excellence at Work Showcase was carried out, with the participation of 141 excellent youth projects recommended by various units of the CBRC system. The CBRC implemented the “Skills and Service Capacity Enhancement Campaign for Young Banking Staff”, by organizing the financial institutions to recommend around 200 outstanding young staff and around 200 young start workers, generating over 10,000 “Golden Idea” solutions aiming at improving services, innovating products and raising efficiency.

7. E-government

In 2015, pursuant to the requirement of the State Council on improving administrative licensing and relevant works, the CBRC commenced the project to build the Administrative Licensing Hall and the Administrative Licensing System. Currently, the Hall was largely completed, and the System had gone live. Once the Hall is put into use, all licensing matters will be handled there. The staff at the Hall will adhere to the concept of “Law-base Administration and People-oriented Supervision”, stringently regulate the licensing procedures, improve the licensing efficiency, make the administrative licensing open, impartial and transparent, thus ensuring orderly and lawful administrative licensing in a transparent way.
The CBRC Guizhou Office developed the “SMART Priorities Management and Appraisal System” for the purpose of improving the efficiency. The system can be used to specify the assignments, measure the results, define how to attain the goals, make relevant coordination and set the time limit for completion. It features 4 functions, including early warning, dynamic monitoring, performance appraisal, and studying classics, and enables information-based, refined and full-cycle management of prioritized tasks.

8. Allocation of financial resources

In 2015, pursuant to the requirement of the Central Committee on thrift, the CBRC strictly practiced economy and allocated its financial resources appropriately so as to maximize the benefit and ensure that banking supervision was carried out smoothly. Reception expenses were strictly controlled, general expenses on meetings and trips were cut down, and offices and official vehicles were cleaned up so as to reduce overhead. Financial resources were prioritized for supervisory front lines and focal tasks. Expenses for supervisory work, including on-site examinations and development of the EAST system and other information systems accounted for 48 percent of the annual budget. The CBRC increased the expenses for promoting financial services to MSEs, agriculture, rural areas and farmers, small loan and finance consumers protection, and improving the supervision over financing guarantees, in a bid to enhance financial inclusion. The capital need for implementing the top-level design of deepening reforms and developing the prudent regulatory regime was prioritized, so as to facilitate the coordination of policies and regulations and boost the robustness of banking institutions. The communication and cooperation with international organizations and overseas regulators were strengthened. In support of the “Three Stricts and Three Honests” education campaign, more resources were allocated for the supervisory team building, thereby significantly improving the political qualities and supervisory competency of both cadres and staff.

Chart 9 Contribution of Expenses to the CBRC’s 2015 Budget
Part Six

CBRC

Annual Report 2015

Regulatory Measures

• Prudential regulation
• Institutional supervision
I. Prudential regulation

1. Risk management

(1) Credit risk supervision

Firstly, strengthening the comprehensive local government debt management and preventing risks associated with LGFP loans. Following the general principle of "total volume control, classified management and differentiated treatment", the CBRC strengthened the consolidated supervision of LGFP credit and non-credit financing. Banking institutions were required to control the total LGFP loan volumes and optimize the loan structure by toughening up the standards for new loan issuance. The CBRC actively explored the market risk disposal mechanism to prevent and mitigate credit default risk of LGFP loans.

Secondly, preventing credit risk associated with the real estate sector. The CBRC strengthened the monitoring of banking institutions’ credit risks in real estate sector, severely investigated into and punished illegal and noncompliant real estate loans, and highlighted the monitoring, early warning and risk disposal in major cities and high-risk areas. The CBRC also urged banking institutions to strictly implement the national policy on real estate development, constantly improved credit risk management capability of the real estate loans, and took differentiated credit policy, with a view to actively supporting the reasonable financing needs of the real estate developers and household mortgage demands while preventing risks.

Thirdly, comprehensively preventing and controlling the risks of off-balance sheet business. The CBRC continued to strengthen the risk monitoring and control of off-balance sheet business, and closely monitored the risk exposures to such business. The CBRC urged banking institutions to strengthen ledger management for projects, and keep record for product counterparties, so as to identify risks in a more forward-looking and proactive way and effectively prevent off-balance sheet risks in wealth management, bills and asset transfer etc..

Fourthly, promoting the establishment of social credit system and establishing a joint disciplinary action mechanism to punish dishonesty and discredibility. The CBRC signed the Memorandum of Understanding on Collaborated Supervision and Joint Disciplinary Action against Dishonesty.
Enterprises as well as other documents with National Development and Reform Commission (NDRC), State Administration for Industry & Commerce (SAIC), State Administration of Taxation and China Securities Regulatory Commission (CSRC), specifying that relevant ministries should share credit information for bank institutions’ reference so as to guide their implementation of joint disciplinary action against dishonesty.

Box 23 The consolidated management and supervision of commercial banks

In 2015, following the Notice on Issuing the Guidelines on Consolidated Management and Supervision of Commercial Banks (hereinafter referred to as the Notice), the CBRC focused on promoting commercial banks to improve their consolidated management system and set reasonable scopes for consolidated management. In particular, consolidated accounting should be in line with China’s current accounting standards, consolidated capital scope defined by regulatory requirements of the capital rules, and consolidated risk scope aligned with the requirement of the institutional investors’ consolidated management. The CBRC also intensified consolidated supervision and conducted overall assessment covering corporate governance, capital, finance, and risk profile of both groups and their subsidiaries. In 2015, the CBRC set forth the CARPAL supervision indicators for large-scale commercial banks, specified the target line and warning line of two related indicators including return on capital of the subsidiaries and dependence on parent bank in paying liabilities, and conducted monitoring of the above two indicators as well.

Commercial banks attached great importance to the requirements of the Notice, and improved consolidated supervision in a comprehensive way. Firstly, commercial banks generally revised their consolidated management procedures covering key requirements of the CBRC’s new guidelines on consolidated supervision, clarified the organizational structure of consolidated supervision, specified the roles and responsibilities for the relevant departments, and strengthened the management of the subsidiaries to ensure banking management framework as well as process and procedures better align with the regulatory requirements. Secondly, commercial banks improved their group-level consolidated risk management frameworks and established the effective risk control matrix featuring “three lines of defense”, in which subsidiary-level management teams take the leading responsibilities, and independent and professional risk management teams play the central role and closely collaborate with business lines, thus strengthening the unified risk management and control at the group level. Thirdly, commercial banks strengthened the group-level overall risk management, in that the overall risk management policies and measures of the subsidiaries were perfected, and comprehensive risk management framework tailored to its own structures, business scales and complexity established. They also set forth the consolidated capital management policies, improved the policies, mechanism, and procedures for concentration risk management, and strictly controlled connected party transactions.

CBRC Gansu Office strengthened the prevention and control of high value credit risk

Firstly, CBRC Gansu Office formulated the Guiding Opinions on Promoting the Establishment of Joint Management Mechanism for Banks’ Total Credit Extension. Following the principle of “total volume control, joint management, and joint risk control”, it advanced the banking institutions to implement the joint credit extensions and limit management, strengthened inter-bank collaboration and risk early warning, and prevented and controlled “excess and blind credit extension” from its root cause. Secondly, the CBRC Gansu Office
guided China Banking Association to formulate the *Implementation Rules on Syndicated Loans of Banking Sector in Gansu Province* to further regulate the syndicated loan business, facilitated inter-bank cooperation, and effectively prevented the risk of high value and multiple credit extension to a single obligator. Thirdly, the CBRC Gansu Office continued to improve the joint monitoring mechanism for credit extension to big clients. It held a joint meeting focusing on the credit risk of key customers and strengthened the monitoring and analysis of large enterprises to briefly understand their business performances, fund usage and repayment status, thereby preventing risks of such clients in key sectors from accumulating and spreading in the banking sectors. In 2015, the rate of multiple credit extension to single obligor was 10.7 percent in Gansu, with a decrease of 1.08 percent compared to that of the previous year.

© CBRC Ningbo Office conducted pilot program of joint credit extension to prevent risks associated with the “two chains” (i.e. capital chain and guarantee chain)

To effectively prevent the acute risks in relation to the “two chains” caused by multiple credit extension to single obligor and excessive corporate guarantee, the CBRC Ningbo Office issued the *Rules on the Pilot Program of Joint Credit Extension Management*, requiring 10 key banks within its jurisdiction to try jointly managing credit extension to and guarantee by enterprises with RMB100 million or above credit granted by three or more banks. Currently, 17 companies (groups) were shortlisted for the pilot run, whose total credit covered RMB7.581 billion of the banking sector in Ningbo.

(2) Liquidity risk supervision

Firstly, improving policies on liquidity risk supervision. The CBRC revised *Rules on Liquidity Risk Management of Commercial Banks (Provisional)*, improved the supervision after adjusting loan to deposit ratio from a regulatory indicator to a liquidity risk management indicator, and upgraded the supervisory work. The CBRC also developed the *Rules on Information Disclosure of Liquidity Coverage Ratio of Commercial Banks* to promote proactive liability management and liquidity information disclosure of commercial banks.

Secondly, studying and improving liquidity support mechanism between banking institutions. It explored and managed to establish the liquidity support mechanism for city commercial banks and conducted the research on establishing such a mechanism in rural commercial banks. The CBRC also gave full play to the trust protection fund to enhance banking sector's self-disciplinary and bail-in capability.

Thirdly, organizing liquidity risk stress testing. The CBRC improved the stress testing plans on liquidity risk, guided commercial banks to improve the stress testing methodology, and conducted unified stress testing to improve the capability of liquidity risk management.

Fourthly, strengthening the monitoring and early warning for liquidity risk. The CBRC strengthened the monitoring and analysis of new liquidity risk monitoring standards such as the liquidity coverage ratio, and alerted banks with high liquidity risks in a timely manner. It also urged banking institutions to strengthen the liquidity forecast and analysis, and improved fine liquidity risk management.
The CBRC Dalian Office gained preliminary progress in advancing the establishment of mutual liquidity support mechanism in rural small- and medium-sized financial institutions. The CBRC Dalian Office promoted the village or township banks within its jurisdiction to set up liquidity mutual fund. Up to now, the amount of the mutual fund reached RMB390 million and offered 19 liquidity funds to the village or township banks in 2015. Therefore, remarkable progress was made in village or township banks in reflecting banking operations and developments, resolving liquidity issues, and improving emergency responses.

(3) Operational risk supervision

Firstly, improving the prevention and control mechanism for operational risks. The CBRC urged banking institutions to establish the operational risk management framework in line with its overall development strategy, give full play to the three lines of defense in business management, risk compliance, and internal audit, improve internal control management, and strengthen risk management in branches or outlets. The CBRC formulated the Notice on Strengthening Internal Controls of Banking Institutions and Effectively Preventing Operational Risks of Counter Business to promote the regulated operations of banking institutions and effectively prevent the operational risks of counter service.

Secondly, clarifying responsibilities of the direct case owners. The CBRC urged banking institutions to clarify the responsibilities of the case owners and that of the person in-charge in terms of operational risk case prevention, thus establishing a clear internal case-prevention framework. The CBRC established the case interview working mechanism and issued the Notice on Issues concerning Interviews and Warnings on Major Banking Cases (Risks) to set forth the working mechanism on holding interviews and issuing warnings to persons in-charge where critical risk events (fraud cases) happened.

Thirdly, continuing the high-handed posture for case prevention, and highlighting the investigation into critical cases so as to enhance prevention. The CBRC enhanced on-site examinations and monitoring of fraud cases, deepened the analysis of management loopholes, and guided bank institutions to reduce and eliminate losses. It also circulated the status and issued risk alerts on exposed cases, further enhanced the communication and collaboration with finance, auditing, public security agencies to speed up the case transferring of banking institutions.

Thematic column 9  Strengthening banking institutions’ internal controls and effectively preventing operational risk of counter business

In 2015, the CBRC published the Notice on Strengthening Internal Controls of Banking Institutions and Effectively Preventing Operational Risks of Counter Business (Hereinafter referred to as the Notice) to promote the compliant operation of banking institutions, effectively prevent cases and risk events caused by internal and external frauds, strengthen the prevention and control of operational risks of counter business, and better protect banking consumers’ legitimate rights and interests. The Notice put forward the detailed requirements in several aspects covering top-level design, prevention and
control during key processes, customer service management, crisis management and supervision etc..

Firstly, "three lines of defense" covering business management, risk compliance and internal audit were maintained, with internal control strengthened and main responsibilities implemented. Detailed requirements were specified in five key counter business processes including account opening, funds transfer, reconciliation, chop and numbered form management and account monitoring. Meanwhile, the CBRC urged banking institutions to strengthen the management of agency businesses and protection of customers' private information.

Secondly, key areas were defended with more emphasis on process management and conduct management. Banking institutions were required to regularly organize specific assessments on internal control effectiveness and conduct self-review on internal audit, compliance and business management, with a view to examining the internal control mechanism and its implementation at outlets or key business posts and preventing internal operational risks and non-compliant operations. In the meantime, the CBRC also required banks to strengthen technical prevention, fully implement the audio and video recording at outlets, accelerate the implementation of audio and video recording for wealth management and agency products, and strengthen the monitoring of staff behaviors as well.

Thirdly, the accountability for the exposed risk events was intensified to ensure fair, reasonable and justifiable treatment. The CBRC required the investigation, rectification and accountability of the involved institution to be implemented at both the tier-1 branch and its head office. In the event of risk events, not only people with the direct responsibilities but also those in charge of the institution or business lines were held accountable for their negligence and irresponsibility. Risk events with severe implications or significant negative impact were seriously investigated with stricter accountability adopted in accordance with the accountability standards, and internal reporting and investigation system were established.

Fourthly, the public service and education was enhanced. The public was alerted to beware of high interest rate attraction, fund brokers, agency business, additional commitments, information leakage, and increase their self-protection consciousness of fund and information security. The implementation of the Notice facilitated bank institutions to establish a sound internal control mechanism, especially at outlets and key positions, and effectively prevented internal operational risks and non-compliant business activities. The legitimate rights and interests of the majority of banking customers were protected, and the safe and sound operation of the banking industry was promoted.

Zhongrong International Trust Co., Ltd. (ZRITC) launched the Online Video Communication & Contract Signing System on December 1st, 2015 to further regulate the promotion of investment projects and prevent operational risks. The system enables the staff to introduce products to clients at the contract-signing site via video communication, with the project introduction and contract-signing process recorded and archived. Meanwhile, orientation training was provided to business staff, supportive administrative documents were formulated and the video template for project introduction was developed to ensure the complete, compliant process of video communication for project promotion and improving risk management.
◎ CBRC Shenzhen Office conducted special rectification actions against “unauthorized sales”

In order to strengthen the management on agency business in banking institutions and fight against unauthorized sales, the CBRC Shenzhen Office carried out a special rectification action against “unauthorized sales”. Through banks’ self-checking, unannounced external visits and regulatory examinations, nearly a million pieces of information in 31 banks were verified, 33 suspicious accounts identified, 28 employees punished, and 3 sub-branches suspended, demonstrating the regulator’s tough strike against “unauthorized sales”. Meanwhile, it built up the long-term prevention and control mechanism against “unauthorized sales”, requiring banks to take eight measures in this regard, including monitoring staff behaviors, regulating sales behaviors and improving “technical prevention”. The criteria of major cases were defined and linked with supervisory rating and market access licensing, “three negative lists” were formulated, and punishment for such regulatory violations was intensified. It enhanced the interactions with multi-agencies including Shenzhen Municipal Public Security to achieve the joint supervision and correction.

◎ CBRC Guangdong Office fully realized the audio and video recording in banking outlets in Guangdong

With the increase of operational risk events and customer complaint cases for banking wealth management and agency products, CBRC Guangdong Office proactively promoted the implementation of the audio and video recording in all banking outlets in Guangdong to maintain the financial market order and the legitimate right and interests of customers. The CBRC Guangdong Office required banks to implement audio and video recording for high-risk wealth management and agency products excluding bonds, monetary funds, bond funds, precious metals, insurance products with less than (including) one year term. By the end of 2015, 13,071 branches in Guangdong completed the audio and video recording with 21,208 sets of recording equipment, and produced record for 256,500 transactions.
(4) Market risk supervision

In 2015, the CBRC continuously urged banking institutions to strengthen the development of market risk management framework, implement the risk responsibilities, and improve market risk analysis framework, risk management policy and procedures. By timely and accurately studying the interest rate and foreign exchange rate risks, it actively responded to interest rate liberalization and foreign exchange rate fluctuations. The CBRC also guided banking institutions to track key regulatory indicators, fully identify, measure, and monitor market risks in all transactions and non-transaction business, and set aside sufficient capital. The CBRC enhanced stress testing, and made contingency plans for scenarios with major impact on market risks, with a view to preventing and controlling market risks in a forward-looking way. Moreover, foreign exchange exposure limit management was strengthened through intensified monitoring and analysis of foreign exchange market trend.

(5) Country risk supervision

Firstly, the CBRC urged banking institutions to incorporate country risk management in its comprehensive risk management framework following the Guideline on Country Risk Management of Banking Institutions, strengthen the institutional development for country risk provisioning, and constantly improve country risk management framework. The CBRC enhanced the identification, measurement, monitoring and control of country risk and improved the country risk assessment capabilities. Great attention was given to cross-border anti-money laundering related compliance risk, and high value cross-border credit risk was timely tracked so as to prevent cross-border business risks.

Secondly, the CBRC continuously improved information database for risks associated with the parent banks of foreign banks, established the country-based information collection mechanism, and monitored the external ratings, financial status and significant operational risks and regulatory changes and etc. Effective actions were taken based on timely risk judgment to stay vigilant of cross-border risk transmission.

Thirdly, the CBRC strengthened the on-site examinations on banking institutions’ overseas businesses, continuously emphasized their national risk management capabilities, and put forward the corrective requirements for banks with weak management capabilities, thus urging them to improve their country risk management effectively.

(6) Information Technology (IT) risk supervision

Firstly, the CBRC enhanced the dynamic monitoring of IT risks for commercial banks. It published the Notice on Issuing the Dynamic Monitoring Indicators (Provisional) for Commercial Banks’ Information Technology Risk and the Implementation Rules to establish a dynamic IT risk monitoring indicator mechanism for commercial banks. Therefore, commercial banks’ IT risk monitoring became more timely and forward-looking, and early warning capability was enhanced.

Secondly, the CBRC strengthened the systemic risk supervision of technology outsourcing activities in the banking sector. It enhanced the supervision and control requirements for outsourcing risks, consolidated resources to implement risk monitoring for highly concentrated IT outsourcing, and strengthened standard guidance to promote the standardization and self-discipline of the banking sector.

Thirdly, the CBRC facilitated the supervisory rating for IT supervision. It further expanded the rating coverage, refined rating elements, and incorporated the foreign banks into the IT rating mechanism.
Part Six Regulatory Measures

for the first time with rating index and grading criteria for foreign banks formulated. IT ratings were circulated among banking institutions to serve as the industry benchmark.

Fourthly, the CBRC strengthened the prevention and control of internet and information security risks. It organized national-level banking institutions to establish an internet security risk consultation mechanism, to implement internet security risk penetration tests based on the scale and classification of banking institutions. It required banks to conduct self-examination for mobile-banking, quality inspection for information security internal controls and internet security assessment. It also urged banking sector to establish the internet security risk information sharing and quick response mechanism to improve the sector’s sensitiveness to risk and synergies in response.

Fifthly, the CBRC strengthened its daily IT risk supervision and emergency response capability. Banking institutions were timely notified of IT risk events and urged to learn the lessons, enhance management and defend the risk bottom line.

◎ CBRC Liaoning Office completed the research on the classified supervision framework for IT risks

The CBRC Liaoning Office compiled the supervision details covering 9 key areas including IT governance, IT risk management, information security and etc., specified supervisory focuses for banking institutions in 15 different categories and levels, and set forth three compliance levels (i.e. high, medium, low) against more than 800 regulatory indicators. It integrated the classified supervisory framework with its IT on-site examination system for daily on-site examinations, which greatly improved the efficiency and quality of on-site examination for IT risk.

(7) Reputational risk supervision

Firstly, the CBRC strengthened reputational risk management. It urged commercial banks to improve their reputational risk management mechanisms, deliver themed training to frontline staff and new employees, and organize risk identification and emergency drills to enhance their awareness for reputational risks. It also strengthened the risk alert and advanced the resolution of reputational risks effectively. In 2015, more than 180 risk events including violations and cases were alerted, and over 100 public opinion issues were settled.

Secondly, the CBRC deepened the research on quantitative assessment of reputational risk. It conducted survey on recent reputational risk events and commercial banks’ management for such
risks, further defined the elements and assessment methods of reputational risks, established the assessment model for commercial banks’ reputational risk management, and implemented the preliminary assessment as well. The CBRC also formulated feasible solutions to incorporate the reputational risk into the overall risk management framework and to effectively conduct differentiated supervision.

Thirdly, the CBRC adopted diversified approaches to improve banking institutions’ reputation. Banks were encouraged to improve capabilities of utilizing new media in reputational risk management, and the ability of using self-media and other tools to enhance the information disclosure and image promotion. It also promoted the establishment of banking voice matrix via microblogging and Wechat, actively responded to hot topics in the industry, aired banks’ voice through various channels. It also organized micro-education campaigns and drew banks closer to the public in a more public-friendly way to further build the positive image of the banking sector.

◎ The CBRC Anhui Office enhanced reputational risk supervision

Firstly, the CBRC Anhui Office established a reputational risk incentive and restraint mechanism and incorporated the banking institutions’ letters of complaint, consumer protection and public opinion into supervisory ratings. Secondly, it established working mechanism to relate news and public opinions to fraud case investigation or vice versa, i.e. taking public opinions as clues for case investigation while considering cases as early warning of public opinions. Thirdly, it established the joint working mechanism between the regulator and banks to deal with complaints, requiring banks involved in complaint cases to send staff and work with the regulator on complaint handling so as to increase banks’ customer protection awareness and avoid reputational risks. Fourthly, it improved the mechanism to collaborate with banks, formulated the Notice on Promoting the Collaborative Mechanism for Banking News and Public Opinions, launched the online communication platform in this regard, enhanced the monitoring, analysis and guidance of public opinions, and collaboratively addressed the large-scale negative news, sensitive issues and significant incidents, thereby maintaining the good reputation for the banking industry in Anhui.

(8) Risk disposal and market exit

Firstly, the CBRC further improved the risk mitigation and market exit mechanism. It explored and established the legal framework on resolution and bankruptcy for banking institutions suitable for China’s situation, and promoted the normal and standardized exit mechanism for financial market. It guided large-scale commercial banks to develop recovery and resolution plan, fully excised the function of China Trust Protection Fund to resolve and dispose risks in trust industry, and maintained the safety and soundness of the financial sector.

Secondly, the CBRC accelerated the risk disposal for city commercial banks. It held risk disposal conference and formulated the guiding opinions on risk management for high-risk banks, promoted city commercial banks with high risks to adopt “one bank, one policy” in risk disposal, formulated the risk prevention, control and disposal strategy, and set forth the goals and supervisory measures with clear roles and responsibilities. The CBRC local offices were required to play due supervisory roles and responsibilities and address the risk disposal of the nine high-risk banks.

Thirdly, the CBRC accelerated the risk disposal and mitigation of high-risk rural credit cooperatives. In 2015, nearly 30 high-risk institutions, including Hebei Lixian rural credit cooperatives, were
successfully resolved and restructured into rural commercial banks, which effectively safeguarded regional financial stability.

Box 24  Strictly preventing illegal fundraising risks

In 2015, the CBRC played a leading role in the inter-agency meeting on combating illegal fundraising, organized the inter-agency meetings and liaison meetings in this aspect, coordinated and scheduled the annual working plan. By focusing on risk judgments and research, it studied and drafted the *Opinions of the State Council on Better Preventing and Addressing Illegal Fundraising (Guo Fa No.59, 2015)* to actively improve the mechanism and prevent and combat illegal fundraising. The CBRC highly focused on monitoring and early warning of illegal fundraising by deploying and launching special identification and rectification campaigns with a view to preventing and defusing risks. Meanwhile, it further enhanced training and education, and strived to improve the social legal awareness and risk awareness by using mainstream media, blocking information dissemination related to illegal activities, launching monthly education campaigns and deliver training courses etc.. It continuously strengthened case coordination and oversight, facilitated the resolution process of significant cases (events), took immediate actions to supervise new cases (risks) and effectively safeguarded social stability.

2. Internal controls

Firstly, the CBRC strengthened corporate governance. It further clarified the performance assessment standards of the board of directors and board of supervisors in terms of strengthening internal controls, defined the roles and responsibilities, organized supervisory meetings and communicated the regulatory policies in a timely manner. In addition, it promoted the commercial banks to enhance the corporate governance framework, optimize equity structure and establish a standardized and modern finance corporate governance mechanism with high efficiency.

Secondly, the CBRC enhanced on-site examinations. It conducted a number of special on-site examinations for internal controls on commercial banks, urged them to enhance “three checks” on loans, perform due diligence, risk review and post-loan risk management for interbank business, structured finance, wealth management products and other credit business, thus effectively enhancing the implementation of internal controls.

3. Capital Adequacy Ratio (CAR)

In 2015, following the implementation of the *Capital Rules of Commercial Banks (Provisional)* (hereinafter referred to as the Capital Rules), the CBRC continued to improve capital regulation, pushed commercial banks to improve risk management and capital planning capabilities, guided commercial banks to expand capital replenishment channels and boosted the stable and sound banking operation.

The CBRC conducted comprehensive investigation and assessment regarding the implementation of the Capital Rules in banking institutions. Since the implementation, commercial banks strived to improve their risk management and capital management capabilities with outstanding progress achieved in the following aspects. Firstly, the concept of capital constraints has gradually rooted in commercial banks’ minds while capital adequacy ratio (CAR) has become a “must-comply” indicator constraining commercial banks’ operations; secondly, risk measurement and management was
improved, and investment in the Research & Development of capital regulatory information system accelerated the data automation; thirdly, capital instruments innovation achieved substantive progress, in that the secondary debt issuance became a critical channel for banks' capital replenishment and preferred share issuance shifted from previous pilot run to normalization.

By the end of 2015, the weighted average CAR of commercial banks was 13.45 percent increased by 0.27 percentage point year on year, among which common equity tier 1 (CET-1) CAR was 10.91%, up by 0.35 percentage point year on year, and tier 1 CAR reached 11.31%, up by 0.55 percentage point year on year. The majority of commercial banks met the CAR requirements stipulated by the “Capital Rules”.

The CBRC Jiangsu Office supported capital instruments innovation, capital replenishment and equity expansion for legal entities within its jurisdiction

The CBRC Nanjing Office guided Bank of Nanjing to issue through private placement RMB8.0 billion ordinary shares, RMB4.9 billion preferred shares and RMB10 billion secondary bonds. It supported 10 rural commercial banks to increase capital and expand shares by converting profit, capital surplus, returned earnings surplus into capital and private placement, which led to an increase of RMB1.162 billion in registered capital. Meanwhile, it also supported 6 rural commercial banks to issue secondary capital bonds amounted to RMB7.4 billion, guided 3 finance companies to increase capital and expand shares with registered capital increased by RMB0.2 billion respectively.

4. Asset quality

Firstly, disposing existing non-performance loans (NPL). The CBRC intensified NPL write-offs, ensured all the NPLs to be written-off as should be, accelerated the NPL disposal using market forces, explored pilot run to realize asset securitization of NPLs and transferring the right to returns on non-performing assets so as to improve efficiency of NPL disposal.

Secondly, revitalizing the potential NPLs. The CBRC investigated the potential risks for multiple credit extensions to a single-borrower, excessive credit extension, cross-jurisdiction credit extension, guarantee circles etc., and actively took measures covering loan restructuring, contract renewal, loan recovery and relending as well as corporate mergers and acquisitions to revitalize the credit assets and improve loan quality.

Thirdly, preventing the increase of new NPLs. The CBRC reinforced the loan management throughout the whole procedures, and required banks to strictly follow the principle of “three real”: for pre-drawdown, conducting due diligence to ensure the real credit need and prevent bank funds extended to false contract; for drawdown, keeping a close eye on real risk mitigation to avoid continued accumulation of risk; for post-drawdown, reviewing the real loan purpose, and requiring high value payment conducted by banks to prevent fund embezzlement.
Box 25  NPLs of commercial banks

By the end of 2015, the outstanding amount of NPLs of commercial banks was RMB1.27 trillion, increased by RMB431.9 billion compared with the year beginning; NPL ratio was 1.67 percent, up by 0.43 percentage point over the same period. In terms of geographical and industrial distribution, NPLs shifted from the east coastal areas to central and western regions, mainly concentrated in low-end manufacturing, trading, energy as well as other traditional industries. In terms of enterprise scale and client type, NPLs migrated from micro and small enterprises (MSEs) to medium-sized and large enterprises and from corporate clients to individual customers. In terms of business nature, NPLs shifted from on-balance sheet credit business to non-credit and off-balance sheet business.

By the end of 2015, provisioning coverage ratio of commercial banks stood at 181.20 percent, down by 50.90 percentage points compared with the year beginning. However, commercial banks’ CAR was kept at 13.45 percent, with CET-1 CAR increased over the same period. Therefore, commercial banks maintained a relatively strong capability to absorb losses under continuous business operation with sufficient resources to handle NPLs. Banking institutions remained active in raising loan impairment reserve to enhance their risk prevention and control capabilities despite increasing NPL write-offs and challenging profitability pressures.

In 2014, given the downward macroeconomic pressure, commercial banks’ NPLs increased both in terms of volume and growth ratio. However, the banking sector maintained strong risk compensation capabilities, thereby defending the bottom line of no systemic or regional risks.

5. Loan loss provision

In 2015, the CBRC strengthened its policy guidance to guide and urge banking institutions to prepare sufficient loss provision to cover risk loss based on real asset quality and accurate risk classification. Its local offices promoted banking institutions within their respective jurisdictions to increase provisions and enhance risk resilience capability. By the end of 2015, commercial banks set aside RMB2.3 trillion loan loss provisions, with provisioning coverage ratio reaching 181.2 percent and loan provisioning ratio 3.0 percent. In terms of types of institutions, provisioning coverage ratio of large commercial banks, joint-stock commercial banks, city commercial banks, rural commercial banks and foreign banks was 171.7 percent, 181.0 percent, 221.3 percent, 189.6 percent, and 196.1 percent respectively.

6. Risk concentration

In 2015, the CBRC continued to focus on the supervision of concentration risk, and required banks to prevent concentration risk of high value credit, and strictly followed the regulatory requirement for credit concentration risk. The CBRC urged banking institutions to actively adjust and optimize the credit extension structure, strengthen the quota management and total volume control, comprehensively improve concentration risk management, and prevent systemic risk caused by high concentration.

II. Institutional supervision

In 2015, the CBRC focused on institutional mechanism reform, continuously perfected the supervisory measures, improved off-site surveillance approaches, and continued to monitor risk conditions in key areas. The CBRC also urged banking institutions to conduct comprehensive and in-depth reform,
strengthen the establishment of long-term risk prevention and control mechanism with a view to improving the overall risk management and financial service quality.

1. Policy banks and Postal Savings Bank of China (PSBC)

(1) Supervision on China Development Bank and policy banks

The CBRC promoted China Development Bank (CDB) and policy banks to find their positioning and conduct vigorous reforms to enhance risk prevention and control. The CBRC urged CDB to reinforce the reform spirit and leverage its advantages of supporting national strategies, riding on credit support, following market-based operation, and maintaining small profit while covering cost, with a view to promoting CDB's operational model as a development financial institution and setting up the reasonable business scope. CDB's management framework of international business unit was established, and accountability mechanism for risks improved, thus enhancing the risk awareness. CDB's ability to identify local government debt was strengthened, and its cooperation with micro credit companies was regulated. The CBRC formulated relevant notice on China Development Bank's debt and credit policies, specifying favorable policies to support CDB's funding sources. The CBRC also encouraged and guided the Export-Import Bank of China (CHEXIM) to strengthen its functional positioning as the policy bank, improve capital strength, and establish the standard corporate governance structure and decision-making mechanism, so as to play an active role in promoting sound growth, economic restructuring and international trading, and in implementing the “going global” strategy. CHEXIM also designed its plan for overall risk management framework, strengthened the analysis and monitoring of country risk, and enforced the quota management for country risk to effectively prevent risks associated with overseas loans. The CBRC urged the Agricultural Development Bank of China (ADBC) to focus on its policy functions, clarify the responsibilities and risk compensation mechanism, establish constraint mechanism based on CAR, enhance the outlet management, and forcefully rectify the staff operational violations to strengthen the case prevention and operational risk control.

(2) Supervision on Postal Savings Bank of China (PSBC)

The CBRC promoted the reform and development of the PSBC. The CBRC guided the PSBC to introduce more strategic investors from both domestic and overseas markets, laying a solid foundation for its transformation into a modern commercial bank. The PSBC conducted the assessment for internal capital adequacy, and established a sound and long-term mechanism for capital supplement. It issued RMB25 billion subordinated debt to further enhance its risk compensation capability, optimized its debt structure, and established the economical capital allocation mechanism that prioritizes benefits while ensuring quality. The CBRC formulated the Supervisory Opinions on Prudential Operation and Sound Development of Postal Savings Bank of China, requiring the PSBC to accelerate the establishment of modern commercial bank mechanism, improve business operation and enhance risk management and control. The CBRC also required PSBC to make long-term plan to serve MSEs and agro-related development and promote inclusive finance. CBRC also issued the Notice on Issuing the Rules Governing Banking Agents of Postal Savings Bank of China (Revised) to urge PSBC to enhance its management of agencies in terms of business, employee qualifications, agency behaviors etc., and create a transparent mechanism for agency business.

2. Supervision of large-scale commercial banks

Firstly, promoting the implementation of advanced measurement approaches (AMA) to capital
management. The CBRC guided large-scale commercial banks to use AMA, further optimize the management process, and explore to incorporate AMA into their daily operations and management. The CBRC conducted the pre-approval assessment for the application of AMA by Agricultural Bank of China (ABC) and Bank of China (BOC) and covered overseas approval items for the first time, aiming to extend the parent banks’ risk management frameworks, policies, processes, and systems to overseas markets so as to facilitate the integrated risk management in both domestic and overseas operations.

Secondly, continuously enhancing the supervision for Systemically Important Financial Institutions (SIFIs). The CBRC held the supervisory college meetings on ICBC, ABC and BOC, and obtained a deeper understanding of large commercial banks’ overseas businesses and most updated overseas regulatory landscape. Under the framework of cross-border crisis management taskforce, the CBRC conducted resolvability assessment for ICBC and BOC, thereby filling the regulatory gap, and established the ABC cross-border crisis management group (CMG). The Agreement on Cross-border Cooperation for the Recovery and Resolution of Global SIFIs (G-SIFIs) was drafted to guide ICBC, ABC, and BOC in making Recovery and Resolution Plans (RRPs), and China Construction Bank (CCB), the newly designated G-SIFI, was guided to meet relevant requirements.

Thirdly, improving the capability for comprehensive risk management. The CBRC formulated the Overview of Institutions for large-scale commercial banks, improved the monthly and quarterly regulatory report as well as the quarterly report on AMA implementation of large-scale commercial banks, thus enhancing data analysis and risk alert. The notice on effective risk data aggregation and risk report for large-scale commercial banks was issued to promote their infrastructure development and risk data management and enhance scientific decision-making. Large-scale commercial banks were urged to conduct stress testing and fully utilize the testing results, make RRPs, and comprehensively identify vulnerabilities to upgrade their risk disposal capability.

3. Supervision of joint-stock commercial banks

Firstly, straightening out the regulatory framework and enhancing risk prevention. The CBRC completed the handover with CBRC local offices for the supervision of 8 joint-stock commercial banks, and the Joint-stock Commercial Banks Supervision Department of the CBRC took over to perform the supervisory role for a total of 12 joint-stock commercial banks. The CBRC held prudential supervision meetings, sorted out the annual institutional overview, enhanced the risk monitoring and treatment of risk events, potential risks and violations, timely suspended arbitrage-led financial innovations, and established the public opinion monitoring and quick response mechanism to effectively address major emergency cases.

Secondly, promoting the transformation and development of joint-stock commercial banks. The CBRC supported eligible joint-stock commercial banks to implement the international expansion strategy in that it approved the establishment of four branches, one representative office and the establishment or acquisition of 4 affiliated companies in overseas market. Joint-stock commercial banks were supported to replenish capital through multiple channels. The CBRC approved China Zheshang Bank to increase capital and list in H-share market, China CITIC Bank to offer private placement in A-Share, four banks to offer private placement in preferred shares, and six banks to issue tier 2 bonds.

Thirdly, supporting financial innovations prudently. The CBRC continuously tracked and evaluated the compliance and risks of innovative business to urge lawful and compliant innovations. Joint-stock commercial banks were supported to innovate their NPL disposals and explore to expand
disposal channels by transferring the right of asset return. The CBRC advanced the pilot run of asset securitization, granted all 12 joint-stock commercial banks with asset securitization licenses, and accepted their filing for 32 asset securitization items with the total value reaching RMB126.2 billion.

4. Supervisions of city commercial banks and private banks

Firstly, accelerating the restructuring and reform of city commercial banks, deepening the differential development, and enhancing risk prevention and disposal. The CBRC guided city commercial banks to improve equity management, corporate governance, and information disclosure, and to supplement capital through various means including increasing capital and expanding equity, domestic and overseas listing, and capital instruments issuance. In line with laws and regulations as well as the principle of risk prevention and control, the CBRC encouraged eligible city commercial banks to reform their interbank and treasury businesses and also encouraged eligible banks to seek the diversified development following the principle of classified regulation. The CBRC implemented the Avant Gard Program by selecting 12 leading banks to understand their distinctive development needs, and formulated differentiated supportive policies to let them play the leading role. The CBRC identified key institutions and key risks to formulate the corresponding regulations, defined the supervisory responsibilities for CBRC local offices for their implantation, and offered policy guidance to promote risk disposal and ensure sound business development. The CBRC also resolved high-risk banks, supported banks classified as “Special Mention”, explored and drafted the proposal on establishing Mutual Fund on Liquidity for City Commercial Banks and released the Initiative on Collaborative Mechanism for Mutual Fund on Liquidity for City Commercial Banks in 2015 city commercial bank annual meeting, organized 20 steering committee members to sign off the collaborative convention of Mutual Liquidity Funds for City Commercial Banks to prevent the liquidity risk with joint efforts.

Secondly, perfecting the supervisory framework for private banks to ensure their safe and sound development. The CBRC formulated the Guiding Opinions on Promoting the Development of Private Banks, which set forth the institutional foundation for the normalized development of private banks. Following the supervisory guideline on risk control and innovated development, the CBRC conducted continuous monitoring for private banks. The CBRC encouraged private banks to define their positioning in the segmented market, optimize their business models keeping in mind the general requirement of differentiated and distinctive development, so as to achieve complementary development and dislocation competition with other commercial banks.

5. Supervision of small- and medium-sized financial institutions in rural areas

Firstly, strictly focusing on the real economy to promote the reform and restructuring of small- and medium-sized financial institutions in rural areas. While honoring its commitment to support rural areas and ensuring reform quality, the CBRC steadily pushed forward the establishment of rural commercial banks. With the administrative role of rural credit unions’ provincial associations gradually phased out and service capabilities strengthened, the CBRC conducted the overall assessment of performance for 25 provincial associations, promoted the restructuring of regional auditing centers for provincial associations. The CBRC also promoted the development of village or township banks, accelerated their development in terms of scale and sophistication, actively led them to develop in China’s central and western regions, major grain-producing counties and areas with MSEs, promoted small- and medium-sized financial institutions in rural areas to fully implement the “Three Major Projects” for rural financial services, collectively developed online and offline service channels, and
integrated outlet resource, customer base, and information technology to accomplish the last step of the financial service chain.

Secondly, enhancing the supervisory quality and efficiency while strengthening supervisory guidance. The CBRC strived to hold the “three key aspects”, namely, existing risks and incremental risks, key businesses and key areas, exposed issues and potential hidden risks, to strengthen its guidance and alerts on credit risk, liquidity risk, operational risk, investment business risk etc. The CBRC also deepened the supervisory meeting mechanism, village or township bank supervisory meeting and tripartite meeting with provincial associations, and took progressive supervisory measures to address the risk issues. It guided and facilitated the risk handling for involved institutions and successfully completed the restructuring of high risk institutions such as Hebei Li County rural credit cooperatives.

6. Supervision of foreign banks

Firstly, continuing to improve the efficacy of supervisory performance. The CBRC Foreign Bank Supervision Department fully implemented its responsibilities as the regulator for 3 foreign banks (HSBC China, Band of East Asia China and Standard Chartered China) in establishing tier 1 branches in over 15 provinces (autonomous regions and municipalities). The CBRC deepened the cooperation on cross-border supervision of foreign banks, expanded working level consultation mechanism, held regular bilateral working level supervisory talks, and strengthened international supervisory interactions. The CBRC also established the foreign bank supervisory information sharing mechanism, and constantly improved the sharing and utilization of supervisory information and results on foreign banks within the CBRC system.

Secondly, supporting foreign banks’ differentiated positioning and distinctive development. The CBRC urged foreign banks to set forth clear development strategies and business plans in China, encouraged them to leverage domestic and foreign financial markets and resources to innovate products and services, help customers to reduce financing cost and avoid financial market risks. Meanwhile, the CBRC also required foreign banks to learn the good practices from their parent banks, ride on the business features and advantages of their parent banks, support energy efficient projects in line with national industrial policies and standards, and promote the development of green industry. Leveraging their global network and cross-border operation advantages, foreign banks were encouraged to provide products and services matching with Chinese enterprises’ “going global” strategy and serve as the role model for international operations.

7. Supervision of trust companies

Firstly, coordinating and strengthening the development of the trust system. The CBRC actively studied and established classified management mechanism and guided China Trust Association to develop Rules Governing Ratings for Trust Industry, and revised the Guideline on Supervisory Rating and Classified Supervision of Trust Companies to promote the implementation of the trust company’s fiduciary duty. The CBRC also guided China Trust Association to draft the Guideline on Due Diligence for Trust Company, studied and revised the net capital management rules and drafted the Notice on Issues Related to Net Capital Calculation Standards of Trust Companies.

Secondly, establishing a comprehensive supervisory evaluation mechanism. The CBRC organized and conducted the cross-check on the effectiveness of trust supervision covering 32 local offices and 41 trust companies, conducted comprehensive examination and evaluation from five aspects: CBRC
local offices’ policy implementation, risk supervision, market access, compliance supervision and supervisory accountability.

Thirdly, studying and establishing three systems, namely, trust business classification system, off-site surveillance reporting system, risk supervision index system, thus consolidating the framework of trust industry risk supervision. It studied risk analysis framework and methodology in line with the characteristics of trust business, closely monitored key risk areas and key risk categories, improved risk identification, measurement, monitoring and control capabilities and maintained the steady operation of the banking industry.

8. Supervision of other non-banking financial institutions

Firstly, continuing to promote the reform and development of financial asset management companies. The CBRC guided China Huarong Asset Management Company Limited to be successfully listed in Hong Kong’s H-share market, and China Great Wall Asset Management Corporation and China Oriental Asset Management Corporation to finalize their plans for transformation and restructuring. It also strengthened the legal framework for regulatory policies, formulated Rules Governing Financial Asset Management Companies in Conducting Non-bank Financial Institutions’ Non-performing Assets, enhanced the off-site supervision and revised Off-site Surveillance Reporting Index System of Financial Asset Management Companies (Provisional).

Secondly, continuously improving the policy environment to promote the development of financial leasing. The CBRC promoted the prompt implementation of the Guiding Opinions on Promoting the Healthy Development of Financial Leasing, explored to broaden the mid- and long-term funding sources for financial leasing companies, supported eligible financial leasing companies to set up specialized subsidiaries and actively develop the international market.

Thirdly, actively guiding finance companies to stick to their positions as centralized treasury centers of their groups. The CBRC revised the Rules for Supervisory Ratings and Classified Supervision for Finance Groups, took the initial approach to establish a supervisory rating system combined with industry rating to regulate the external ratings for finance groups.

Fourthly, promote the development of consumer finance companies. The CBRC followed the guideline to approve the eligible consumer finance companies once matured and expanded the pilot run
nationwide from the previous 16 cities.

Fifthly, promoting the sound development of auto finance companies and money brokers. The CBRC supported qualified auto finance company to expand mid to long-term financing channels via debt issuance or securitization to improve liquidity management. The CBRC strengthened the monitoring of key risk areas including auto financing company dealers, commercial vehicles and construction machinery loans etc.. The CBRC also focused on operational risk and compliance risk of the currency brokerage companies and urged them to operate in a compliant and prudent way.
Banking Consumer Protection and Education

- Enhancing regulatory framework for banking consumer protection
- Promoting banking institutions to fulfill their duties
- Promoting financial literacy
I. Enhancing regulatory framework for banking consumer protection

1. Strengthening the consumer protection system

In 2015, the CBRC issued the *Guiding Opinions on Banking Consumer Protection*, requiring the CBRC local offices and banking institutions to fulfill their duties for banking consumer protection. First, the regulatory and organizational systems were improved on the whole. Efforts were made to facilitate the development and improvement of the regulatory system for consumer protection, improve the multi-layered complaint handling mechanism, strengthen the building of consumer protection teams, and further define the functions of the High-level Steering Committee on Banking Consumer Protection. Second, the CBRC comprehensively fulfilled its responsibilities for consumer protection. The CBRC required its local offices to oversee banking institutions’ conducts, investigate into and handle any breaches or violations of consumers’ rights and interests, and intensify the accountability and punishment system; it urged banking institutions to operate in compliance with laws and regulations, incorporate consumer protection into their internal appraisal system, and effectively fulfill their responsibilities for consumer protection. Third, the analysis and appraisal system was strengthened. The scope of consumer protection appraisal and evaluation was improved. Efforts were made to explore the establishment of statistical analysis system in a bid to make consumer protection supervision more accurate and relevant. Fourth, education and training were carried out. Efforts were made to set up the long-term education mechanism, effectively improve the development of the public service zones, and enhance the consumer protection work in an all-round manner.

2. Improving the security management system for deposits and personal information

In the first half of 2015, many deposit disputes arose, reflecting that some banking institutions were not effective in implementing internal controls or managing their employees. The CBRC penalized those banks involved in accordance with relevant laws and held those involved and people-in-charge accountable. The CBRC urged banking institutions to make comprehensive risk identification, review their business processes, and identify and address management loopholes. The CBRC issued the *Notice on Strengthening Internal Controls of Banking Institutions and Effectively Preventing Operational Risks of Counter Business*, urging banking institutions to strengthen the control over counter business processes and conduct business according to customers’ real wishes, to enhance the reconciliation management for customers’ real-time knowledge of their account changes, to strengthen customer data security management to avoid customer data leakage, to intensify business venue management to prevent outlaws from committing illegal acts or misconduct in banks’ business venues, thereby ensuring the lawful rights and interests of banking consumers.

3. Improving the consumer dispute resolution mechanism

In 2015, the CBRC continued to improve the consumer dispute resolution mechanism based on the “coordination-based resolution” principle.
First, consumer complaints were handled according to relevant laws. The CBRC coordinated banking institutions and consumers to resolve disputes, urged banking institutions to actively improve their products and services by redressing the complaint issues, and guided consumers to protect their rights according to relevant laws. Second, efforts were made to build the third party mediation mechanism for banking consumer disputes. Pilots on the third party mediation mechanism were launched in Beijing, Shanghai, Chongqing and Shenzhen, which had effectively reduced the burden on supervisory authorities and increased consumer satisfaction. In Beijing, Shanghai and Chongqing, the banking associations were engaged as the third party with a view to making full use of their resources and professional expertise; in Shenzhen, social organizations specialized in rights protection were engaged as the third party with a view to enhancing the independence and trustworthiness of dispute mediation.

◎ The CBRC Shenzhen Office explored new approach to banking consumer protection and boosted the third-party mediation mechanism

In 2015, the CBRC Shenzhen Office facilitated the establishment of the Shenzhen Banking Consumer Protection Promotion Council, China’s first third-party organization for the protection of banking consumers’ rights and interests. Registered as a social organization, the Council is committed to protecting consumers by means of dispute mediation, publicity and education, training and research. By creating a pool of about 100 mediation experts and making mediation results recognizable by judicial authorities, the Council effectively ensured flexible, professional and authoritative mediation. As of end-2015, it had accepted 568 disputes with approximately 90 percent successfully settled through mediation.

Box 26  The Guiding Opinions on Strengthening Financial Consumer Protection

The Guiding Opinions on Strengthening Financial Consumer Protection (Guo Ban Fa No.81, 2015) attaches greater importance to financial consumer protection by linking it with people’s confidence in China’s economic and financial developments, safety and stability of the financial system and social justice and fairness. The Guiding Opinions identifies for 8 fundamental rights for financial consumers, including the right to property safety, the right to information, the freedom of choice, the right to fair trade, the right to claims, the right to education, the right to be respected and the right to information security, and sets forth concrete requirements on consumer protection in the financial sector. The Opinions is a programmatic document for financial consumer protection. After the Guiding Opinions were issued, the CBRC publicized and interpreted the Opinions in the first place, and organized banking institutions to publicize relevant policies and regulatory requirements. Pursuant to the requirements specified therein, the CBRC actively boosted the protection of banking consumers and safeguarded their rights and interests in accordance with the law.

II. Promoting banking institutions to fulfill their duties

In 2015, the CBRC organized the appraisal and evaluation of banking consumer protection for the year 2014 from the five aspects of relevant rules and policy development, supporting measures,
consumer protection effectiveness, internal appraisal and management, and the handling of key issues, thus guiding and urging banking institutions to more effectively protect banking consumers. First, the consumer protection policies and processes were improved, providing a strong basis for consumer protection; second, the organizational structure for consumer protection was improved, ensuring sufficient resources allocated for consumer protection; third, the whole-process management for products and services was strengthened and sales conducts were standized, effectively preventing consumer right infringements; fourth, the consumer complaint handling mechanism was improved and complaint handling process standardized, effectively improving the quality and efficiency of complaint handling; fifth, the internal appraisal and management was intensified and the internal incentive and disciplinary mechanism for consumer protection was improved; sixth, the financial literacy programs were continued, and consumer protection publicity and education was made a routine task.

○ The CBRC Xiamen Office took steps to facilitate the operation of the “Anti-Fraud Center”

The CBRC Xiamen Office pushed five banks to set up offices in the Center and create a “Green Channel” to investigate into and control fraud-involving accounts; by holding meetings and talks, making plans, and conducting field trips, it ensured that banks properly support the fraud control and investigation efforts; it issued the supervisory requirements and detailed implementation rules with a view to ensuring compliance in fraud control and investigation; in addition, the liaison mechanism for funds control and investigation was established. As of end-2015, the Center withheld or froze payments involving 399 frauds by false information which amounted to RMB18.6 million, demonstrating notable achievements.

III. Promoting financial literacy

1. Launching educational campaigns on hot public issues

In 2015, the CBRC continued to roll out the National Financial Education Campaign, during which information about customer data leakages and fraud cases where banking customers suffered financial losses was intensively disseminated, aiming to improve banking consumers’ awareness for money and data protection. The campaign involved over 200,000 banking outlets. Around 210,000 publicity events were held and about 140,000 outdoor publicity booths set up, offering over 64.76 million pieces of advice, distributing 85.91 million leaflets, sending about 100 million text or WeChat messages, placing 310,000 media adverts, and generating around 20,000 media reports.

CBRC Hunan Office distributed over 300,000 copies of 2015 Booklet on Banking Consumer Rights Protection in Hunan for free, with the electronic version available on the CBRC official website.
Box 27  Advancing the “Financial Knowledge to Countryside” Campaign

In 2015, the CBRC continued to hold the 8th “Financial Knowledge to Countryside” Campaign by making full use of financial broadcasting stations, financial TV programs, financial service stations, financial reading centers, financial lecture halls, and instant financial messaging to disseminate financial knowledge. The *Practical Agro-related Financial Knowledge Booklet* was published; a feature TV series consisting of 7 episodes on agro-related financial literacy was produced, thereby promoting financial literacy in rural areas and providing financial support for the entrepreneurial endeavors of young rural residents. Over 110,000 publicity or consulting activities were held nationwide, offering over 70 million pieces of advice to rural residents, and distributing 90.67 million financial literacy books, leaflets and disks; 3,199 publicity and service stations on Financial Knowledge to Countryside and 26,508 rural financial reading centers were built; 2,439 financial literacy publicity programs were conducted in partnership with TV and radio stations; 5,528 publicity platforms using Weibo, WeChat or other new media were created; a strategic partnership framework agreement were entered into with the CCTV Agriculture Channel, the China National Radio (CNR), and the People’s Daily Online, aiming to create a long-term financial literacy publicity model combining conventional and new media with both audio and visual contents.

The “Financial Knowledge to Countryside” events were held in the fields and rural yards, reaching out to farmers in their daily lives.

2. Innovating means of publicity based on segmented classification of audience

The CBRC guided relevant institutions to hold the Forum on Financial Education for Youth, enhanced
the cooperation with educational authorities, financial institutions and social organizations, and incorporated financial literacy into the national education system; launched the Financial Education Carnival Tour to inspire students’ passion about financial knowledge through diversified and interesting games; guided relevant institutions in Beijing and Shanghai to unfold the Financial Literacy Theater campaign in the forms of drama, play or other artistic performances to help local residents improve their risk awareness and self-protection capability.

3. Bringing out media effects through multiple channels

The CBRC widened the channels and coverage of financial education by running columns on newspapers and magazines, sponsoring essay contests, etc.. The CBRC worked with the CCTV, the CNR and other central media entities to publish timely risk alerts, spread property safety reminders and respond to widely-watched issues, thus creating a favorable press atmosphere.

4. Responding to public inquiries to practice its service-oriented concept

In 2015, the CBRC continued to give full play to the function of the CBRC Public Education Center as a bridge and window for communication with the public. In 2015, the Center was open, answering 7,583 calls from the public, up by 6.22% year on year. These calls covered a wide range of topics, including credit cards, wealth management products, trust products, personal loans, payment settlement, banking services, regulatory policies, etc.
Box 28  Urging banking institutions to optimize banking service charges to protect banking consumer rights

In 2015, the CBRC issued the *Notice on Further Cleaning up Unfair Banking Service Charges*, organized banking institutions to eliminate unfair fee charges nationwide, and included that into the scope of “Two Reinforces and Two Contains” on-site examinations. Banks were urged to improve their management systems, standardize their fee charges and improve their service approaches. Positive results were achieved in that the items of fee charges declined significantly and the growth rate of banks’ net fee income trended downward drastically. In 2015, the average fee items charged by 21 national banks dropped to 182 from 305 in 2014. A sampling survey on these banks showed that in 2014 and the first half of 2015, the growth of fee income was noticeably slower than that of transactions processed, with average fee income per transaction dropping to RMB4 in the first half of 2015 from RMB5 in 2013. In addition, the CBRC urged banking institutions to implement various requirements and provide a variety of basic services for free in order to boost the real economy. According to rough estimates, from 2012 to the first half of 2015, 21 national banks processed 130.5 billion free transactions, removing service fees worth of RMB162.8 billion.
Strengthening Transparency and Market Discipline

- Enhancing information disclosure
- Improving transparency of the banking sector
- Strengthening market discipline
I. Enhancing information disclosure

1. Improving the channel and platform of information disclosure

In 2015, the CBRC continued to strengthen the development and management of its official website, standardize the information collection, review and release on the website, improve the information release appraisal mechanism, and fully leverage the information disclosure column on the website. By urging its departments and local offices to publish information in a timely and accurate manner and increase responses to public inquiries, the CBRC brought into full play the functions of the official website to disclose government information, serve the public and promote publicity and education, and enhanced the transparency in fulfilling its duties. In the first national census on websites of government agencies, the CBRC website hit a 100% pass rate.

2. Comprehensive work on information disclosure

Firstly, disclosing information in key areas. In 2015, the CBRC published 25,033 pieces of information on its official website, including 20,884 pieces of licensing information, 638 pieces on administrative penalties, and 58 replies to NPC and CPPCC proposals, with clicks amounting to about 148.39 million throughout the whole year.

Secondly, the CBRC regularly released statistical information about its supervisory policies and events. As per the CBRC schedule for releasing regulatory and statistical information in 2015, the CBRC expanded the coverage of information disclosure, made detailed clarification of the dimensions to be disclosed, and strengthened the development of information transparency.

Thirdly, the CBRC published the interpretations of relevant policies and timely responded to public concerns. The CBRC continued to release information on major decisions, events and supervisory developments and responded to public concerns through news media. The CBRC insisted on the news conference mechanism and strengthened communication with the media. By attending important forums and workshops and accepting online interviews by major websites, the CBRC provided official interpretations to topical issues and interacted with netizens. In 2015, the CBRC accepted approximately 1,500 interview requests by domestic and foreign journalists. Regarding the widely-watched topics, the CBRC organized 10 field trips together with journalists, held 41 press briefings or conferences, and released about 110 pieces of interpretation and response on its official website.

Fourthly, information disclosure upon request. In 2015, the CBRC accepted 901 legitimate requests for government information disclosure, and met applicants’ need for relevant information. In addition, the CBRC set up the “Public Inquiry” Column on its official website to reply inquiries by the public.

II. Improving transparency of the banking sector

In 2015, the CBRC urged banking institutions to implement the Rules on Information Disclosure of Commercial Banks and the Guidelines on the Disclosure of Capital Adequacy Ratio Information.
by Commercial Banks, widen the scope and improve the quality of information disclosure. The routine press conference mechanism for the banking industry was established, providing a platform for banking institutions to make press release and thereby further enhancing the transparency of the banking sector. The CBRC issued the Notice on Issuing the Rules Governing Information Disclosure of Liquidity Coverage Ratio of Commercial Banks, the Notice on Further Enhancing Information Disclosure of Village or Township Banks, etc., thereby strengthening the development of regulatory rules on information disclosure of banking institutions and better subjecting information disclosure to public oversight. Commercial banks were required to further standardize the disclosure of information including fees, charges, wealth management products, agent products, etc., and strictly investigated into and penalized misleading publicity, lack of transparency in fee charging and other misconducts, thereby protecting financial consumers’ lawful rights.

Guided by the CBRC and based on their information disclosure policies, banking institutions disclosed information through routine press conferences and news media, making public announcement at operating outlets, official websites, publicity materials, annual reports, CSR reports, performance presentations, disclosure by bank staff on the spot, and responses to consumer inquiries. As a result, information disclosure was further deepened and expanded.

Thematic column 10  The Routine Press Conference Mechanism for the Banking Sector

In July 2015, the CBRC established the routine press conference mechanism for the banking sector, which served as a unified platform for banking institutions to hold press conferences at fixed times and places. For the routine press conference mechanism, innovative work models were explored, thereby ensuring “proper pre-conference planning, extensive media participation, and multi-layered communication”.

Proper pre-conference planning. The communication mechanism between institutions and media was established with a view to realizing pre-conference preparations. First, the CBRC listened to media voices and timely responded to their concerns. It collected focus and hot topics from the media on conference themes and involved institutions, so as to help the banking institutions to make targeted preparations, facilitating the sound cycle for the communication between institutions and the media. Second, the CBRC combined the themes with case studies to ensure the effectiveness of press conference. It designed the contents, highlights and cases with the involved institutions to make the press conference more different, well-targeted and fulfilling, thus safeguarding the effectiveness of the press conference.

Extensive media participation. A wide range of media organizations were invited to attend the press conferences. Currently, there are 60 seats for journalists with People’s Daily, Xinhua News Agency, CCTV, Economic Daily, Caixin Weekly, the 21st Century Business Herald, Reuters, Sina.com.cn, Tencent.com, Hexun.com, etc.. To generate more accurate media stories, journalists having frequent contacts with the CBRC were invited. In addition, the “Seats for Commentators” were reserved for experts, scholars, opinion leaders and senior media professionals to provide comments from a third-party point of view.

Multi-layered communication. Conventional media, new media and self-media were used to enhance the effectiveness of the press conference. First, a “Voice of Banks” column was set up on the front page of the CBRC website, on which press release or scripts would be published at the earliest possible time. Second, the CBRC worked intensively to set up special columns with the CNR, Financial Times, Economic Information Daily, China Finance, China Financialyst, Xinhuanet.com, Sina.com.cn, China.com.cn and Hexun.com; the Caixin Weekly and the Rural Financial Times set up special columns on their WeChat public accounts. Third, new media tools were adopted. Industry insights and information were published on WeChat accounts for the press and the
public to get a full picture of the industry and learn about relevant information.

As of end-2015, 23 routine press conferences were held by policy banks, large commercial banks, joint-stock commercial banks, city commercial banks, the PSBC, and financial asset management companies, generating 7,506 media stories in total or 326 stories per conference. Articles about these conferences posted on WeChat accounts (including those of the banking institutions) reached out to over 600,000 readers in total or 30,000 readers per conference. Currently, the routine press conference mechanism has brought substantial benefits to banking institutions, media organizations and the public. For supervisory authorities and the public, routine press conferences have enabled more sufficient and transparent information disclosure; for banking institutions, routine press conferences have helped them pull together all necessary resources, bring down relevant costs, and timely respond to issues of public concern; for the press, the routine press conferences have provided them with industry-wide information resources and a unified and authoritative source of information. In the future, the CBRC will consider covering more institutions, adopting more release approaches, increasing the contents of release and creating more release channels, thereby further improving the routine press conference mechanism and enhancing the transparency of the banking sector.

Firstly, Hengfeng Bank developed a well-connected two-way communication channel between the bank and media. It made great efforts to broadcast the voice of China’s banking sector by inviting journalists to visit its branches and customers, unscrambled industrial policy, and publicized its working highlights. Secondly, Hengfeng Bank focused on fully integrating and planning its brand image. The micro-film Beauty of Service, which was written, directed and performed by its staff, showed the charm of grass-root level employees involved in banking service. This film spread positive energy of the banking sector. Thirdly, Hengfeng Bank established the Hengfeng Bank Research Institute which actively expressed professional views on hot issues in the banking sector through authoritative media, such as issues related to banking sector serving the real economy, banking profitability, and non-performing loans of commercial banks. The institute also published research results on key areas of the banking sector.

III. Strengthening market discipline

Firstly, the CBRC adhered to full disclosure by timely and regularly disclosing banking institutions’ asset, liability, profit, NPL as well as other indicators, for all stakeholders and intermediaries’ easy searching, analysis and study.

Secondly, the CBRC valued the social voices of all walks of life, and reflected those public pursuits and media feedback into the supervisory work, thus enhancing the effectiveness of supervision. For example, the CBRC sought public comments on major laws and regulations and adopted reasonable advice or suggestion.

Thirdly, the CBRC was committed to urging the China Banking Association (CBA), the China Trustee Association (CTA), the China National Association of Finance Companies (CNAFC), the China Financing Guarantee Association (CFGA), the China Micro-credit Companies Association (CMCCA), and the China Trust Protection Fund Co., Ltd. to fulfill their duties, establish and improve self-disciplinary mechanisms, and perform the functions of coordination, self-discipline and rights
Part Eight Strengthening Transparency and Market Discipline

protection as self-disciplinary organizations, thereby ensuring fairness and orderliness in the market competition.

The CBA issued, for the seventh year in a row, the *Report on the Service Improvement of China’s Banking Industry*; it facilitated the signing of the *Convention on Mutual Liquidity Assistance and Cooperation of City Commercial Banks*, formulated and issued the *Specifications and Sales Process for Bank Wealth Management Products Sold by Commercial Banks and Wealth Management Products Sold by Commercial Banks as Brokers*, issued the *Overall Wealth Management Capability Evaluation System for Commercial Banks* and published the first rating report; it organized commercial banks to review intermediary service charges; it issued the *GYROSCOPE* system for evaluating commercial banks’ sound development capability and published the first evaluation results. The CTA established three professional committees, namely the Self Discipline Committee, the Industry Development Research Committee, and the Talents and Training Committee, issued the Report on the Development of China’s Trust Industry, and formulated and issued the *Guidelines for Rating of Trust Companies (Provisional)* with a view to strengthening the overall evaluation of trust companies’ operation and management. The CNAFC issued the *Rules on Rating of Finance Companies Affiliated to Corporate Groups (Provisional)* and published the rating results; it revised the *Articles of Association of the CNAFC* and the *Rules for the Administration of CNAFC Members*; it actively implemented the *Overall Risk Management Guidelines for Finance Companies Affiliated to Corporate Groups*, and pushed finance companies to build the overall risk management system and improve their risk management capacity, thereby boosting the sound development of the finance companies. The CFGA established the Self Discipline Work Committee and the Re-guarantee Professional Committee, explored the establishment of the statistical data analysis system, and improved the information disclosure mechanism. The CMCCA was established. Based on the dual supervision and governance structures at central and local levels, the CMCCA actively performed the functions of self-discipline, rights protection, service and coordination, and regulated the development of micro-credit companies. The China Trust Protection Fund Co., Ltd. studied on the classification of the risk resolution scenarios of trust companies, developed the Risk Assistance and Resolution Manual, thereby enhancing the investors’ confidence and boosting the steady and sound development of the trust industry.

◎ The *GYROSCOPE* system for evaluating commercial banks’ sound development capability and the first evaluation results were published

On June 28, 2015, the *GYROSCOPE* system for evaluating commercial banks’ sound development capability and the first evaluation results were published. The system has incorporated the comments and suggestions from banking institutions, regulatory authorities and experts and taken into consideration the actual operations of commercial banks in China. It aims to boost both robustness and development of the banking sector. Covering multiple dimensions on commercial banks’ sound development capability, the system provides impartial, authoritative and professional criteria for commercial banks to reflect on their own operations and the evaluation results provide reference for the consumers to learn more about the banks. The system will guide banking institutions to achieve sound and robust development and help China to gain a bigger say in the international financial system.
The CNAFC issued the *Rules on Rating Finance Companies Affiliated to Corporate Groups (Provisional)* and published the rating results.

On June 1, 2015, the *Rules on Rating of Finance Companies Affiliated to Corporate Groups (Provisional)* and the first rating results were made public, marking the implementation of the first rating system for non-bank institutions developed by the industry association. Conducted by self-disciplinary organizations, the rating focuses on evaluating the operation and management results and the rating results are open and transparent. The implementation of the *Rules* has played an important role in strengthening market discipline, intensifying self-discipline, establishing industry benchmarks, and guiding innovative development.
Social Responsibility

• Improving the CSR–related mechanisms and strengthening supervision
• Securing quality financial services during public holidays
• Working with the Communist Youth League to serve the “Agriculture, Farmers, and Rural Areas”
• Supporting disaster relief and post–disaster reconstruction
• Supporting charity and poverty-stricken areas
I. Improving the CSR-related mechanisms and strengthening supervision

In 2015, the CBRC encouraged and guided banking institutions to improve the corporate social responsibility (CSR) organization and management mechanisms, improved the CSR indicator system, and released CSR reports regularly. The CBRC encouraged banking institutions to play positive roles in job creation, environmental protection, fair operation, consumer protection, community engagement and development, human rights and social responsibility. Supported and encouraged by the CBRC, banking institutions gradually incorporated the CSR concept into their strategic planning process and made CSR management a part of their corporate governance. The China Banking Association (CBA) published the Social Responsibility Report of China’s Banking Sector for seven straight years, and the China Trustee Association (CTA) published the Social Responsibility Report of China’s Trust Industry for three years in a row.

The CBRC Chairman Shang Fulin made a field trip to Qinghai. In front of the mobile PSBC serviced stations he shook hands with a Tibetan consumer.

On August 21, 2015, the CTA published the 2014 Social Responsibility Report of China’s Trust Industry. It demonstrated the fulfillment of social responsibility by the trust sector in 2014 with regard to serving the real economy, safeguarding basic public well-being, increasing benefits for the clients, preventing financial risks, engaging in charitable activities, building the Beautiful China, boosting staff development, and promoting the CSR management. The report, the third one since 2013, aimed at elaborating on the idea “Trustworthy Trustees in China”, and improving the reputation of the trust sector, thereby enabling sound interaction between the trust sector and economic and social development.
II. Securing quality financial services during public holidays

As most people would go out, travel, and go shopping during holidays and banking consumers would demand more counter services, bank cards and e-banking services, banking institutions should ensure the offering of proper financial services. In 2015, the CBRC encouraged banking institutions to fulfill their social responsibilities in accordance with Notice of the CBRC on Improving Financial Services during Public Holidays, keep enough outlets and offices open, and improve the availability and convenience of services. The CBRC also urged banks to make contingency plans to ensure safe and secure financial services, make proper shift scheduling, strengthen the contingency management and security guard, guarantee the safety of clients, staff and capital, and improve the physical environment, service quality and public satisfaction during holidays.

III. Working with the Communist Youth League to serve the “Agriculture, Farmers, and Rural Areas”

The CBRC, together with the Central Committee of the Communist Youth League (CYL), leveraged the strengths of the financial industry and the organizational advantages of the CYL to roll out the “Bank-CYL Cooperation” program. Major agro-related banking institutions, including the ABC, the PSBC, rural credit cooperatives, and rural commercial banks, were mobilized to assign young staff to work on a temporary basis at the grass-root level, thereby effectively supporting the development of agriculture, farmers, and rural areas and the entrepreneurship of rural youth. In 2015, these banks assigned 1,800 young staff to work at CYL committees at county and township levels, established 684 “financial service centers” to support business start-ups by rural youth, with financial support offered to over 200,000 rural young entrepreneurs and 6,000 rural cooperatives. The banks established micro-credit risk compensation mechanism for rural young entrepreneurs in 365 counties, granted loans worth RMB16 billion to rural young entrepreneurs, established 372 funds worth RMB650 million to support rural young entrepreneurs, and offered financial knowledge trainings to 120,000 rural participants.

IV. Supporting disaster relief and post-disaster reconstruction

In 2015, the CBRC guided banking institutions to support the disaster relief and post-disaster reconstruction endeavors in Tibet region affected by April 25 Nepal earthquake, the earthquake-hit areas in Yunnan, and August 12 blast accident in Binhai New Area of Tianjin. The CBRC urged banks to resume the provision of financial services in disaster-stricken areas by cash dispatching, contingent loss reporting, green capital channel, fees exemption, and prioritize credit support for post-disaster reconstruction.
◎ The China Bohai Bank supported the reconstruction endeavors following the August 12 blast accident in Tianjin

After the warehouse blast of Ruihai International Logistics Co. at Tianjin Port on August 12, the China Bohai Bank immediately launched the post-disaster self-rescue and resumed its operation, making it the only institution operating in the blast area. Meanwhile, in order to support the government of Binhai New Area to manage post-disaster reconstruction and fulfill the CSR, the Bank transferred credit funds, opened green channels, completed the procedures - investigation, reviewing, and approval - in a week and extended RMB2 billion of loans to the government of Binhai New Area for rescue search, medical treatment, site clean-up, and ambient environment monitoring. At the same time, it purchased RMB200 million of preferred shares of the Tianjin Ecological Homeland Construction and Development Private Equity, and the funds raised would be used for purchasing damaged houses.

◎ The CBRC Yunnan Office provided financial services for post-disaster reconstruction

The CBRC Yunnan Office issued the Notice on Further Strengthening Financial Services to Support Post-disaster Reconstruction in Ludian and Jinggu, urging banks to improve their CSR awareness, intensify the allocation of credit resources to meet the credit demand in disaster-stricken areas, and properly prevent and handle credit risks. As of end-2015, the outstanding balance of loans extended to Ludian and Jinggu in support of post-disaster reconstruction reached RMB46.386 billion, an increase of 28.1% or RMB10.165 billion compared with the pre-earthquake level.

V. Supporting charity and poverty-stricken areas

The CBRC was actively involved in charitable activities, and encouraged its employees across the country to make donations to help students, provide assistance for some emergency areas and those in trouble, take care of the elderly and the handicapped, help targeted groups in poverty alleviation sites. The CBRC encouraged staff to enhance the sense of duty and mission. In 2015, the CBRC donated RMB4.15 million to poverty-stricken areas and undertakings such as poverty alleviation, students aid and disaster relief.
Box 29  Rolling out the “Bank Card Points Donation” program throughout the country

The CBRC developed the “Internet + Finance + Charity” financial model to support charitable activities, thereby leveraging the strengths of the financial sector to cooperate with the China Youth Development Foundation and other charities to establish a wide-ranging, easy-to-operate donation platform via which the points in bank cards could be converted to money for charitable purpose. This program focused on prominent social and environmental problems arising from the industrialization and urbanization, and gave priority to left-behind children, ecological protection, financial poverty-aid, etc.. In 2015, it was rolled out nationally, featuring hundreds of on-line and off-line charitable events and raising a total of RMB15 million for charitable purposes; 12 banks launched charity products on their own e-banking platforms and the unified points donation platform jointly established by the Financial Youth League Committee and the All-China Financial Youth Federation. The Program drew attention from the CCTV, People’s Daily, Xinhua

Launching ceremony of “Bank Card Points Donation” program

News Agency, People’s Daily Online, Xinhua Net, and other major media, and the CCTV produced and broadcasted public service ads about this program on all channels.

The Beijing Rural Commercial Bank donated computers and relevant equipment to the Miaopu Hope Primary School at Douling Village in Yangze Township, Zanhuang County, Hebei Province, and gave financial aid to left-behind children

The volunteer team of the China Zheshang Bank went to teach students at the Nakong Primary School, Zhexiang Township, Zhenfeng County, Guizhou Province, on a short-term basis
The CCB actively fulfilled its CSR and donated to the “Mother Care Express program” for four years in a row

In 2015, the CCB donated RMB7 million to the “Mother Care Express” program. The “Mother Care Express” is equipped with hospital bed, oxygen gas, diasonograph, ECG analysis system and so on; it can provide services including health consulting, free treatment, free medical examination, giving out medicine and leaflets of medical information, free shuttling for maternal women, training medical workers at grass-root level, and medical assistance for special cases; and it has become the mobile hospital for rural residents. As of end-2015, the CCB has cumulatively donated RMB29 million to this program for the purchase of 193 vans. These vans are now active in 13 provinces and poverty-stricken regions and counties, including Xinjiang, Tibet, Gansu, Qinghai, Yunnan, Guangxi, Guizhou, and Inner Mongolia, benefiting 445,453 people, and providing free medicine worth RMB728,700.
Photograph by the CBRC staff
Outlook

- Economic and financial outlook
- Supervisory focuses
I. Economic and financial outlook

Looking into the year of 2016, the world economy is still at a period of profound adjustment after the international financial crisis. The profound impact of the crisis and the structural problems of developed and emerging economies continue to hinder the global economic recovery. The shift in “super-loose” monetary policy and drastic fluctuation in the prices of energy and other commodities will pose new challenges to growth. The US economy is dynamic in general, but with years of Quantitative Easing leading to high asset prices, the impact of financial risks should not be overlooked. The Eurozone economy is fettered by high unemployment and high debt ratio, while the negative interest rate policy has not generated noticeable effect in stimulating economic growth. Japan is facing acute problems of aging population and deflation, and it is still uncertain whether its fiscal policies and monetary policies can coordinate with each other to promote economic growth. Apart from the growth downshifting, emerging economies are also under the pressure of capital outflow and exchange rate devaluation. Their balance of payment hardly makes any progress, and the effectiveness of existing economic growth patterns is being challenged.

Domestically, China will continue to reduce overcapacity and excess inventory. Although new growth points of consumption are emerging, they cannot, in a short time, offset the negative impact caused by the decreasing traditional demand, and supply-side structural reform needs more time to adapt to the demand-side changes. Despite difficulties and challenges, China still has important strategic opportunities, and its economic development enjoys a solid foundation. Under the new normal, its economic structure is going to be more reasonable in moving to higher end of the supply chain with more complex divisions. As a result of profound economic and financial changes, China's banking industry is faced with increasingly complicated risks. On one hand, the supply-side structural reform will encourage some sectors and enterprises to cut their overcapacities and improve the quality and efficiency, which will, however, bring negative impact on banks' assets, so the banking industry should strengthen the capability to prevent risks and better support the real economy. On the other hand, as the era of highly profitable growth is drawing to a close, the banking sector will face more challenging tasks, given the call for further reforms and innovations and the increasingly competitive market.

II. Supervisory focuses

In 2016, in accordance with the overall plan for promoting all-round economic, political, cultural, social, and ecological progress and the Four-Pronged Comprehensive Strategy, the CBRC will continue to seek steady progress, by implementing the Five Policies (macro policies should be stable, industrial policies targeted, micro policies flexible, reform policies practical, and social policies should ensure basic needs) and the Five Tasks (cut overcapacity and excess inventory, deleverage, reduce costs, and strengthen points of weakness), consolidating the capital and resources of the banking industry, reducing the cost of private financing, making sure that no systemic or regional financial risks arise, improving the banking industry's performance in serving the real economy, and promoting sustained and sound development of the economy and the society.

1. Leveraging banking capital to support the supply-side structural reform

In accordance with the spirit of the central government and based on the principle of serving the
real economy, the banking sector will maintain a balance between steady growth and structural adjustments, and actively support the supply-side structural reform.

First, improving institutional mechanism to support innovation-driven growth. Great efforts will be made to improve the mechanism for banking sector to support "Mass Entrepreneurship and Innovation", explore the financial service for tech companies that fit the features of innovative companies and start-ups and are in line with China’s actual conditions, and develop guiding opinions on launching the “investment-loan linkage” pilot program, allowing selected commercial banks to make direct investment in innovative tech companies. The CBRC will continue to encourage banks to set up the tech-loan business units in a bid to provide more professional financial services to tech companies.

Second, optimizing credit structure and supporting balanced development. Banking institutions will be guided to follow the principle of controllable risks and commercial sustainability and integrate credit resources, to support key projects under national initiatives, including the Belt and Road initiative, the Coordinated Development of the Beijing-Tianjin-Hebei Region Initiative, and the Yangtze River Economic Belt Initiative, and to support major construction projects, shantytown renovation and other weak areas, in a bid to support the supply-side structural reform. Efforts will be made to facilitate the optimization and upgrading of industrial structure, promote the implementation of the Made in China 2025 initiative, and encourage the development of strategic emerging industries, including biotechnology, IT, intelligent manufacturing, high-end industry and alternative energy, thus promoting the transformation and upgrading of the manufacturing industry. Particularly, efforts will be made to ensure that there is synergy among banking institutions in supporting enterprises with financial difficulties to achieve turnaround, transformation, growth and recovery.

Third, giving priority to environmental protection and supporting green development. To accelerate the development of green finance, the CBRC will guide banking institutions to establish a long-term mechanism for green credit. Efforts will be made to support energy efficiency projects that conform to national industrial policies and standards, give more credit support to M&As, business or production transformation and technological renovation in overcapacity industries, and strictly restrain the extension of new loans to new projects in overcapacity industries, illegal projects under construction, and enterprises violating environmental laws. The CBRC will encourage banks to explore the development of green bonds, carbon asset-backed securitization, and other financial instruments and services.

Fourth, coordinating the opening-up efforts and supporting open development. The CBRC will expand the two-way opening-up in the banking sector, encourage banks to optimize their global presence, support policy banks, large commercial banks, and joint-stock commercial banks to improve their mid to long-term development plans. The CBRC will push banks to establish and improve the business management system, the risk management system, the investment /operation decision making mechanism and the accountability system for their overseas operations, actively develop syndicated loan business, and make sufficient provisions for country risks. Banks will be guided to capitalize on their global networks and cross-border businesses so as to bring the role of export in stabilizing growth into full play. The CBRC will support foreign banks to set up branches, offices and outlets in a reasonable and balanced manner under the principle of business sustainability. The CBRC will support the development of banks from Hong Kong, Macao and Taiwan in Mainland China, and strengthen the coordination with overseas regulatory authorities.

Fifth, developing financial inclusion and supporting inclusive development. The CBRC will urge banking institutions to better support poverty alleviation, and carry out the statistical work on the
principle of separate credit resources, separate departments, separate financial products and separate supervisory assessment for poverty alleviation. The CBRC will persistently regulate banks’ service charges, gradually expand the coverage of loan renewal policy, and reduce the financial cost of enterprises, thus improving the financial services for MSEs. Financial services to agriculture, farmers, and rural areas will be strengthened. Meanwhile, the CBRC will spare no efforts to ensure that agro-related loans continue to increase and the growth rate of loans to farmers is higher than that of all loans. The CBRC will revise and improve the appraisal and evaluation indicator system for financial consumer protection, and intensify compulsory supervisory requirements, so as to better protect financial consumers.

2. Defending the bottom line of no occurrence of systemic or regional risks

The CBRC will dialectically keep the balance between stabilizing growth and preventing risks, stick to bottom-line thinking and problem-oriented working approach, strengthen the monitoring, early-warning and measurement of risks, and focus on improving the following four types of risks.

First, preventing credit risk caused by the mounting downward pressure on the economy. The CBRC will pay more attention to potential credit risks facing local government financing platforms (LGFPs), real estate projects, and overcapacity industries, and proactively prevent emergence of new NPLs. Banks will be urged to adopt differentiated credit policies to real estate developers’ endeavors to cut excessive inventory. Banks will strengthen the control over balance-sheet risks, off-balance-sheet risks and overall risks of group clients and key enterprises. The CBRC will urge banks to proactively reduce the credit default risks, organize relevant entities to examine the deviation degree of NPLs, create more channels to dispose banking NPLs, and accelerate write-offs and disposal of NPLs.

Second, guarding against liquidity risks arising from misallocation of bank capital. The CBRC will strengthen the liquidity risk monitoring and window guidance, and organize banking institutions to conduct stress testing and improve their contingency plans. The CBRC will continue to guide banks to improve their liability portfolios, develop diverse channels for generating liabilities and improve the stability of liability sources. The CBRC will also strengthen the self-discipline in the banking sector with a view to preventing vicious competition.

Third, preventing risks of cross-sector financial products. The CBRC will improve the administrative rules governing cross-industry, cross-sector and cross-market financial businesses with a view to strengthening the oversight of financial products, making the cross-industry, cross-sector and cross-market capital flows “visible, manageable and controllable”.

Fourth, preventing the risks associated with private financing from transmitting into the banking system. The CBRC will roll out special campaigns to prevent the spreading of private financing risks, strictly regulate financing activities, stringently implement the “Three Examinations” rules before, during and after lending, regulate inter-bank cooperation, and ward off the risk of illegal fund raising.

3. Pushing forward the banking reform and opening up

The CBRC insists on taking reform and innovation as the key to development and facilitated banking institutions to transform the growth patterns by continuous reforms and innovations.

First, improving the market access system. The CBRC will expand the channels for private capital to enter the banking sector and orderly implement the licensing procedure for the establishment of
private banks; support private capital to participate in the reorganization of city commercial banks and medium and small-sized rural financial institutions. The CBRC will continue to encourage eligible private capital to set up consumer finance companies, financial leasing companies, finance companies affiliated to corporate groups and auto finance companies, and regulate non-local operations of medium and small-sized banking institutions.

Second, to deepen the reform of banking institutions. The CBRC will promote the development of the regulatory rules governing the China Development Bank and other policy banks, accelerate the in-depth reform of the BoCom, guide the PSBC to go public, promote the reform of rural credit cooperatives, facilitate the establishment of a large number of village banks and improve their capacity for intensive management and professional service offering. In addition, the CBRC will implement classified supervision and limited-service license to trust companies, and establish a unified trust products registration system.

Third, pushing forward the reform of corporate governance in banks. The CBRC will support the CDB and the ABC to improve the rules and mechanisms for driving the development of their poverty-alleviation finance units, push the ABC to further reform the agro-related finance business unit, and encourage other banking institutions to set up the poverty-alleviation finance units. The CBRC will also guide eligible banks to launch pilots to restructure business lines such as credit card, wealth management, private banking and MSE lending into independently incorporated entities. The CBRC will support finance companies affiliated to corporate groups to widen the scope of the pilot on providing financial services for companies along the industry chain, and revise the administrative rules governing auto loans to support the sustainable development of the automobile industry.

4. Improving the supervisory effectiveness

To balance stronger supervision and better growth, the CBRC will continue to deepen the reform of the regulatory regime and mechanisms, improve the supervisory infrastructure, and enhance the supervisory capacity building, thus constantly improving the supervisory effectiveness and driving sound development of the banking sector.

First, developing prudential regulatory rules. The CBRC will conduct relevant researches and develop regulatory rules governing comprehensive risk management, collateral management, large risk exposure, liquidity risk, measurement of credit-risk-weighted capital of bank investment funds and counterparties, and internal auditing. The CBRC also improved the regulatory rules governing overseas banking operations, off-balance-sheet activities and other major businesses.

Second, enhancing the supervisory capacity building. The CBRC will improve the infrastructures, innovate working mechanisms, and optimize the examination methods for on-site examination, thereby improving the quality and efficiency of on-site examination. The CBRC improved the off-site surveillance information system and existing off-site surveillance indicator system, so as to make the risk early warning more proactive, accurate and effective. The CBRC will continue to streamline the administration, delegate more powers, and improve regulation. The CBRC will strengthen oversight and post-evaluation on the licensing activities of its local offices. The CBRC further intensify the checks and balances on the supervisory powers, thereby reducing the discretion and minimizing the possibility of rent-seeking.

Third, actively participating in international regulatory reforms. The CBRC will strengthen the coordination and communication with the Financial Stability Board (FSB), actively work with the
Basel Committee on Banking Supervision (BCBS), and participate in international rule-making and comprehensive assessment. Besides, the CBRC will deliver strong performance in the Financial Sector Assessment Programme (FSAP), international quantitative impact studies, and the assessment on the consistency of BCBS liquidity risk supervision. The CBRC will properly supervise the G-SIBs and promoted the supervisory college mechanism for banking regulation, making the best of bilateral and multilateral cross-border exchanges and communication.

Thematic column 11  Banking outlook in the 13th Five-Year Plan period

The period of the 13th Five-Year Plan is the decisive stage in completing the building of a moderately prosperous society in all respects, and a crucial year in carrying out reforms. The banking sector must implement the guiding principles of the 18th National Congress of the CPC and the third, fourth, and fifth plenary sessions of the 18th CPC Central Committee and the Central Economic Work Conference, adhere to the basic aim of serving the people, keep the orientation of serving the real economy, make sure that no systemic or regional financial risks arise, and strive to be better, more efficient, fairer, and more sustainable. The banking sector must also make efforts to become sustainable, multi-layered, inclusive and diversified by 2020, focus on supporting the supply-side structural reform, and spare no effort in cutting overcapacity, deleveraging, reducing costs, and strengthening weak points, thereby improving the efficiency of serving the real economy.

1. Sticking to innovation and improving the quality and efficiency of services

Innovation is the primary driver of development, so banks should explore new paths to serving the real economy driven by innovations in businesses, products and technologies. To support the mass entrepreneurship and innovation, banking institutions should improve the working mechanisms, explore the tech-related financial service approaches, such as “investment and loan linkage”, that fit the lifecycle features of innovative companies and start-ups and are in line with China’s realities. The CBRC continued to encourage banks to establish tech-related loan units with a view to accelerating the commercialization of scientific research findings and boosting the implementation of the innovation-driven growth strategy, speeding up the integration of IT into financial businesses. The CBRC encouraged banks to actively develop the Internet Plus Finance business models, promote the collection, development and application of the big data, utilize IT in risk prevention, targeted marketing and intensive management, thereby effectively combining online and offline channels to improve the efficiency of financial services.

2. Sticking to coordination and supporting balanced development

Coordination is a basic requirement of sustainable and sound development. The banking sector should focus on strengthening the weak points, tackle challenges, maintain balanced development, and explore new possibilities of serving the real economy. To support the implementation of major national strategies, the CBRC should guide banking institutions to follow up and support the implementation of major national strategies, including the development of north-south and east-west intersecting economic belts along the coastline, the Belt and Road initiative, the Coordinated Development of the Beijing-Tianjin-Hebei Region program, and the strategy to build the Yangtze River economic belt, as well as major projects in key fields. In addition, the banking institutions promoted the development of comprehensive financial services, provided more financial support to the real economy and boosted new growth potentials in the real economy. To support the industrial transformation and upgrading, the CBRC guided banking institutions to support the supply-side structural reform by leveraging the idle capital, optimizing the allocation of the incremental capital, and pricing interest rate in a scientific way. The CBRC also encouraged banking institutions to support the implementation of the Made in China 2025 program, accelerate the disposal of “zombie companies” and elimination of backward production capacities, facilitate the upgrading and transformation of conventional industries and the development of strategic emerging industries, and promote the coordinated progress in the new-type industrialization, application of information technologies, urbanization, and agricultural modernization.
3. Sticking to green development and improving the ecological environment

Green is essential to achieving sustainable development and it is a significant aspect of the better life people yearn for. Banking institutions should introduce the green philosophy into their strategies, decision-making and practices, and define new standards for serving the real economy. The CBRC improved the working mechanism for green credit, guided banks to consolidate the green credit philosophy and uphold it in all aspects and overall process of financial services and credit management. Besides, the CBRC guided them to optimize the internal organization and business process so as to have in place systems and mechanisms conducive to the development of green credit, strengthen the building of professional teams, and create synergies in green credit work. To support the development of green industries, the CBRC urged banks to strictly control the extension of loans to overcapacity industries, prevent environmental and social risks, and develop innovative financial activities, such as energy efficiency financing, carbon permit-backed financing, and green credit asset securitization, thereby effectively supporting the green, recycling and low-carbon economy.

4. Sticking to openness and promoting mutually beneficial cooperation

Opening up is the only path to national prosperity and development. The banking sector should adapt to the increasing integration of China’s economy into the global economy, take internal and external opening-up as the two driving wheels, and enhance the capability and capacity of providing financial support to the “Go Global” strategy. The banking institutions should improve their capacity to “go global”. Under the principle of controllable risks and sustainable business, the CBRC supported eligible banking institutions to improve their international presence in light of the needs of their clients that are “going global”, operate overseas M&A business and other related businesses in line with their own development strategies, thereby providing holistic financial services for “going global” enterprises. Meanwhile, the CBRC supported eligible foreign banking institutions to invest in China. To support Chinese enterprises to participate in international market, the CBRC focused on the facilitation and systemization of financial services, supported competent law-abiding enterprises with good reputation to “go global”, so as to increase the international market share of China-made equipment and strengthen the cooperation with other countries on industrial capacity. The CBRC leveraged both policy finance and commercial finance to facilitate the offering of comprehensive financial services, such as preferential loans and cross-border RMB settlement, to “going global” enterprises.

5. Sticking to the concept of sharing and improving people’s well-being

Sharing is the essential requirement of socialism with Chinese characteristics. In order to improve people’s well-being, banking institutions upgraded the quality and inclusiveness of financial services, and accurately identify the footholds for supporting the real economy. Efforts were made to improve the financial services for MSEs. Banks took targeted measures to innovate policies supporting MSEs, promoted the coverage of MSE loans and success rate of MSE loan applications, thereby addressing the issue of difficult access to financing. Banks strengthened the management of loan pricing, eliminated unfair fees and charges, shortened the financing chain, and improved the efficiency of loan approval and extension to improve the credit affordability. They also strengthened the financial services to agriculture, farmers, and rural areas with a view to promoting poverty alleviation. The CBRC guided banking institutions to follow the principle of “precision”, and fully implement the Plan on the Development of Inclusive Finance (2016-2020). Banking institutions allocated more credit and resources to agriculture, farmers, and rural areas, made preferential policies to poverty-stricken areas, and the poor and special groups, so that they can enjoy more cost-effective financial services. Efforts were made to strengthen the protection of financial consumers. The CBRC promoted the development of the financial consumer protection mechanism, optimized the complaint filing, handling, disclosure and feedback mechanisms, and developed more channels for consumers to protect their rights, thereby making rights protection more efficient and less costly.

6. Sticking to the risk-based approach and improving the competitiveness

The CBRC stayed risk-based when encouraging banking institutions to accelerate their transformation, deepen reforms, expand the opening-up, improve risk control and become more efficient in serving the real economy in accordance with various requirements under the New Normal. Efforts were made to deepen the reform of systems and mechanisms. Banking institutions were guided to improve their corporate
governance, optimize the equity and governance structure, develop reasonable compensation policies, and avoid blindly pursuing scale expansion and merely seeking profit. They optimized their organizational structure, deepen the business unit reform and the franchising department reform, and explore restructuring certain business divisions and business lines into subsidiaries. The CBRC opened the banking sector further to domestic investors.

It continued to encourage private capital to enter the banking sector, supported private capital to initiate the incorporation of private banks, promoted incorporation of new consumer finance companies and financial leasing companies, increased the equity holdings of private capital in village banks, and encouraged private capital to participate in the restructuring of high-risk banking institutions. Banking institutions were guided to optimize their development strategies and market positioning. The CBRC guided banking institutions to make sound development strategies, clarify their market positioning, and embark on a sustainable development path suited to their resources, advantages and regional environment. Based on market positioning and comparative advantages, banks promoted their distinctive businesses, fostered unique brand images, and provided targeted financial products and differentiated services to meet the market demands. The total risk management system were further improved. Banking institutions will keep improving the risk management framework that is aligned with their risk profile and systemic importance, implement robust risk preference and risk management policies and procedures, and foster a risk culture that is in line with their development strategies; they will make full use of risk management tools to strengthen the internal control, improve the management information system, and ensure effective identification, measurement, monitoring and control of conventional and new risks facing the banking industry.

7. Strengthening the financial supervision and regulation under the firm leadership of the Party

The premise of the sustainable development of the great cause of socialism with Chinese characteristics is to strengthen the leadership of the CPC and bring the Party’s core leadership role into full play. Banking institutions should attach more importance to Party construction, make sure that the Party plays a leading role in the reform and regulation of the banking sector, and push forward the reform and development of the banking sector while strengthening the Party discipline. They should firmly improve the awareness of strengthening Party discipline and particularly focus on strengthening their political awareness, developing the awareness of potential dangers and cultivating a strong sense of responsibility. The CBRC saw that leading Party cadres at all levels assume full responsibility for strengthening Party discipline, and ensured that the responsibilities were clearly defined and implemented and accountability was exercised. The requirement on strengthening Party discipline was implemented in all aspects of the Party building. Banking institutions were required to strictly conduct ideological education, cadre selection and promotion, management and oversight, and stringently implement the disciplines and rules, and strictly fulfill the responsibilities, thereby providing political guarantee and organizational support for the banking industry to comprehensively implement the spirit instructed by the CPC Central Committee and the State Council.

Experience from other countries proves that a more developed financial industry requires more stringent regulation and supervision. In order to guide the banking institutions to have steady performance and growth in the face of a complex and challenging environment, the regulation and supervision must be strengthened in all aspects. The CBRC should advance the rule of law in the banking industry in all aspects. It upheld the rule of law as a fundamental principle, improved the regulatory regime, promoted the reform of the organizational structure of supervisory enforcement teams, improved the procedures of enforcement, stringently defined the enforcement responsibilities, improved the normalization and credibility of supervisory enforcement, thereby facilitating banking institutions to secure compliance in their operations. The CBRC should continue to streamline administration and delegate power. It should improve the partition of supervisory responsibility and power, delegate the licensing power to grass-root offices, improve the transparency of supervision, and constantly improve the efficiency of law-based supervision. The CBRC should have in place a better supervision framework that combines micro and macro prudential regulations, promote the implementation of new requirements on capital and liquidity, improved the macro prudential regulation system, and advanced the development of regulatory rules concerning SIBs and counter-cyclical capital, thereby enhancing the early warning, assessment and tackling of systemic risks. The CBRC
continued to improve the supervisory techniques and approaches. It continued to push forward the reform of the supervisory framework, strengthened the in-process and ex-post supervision, improved on-site examination, and enhanced the use of supervisory toolkit. It applied modern IT-based tools to mitigate the conflict between limited resources and heavy supervisory tasks. It improved the market exit mechanism for financial institutions. A legal system governing the disposal and bankruptcy of banking institutions was developed, thereby enhancing the connection between administrative exit and judicial bankruptcy, and normalizing and standardizing the exit mechanism. The CBRC furthered financial supervisory coordination, tailored the financial supervisory framework to the development of modern financial market, improved the regulatory rules in light of China's actual conditions and in line with international practices, thereby achieving full coverage of financial risk supervision, enhancing the capability of people-oriented supervision, and contributing to the building of a moderately prosperous society in all aspects.
Appendixes

- Responsibility description of the CBRC departments and local offices
- Financial management activities of the CBRC
- Rules and regulatory documents issued in 2015
- MOUs and SOCs with overseas regulators
- Significant regulatory and supervisory events in 2015
- Terminology
Appendix 1  Responsibility description of the CBRC departments and local offices

I. Departments at the CBRC headquarters

1. General Office
Coordinate daily work of the CBRC head office.

2. Policy Research Bureau
Undertake the top-level design, organization and implementation of further deepening reform and opening-up of the banking sector; follow and study the domestic and international macro-economies, financial situation, and the trend of financial policies, contact and coordinate with macroeconomic institutions and local governments, and lead the study on key policies of the banking sector serving the real economy; follow and study the international banking regulatory reform and trends of development, and conduct research on the regulatory framework, rules and regulations, and operational mechanism of the banking sector.

3. Prudential Regulation Bureau
Draft prudential regulation rules for banks and non-bank financial institutions, coordinate off-site surveillance work, and analyze and apply the off-site surveillance statistics; undertake identification, measurement, monitoring, analysis and reporting of systemic and regional risks of the banking sector, put forward measures and suggestions to control and mitigate risks, collect and compile various comprehensive supervisory returns, and disclose and share relevant statistical information.

4. On-site Examination Bureau
Formulate and implement on-site examination plans for various kinds of banks and non-bank financial institutions; coordinate the on-site examination work of the CBRC, set up and carry out on-site examination projects and make assessments afterwards; organize and coordinate comprehensive examinations of the banking sector and investigation of important cross-regional cases, investigate rule-breaking activities of banking institutions; guide and monitor the CBRC local offices to conduct case investigation and on-site examination.

5. Legal Department
Draft and develop supervisory laws, administrative regulations, department rules, and normative documents, and provide proposals on new legislation or amendments to existing legislation; plan and coordinate the market entry work; coordinate and deal with legal affairs concerning banking development and supervision; make overall plans for supervision and examination on important issues involving financial security; be responsible for administrative appeals and lawsuits relating to the CBRC’s regulatory decisions; be responsible for review of administrative penalties.

6. Financial Inclusion Department
Take the lead to coordinate and promote financial inclusion work initiated by banking institutions,
and provide guidance for CBRC local offices and local banking institutions; guide banking institutions to provide financial services for micro- and small-sized enterprises, for agriculture, rural areas and farmers, and for special groups of population; develop policy measures, operating rules and supervisory standards to promote sound development of financing guarantee institutions; coordinate the drafting of business regulatory measures and operating rules for micro-credit companies; study and develop supervisory measures and operating rules for P2P business.

7. Banking Information Technology Supervision Department
Oversee IT risks of banking institutions and provide relevant guidance; be responsible for the construction of IT system of the CBRC; manage and guide the IT supervision and IT development of the CBRC local offices.

8. Banking Innovation Supervision Department
Coordinate the functional supervision on financial innovation

9. Banking Consumer Protection Department
Be responsible for banking consumer protection.

10. Policy Bank Supervision Department
Regulate and supervise the China Development Bank, Export-Import Bank of China, Agricultural Development Bank of China, and Postal Savings Bank of China (the first three banks are referred to as the “policy banks”).

11. Large Commercial Bank Supervision Department

12. National Joint-stock Commercial Bank Supervision Department
Regulate and supervise national joint-stock commercial banks, including the China CITIC Bank, China Everbright Bank, Hua Xia Bank, China Guangfa Bank, Ping An Bank, China Merchants Bank, Shanghai Pudong Development Bank, Industrial Bank, China Minsheng Banking Corporation, Evergrowing Bank, China Zheshang Bank and Bohai bank.

13. City Commercial Bank Supervision Department
Regulate and supervise city commercial banks and private banks.

14. Rural Financial Institution Supervision Department
Regulate and supervise medium and small-sized rural financial institutions, including rural credit cooperatives and credit unions, rural commercial banks, rural cooperative banks, and village and township banks.

15. Foreign Bank Supervision Department
Regulate and supervise foreign banking institutions, including wholly foreign-owned banks, Sino-foreign joint-venture banks, foreign bank branches and representative offices.

16. Trust Institution Supervision Department
Regulate and supervise trust institutions, including trust companies and the China Trust Protection Fund
Corporation; provide guidance for the operation and management of the China Trust Protection Fund.

17. Non-bank Financial Institution Supervision Department
Regulate and supervise non-bank financial institutions, including financial asset management companies, finance companies affiliated to corporate groups, financial leasing companies, auto financing companies, consumer finance companies, and money brokerage firms; regulate and supervise representative offices of overseas non-bank financial institutions.

18. Anti-illegal Fund Raising Office (Banking Security & Safeguard Bureau)
Handle illegal-fund raising cases and safeguard the security of the banking sector.

19. Accounting Department
Manage internal financial work of the CBRC, prepare and report the annual financial budget and statement of the CBRC.

20. International Department (Office of Hong Kong and Macao & Taiwan Affairs)
Coordinate and manage the foreign affairs and overseas business visits of the CBRC; be responsible for cooperation and communication with overseas financial supervisory authorities and international financial institutions; be responsible for affairs in relation to Hong Kong, Macao SARs and Taiwan.

21. Staff Compliance & Disciplinary Bureau
Supervise and review the implementation of relevant rules and policies by the CBRC, assist in building a clean and honest government, and organize and coordinate anti-corruption work.

22. Human Resources Department
Be responsible for the organizational development, the management of the senior management, and the organization establishment.

23. Publicity & Information Department
Be responsible for the cultural development, news and publicity, and public opinions management of the banking sector.

24. CBRC Headquarters CPC Committee
Be responsible for the CPC affairs at the CBRC headquarters.

25. Party School
Implement staff training plans, and organize theory training and supervisory affairs training.

26. CBRC Staff Union
Perform duties of the union, including protection, construction, participation and education, lead and organize staff unions of various levels within the CBRC system to carry out their work; represent and protect the legitimate rights of staff, and better serve the supervisory work.

27. Financial Youth League Committee
Be responsible for youth league affairs and youth affairs of the central financial system.

28. Headquarters Service Center
Provide logistics management and services at the CBRC headquarters.
II. CBRC local offices

1. Provincial offices
With the delegation from the CBRC head office, provincial offices develop implementation rules for relevant supervisory regulations within their jurisdictions; conduct regulation over the establishment, changes, termination and business activities of the banking institutions and their branches within their jurisdictions; issue penalties against illegal and rule-breaking banking activities; review the qualifications of senior executives of banking institutions under their jurisdictions; provide relevant statistical data and information within their jurisdictions; be responsible for human resources management of their offices.

2. Field offices in the cities specially designated in the state plan
With the delegation from the CBRC head office, the field offices in the specifically-designated cities develop implementation rules for relevant supervisory regulations within their jurisdictions; conduct regulation over the establishment, change, termination and business activities of the banking institutions and their branches within their jurisdictions; issue penalties against illegal and rule-breaking banking activities; review the qualifications of senior executives of banking institutions within their jurisdictions; provide relevant statistical data and information within their jurisdictions; be responsible for human resources management of their offices.

3. Field offices
With the delegation from the CBRC head office and provincial offices, field offices conduct regulation over the establishment, change, termination and business activities of the banking institutions and their branches within their jurisdictions; issue penalties against illegal and rule-breaking banking activities; review the qualifications of senior executives of banking institutions within their jurisdictions; conduct supervision over local RCCs and credit unions in counties without local supervisory agencies, provide relevant statistical data and information within their jurisdictions; be responsible for human resources management of their offices.

With the delegation from the provincial or field offices, local supervisory agencies in counties are responsible for supervising local banking institutions, RCCs and credit unions; collect information about local financial risks and report to upper-level CBRC offices.
Appendix 2  Financial management activities of the CBRC

According to the relevant rules and policies issued by the MOF, the CBRC collects supervision fees from banking institutions, which are directly contributed to the treasury, while the annual budget of the CBRC is determined and allocated by the MOF.

Starting from 2004, the CBRC has collected supervision fees (institutional supervision fee and business supervision fee) from commercial banks of various kinds, policy banks and the CDB, urban and rural credit cooperatives, trust companies, finance companies, financial leasing companies, postal savings bank, banking asset management companies and other banking institutions. In 2015, the institutional supervision fee is charged at 0.05 percent of the paid-up capital of each banking institution at the end of the previous year while taking into account the institution’s risk performance. The business supervision fee is charged under a progressive system (divided into different tranches depending on the level of total assets excluding paid-up capital at the end of the previous year) and by taking into accounts the risk performance. Specifically, the business supervision fee = (total assets – paid-up capital) × rate for corresponding tranches × risk-adjusted factor – supervision fee charged by the host country supervisors on the institution’s overseas operations. The banking supervision fee is listed into the fiscal budgets and submitted directly into the treasury. The MOF designates its local officers to oversee the CBRC’s collection of supervision fees.

Starting from 2004, the CBRC has budgeted its expenses in the same way as other central government agencies. The annual expenditure usually consists of a basic expenditure budget and project expenditure budget. Basic expenditure budget is mainly used to fund the routine operations and supervisory activities of the CBRC and its local offices. Project expenditure budget is mainly used to fund specific projects such as office renovation, purchase of office supplies and vehicles, purchase of IT equipment and the special inspection taskforce. Since the adoption of such budgeting practices, the CBRC has developed and strictly enforced relevant financial management rules to secure strong financial support for supervisory activities. The underlying objectives for its financial management activities are to properly allocate its financial budget funds, utilize supervisory resources in a cost-efficient manner, and proactively improve the supervisory infrastructure and employees’ benefits in a cost-effective, people-oriented and thrifty manner.
## Appendix 3  Rules and regulatory documents issued in 2015

### Rules

<table>
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<tr>
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<tbody>
<tr>
<td>Decree of the CBRC, No.7, 2015</td>
<td>Rules for Implementing the Regulation of the People’s Republic of China on the Administration of Foreign-funded Banks, issued on July 1, 2015.</td>
</tr>
<tr>
<td>Decree of the CBRC, No.8, 2015</td>
<td>Rules of the CBRC on Administrative Penalties, issued on July 9, 2015.</td>
</tr>
<tr>
<td>Decree of the CBRC, No.9, 2015</td>
<td>Rules on Liquidity Risk Management of Commercial Banks (Provisional), issued on September 2, 2015.</td>
</tr>
<tr>
<td>Decree of the CBRC, No.10, 2015</td>
<td>Interim Rules of the CBRC on On-site Examination, issued on December 10, 2015.</td>
</tr>
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### Regulatory Documents

<table>
<thead>
<tr>
<th>Document Number</th>
<th>Date</th>
<th>Description</th>
</tr>
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<tbody>
<tr>
<td>Yin Jian Fa No.26, 2015</td>
<td>Notice on Further Cleaning up the Irregular Services Charges by Banks, issued on June 1, 2015.</td>
<td></td>
</tr>
<tr>
<td>Yin Jian Ban Fa No.97, 2015</td>
<td>Notice on Strengthening Internal Controls of Banking Institutions and Effectively Preventing Operational Risks of Counter Business, issued on June 2, 2015.</td>
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Yin Jian Fa No.45, 2015  *Notice on Issuing the Working Rules for Administrative Penalties Committee*, issued on October 14, 2015.


## Appendix 4  MOUs and SOCs with overseas regulators

<table>
<thead>
<tr>
<th></th>
<th>Overseas Regulators</th>
<th>Country/Region</th>
<th>Effective Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Monetary Authority of Macao</td>
<td>Macao SAR</td>
<td>August 22, 2003</td>
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<tr>
<td>2</td>
<td>Hong Kong Monetary Authority</td>
<td>Hong Kong SAR</td>
<td>August 25, 2003</td>
</tr>
<tr>
<td>3</td>
<td>Financial Supervisory Commission</td>
<td>Korea</td>
<td>February 3, 2004</td>
</tr>
<tr>
<td>4</td>
<td>Monetary Authority of Singapore</td>
<td>Singapore</td>
<td>May 14, 2004</td>
</tr>
<tr>
<td>5-1</td>
<td>Board of Governors of the Federal Reserve System (FED)/ Federal Deposit Insurance Corporation (FDIC)</td>
<td>U.S.</td>
<td>June 17, 2004</td>
</tr>
<tr>
<td>5-2</td>
<td>California Department of Financial Institutions</td>
<td>U.S.</td>
<td>November 6, 2007</td>
</tr>
<tr>
<td>5-3</td>
<td>New York State Banking Department</td>
<td>U.S.</td>
<td>May 7, 2009</td>
</tr>
<tr>
<td>6</td>
<td>Office of the Superintendent of Financial Institutions Canada</td>
<td>Canada</td>
<td>August 13, 2004</td>
</tr>
<tr>
<td>7</td>
<td>National Bank of the Kyrgyz Republic</td>
<td>Kyrgyzstan</td>
<td>September 21, 2004</td>
</tr>
<tr>
<td>8</td>
<td>State Bank of Pakistan</td>
<td>Pakistan</td>
<td>October 15, 2004</td>
</tr>
<tr>
<td>9</td>
<td>Federal Financial Supervisory Authority (BaFin)</td>
<td>Germany</td>
<td>December 6, 2004</td>
</tr>
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<td>10</td>
<td>Commission for Banking Supervision of the Republic of Poland</td>
<td>Poland</td>
<td>February 27, 2005</td>
</tr>
<tr>
<td>11</td>
<td>Commission Bancaire</td>
<td>France</td>
<td>March 24, 2005</td>
</tr>
<tr>
<td>12</td>
<td>Australian Prudential Regulation Authority</td>
<td>Australia</td>
<td>May 23, 2005</td>
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<tr>
<td>13</td>
<td>Banca d’ Italia</td>
<td>Italy</td>
<td>October 17, 2005</td>
</tr>
<tr>
<td>14</td>
<td>Bangko Sentral ng Pilipinas</td>
<td>Philippines</td>
<td>October 18, 2005</td>
</tr>
<tr>
<td>15</td>
<td>Central Bank of the Russian Federation</td>
<td>Russia</td>
<td>November 3, 2005</td>
</tr>
<tr>
<td>16</td>
<td>Hungarian Financial Supervisory Authority</td>
<td>Hungary</td>
<td>November 21, 2005</td>
</tr>
<tr>
<td>17</td>
<td>Banco de Espana</td>
<td>Spain</td>
<td>April 10, 2006</td>
</tr>
<tr>
<td>18</td>
<td>Jersey Financial Services Commission</td>
<td>Jersey</td>
<td>April 27, 2006</td>
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<td></td>
<td>Overseas Regulators</td>
<td>Country/Region</td>
<td>Effective Date</td>
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<tr>
<td>19</td>
<td>Banking Regulation and Supervision Agency of Turkey</td>
<td>Turkey</td>
<td>July 11, 2006</td>
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<tr>
<td>20</td>
<td>Bank of Thailand</td>
<td>Thailand</td>
<td>September 18, 2006</td>
</tr>
<tr>
<td>23</td>
<td>Qatar Financial Centre Regulatory Authority</td>
<td>Qatar</td>
<td>May 11, 2007</td>
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<td>24</td>
<td>Icelandic Financial Supervisory Authority</td>
<td>Iceland</td>
<td>June 11, 2007</td>
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<td>25</td>
<td>Dubai Financial Services Authority</td>
<td>Dubai</td>
<td>September 24, 2007</td>
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<td>26</td>
<td>Swiss Federal Banking Commission</td>
<td>Switzerland</td>
<td>September 29, 2007</td>
</tr>
<tr>
<td>27</td>
<td>De Nederlandsche Bank</td>
<td>Netherlands</td>
<td>December 25, 2007</td>
</tr>
<tr>
<td>28</td>
<td>Commission de Surveillance du Secteur Financier Luxemburg</td>
<td>Luxembourg</td>
<td>February 1, 2008</td>
</tr>
<tr>
<td>30</td>
<td>Banking, Finance and Insurance Commission of Belgium</td>
<td>Belgium</td>
<td>September 25, 2008</td>
</tr>
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<td>31</td>
<td>Irish Financial Services Regulatory Authority</td>
<td>Ireland</td>
<td>October 23, 2008</td>
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<tr>
<td>32</td>
<td>Central Bank of Nigeria</td>
<td>Nigeria</td>
<td>February 6, 2009</td>
</tr>
<tr>
<td>33</td>
<td>Bank Negara Malaysia</td>
<td>Malaysia</td>
<td>November 11, 2009</td>
</tr>
<tr>
<td>34</td>
<td>Financial Supervisory Commission of Chinese Taipei</td>
<td>Chinese Taiwan</td>
<td>November 16, 2009</td>
</tr>
<tr>
<td>35</td>
<td>The Czech National Bank</td>
<td>Czech Republic</td>
<td>January 5, 2010</td>
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<td>36</td>
<td>The Malta Financial Services Authority</td>
<td>Malta</td>
<td>February 2, 2010</td>
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<tr>
<td>37-1</td>
<td>Bank of Indonesia</td>
<td>Indonesia</td>
<td>July 15, 2010</td>
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<tr>
<td>37-2</td>
<td>Otoritas Jasa Keuangan Republic of Indonesia</td>
<td>Indonesia</td>
<td>June 4, 2015</td>
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<td>38</td>
<td>The Bank Supervision Department of the South African Reserve Bank</td>
<td>South Africa</td>
<td>November 17, 2010</td>
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<tr>
<td>39</td>
<td>National Bank of Tajikistan</td>
<td>Tajikistan</td>
<td>November 25, 2010</td>
</tr>
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<td>40</td>
<td>Reserve Bank of India</td>
<td>India</td>
<td>December 16, 2010</td>
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<td>41</td>
<td>Central Bank of Cuba</td>
<td>Cuba</td>
<td>June 5, 2011</td>
</tr>
<tr>
<td>#</td>
<td>Overseas Regulators</td>
<td>Country/Region</td>
<td>Effective Date</td>
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<tr>
<td>42</td>
<td>The Superintendency of Banks and Financial Institutions of Chile</td>
<td>Chile</td>
<td>June 9, 2011</td>
</tr>
<tr>
<td>43</td>
<td>The Central Bank of the United Arab Emirates</td>
<td>United Arab Emirates</td>
<td>July 13, 2011</td>
</tr>
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<td>44</td>
<td>The Central Bank of Cyprus</td>
<td>Cyprus</td>
<td>July 15, 2011</td>
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<td>46</td>
<td>Guernsey Financial Services Commission</td>
<td>Guernsey</td>
<td>November 15, 2011</td>
</tr>
<tr>
<td>47</td>
<td>Banco Central do Brasil</td>
<td>Brazil</td>
<td>June 21, 2011</td>
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<tr>
<td>48</td>
<td>National Bank of Cambodia</td>
<td>Cambodia</td>
<td>April 8, 2013</td>
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<tr>
<td>49</td>
<td>The Financial Supervision Commission of the Isle of Man</td>
<td>Isle of Man</td>
<td>April 15, 2013</td>
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<tr>
<td>50</td>
<td>Bank of Zambia</td>
<td>Zambia</td>
<td>April 25, 2013</td>
</tr>
<tr>
<td>51</td>
<td>Superintendencia de Servicios Financieros del Banco Central del Uruguay</td>
<td>Uruguay</td>
<td>May 27, 2013</td>
</tr>
<tr>
<td>52</td>
<td>The Supervisor of Banks at the Bank of Israel</td>
<td>Israel</td>
<td>May 27, 2013</td>
</tr>
<tr>
<td>53</td>
<td>The Central Bank of Bahrain</td>
<td>Bahrain</td>
<td>September 16, 2013</td>
</tr>
<tr>
<td>54</td>
<td>The National Bank of Kazakhstan</td>
<td>Kazakhstan</td>
<td>September 25, 2013</td>
</tr>
<tr>
<td>55</td>
<td>Bank of Ghana</td>
<td>Ghana</td>
<td>June 9, 2014</td>
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<td>56</td>
<td>Finansinspektionen (Swedish Financial Supervisory Authority)</td>
<td>Sweden</td>
<td>June 25, 2014</td>
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<td>57</td>
<td>The Bank of Mongolia</td>
<td>Mongolia</td>
<td>August 21, 2014</td>
</tr>
<tr>
<td>58</td>
<td>The Superintendence of Banking, Insurances and Private Pension Fund Administrators of Peru</td>
<td>Peru</td>
<td>October 10, 2014</td>
</tr>
<tr>
<td>59</td>
<td>Qatar Central Bank</td>
<td>Qatar</td>
<td>November 3, 2014</td>
</tr>
<tr>
<td>60</td>
<td>The Reserve Bank of New Zealand</td>
<td>New Zealand</td>
<td>January 21, 2015</td>
</tr>
<tr>
<td>61</td>
<td>Central Bank of Kuwait</td>
<td>Kuwait</td>
<td>March 28, 2015</td>
</tr>
<tr>
<td>62</td>
<td>The Bank of Lithuania</td>
<td>Lithuania</td>
<td>June 12, 2015</td>
</tr>
<tr>
<td>63</td>
<td>Prudential Regulation Authority</td>
<td>U.K.</td>
<td>October 21, 2015</td>
</tr>
</tbody>
</table>
Appendix 5 Significant regulatory and supervisory events in 2015

On January 15 The liaison meeting of the Inter-agency Anti-illegal Fund-raising Taskforce was held.

On January 16 The CBRC and the National Development and Reform Commission (NDRC) jointly issued the Guidelines on Energy Efficiency Credit, which encourages and guides banking institutions to extend energy efficient credit and supports industrial restructuring and technology upgrading.

On January 21 The CBRC and the Reserve Bank of New Zealand signed the Memorandum of Understanding (MOU) on bilateral supervisory cooperation.

On January 22 The CBRC held the Conference on Party Work-style and Clean Government Building as well as Disciplinary Inspection.

On January 23 The CBRC issued the Notice on Launching Special Action to Combat Illegal Bank Card Sales, promoting the banking institutions to regulate the bank card application and issuance process, and strengthening the information management for the account.

On January 30 The CBRC revised and issued the Rules on Leverage Ratio Management of Commercial Banks, which further improves the regulatory policy framework of leverage and put forward more specific and strict requirements for the disclosure of leverage by commercial banks.

On January 30 The conference to celebrate the establishment of China Micro-credit Companies Association (CMCA) was held in Beijing. It is a national self-disciplinary organization, voluntarily formed by small credit institutions and local industrial self-disciplinary organizations.

On February 10 The CBRC held the 2015 Working Conference on Legal Development as well as Training Course on Supervision Laws and Regulations, comprehensively promoting the direction and guidelines of legal development in the banking sector.

On February 10 The CBRC revised and issued the Guidelines on Risk Management of M&A Loans of Commercial Banks, easing the conditions like duration, proportion and guarantee, guiding banks to address overcapacity, supporting technology upgrading and encouraging banks to “go global”.
On February 16  
The CBRC approved China Development Bank and China Exim Bank to set up their respective tier-2 branch—Kashgar branch in South Xinjiang area, increasing the financial support to Xinjiang, especially to South Xinjiang area.

On February 16  
The CBRC issued the *Notice on Improving Rural Financial Services in 2015*, guiding banking institutions to promote rural financial services and supporting agricultural modernization.

On February 17  
The CBRC issued the *Notice on Issues concerning Foreign Banks Investing in Inter-bank Bond Market and Trading Corporate Bonds*.

On February 25  
The CBRC issued the *Notice on Issues concerning Improving the Financing and Management of Trust Protection Fund*.

On March 3  
The CBRC issued the *Guiding Opinions on Financial Service for Micro and Small Enterprises in 2015*, setting three "no lower than" targets for MSE loans, requiring banking institutions to promote financial services for agriculture, deepening the structural reform, improving rural financial service continuously and supporting agricultural modernization rigorously.

On March 9, June 8  
The CBRC representatives attended the 156th plenary meetings of the BCBS in Basel, Switzerland.

On March 15-18  
The 1st China-Germany High Level Financial Dialogue was held in Berlin.

On March 19-20  
The Twelfth International Advisory Council (IAC) Meeting of the CBRC was held in Beijing.

On March 24-31  
Chairman SHANG Fulin visited Germany, Kuwait, and United Arab Emirates (UAE), where he attended the Plenary Meeting of Financial Stability Board (FSB) in Frankfurt and Emerging Economies Forum, and had high-level dialogue with the Central Bank of Kuwait and the Dubai Financial Services Authority (FDSA) respectively.

On March 25  
The CBRC held the Mobilization Conference for Special Examination on "two reinforces and two contains."

On March 28  
The CBRC and the Central Bank of Kuwait signed Exchange of Letters on Supervision and Cooperation of Bilateral Banking Sectors.

On March 30  
The CBRC, People’s Bank of China and Ministry of Housing and Urban-Rural Development jointly issued the *Notice on Issues Concerning Individual Mortgage Policies*, further improving policy concerning personal mortgage loan, and supporting non-investment housing and reasonable demand of upgraders.
On April 16 The 8th China-US Banking Supervisory Dialogue was held in US.

On April 24 The 2015 Inter-agency Anti-illegal Fund-raising Taskforce meeting was held.

On May 4 The CBRC held the 2015 First Quarterly Working Conference on Economic and Financial Condition Analysis.

On May 7 The CBRC and Central Committee of Chinese Communist Youth League jointly held the conference and assigned young cadres of banking institutions to work temporarily at the county-level of communist youth league.

On May 18 Chairman SHANG Fulin met with Miroslav Singer, Governor of Czech National Bank.

On May 31 - June 1 The 2015 Annual Meeting of National Finance Company of Enterprise Group was held in Changchun.

On June 1 The CBRC issued the Notice on Further Cleaning up Irregular Service Charges by Banks, implementing special cleanup in the banking institutions of whole country.

On June 2 Chairman SHANG Fulin met with Jerome Powell, Federal Reserve Governor, and John Williams, President of Federal Reserve Bank of San Francisco.

On June 2 The CBRC issued the Notice on Strengthening Internal Controls of Banking Institutions and Effectively Preventing Operational Risks of Counter Business, further promoting the sound and standardized operation of banking institutions and effectively control operational risks of counter business.

On June 4 The CBRC and Financial Services Authority of Indonesia signed the MOU on Bilateral Supervisory Cooperation.

On June 5 The CBRC revised and issued the Implementation Rules on Administrative Licensing of Chinese-funded Commercial Banks, Implementation Rules on Administrative Licensing of Small- and Medium-sized Financial Institutions in Rural Areas, Implementation Rules on Administrative Licensing of Foreign-funded Banks and Implementation Rules on Administrative Licensing of Non-bank Financial Institutions, and issued Implementation Rules on Administrative Licensing of Trust Companies, further streamlining administration and delegating power and strengthening in-process and post-ante management.
On June 12

The CBRC and the Bank of Lithuania (central bank) signed MOU on Bilateral Supervisory Cooperation, and held bilateral supervisory conferences.

On June 22

General Office of the State Council forwarded the *Guiding Opinions on Promoting the Development of Private Banks* issued by CBRC, further encouraging and channeling private capital into the banking sector and promoting sustainable and sound development of private banks.

On June 22-24

The 7th China-US Strategic and Economic Dialogue was held in Washington.

On June 23

The CBRC issued the *Notice on Further Implementing the Supervisory Policies on Financial Services for Micro and Small Enterprises*, promoting regulatory policy innovation in future lending, tolerance on NPL and responsibility disclaimer.

On June 25

The CBRC issued the *Notice on Centralized Registration of Credit Asset Transfers in the Banking Sector*, promoting the standardized business of credit asset flow, implementing sound development and better liquidating remnant credit assets.

On June 26

Chairman SHANG Fulin attended the Press Conference of the State Council, introduced the current conditions for private capital entering the banking sector and the pilot results of the first batch of private banks, stated the policy measures to further promote the development of private banks for the next step, and answered questions from journalists.

On June 30

The CBRC held the Working Conference on Party On-site Examinations.

On July 1

The CBRC revised and issued the *Rules for Implementing the Regulation of the People’s Republic of China on Administration of Foreign-Funded Banks*, providing more favorable policies for the establishment and operation of foreign-funded banks under the premise of strengthening regulation.

On July 1

The CBRC held the Working Conference on Promoting the National “Financial Knowledge to Countryside.”

On July 7

The CBRC issued the *Notice on Steadily Developing Consumer Finance Companies*, rolling out the pilot program of consumer finance companies from 16 cities nationwide.

On July 9

The CBRC revised and issued the *Rules of CBRC on Administrative Penalties*, implementing the principle and spirit of rule of law, strictly abiding by the law and promoting the lawful compliant operation of banking institutions.
On July 18

The *Guiding Opinions on Promoting the Sound Development of Internet Finance*, which was jointly issued by the CBRC, PBC, Ministry of Industry and Information Technology, Ministry of Public Security, MOF, SAIC, Legislative Affairs Office of the State Council, CSRC, CIRC and Cyberspace Administration of China, clarified regulatory responsibilities for Internet-based finance, regulated market order and promote sound development of the finance.

On July 24, September 28

The CBRC issued the *Notice on Adjusting and Delegating on Financial Licensing Powers* and the *Notice on Issuing the Working Plan for Streamlining Administration, Delegating Power and Optimizing Services*, adjusting and delegating powers of administrating licenses of several banking institutions, and actively transforming government functions.

On July 27

The CBRC issued the *Notice on Issuing the Document List and Format Requirement for Administrative Licensing Application*.

On July 30

The CBRC and the State Administration of Taxation (SAT) jointly issued the *Notice of the State Administration of Taxation and the CBRC on Promoting “Bank-Tax Interaction” to Support Micro and Small Enterprises*, establishing the banking-taxation cooperation mechanism nationwide, so as to support the development of micro and small businesses.

On July 31

The CBRC held the First Semi-annual Working Conference on National Banking Supervision Work & Economic and Financial Condition Analysis in 2015, which studied and analyzed the current situation of the banking sector’s reform, development and supervision, and laid out the priorities of the second half of 2015: guarding against financial risks, strengthening reform and innovation of the banking sector, and further improving the efficiency and quality of financial service for the real economy.

On August 13

The *Opinions of the State Council on Accelerating the Development of the Financing Guarantee Business* was issued, which clarified the guiding ideology of supporting MSEs as well as agriculture, farmers, and rural areas through accelerated development of the financing guarantee industry, and set the goal to realize no less than 60% of the MSEs and agro-related undertakings are covered by financing guarantee within five years.

On August 13

The CBRC and the National Development and Reform Commission (NDRC) jointly issued the *Guiding Opinions on the Banking Sector to Support Major Construction Projects in Key Areas*, which led banking institutions to improve their working mechanism and credit policies, strengthened credit management and financial innovation, supported major construction projects in key areas, and provided comprehensive financial services, which is the major national strategic delegation.
<table>
<thead>
<tr>
<th>Date</th>
<th>Event Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>August 31</td>
<td>Chairman SHANG Fulin met with Anne Heritier Lachat, Chairman of the Swiss Financial Markets Supervisory Authority (FINMA).</td>
</tr>
<tr>
<td>September 2</td>
<td>The CBRC revised and issued the <em>Rules for the Liquidity Risk Management of Commercial Banks (Provisional)</em>, shifting the loan-to-deposit ratio from regulatory indicators into monitoring indicators.</td>
</tr>
<tr>
<td>September 6</td>
<td>The CPC Committee of the CBRC held a meeting to have an in-depth study of the <em>Provisions of the Chinese Communist Party Regarding On-Site Inspections</em>.</td>
</tr>
<tr>
<td>September 7</td>
<td>Chairman SHANG Fulin met with Rameswurlall Basant Roi, President of the Central Bank of Mauritius.</td>
</tr>
<tr>
<td>September 8</td>
<td>The <em>Guiding Opinions of the General Office of the State Council on Promoting the Healthy Development of the Financial Leasing Sector</em> was issued, which provided suggestions on accelerating the development of the financial leasing sector, taking full advantage of the collaboration between industry and finance, and improving the quality of financial leasing service.</td>
</tr>
<tr>
<td>September 10</td>
<td>The cross-border crisis management working group of Industrial and Commercial Bank of China (ICBC), Agricultural Bank of China (ABC), and Bank of China (BOC) held a meeting.</td>
</tr>
<tr>
<td>September 11</td>
<td>Chairman SHANG Fulin met with Mark Carney, President of the Bank of England (BOE) and the Financial Stability Board (FSB).</td>
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<tr>
<td>September 14</td>
<td>The Fifth Cross-strait Banking Regulation and Consultative Conference was held in Taiwan.</td>
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<tr>
<td>September 14</td>
<td>The CBRC conducted “two reinforces and two contains” special inspections, and held “looking back” teleconferences.</td>
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<tr>
<td>September 18</td>
<td>Chairman SHANG Fulin met with Saeb Eigner, Chairman of the Dubai Financial Services Authority (DFSA).</td>
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<tr>
<td>September 18</td>
<td>The third China-France High Level Economic and Financial Dialogue was held in Beijing.</td>
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<tr>
<td>September 18-19</td>
<td>China International Forum on Financial Inclusion was held in Beijing.</td>
</tr>
<tr>
<td>September 21</td>
<td>The seventh China-Britain Economic and Financial Dialogue was held in Beijing.</td>
</tr>
<tr>
<td>September 22-23</td>
<td>The 2015 Annual Meeting on City Commercial Banks was held in Hefei.</td>
</tr>
</tbody>
</table>
On September 28, Financial Youth League Committee (FYLC), All-China Financial Youth Federation (ACFYF), and China Youth Development Foundation (CYDF) jointly launched the national “Dream-True through Credits” charity event.

On October 14, the Regulatory Opinions on Promoting the Prudent Operation and Sound Development of the Postal Savings Bank of China was issued.

On October 15-16, the CBRC and the Hong Kong Monetary Authority (HKMA) jointly undertook the advanced workshop for nonexecutive directors of Hong Kong banks in Beijing.

On October 19-22, Chairman SHANG Fulin visited Britain and Poland, and had high-level work consultations respectively with the Prudential Regulation Authority (PRA) in UK and the Polish Financial Supervision Authority (PFSA).

On October 21, the CBRC and the UK Prudential Regulation Authority (PRA) signed the Memorandum of Understanding on Bilateral Supervisory Cooperation (MOU).

On October 23, the CBRC held the teleconference on honoring and work promotion for financial services of all banks and MSEs.

On October 30, the Regulatory Opinions on Promoting Prudent Operation and Sound Development of the Postal Savings Bank of China was issued, which required postal savings banks to speed up establishing the modern commercial bank system and mechanism, and to comprehensively improve their management and risk control capability.

On November 3, the mobilization conference for the CBRC on-site inspections by the twelfth Central Leading Group for Inspection Work was held.

On November 6, the twenty-second bilateral consultative conference between the CBRC and the Hong Kong Monetary Authority (HKMA) was held in Beijing.

On November 13, the Guiding Opinions of the General Office of the State Council on Strengthening the Financial Consumer Protection was issued, which further regulated and guided financial institutions in providing financial products and services, and strengthened the protection of financial consumers.

On November 18, the CBRC and the Ministry of Public Security jointly issued the Notice of the CBRC General Office and the General Office of Ministry of Public Security (MPS) on Issuing the Technical Standards for Banking Institutions and Public Securities Agencies on Conducting Internet Investigation into and Control over Accounts involved in Criminal Cases, which speeded up the establishment of the investigation and control mechanism of involved accounts, and regulated the internet investigation and control in accordance with law.
<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>November 23</td>
<td>Chairman SHANG Fulin visited Vitas Vasiliauskas, member of the European Central Bank governing council and President of the Central Bank of the Republic of Lithuania (CBRL).</td>
</tr>
<tr>
<td>November 23</td>
<td>The CBRC held a conference to have an in-depth learning of the spirit of the fifth plenary session of the eighteenth CPC Central Committee.</td>
</tr>
<tr>
<td>November 24</td>
<td>The Eighth China-Singapore bilateral regulatory and consultative conference was held in Beijing.</td>
</tr>
<tr>
<td>November 30</td>
<td>The Notice on Issuing the Rules Governing Banking Agents of Postal Savings Bank of China was issued, further regulating the operations of postal savings bank’s agency business.</td>
</tr>
<tr>
<td>December 2</td>
<td>The CBRC held the education conference on the cases of discipline violations, and had an in-depth study of the new revisions of the CPC Standards on Integrity and Self-discipline and the CPC Regulation on Disciplinary Actions.</td>
</tr>
<tr>
<td>December 3</td>
<td>The CPC Committee of the CBRC held a conference to pass on the spirit of the working conference of the Central Committee on poverty relief and development, and to study, examine and approve the specific measures taken by the CBRC.</td>
</tr>
<tr>
<td>December 9</td>
<td>Chairman SHANG Fulin met with Tsang Chun-wah, financial secretary of the government of the Hong Kong Special Administrative Region.</td>
</tr>
<tr>
<td>December 10</td>
<td>The first regulatory and consultative conference between the CBRC and UK Prudential Regulation Authority (PRA) was held in Beijing.</td>
</tr>
<tr>
<td>December 10</td>
<td>The Interim Rules of the CBRC on On-Site Examinations was issued, which requires further advancement of on-site examinations across the CBRC, and greater efforts to punish unlawful acts.</td>
</tr>
<tr>
<td>December 16</td>
<td>The CBRC and the National Bank of the Kyrgyz Republic (NBKR) signed the Cross-Border Crisis Management Cooperation Agreement.</td>
</tr>
<tr>
<td>December 17</td>
<td>The Notice on Issuing the Rules Governing Information Disclosure of Liquidity Coverage Ratio of Commercial Banks was issued, strengthening market control and improving commercial banks' liquidity risk management capability.</td>
</tr>
<tr>
<td>December 22</td>
<td>The CBRC held the Party Committee Conference to pass on and study the spirits of the Central Economic Work Conference and the Central Urban Work Conference.</td>
</tr>
</tbody>
</table>
On December 29, the Notice on Issuing the Interim Rules on Off-Site Surveillance was issued, which further regulated the procedures, report path, and methods of off-site surveillance, and improved work quality and efficiency of off-site surveillance.

On December 29, the Notice on Further Preventing and Combating Illegal Fundraising Activities was issued, which requires the strengthening of capital supervision, and effective prevention of illegal fundraising risks from transferring to the banking sector.

On December 31, the Notice of the State Council on Issuing the Development Program (2016-2020) on Promoting Financial Inclusion was issued, which established the guiding philosophy, basic principles, and development goals of promoting financial inclusion, proposed the policies and safeguard measures in terms of inclusive financial service institutions, product innovations, infrastructure, rules and regulations, as well as education and publicity, and made arrangements for promoting financial inclusion, strengthening leadership coordination, and demonstration pilot projects.
## Appendix 6  Terminology

<table>
<thead>
<tr>
<th>Terms</th>
<th>Coverage of institutions</th>
<th>Statistical coverage of institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banking Institutions</td>
<td>Policy banks, large commercial banks, joint-stock commercial banks, city commercial banks, rural cooperative financial institutions, postal savings bank, banking asset management companies, foreign banks, Sino-German Bausparkasse, non-bank financial institutions, new-type rural financial institutions, and other types financial institutions under the CBRC’s jurisdictions</td>
<td>policy banks, large commercial banks, joint-stock commercial banks, city commercial banks, rural cooperative financial institutions, postal savings bank, foreign banks, Sino-German Bausparkasse, non-bank financial institutions, new-type rural financial institutions under the CBRC’s jurisdiction (excluding China Trust Protection Fund Corporation)</td>
</tr>
<tr>
<td>Policy banks</td>
<td>China Development Bank, the Export-Import Bank of China, Agricultural Development Bank of China</td>
<td>Same as institution coverage</td>
</tr>
<tr>
<td>Commercial banks</td>
<td>Large commercial banks, joint-stock commercial banks, city commercial bank, rural commercial banks and foreign banks</td>
<td>Same as institution coverage</td>
</tr>
<tr>
<td>Major commercial banks</td>
<td>Large commercial banks and joint-stock commercial banks</td>
<td>Same as institution coverage</td>
</tr>
<tr>
<td>Large commercial banks</td>
<td>Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, China Construction Bank, and Bank of Communications</td>
<td>Same as institution coverage</td>
</tr>
<tr>
<td>Small-and medium-sized</td>
<td>Joint-stock commercial banks and city commercial banks</td>
<td>Same as institution coverage</td>
</tr>
<tr>
<td>commercial banks</td>
<td></td>
<td>Same as institution coverage</td>
</tr>
<tr>
<td>Joint-stock</td>
<td>China Citic Bank, China Everbright Bank, Huaxia Bank, China Guangfa Bank, Ping An Bank, China Merchants Bank, Shanghai Pudong Development Bank, Industrial Bank, China Minsheng Banking Corporation, Evergrowing Bank, China Zheshang Bank and Bohai bank</td>
<td>Same as institution coverage</td>
</tr>
<tr>
<td>Terms</td>
<td>Coverage of institutions</td>
<td>Statistical coverage of institutions</td>
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<tr>
<td>Non-bank Financial Institutions</td>
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<td>Rural Cooperative Financial Institutions</td>
<td>Rural credit cooperatives, rural cooperative banks, rural commercial banks</td>
<td>Same as institution coverage</td>
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<tr>
<td>New-type Rural Financial Institutions</td>
<td>Village or township banks, lending companies, rural mutual cooperatives</td>
<td>Same as institution coverage</td>
</tr>
</tbody>
</table>
Statistics

- Total assets of banking institutions (2003–2015)
- Total liabilities of banking institutions (2003–2015)
- Total owner’s equity of banking institutions (2003–2015)
- Total deposits and loans of banking institutions (2003–2015)
- Profit after tax of banking institutions (2007–2015)
- Returns of banking institutions (2007–2015)
- NPLs of banking institutions (2010–2015)

......
## Appendix 1  Total assets of banking institutions (2003-2015)

Unit: RMB 100 million

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<td>631,515</td>
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<td>1,513,547</td>
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<td>42,781</td>
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<td>112,174</td>
<td>125,278</td>
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<td>600,401</td>
<td>656,005</td>
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<td>Joint-stock commercial banks</td>
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<td>36,476</td>
<td>44,655</td>
<td>54,446</td>
<td>72,742</td>
<td>88,337</td>
<td>118,181</td>
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<td>183,794</td>
<td>235,271</td>
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<td>313,601</td>
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<td>56,800</td>
<td>78,526</td>
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<td>151,778</td>
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<td>226,802</td>
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<td>565</td>
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<td>5,038</td>
<td>6,097</td>
<td>9,291</td>
<td>18,661</td>
<td>27,670</td>
<td>42,527</td>
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<td>12,835</td>
<td>12,322</td>
<td>9,570</td>
<td>7,625</td>
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<td>1,787</td>
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<td>1,831</td>
<td>1,312</td>
<td>804</td>
<td>272</td>
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<td>30</td>
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<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Rural credit cooperatives</td>
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<td>30,767</td>
<td>31,427</td>
<td>34,503</td>
<td>43,434</td>
<td>52,113</td>
<td>54,945</td>
<td>63,911</td>
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<td>79,535</td>
<td>85,961</td>
<td>88,312</td>
<td>86,541</td>
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<td>Non-bank financial institutions</td>
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<td>10,594</td>
<td>9,717</td>
<td>11,802</td>
<td>15,504</td>
<td>20,896</td>
<td>26,067</td>
<td>32,299</td>
<td>39,681</td>
<td>50,123</td>
<td>64,883</td>
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<td>7,155</td>
<td>9,279</td>
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<td>23,804</td>
<td>25,628</td>
<td>27,921</td>
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<td>10,850</td>
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<td>17,687</td>
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<td>43,536</td>
<td>53,511</td>
<td>62,110</td>
<td>70,981</td>
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</table>

Notes: Data from 2003 to 2006 refer to the combined assets of banking institutions within China. Data from 2007 to 2015 refer to the consolidated assets of banking institutions within and outside China.
## Appendix 2  Total liabilities of banking institutions (2003-2015)

Unit: RMB 100 million

<table>
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<tr>
<td>Banking Institutions</td>
<td>265,945</td>
<td>303,253</td>
<td>358,070</td>
<td>417,106</td>
<td>500,763</td>
<td>593,614</td>
<td>750,706</td>
<td>894,731</td>
<td>1,060,779</td>
<td>1,249,515</td>
<td>1,411,800</td>
<td>1,600,222</td>
<td>1,841,401</td>
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<tr>
<td>Policy banks &amp; the CDB</td>
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<td>23,005</td>
<td>27,760</td>
<td>33,006</td>
<td>39,203</td>
<td>52,648</td>
<td>65,383</td>
<td>72,159</td>
<td>88,231</td>
<td>106,647</td>
<td>118,966</td>
<td>148,704</td>
<td>178,483</td>
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<tr>
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<td>172,180</td>
<td>200,453</td>
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<td>269,176</td>
<td>306,142</td>
<td>366,036</td>
<td>440,332</td>
<td>502,591</td>
<td>560,879</td>
<td>611,611</td>
<td>657,135</td>
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<td>35,333</td>
<td>43,320</td>
<td>52,542</td>
<td>69,350</td>
<td>83,924</td>
<td>112,541</td>
<td>140,872</td>
<td>173,000</td>
<td>222,130</td>
<td>253,438</td>
<td>294,641</td>
<td>346,668</td>
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<td>19,540</td>
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<td>31,521</td>
<td>38,651</td>
<td>53,213</td>
<td>73,703</td>
<td>93,203</td>
<td>115,395</td>
<td>141,804</td>
<td>168,372</td>
<td>211,321</td>
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<td>538</td>
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<td>5,767</td>
<td>8,756</td>
<td>17,546</td>
<td>25,643</td>
<td>39,208</td>
<td>57,841</td>
<td>78,492</td>
<td>105,954</td>
<td>140,343</td>
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<td>4,359</td>
<td>6,050</td>
<td>9,381</td>
<td>11,940</td>
<td>13,887</td>
<td>12,959</td>
<td>11,796</td>
<td>11,232</td>
<td>8,732</td>
<td>6,555</td>
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<td>Rural credit cooperatives</td>
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<td>49,893</td>
<td>52,601</td>
<td>61,118</td>
<td>68,575</td>
<td>75,521</td>
<td>81,434</td>
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<td>81,379</td>
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<td>17,063</td>
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<td>19,431</td>
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<td>22,896</td>
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<td>17,568</td>
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<td>26,713</td>
<td>34,365</td>
<td>42,247</td>
<td>51,712</td>
<td>59,812</td>
<td>67,972</td>
<td>78,905</td>
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</table>

Notes: Data from 2003 to 2006 refer to the combined assets of banking institutions within China. Data from 2007 to 2015 refer to the consolidated assets of banking institutions within and outside China.
### Appendix 3  Total owner’s equity of banking institutions (2003-2015)

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</thead>
<tbody>
<tr>
<td>Banking institutions</td>
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<td>12,737</td>
<td>16,627</td>
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<td>30,396</td>
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<td>44,441</td>
<td>58,322</td>
<td>72,094</td>
<td>86,708</td>
<td>101,716</td>
<td>123,132</td>
<td>152,053</td>
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<tr>
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<td>1,523</td>
<td>1,726</td>
<td>3,578</td>
<td>3,806</td>
<td>4,063</td>
<td>4,383</td>
<td>4,902</td>
<td>5,527</td>
<td>6,312</td>
<td>7,436</td>
<td>14,364</td>
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<td>7,637</td>
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<td>13,540</td>
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<td>19,608</td>
<td>21,962</td>
<td>26,611</td>
<td>33,745</td>
<td>39,522</td>
<td>44,394</td>
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<td>13,142</td>
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<td>4,910</td>
<td>6,726</td>
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<td>653</td>
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<td>5</td>
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<tr>
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<td>2,793</td>
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<td>4,517</td>
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<td>6,105</td>
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<td>Foreign banks</td>
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<td>1,674</td>
<td>1,854</td>
<td>2,104</td>
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<td>2,732</td>
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<td>736</td>
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<td>1,799</td>
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</table>

Notes: Data from 2003 to 2006 refer to the combined assets of banking institutions within China. Data from 2007 to 2015 refer to the consolidated assets of banking institutions within and outside China.
### Appendix 4  Total deposits and loans of banking institutions (2003-2015)

<table>
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</tr>
</thead>
<tbody>
<tr>
<td>Total deposits</td>
<td>220,364</td>
<td>254,089</td>
<td>300,209</td>
<td>348,065</td>
<td>401,051</td>
<td>478,444</td>
<td>612,006</td>
<td>733,382</td>
<td>826,701</td>
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<td>Saving deposits</td>
<td>110,695</td>
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<td>147,054</td>
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<td>176,213</td>
<td>221,503</td>
<td>264,761</td>
<td>307,166</td>
<td>347,401</td>
<td>403,704</td>
<td>451,827</td>
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<td>Total loans</td>
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<td>256,941</td>
<td>347,245</td>
<td>426,221</td>
<td>479,300</td>
<td>536,374</td>
<td>618,761</td>
<td>684,937</td>
<td>700,543</td>
</tr>
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<td>Domestic bill financing</td>
<td>9,234</td>
<td>11,622</td>
<td>16,319</td>
<td>17,333</td>
<td>12,884</td>
<td>19,314</td>
<td>23,879</td>
<td>14,845</td>
<td>15,154</td>
<td>20,447</td>
<td>19,616</td>
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<td>17,444.6</td>
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<td>Policy banks &amp; the CDB</td>
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<tr>
<td>Large commercial banks</td>
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<td>5,151.2</td>
<td>6,646.6</td>
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<tr>
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<tr>
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<td>598.8</td>
<td>825.5</td>
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</table>

Note: Data are from the People’s Bank of China. Since 2015, the PBOC adjusted the calculation methods of loans and deposits to include savings held by banks for non-deposit-taking financial institutions into bank deposits, and bank lending to non-deposit-taking financial institutions into bank loans. Saving deposits no longer include personal loans. The table is non-comparable with the previous year.

### Appendix 5  Profit after tax of banking institutions (2007-2015)

<table>
<thead>
<tr>
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<tr>
<td>Joint-stock commercial banks</td>
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<td>2,005.0</td>
<td>2,526.3</td>
<td>2,945.4</td>
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<td>3,373.2</td>
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<td>407.9</td>
<td>496.5</td>
<td>769.8</td>
<td>1,080.9</td>
<td>1,367.6</td>
<td>1,641.4</td>
<td>1,859.5</td>
<td>1,993.6</td>
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<td>512.2</td>
<td>782.8</td>
<td>1,070.1</td>
<td>1,383.0</td>
<td>1,487.4</td>
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<td>0.2</td>
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<tr>
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<td>219.1</td>
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<td>531.2</td>
<td>654.0</td>
<td>729.2</td>
<td>829.8</td>
<td>663.7</td>
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<td>284.5</td>
<td>298.7</td>
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<td>825.5</td>
<td>1,059.7</td>
<td>1,265.2</td>
<td>1,437.0</td>
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<tr>
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<td>77.8</td>
<td>167.3</td>
<td>163.4</td>
<td>140.3</td>
<td>197.2</td>
<td>152.9</td>
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<td>6.5</td>
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<td>340.7</td>
<td>390.3</td>
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<td>465.3</td>
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Appendix 6  Returns of banking institutions (2007-2015)

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<th>Items/Year</th>
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<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
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<td>1.3</td>
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Appendix 7  NPLs of banking institutions (2010-2015)

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<th>Items/Year</th>
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<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
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<td>0.6</td>
<td>0.8</td>
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Appendix 8  Liquidity ratio of banking institutions (2007-2015)

<table>
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<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
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### Appendix 9  NPLs, asset impairment provisions and provisioning coverage ratio of commercial banks (2007-2015)

Unit: RMB 100 million, percent

<table>
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<th>Items/Year</th>
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<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
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<td>630.0</td>
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<td>1.0</td>
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<td>295.5</td>
<td>282.7</td>
<td>232.1</td>
<td>181.2</td>
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### Appendix 10  NPLs of commercial banks (2015)

Unit: RMB 100 million, percent

<table>
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<th>Commercial banks in total</th>
<th>Large commercial banks</th>
<th>Joint-stock commercial banks</th>
<th>City commercial banks</th>
<th>Rural commercial banks</th>
<th>Foreign banks</th>
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### Distribution of NPLs of commercial banks by sectors (2015)

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<td>B Mining</td>
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<td>C Manufacturing</td>
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<td>E Construction</td>
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<tr>
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</tr>
<tr>
<td>N Management of Water Conservancy, Environment and</td>
<td>30.6</td>
<td>0.12</td>
</tr>
<tr>
<td>Public Facilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>O Services to Households, Maintenance and Other</td>
<td>78.2</td>
<td>2.07</td>
</tr>
<tr>
<td>Services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>P Education</td>
<td>14.6</td>
<td>0.46</td>
</tr>
<tr>
<td>Q Health and Social Work</td>
<td>4.0</td>
<td>0.12</td>
</tr>
<tr>
<td>R Culture, Sports and Entertainment</td>
<td>22.1</td>
<td>0.82</td>
</tr>
<tr>
<td>S Public Management, Social Security and Social</td>
<td>5.6</td>
<td>0.20</td>
</tr>
<tr>
<td>Organization</td>
<td></td>
<td></td>
</tr>
<tr>
<td>T International Organizations</td>
<td>0.0</td>
<td>0.00</td>
</tr>
<tr>
<td>Personal Loans (excluding personal business loans)</td>
<td>1,372.2</td>
<td>0.79</td>
</tr>
<tr>
<td>Credit Card</td>
<td>583.0</td>
<td>1.84</td>
</tr>
<tr>
<td>Automobiles</td>
<td>29.4</td>
<td>2.15</td>
</tr>
<tr>
<td>Home Mortgage Loans</td>
<td>482.7</td>
<td>0.39</td>
</tr>
<tr>
<td>Other Personal Loans</td>
<td>277.0</td>
<td>1.59</td>
</tr>
</tbody>
</table>
## Appendix 12  Distribution of NPLs of commercial banks by region (2015)

<table>
<thead>
<tr>
<th>Districts/Items</th>
<th>Outstanding balance</th>
<th>NPL ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Headquarters</td>
<td>605.9</td>
<td>1.88</td>
</tr>
<tr>
<td>Eastern region</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beijing</td>
<td>366.3</td>
<td>0.84</td>
</tr>
<tr>
<td>Tianjin</td>
<td>304.0</td>
<td>1.60</td>
</tr>
<tr>
<td>Hebei</td>
<td>272.3</td>
<td>1.18</td>
</tr>
<tr>
<td>Liaoning</td>
<td>444.3</td>
<td>1.64</td>
</tr>
<tr>
<td>Shanghai</td>
<td>397.3</td>
<td>1.01</td>
</tr>
<tr>
<td>Jiangsu</td>
<td>1,104.4</td>
<td>1.55</td>
</tr>
<tr>
<td>Zhejiang</td>
<td>1,600.7</td>
<td>1.87</td>
</tr>
<tr>
<td>Fujian</td>
<td>719.2</td>
<td>2.77</td>
</tr>
<tr>
<td>Shandong</td>
<td>1,881.1</td>
<td>2.32</td>
</tr>
<tr>
<td>Guangdong</td>
<td>1,151.5</td>
<td>1.43</td>
</tr>
<tr>
<td>Hainan</td>
<td>21.9</td>
<td>0.69</td>
</tr>
<tr>
<td>Central region</td>
<td>2,170.0</td>
<td>1.75</td>
</tr>
<tr>
<td>Shanxi</td>
<td>315.1</td>
<td>2.34</td>
</tr>
<tr>
<td>Jilin</td>
<td>140.2</td>
<td>1.47</td>
</tr>
<tr>
<td>Heilongjiang</td>
<td>1,585.6</td>
<td>1.72</td>
</tr>
<tr>
<td>Anhui</td>
<td>362.3</td>
<td>1.86</td>
</tr>
<tr>
<td>Jiangxi</td>
<td>268.3</td>
<td>2.08</td>
</tr>
<tr>
<td>Henan</td>
<td>318.6</td>
<td>1.40</td>
</tr>
<tr>
<td>Hubei</td>
<td>341.2</td>
<td>1.58</td>
</tr>
<tr>
<td>Hunan</td>
<td>287.6</td>
<td>1.67</td>
</tr>
<tr>
<td>Western region</td>
<td>2,485.5</td>
<td>1.87</td>
</tr>
<tr>
<td>Chongqing</td>
<td>180.3</td>
<td>0.99</td>
</tr>
<tr>
<td>Sichuan</td>
<td>573.4</td>
<td>2.00</td>
</tr>
<tr>
<td>Guizhou</td>
<td>165.6</td>
<td>1.60</td>
</tr>
<tr>
<td>Yunnan</td>
<td>273.6</td>
<td>2.18</td>
</tr>
<tr>
<td>Tibet</td>
<td>4.3</td>
<td>0.23</td>
</tr>
<tr>
<td>Shaanxi</td>
<td>319.7</td>
<td>1.99</td>
</tr>
<tr>
<td>Gansu</td>
<td>85.8</td>
<td>1.13</td>
</tr>
<tr>
<td>Qinghai</td>
<td>1,574.0</td>
<td>1.90</td>
</tr>
<tr>
<td>Ningxia</td>
<td>54.5</td>
<td>1.86</td>
</tr>
<tr>
<td>Xinjiang</td>
<td>83.0</td>
<td>1.00</td>
</tr>
<tr>
<td>Guizhou</td>
<td>246.9</td>
<td>2.19</td>
</tr>
<tr>
<td>Inner Mongolia</td>
<td>441.1</td>
<td>3.97</td>
</tr>
<tr>
<td>Total (domestic)</td>
<td>12,724.4</td>
<td>1.74</td>
</tr>
<tr>
<td>Total (overseas branches)</td>
<td>19.7</td>
<td>0.07</td>
</tr>
</tbody>
</table>
## Appendix 13  Capital adequacy ratio of commercial banks (2010-2015)

Unit: RMB 100 million, percent

<table>
<thead>
<tr>
<th>Items/Year</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>Items/Year</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net core tier one capital</td>
<td>75,793.2</td>
<td>90,738.6</td>
<td>106,268.3</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Core capital</td>
<td>42,985.1</td>
<td>53,366.6</td>
<td>64,340.1</td>
<td>Net tier one capital</td>
<td>75,793.2</td>
<td>92,480.8</td>
<td>110,109.4</td>
</tr>
<tr>
<td>Supplementary capital</td>
<td>10,294.5</td>
<td>14,417.6</td>
<td>17,585.1</td>
<td>Net capital</td>
<td>92,856.1</td>
<td>113,269.3</td>
<td>131,030.1</td>
</tr>
<tr>
<td>Capital deductions</td>
<td>3,196.4</td>
<td>3,735.4</td>
<td>4,057.1</td>
<td>Credit risk-weighted asset</td>
<td>696,582.6</td>
<td>763,911.1</td>
<td>884,711.6</td>
</tr>
<tr>
<td>On-balance sheet risk-weighted assets</td>
<td>355,371.1</td>
<td>431,420.7</td>
<td>506,604.1</td>
<td>Market risk-weighted asset</td>
<td>6,066.5</td>
<td>6,845.4</td>
<td>8,613.1</td>
</tr>
<tr>
<td>Off-balance sheet risk-weighted assets</td>
<td>53,233.7</td>
<td>68,819.0</td>
<td>76,108.0</td>
<td>Operation risk-weighted asset</td>
<td>59,124.0</td>
<td>68,193.5</td>
<td>77,226.1</td>
</tr>
<tr>
<td>Market risk capital</td>
<td>273.3</td>
<td>296.3</td>
<td>388.4</td>
<td>Core tier one CAR</td>
<td>9.9</td>
<td>10.6</td>
<td>10.9</td>
</tr>
<tr>
<td>CAR</td>
<td>12.2</td>
<td>12.7</td>
<td>13.3</td>
<td>Tier one CAR</td>
<td>9.9</td>
<td>10.8</td>
<td>11.3</td>
</tr>
<tr>
<td>Core CAR</td>
<td>10.1</td>
<td>10.2</td>
<td>10.6</td>
<td>CAR</td>
<td>12.2</td>
<td>13.2</td>
<td>13.5</td>
</tr>
</tbody>
</table>

Note: *Capital Rules of Commercial Banks (Provisional)* was implemented on January 1, 2013, and the original *Rules for the Capital Adequacy Ratio of Commercial Banks* was abolished at the same time. As a result, since the first quarter of 2013, the related statistics of CAR released in the appendix was calculated according to the new Rules.
### Appendix 14  CBRC on-site examinations (2003-2014)

Unit: RMB 100 million, Number of banks, person, percent

<table>
<thead>
<tr>
<th>Items/Year</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funds involved in illegal transactions</td>
<td>1,768</td>
<td>5,840</td>
<td>7,671</td>
<td>10,147</td>
<td>8,555</td>
<td>12,883</td>
<td>11,514</td>
<td>15,370</td>
<td>12,634</td>
<td>11,565</td>
<td>23,165</td>
<td>51,001</td>
</tr>
<tr>
<td>Number of banking institutions which received penalties on rule-breaking activities</td>
<td>1,512</td>
<td>2,202</td>
<td>1,205</td>
<td>1,104</td>
<td>1,360</td>
<td>873</td>
<td>4212</td>
<td>2,312</td>
<td>1,977</td>
<td>1,553</td>
<td>1,341</td>
<td>2,157</td>
</tr>
<tr>
<td>Number of senior managerial personnel with qualifications revoked</td>
<td>257</td>
<td>244</td>
<td>325</td>
<td>243</td>
<td>177</td>
<td>78</td>
<td>86</td>
<td>49</td>
<td>66</td>
<td>55</td>
<td>38</td>
<td>22</td>
</tr>
<tr>
<td>Average institutional coverage ratio of onsite examinations</td>
<td>28</td>
<td>36</td>
<td>34</td>
<td>35</td>
<td>42</td>
<td>24</td>
<td>30</td>
<td>27</td>
<td>19</td>
<td>20</td>
<td>16</td>
<td>15</td>
</tr>
</tbody>
</table>

Note: Data from subsidiaries are included.

### Appendix 15  CBRC on-site examinations (2015)

Unit: 10 thousand banks, RMB 100 million, person, 10 thousand person

<table>
<thead>
<tr>
<th>Items/Year</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of institutions examined</td>
<td>2.8</td>
</tr>
<tr>
<td>Funds confiscated</td>
<td>5.3</td>
</tr>
<tr>
<td>Number of senior managerial personnel with qualifications revoked</td>
<td>68</td>
</tr>
<tr>
<td>Number of measures taken</td>
<td>3,207</td>
</tr>
<tr>
<td>Number of senior personnel punished by institutions examined</td>
<td>5.6</td>
</tr>
</tbody>
</table>

Note: Since the establishment of On-site Examination Bureau, CBRC has adjusted and optimized statistical indicators of on-site examinations according to *Law of the PRC on Supervision over the Banking Industry* and *Administrative Punishment Measures of the China Banking Regulatory Commission*. The related indicators and statistics released in the appendix were adjusted accordingly.
### Appendix 16  Number of legal entities and staff of banking institutions (As of end-2015)

<table>
<thead>
<tr>
<th>Institutions / Items</th>
<th>Number of staff</th>
<th>Number of banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large commercial banks</td>
<td>1,730,291</td>
<td>5</td>
</tr>
<tr>
<td>Policy banks and the CDB</td>
<td>62,947</td>
<td>3</td>
</tr>
<tr>
<td>Joint-stock commercial banks</td>
<td>402,432</td>
<td>12</td>
</tr>
<tr>
<td>City commercial banks</td>
<td>370,124</td>
<td>133</td>
</tr>
<tr>
<td>Rural credit cooperatives</td>
<td>1,562</td>
<td>5</td>
</tr>
<tr>
<td>Rural commercial banks</td>
<td>369,369</td>
<td>1,373</td>
</tr>
<tr>
<td>Rural cooperative banks</td>
<td>464,055</td>
<td>859</td>
</tr>
<tr>
<td>Finance companies of corporate groups</td>
<td>25,824</td>
<td>71</td>
</tr>
<tr>
<td>Trust companies</td>
<td>10,955</td>
<td>224</td>
</tr>
<tr>
<td>Financial leasing companies</td>
<td>18,268</td>
<td>68</td>
</tr>
<tr>
<td>Auto financing companies</td>
<td>3,958</td>
<td>47</td>
</tr>
<tr>
<td>Money brokerage firms</td>
<td>6,464</td>
<td>25</td>
</tr>
<tr>
<td>Consumer finance companies</td>
<td>755</td>
<td>5</td>
</tr>
<tr>
<td>New-type rural financial institutions &amp; Postal savings bank</td>
<td>28,493</td>
<td>12</td>
</tr>
<tr>
<td>Banking asset management companies</td>
<td>8,083</td>
<td>4</td>
</tr>
<tr>
<td>Foreign financial institutions</td>
<td>46,730</td>
<td>40</td>
</tr>
<tr>
<td>Other institutions*</td>
<td>253,160</td>
<td>1,375</td>
</tr>
<tr>
<td>Banking institutions in total</td>
<td>3,803,470</td>
<td>4,261</td>
</tr>
</tbody>
</table>

*Other institutions include rural financial institutions, postal savings bank and Sino-German Bausparkasse.

Note: Statistic data of China Trust Protection Fund Company is not included into this annual report.
Chief Editor of this Annual Report: YANG Jiacai

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