Part One

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 2016, the world economy grew by 3.1 percent, down by 0.1 percentage point year-on-year. The trade in goods and services increased by 1.9 percent, down by 0.7 percentage point year-on-year\(^1\). The world economic recovery was sluggish. The US Federal Reserve was officially on the track of increasing interest rate, while major economies adopted diverted monetary policies. Geopolitical conflicts remained unsolved and anti-globalization and populism were gaining ground, with uncertainties increasing notably. The international financial market became more turbulent, exerting more significant impact on economic growth.

Firstly, developed economies recovered slowly, alleviating some deflationary pressure. In 2016, developed economies grew by 1.6 percent, up by 0.5 percentage point year-on-year. Overall inflation was 0.7 percent, up by 0.4 percentage point from that of the previous year\(^2\). Affected by the economic slack in the first half of 2016, the US economy grew by 1.6 percent, down by 1 percentage point year-on-year. The CPI increased by 1.3 percent, lower than 0.1 percent in 2015; and the unemployment rate continued to drop, standing at 4.7 percent in December, leveling off with that of 2008 prior to the global financial crisis\(^3\). Europe witnessed slow growth as a result of the slow economic restructuring, heavy public debt, Brexit, and the refugee crisis. In 2016, the European economy grew by 1.7 percent, down by 0.3 percentage point year-on-year\(^4\). Its CPI grew by 0.2 percent, higher than the 0 percent in 2015. The unemployment rate in Europe was 9.6 percent, hitting the record low in recent 4 years\(^5\). In Japan, the economy remained sluggish despite frequent stimulus. The coexistence of weak growth and deflation remained unsolved. In 2016, Japan saw its economic growth by 1 percent, down by 0.2 percentage point year-on-year; and the CPI increased by -0.2 percent, lower than the 0.8 percent in 2015\(^6\).

Secondly, the growth momentum of emerging economies continued to weaken with continued capital outflows. In 2016, the emerging economies saw lower-than-expected growth at 4.1 percent, leveling off with that of 2015. Affected by its bank note replacement program, India’s economy grew by 6.6 percent, down by 1 percentage point year-on-year. Brazil saw negative growth at -3.5 percent, up 0.3 percentage point, still in recession. Boosted by oil price recovery,
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Russia’s economy grew by −0.7 percent, better than −3.7 percent of 2015. South Africa grew by 0.3 percent, down by 1 percentage point from that of 2015\(^1\). Cross-border capital registered net outflows from the emerging market for the third year in a row. In 2016, the capital withdrawn by global investors and companies from the emerging market amounted to USD 616 billion, down by USD 119 billion from that of 2015\(^2\).

Thirdly, the global financial market became ever more volatile. As the pace of recovery varied across countries, major economies are adopting diverted monetary policies. In addition, complicated by Brexit, US presidential election, interest rate increases by the U.S. Federal Reserve, and other political and economic risks, the global financial market became more turbulent. In 2016, the stock markets in major developed economies rose amidst volatilities. The US Dow Jones, London FTSE 100 and Nikkei 225 closed at 19,763, 7,143 and 19,114 points respectively, an increase of 15.2 percent, 17.2 percent and 3.6 percent respectively from the year beginning. Non-fuel commodity prices generally rose. Driven by increasing demands and conclusion of the output cut agreement among OPEC members, the Brent crude oil price closed at USD 56.8 per barrel, up by 52.7 percent from the year beginning. The rise in risk aversion led to a spike in gold price which closed at USD 1,151.7 per ounce, representing a 7.1 percent rise from the year beginning\(^3\).

Fourthly, the global economic recovery was facing the shock of “black swan” events. The global economic downturn highlighted that development and distribution were imbalanced as a result of globalization. The populism and trade protectionism were gaining ground, leading to a series of unexpected events. The Brexit and failure of Italy’s referendum on constitutional reforms brought about challenges to the stability of the European Union. The European banking industry ran into trouble, increasing the instability of the financial market. The concerns about trade protection and anti-globalization were exacerbated.

2. China’s economic and financial developments

In 2016, China continued its commitment to the general principle of making progress while ensuring stable performance. The Chinese economy generally operated within a reasonable range, with slowing yet stable growth and good momentum. Economic performance improved markedly in quality and returns. The economic restructuring achieved positive results, and new progress was made in the reform and opening-up. Residential income continued to grow, people's livelihood improved constantly, and the ecological environment became better, marking a good start for the 13th Five-Year-Plan period.

Firstly, domestic economy enjoyed sound performance. In 2016, China’s GDP recorded RMB 74.41 trillion, up by 6.7 percent year-on-year in constant prices. The CPI grew by 2.0 percent. Agricultural production was good. Grain output exceeded 615 billion kilos, the second highest in recorded history. The value added of industrial enterprises over designated scale increased by

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\(^1\) IMF, World Economic Outlook, Jan. 2017.
\(^2\) IIF.
\(^3\) Wind.
6.0 percent year-on-year. Total fixed asset investment (excluding rural households) registered a nominal year-on-year increase of 8.1 percent. Retail sales of consumer goods went up by 10.4 percent, with domestic demand playing a bigger role in driving economic growth. Foreign trade saw a smaller decline. The total imports and exports declined by 0.9 percent year-on-year, while the decline was 6.1 percentage points smaller than that of 2015. Household income continued to increase. In 2016, per capital disposable income of households increased by 6.3 percent in real terms year-on-year.

Secondly, the supply-side economic restructuring showed progress, with economic structure further optimized. In 2006, the objectives to cut excess iron and coal capacities were accomplished. Coal output dropped by 9.0 percent year-on-year. As for the reduction of inventories, as of end-2016, the inventory of commodity housing saw a drop of 23.14 million m² year-on-year; as for deleveraging, the debt to asset ratio of industrial enterprises above designated scale was 55.8 percent, down by 0.4 percentage point year-on-year. As for cost reduction, the cost of goods sold per RMB100 revenue of industrial enterprises above designated scale stood at RMB 85.52, down by 0.16 percentage point year-on-year. Investment in improving weak links accelerated at a greater pace. The investment in ecological protection and environmental improvement, water conservation, and agriculture, forestry and fishery grew by 39.9, 20.4 and 19.5 percent respectively, which were 31.8, 12.3 and 11.4 percentage points higher than the overall investment growth rate.

Thirdly, China continued to implement proactive fiscal policy and prudent monetary policy. In 2016, China’s fiscal revenue stood at RMB15.96 trillion, up by 4.5 percent year-on-year. Total government expenditure was RMB18.786 trillion, up by 6.4 percent year-on-year. The fiscal deficit stood at RMB 2.18 trillion, equaling with the budget. Credit extension grew steadily. M2 stood at RMB155.01 trillion at the end of December, up by 11.3 percent year-on-year.

Fourthly, China’s financial market maintained steady growth on the whole. As of the end-December 2016, Shanghai Composite Index closed at 3,103.64 points. The number of companies listed on the Shanghai Stock Exchange and Shenzhen Stock Exchange amounted to 3,052. The capital markets’ financing function was further strengthened. The aggregate amount of financing (including IPO, Seasoned Equity Offering, rights offering, preferred stocks) was RMB1.50 trillion, a year-on-year increase of RMB 467.4 billion. The bond markets saw expansion of bond issuance, with the aggregate value of bonds issued standing at RMB 36.1 trillion, up by 54.2 percent over the previous year.

II. Latest development of China’s banking sector

As of end-2016, China’s banking sector consisted of one national development bank, two policy banks, five large commercial banks, 12 joint stock commercial banks, 134 city commercial
banks, 1,114 rural commercial banks, 8 private banks, 40 rural cooperative banks, 1,125 rural credit cooperatives (RCCs), 1 postal savings bank, 4 asset management companies, 39 locally incorporated foreign banking institutions, Sino-German Bausparkasse, 68 trust companies, 236 finance companies of corporate groups, 56 financial leasing companies, 5 money brokerage firms, 25 auto financing companies, 18 consumer finance companies, 1,443 village or township banks, 13 lending companies and 48 rural mutual cooperatives. The number of incorporated banking institutions in China totaled 4,399 with 4.09 million employees as of end-2016

In 2016, China’s banking sector maintained sound and robust performance on the whole, with assets, liabilities and profits growing steadily. The risk resilience of banking institutions remained stable, with sufficient provisions and controllable risks.

1. Banking assets

As of end-2016, the total assets of China’s banking sector increased to RMB 232.3 trillion, up by 15.8 percent year-on-year, 0.1 percentage point higher than that of last year; the total liabilities rose to RMB 214.8 trillion, up by 16.0 percent year-on-year, 1.0 percentage point higher than that of last year. By type of institutions, large commercial banks, joint stock commercial banks, small- and medium-sized rural financial institutions and city commercial banks respectively accounted for 37.3 percent, 18.7 percent, 12.9 percent and 12.2 percent of the total financial assets.

*The 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.*
Policy banks and China Development Bank, large commercial banks, joint-stock commercial banks, city commercial banks, small and medium-sized rural financial institutions, non-bank financial institutions.

2. Bank deposits and loans

As of end-2016, the outstanding balance of LCY and FCY loans by banking institutions went up by RMB 12.71 trillion from the year beginning or 12.79 percent year-on-year to RMB 112.06 trillion, among which the short-term loan balance stood at RMB 37.1 trillion, up by RMB 1.2 trillion and mid-to-long term loan balance was RMB 63.4 trillion, up by RMB 9.6 trillion. The outstanding balance of LCY and FCY deposits maintained by banking institutions increased steadily by RMB 15.74 trillion from the year beginning or 11.27 percent year-on-year to RMB 155.52 trillion.
3. Capital Adequacy Ratio (CAR)

As of end-2016, the Capital Adequacy Ratio (CAR), Common Equity Tier 1 (CET-1) CAR and Core Tier 1 CAR of commercial banks (excluding branches of foreign banks) stood at 13.3, 10.8 and 11.2 percent respectively, largely leveled off with those of last year. The net capital reached RMB 14.7 trillion, up by 12.5 percent year-on-year. The risk weighted assets stood at RMB 111.0 trillion, up by 14.0 percent year-on-year, among which, credit risk weighted assets, market risk weighted assets and operational risk weighted assets respectively amounted to RMB 101.2 trillion, 1.2 trillion and 8.4 trillion, representing a year-on-year increase of 14.4, 39.9 and 6.2 percent respectively.

4. Asset quality

As of end-2016, the outstanding balance of NPLs in China’s banking sector stood at RMB 2.2 trillion, up by RMB 231.1 billion (which was RMB 297.8 billion less than last year) from the year beginning. The NPL ratio of all banking institutions registered at 1.91 percent, down by 0.02 percentage point from the year beginning.

5. Risk-absorbing capacity

As of end-2016, the loan loss provisions set aside by commercial banks registered at RMB 2.7 trillion, while the provisioning coverage ratio stood at 176.4 percent. The provisioning ratio (provisions against total loans) reached 3.1 percent, up by 0.05 percentage point from the year beginning. By type of institutions, the provisioning coverage ratios of large commercial banks, joint-stock commercial banks, city commercial banks, rural commercial banks and foreign funded banks stood at 162.6, 170.4, 219.9, 199.1 and 250.2 percent respectively, all above the required 150 percent level.
6. Profitability

The profitability of China’s banking sector continued to increase. In 2016, banking institutions realized a net profit of RMB 2.1 trillion, representing a year-on-year increase of RMB 73 billion or 3.6 percent. The net profit of commercial banks amounted to RMB 1.65 trillion, up by RMB 56.4 billion or 3.54 percent year-on-year.

The ROA remained at high levels. The average ROA and ROE of the banking sector registered at 1.0 and 12.6 percent respectively. The average ROA and ROE of commercial banks stood at 0.96 and 12.61 percent respectively.
7. Liquidity

The liquidity ratio remained high levels. As of end-2016, the liquidity ratio of banking institutions decreased by 0.2 percentage point from the year beginning to 49.1 percent, and that of commercial banks decreased by 0.5 percentage point from the year beginning to 47.6 percent.

The RMB excess reserve ratio of banking institutions was 2.7 percent, up by 0.03 percentage point from the year beginning, and that of commercial banks was 2.3 percent, up by 0.23 percentage point from the year beginning.

Chart 7 Liquidity ratio of banking institutions (Jan.-Dec. 2016)
Part Two

Banking Reform and Development

- Reform and transformation of the banking sector
- Opening up
- Financial innovation
In 2016, under the strong leadership of the CBRC, the banking sector worked hard to better and more efficiently serve the real economy through the delivery of financial services. It pressed ahead with the reform and opening-up, actively adapted to, grasped and led the new normal of China’s economy, improved the counter-cyclical management capacity, and further differentiated the business models, thereby getting the “Thirteenth Five-year-Plan” period off to a good start.

I. Reform and transformation of the banking sector

1. Reform of the governance mechanism

The banking sector continued to modernize the governance system, improved incentive and constraint mechanisms, advanced the special business unit (SBU) and franchising department reforms, improved the comprehensive risk management capability, and strengthened self-discipline and market discipline.

Firstly, the reforms of corporate governance and incentive & constraint mechanisms. Ownership structures were optimized, with corporate governance further improved. Some banking institutions made progress in their institutional reforms. The leadership of state-controlled and partially state-owned banking financial institutions was strengthened. The shareholding reform of financial asset management companies has been completed. The rules and procedures for performance assessment, compensation management, etc. have been improved.

Secondly, the business and governance reforms were forged ahead. The Housing Finance Unit of China Development Bank and the Agro-related Financial Business Unit of Agricultural Bank of China have improved their service delivery. Some Banking institutions have set up special business units dedicated to poverty alleviation or agro-related services. Well-positioned banking
financial institutions have established pilot subsidiaries dedicated to credit, wealth management, private banking, direct banking, etc.

Thirdly, the comprehensive risk management systems were improved. The organization, strategies, processes and procedures have been improved, with a comprehensive risk management system largely established, covering business lines, departments, branches and risks. Risk prevention and control in key areas has been strengthened, defending the bottom line of no occurrence of systemic risks.

Fourthly, self regulation and market discipline were strengthened. China Trust Registration Corporation Limited and China Banking Wealth Management Product Registration & Depository Center were established. The registration rules and systems for trust and wealth management products and the market infrastructure and governance of the banking sector have been improved. China Banking Association and other self-disciplinary organizations effectively fulfilled their functions of self-discipline, protection of rights, coordination and service by means of rating, statistical analysis and information disclosure.

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Thematic Column 1

Private Capital Entered the Banking Sector

Since 2012, the CBRC has been strengthening policy guidance and supervision and guiding private capital into the banking sector in strict accordance with the Implementation Opinions on Encouraging and Guiding Private Capital to Enter the Banking Sector. In 2016, more channels were developed for the entry of private capital.

1. Actively and orderly facilitating private capital to establish private banks
   The CBRC actively encouraged eligible private capital to establish financial institutions, such as small and medium-sized banks, provided supervision was strengthened, thereby facilitating the normalization of private banks and enabling them to provide better services in support of the real economy, particularly micro and small enterprises (MSEs), farmers, agriculture and rural areas, communities, and the mass entrepreneurship and innovation strategy. As of end-2016, the CBRC approved the establishment of 17 private banks, including 5 banks in the pilot program and 12 banks in the regular process.

2. More channels were developed to facilitate private capital to participate in city commercial banks
   Devolution and regulation were combined to create a favorable environment for the participation of private capital in city commercial banks. The powers and duties of all local offices were clearly defined, with the devolution requirements properly implemented. The practice of negative list and accountability list was adopted in administrative licensing. Guidance on equally protecting all kinds of contributors was provided for the CBRC local offices. It is not allowed to have special restrictions on private capital’s entry to the banking sector.
   The channels were expanded for private capital to participate in city commercial banks. The CBRC supported private capital to participate in idle capital transformation and risk resolution of city commercial banks. For example, it prescribed that “in the event that private capital participates in risk resolution of a city commercial bank, the shareholding ratio limit may be lifted to 20 percent or higher.” The CBRC also supported private capital to make equity investment as financial investors and participate...
in the reorganization of city commercial banks as strategic investors. Eligible commercial banks were encouraged to go public so as to enhance the capital strength, optimize ownership structure and improve governance. As of end-2016, 7 city commercial banks were listed in Shanghai Stock Exchange or Shenzhen Stock Exchange, 8 in Hong Kong Stock Exchange, and 1 in National Equities Exchange and Quotations (NEEQ).

(3) Private capital was encouraged and guided to participate in rural small and medium sized financial institutions (RSMFIs)

Private capital was supported and encouraged to hold equity stake in RSMFIs, irrespective of regions and types. As of end-2016, private capital held 86.3% stake combined in all RSMFIs, including 88.3 percent in rural commercial banks and 71.9 percent in village or township banks.

(4) Private capital was encouraged and guided to participate in non-bank financial institutions (NBFIs)

The CBRC supported private capital to participate in NBFIs so as to diversify the ownership structure. In recent years, private capital has participated in an increasing number of NBFIs at a faster pace. The entry of private capital has enriched the effective supply of non-banking financial services and enabled NBFIs to better serve the real economy, improving the availability of financial services and boosting the win-win development of NBFIs and privately owned enterprises.

As of end-2016, private capital held equity stakes in 35 trust companies, with average shareholding ratio at 47.2 percent. Among those trust companies, 17 were controlled by private capital with combined private equity exceeding 50 percent. Private capital held equity stake in 39 finance companies affiliated to corporate groups, 35 financial leasing companies, 6 auto finance companies, and 14 consumer finance companies, respectively accounting for 16.5, 62.5, 24.0 and 77.8 percent of the total. One financial asset management company had private capital as its shareholder.

Box 1 Establishment of China Trust Registration Corporation Limited

China Trust Registration Corporation Limited (CTRC) was established on December 26, 2016. With the establishment of CTRC, a unified, effective trust market will be gradually formed, with self-regulation and market discipline further strengthened. CTRC and China Trust Protection Fund (which was established at the end of 2014) have jointly formed the key infrastructure of the trust sector. Hence, a comprehensive risk prevention and control framework has been developed for the trust sector. It is a multi-layered and multi-dimensional system led by supervisory authorities and supplemented by self-regulation, market discipline and safeguard measures.

Box 2 Establishment of China Banking Wealth Management Product Registration & Depository Center

China Banking Wealth Management Product Registration & Depository Center (hereinafter referred to as the Center) was established by China Central Depository & Clearing (CCDC)
2. Institutional reforms

(1) Policy banks and China Development Bank

The corporate governance reform has been further deepened. The amendments to the China Development Bank Articles of Association, the China EximBank Articles of Association and the Agricultural Bank of China Articles of Associations have been reviewed and approved by the State Council. Policy banks now have clearer strategies, organization and structure, with corporate governance, organization and rules of order further optimized. The capital management mechanisms have been further improved. China EximBank and Agricultural Development Bank of China (ADBC) put in place the overall capital restraint framework and accelerated the upgrading of relevant information systems. China Development Bank (CDB) was approved to issue tier-2 capital bonds worth RMB 30 billion, with the capital replenishment channel expanded. The special business unit reform has been gradually implemented. CDB and ADBC have set up the Poverty Alleviation Finance Department, thereby fully play the role of developmental and policy financing in alleviating poverty.

(2) Large commercial banks

The corporate governance and risk-based performance appraisal and compensation system of large commercial banks have been strengthened. The compliance management and team building have been strengthened, with relevant rules and procedures further improved. Deficiencies in overseas compliance management were timely identified and improvement plans were made...
accordingly. The risk control at group level has been strengthened, with the capabilities for consolidated management and risk data aggregation improved and RRP efforts effectively carried out. Advanced approach to capital management was applied to operation. The CBRC has conducted testing on the implementation of advanced measurement approach by ABC and Bank of China as part of the approval procedure. The business governance reform has been further advanced. ABC continued to reform the agro-related finance business unit. China Construction Bank (CCB) launched the pension pilot, and Bank of Communications (BoCom) reformed its investment banking and online finance businesses into quasi-business units.

(3) Joint-stock commercial banks

Joint-stock commercial banks have further improved the corporate governance, with the capabilities of shareholder meeting, board of directors, board of supervisors and senior management strengthened. They have introduced strategic investors to optimize ownership structure, steadily advanced human resource reform, and accelerated the resolution of legacy issues concerning ownership structure. They have enhanced the capital management capacity, with issuance of preferred stocks and tier-2 capital bonds actively used to replenish capital. They also have explored the subsidiary reform pilot and promoted the establishment of direct banks. What is more, they have attached greater importance to market differentiation and consolidated the leadership position with cutting edges, thus building unique brands based on comparative advantages.

(4) City commercial banks

Committed to serving local communities, city commercial banks have focused their strategies on local economy, urbanization, MSEs and urban and rural residents, and transformed their business models accordingly, hence becoming the major providers of inclusive basic financial services in urban areas. They have improved the stock equity management and information disclosure, and enhanced the efficiency of corporate governance by putting in place simple, efficient, practical and well-functioning governance structures. A variety of channels have been used to replenish capital and strengthen capital management and planning. Bank of Jiangsu, Bank of Guiyang, Bank of Hangzhou and Bank of Shanghai went enlisted in Shanghai Stock Exchange (A-share), and Bank of Tianjin went enlisted in Hong Kong Stock Exchange (H-share). Some city commercial banks have actively explored joint development and mutual aid by carrying out a variety of cooperative projects relating to mutual liquidity aid and information technology. In addition, private banks are gradually established in a regular process. The private banks that have been incorporated are able to operate according to predefined models, demonstrating sound business growth and gaining competitive strengths thanks to differentiation.

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**Thematic Column 2**

**Steady development of private banks**

The CBRC has made progress in facilitating private banks to serve the real economy, provide inclusive financial services and explore financial innovation.
(1) Steadily promoting the licensing process. Since the launch of regular process private bank establishment in 2015, the CBRC has been following up and providing timely guidance to its local offices for the promotion of the licensing process.
Firstly, the examination procedures have been improved. The private initiators and establishment plans used to be examined by the CBRC experts during the pilot period. Now, the examination process consists of three steps: recommendation by the government, due diligence screening by the CBRC, and justification.
Secondly, the CBRC provided guidance to its local offices at the early stage. It guided the local offices to explain relevant policies, standards and procedures to local governments, and actively urged related local office to conduct feasibility study, due diligence and shareholder screening after the initiator applies for the establishment of a private bank, so as to ensure effective due diligence and improve examination quality and efficiency.
Thirdly, licensing in accordance with law. The licensing efficiency has been improved constantly, with approval time for establishment of private banks shortened remarkably. Private banks are guided to have more presence in central and western provinces in accordance with appropriate policies.
(2) Stable performance of private banks. The CBRC has continued to improve the regulatory framework applicable to private banks and strengthened the institutional restraints, supervising in a centralized but differentiated manner to ensure sustained and sound development of private banks.
Firstly, private banks kicked off with sound performance. As of end-2016, private banks (5 pilot banks and 3 normalized banks) had total assets of RMB182.559 billion, total loan balance of RMB 81.9 billion and total deposit balance of 59.6 billion. The NPL ratio was 0.57 percent and the provisioning coverage ratio was 482.4 percent. Private banks achieved prudent and sound performance, with main indicators conforming to the supervisory requirements.
Secondly, private banks have increasingly clear market positioning. Considering their different features, the CBRC guide them to develop explicit market positioning and specific strategies in light of local economic conditions and shareholders’ competitive resources, thereby competing with existing banks in a differentiated manner. Private banks have actively explored and implemented differentiated market positioning, with their business activities largely aligned with their mission and tenet.
Thirdly, service quality and efficiency have been improved. The CBRC has urged private banks to focus on the real economy and improve the business models and supporting mechanisms. The top-level design has been strengthened and implemented. Being familiar with private-owned enterprises, private banks were encouraged to leverage technologies to address financing access and cost issues faced by MSEs and improve financial inclusion.
Fourthly, the innovation dynamism has been maintained. The CBRC actively promoted supervisory innovation. A range of encouragement and supporting policies were adopted to guide private banks to make financial innovations. For example, transitional periods were set for private banks to comply with regulatory indicators; appropriate supervisory tolerance was given to innovative practices. Specifically, encouraged innovations include: innovative business models, such as setting up Internet-based private banks with no offline outlets; innovation products/services, such as batch lending, lending line, manual intervention-free lending, etc.; innovative risk control, such as big data-based identification, measurement and control of risks.
Fifthly, cooperation and collaboration have been deepened. Private banks cooperated with e-commerce platforms, commercial banks and venture capitals to overcome the difficulties, such as acquisition of customers, lack of funds, etc., they encountered at the beginning. For example, they worked with e-commerce platforms to tap into customer bases, particularly MSEs in the
(5) Rural small and medium-sized financial institutions (RSMFIs)

The reform of RSMFIs was focused on facilitating the agricultural supply-side structural reform. Firstly, steadily establishing rural commercial banks. Following the principle of “establishing one bank when it grows mature”, the CBRC facilitated the ownership reform of rural credit unions, and encouraged private investors, particularly agro-related enterprises to make equity investment, thereby enhancing capital strength and improving corporate governance. As of end-2016, 1,222 rural commercial banks (approved for preparatory establishment) had been established, accounting for 55.3, 70.7 and 73.8 percent of RSMFIs respectively in terms of the number of institutions, assets and capital, a year-on-year increase of 12.0, 9.9 and 8.5 percentage points respectively. Secondly, the pilot reform of rural credit unions’ provincial associations has been facilitated. The provincial associations have gradually phased out the administrative role, thus being converted to service and monitoring platforms. The provincial associations accelerated the establishment of the auditing system, with offices at prefectural level reorganized into auditing centers. As of end-2016, 10 provincial associations had set up auditing centers. Thirdly, village or township banks have increased their coverage, with governance and ownership structure optimized. Village or township banks were guided to set up outlets in central and western regions, main grain producing counties and gathering places for MSEs. As of end-2016, 1,519 village or township banks (approved for preparatory establishment) had been established, of which 142 were established in 2016 and 64.5 percent were located in central and western regions. 67.4 percent of all counties were covered by village or township banks, up by 3.1 percentage points compared with year-beginning. 100 percent coverage at county level by village or township banks has been achieved in 12 provinces (including cities specially designated in the state plan). The main initiating banks fully leveraged strategic synergy to provide liquidity and other support for village or township banks, while ensuring operational autonomy. Some village or township banks started to introduce sound initiating banks with clear positioning while exiting bad-performing initiating banks.

Box 3 The number of rural commercial banks exceeded 1,000

With a view to supporting farmers, agriculture and rural areas and promoting financial inclusion, the CBRC facilitated the establishment of rural commercial banks in accordance with the requirement of the State Council on deepening the reform of rural credit cooperatives in light of local conditions. As of end-2106, there were 1,222 rural commercial banks, and 9 provinces (municipalities) including Beijing, Tianjin, Shanghai, Chongqing, Jiangsu, Anhui, Hubei, Shandong and Shanxi had completed the transformation...
of rural credit cooperatives into rural commercial banks. The pilot reform of rural credit cooperatives started to deliver results: (1) the overall strength and social status of rural credit cooperatives has been notably improved, with business vitality unleashed; (2) financial services for rural infrastructure have been remarkably improved, thus better supporting farmers, agriculture and rural areas; (3) systemic risks have been effectively prevented, with main regulatory indicators catching up with the good banks; (4) the modern banking system has taken shape; and (5) the reform has become an important channel for the introduction of private capital.

CBRC Jilin Office succeeded in exploring the establishment of rural commercial banks via acquisition of 100 percent stake by private capital

Before restructuring, Jiangyuan Rural Commercial Bank Co., Ltd. in Jilin Province was faced with heavy burdens resulting from high NPL ratio and insufficient provisions. To address this issue, the CBRC Jilin Office developed an innovative resolution plan and organized steady implementation. Three years later, four companies acquired Jiangyuan Rural Credit Cooperatives’ association and established Jiangyuan Rural Commercial Bank, setting the first successful example of establishing a rural commercial bank via acquisition of 100 percent stake by private capital.

(6) Post Savings Bank

The Post Savings Bank was listed in Hong Kong Stock Exchange, with substantial progress made in the shareholding reform. The listing provided opportunity for the bank to make further transformations. Its Board composition has been modified to include specialized equity directors and independent directors, and specialized committees with specific duties have been set up under the Board, thus standardizing the corporate governance. The capital management has been improved, with the awareness of capital saving strengthened. The bank was approved to issue tier-2 capital bond. It has further enhanced the management of business agencies by cooperating with China Post Group. The Agro-related Finance Business Unit has been established to leverage the bank’s layout network advantages and build a professional rural financial service system.

(7) Financial asset management companies

The shareholding reform of financial asset management companies has been successfully completed. After the reform, asset management companies have improved corporate governance, operational compliance and information disclosure, thereby ensuring better group management and risk control. China Cinda Asset Management Co., Ltd. and China Orient Asset Management Co., Ltd. have enriched their offering of group financial services by acquiring Nanyang Commercial Bank and Dalian Bank respectively. The asset management companies have given full play to the functions of asset acquisition and holding, asset reorganization, asset circulation and financial factoring with a view to addressing the issue of nonperforming assets. They have helped to reduce the financial burdens on the real economy and increase the value of assets by focusing on
the acquisition and disposal of nonperforming assets and improving the efficiency.

Box 4  The shareholding reform of policy financial institutions with the mandate to dispose of nonperforming assets was completed

On October 16, 2016, China Orient Asset Management Co., Ltd. was established; On December 11, 2016, China Great Wall Asset Management Co., Ltd. was established. The four largest financial asset management companies have completed the shareholding reform and been turned from policy financial institutions with mandate to dispose non-performing assets into modern financial institutions with diversified and market-oriented operations, marking an important breakthrough in the course of commercial transformation and stepped into a new stage of development.

(8) Trust companies

It has bee made clear that trust companies will focus on 8 lines of business, including claim trust, equity trust, standardized trust products, interbank trust, property trust, asset securitization, charity trust, and administrative trust. Trust companies have given further play to institutional advantages and source values, clearly defined their main business lines and market positioning, optimized the business structure, and enhanced the capabilities for asset and wealth management. They have made active efforts to tap into major projects, finance for MSEs, and debt-equity combined investment.

(9) Financial leasing companies

Financial leasing companies have actively improved their business operations, developed diversified profitability models, and enhanced their core competencies. Qualified financial leasing companies have expanded the sources of funding by issuing financial bonds, asset-backed securities, or tier-2 capital bonds. They have also set up project companies to carry out financial leasing activities. The first overseas specialized subsidiary of a financial leasing company has been granted the approval for establishment. In addition, trust companies have helped enterprises reduce the leverage ratio, accelerate equipment upgrading, utilize idle assets and appropriately allocate social resources by combining financing and asset leasing. They have supported equipment manufacturers to “go global” by developing the financial leasing of large plants. They have also created innovative funding sources and service models for MSEs. As of end-2016, the exposure of financial leasing companies to MSEs totaled RMB 726.466 billion, a year-on-year increase of 42.24 percent.

(10) Finance companies affiliated to corporate groups

The finance companies affiliated to corporate group have further strengthened the centralized management of funds, thus reducing internal transaction costs and funding costs. They also provided financial advice to support investment, acquisition, merger and reorganization by their
corporate groups. They have extended the scope of industrial chain financial service pilot, thus better supporting the corporate groups to develop their main businesses. They have accelerated the building of the comprehensive risk management system, standardized the management of lending, liquidity and investment, and timely analyzed the business risks facing their corporate groups and relevant industries, thereby enhancing the risk management capability.

(11) Auto finance companies
Auto finance companies have improved corporate governance, put in place intensive operation systems, and strengthened the collaboration with motor vehicle manufacturers and dealers to prevent risks. They further promoted the upgrading of auto purchase and transformation of the automotive industry, appropriately extended more support to alternative energy vehicles and second-hand cars, explored the granting of loans on car add-ons, and entered small and medium-sized cities, towns and rural areas provided risks were controllable.

(12) Consumer finance companies
The establishment of consumer finance companies has become a regular process. As of end-2016, 18 consumer finance companies obtained approval for business operation, among which 6 were granted approval in 2016. Consumer finance companies provided financial services to address consumers’ needs and tapped into education, tourism, health and other emerging consumer segments. They have strengthened the operational compliance, giving priority to the control of credit risk and fraud risk and strengthened consumer protection.

(13) Money brokerage companies
Money brokerage companies have implemented trade rules and regulations more effectively, accelerated the system upgrading, and guarded against operational risk and IT risk to ensure information safety. In 2016, 5 money brokerage companies brokered Renminbi-denominated transactions worth RMB 134.67 trillion and foreign-currency-denominated transactions worth RMB 7.50 trillion.

II. Opening up

1. Overseas development of Chinese banking institutions
In 2016, Chinese banking institutions continued to support Chinese enterprises to go global. Institutions have improved their overseas layout, providing international financial services in a broader and deeper sense.

As of end-2016, 22 Chinese banks set up 1,353 outlets in 69 countries and jurisdictions, including 229 tier-1 branches/subsidiaries, and representative offices. One financial leasing company was approved to establish a specialized overseas subsidiary.
On September 20, 2016, Bank of China New York Branch was authorized to serve as a clearing bank for U.S. RMB trading, marking a new chapter in China-US financial cooperation. Bank of China has been actively promoting RMB-denominated transactions in the U.S., starting as a founding member of the Working Group on U.S. RMB Trading and Clearing and now as a clearing bank for U.S. RMB trading, providing RMB clearing services for the U.S. market.

Bank of Xiamen provided Taiwan-related financial services

On January 1, 2016, Bank of Xiamen established a tax refund outlet at Wutong Port, providing tax refund services for travelers between Xiamen and Taiwan. It partnered with a Taiwan-based duty free shop group to issue the first co-branded cross-strait debit card. It launched customer service hotline and WeChat account simultaneously in Taiwan. For individual travelers to Taiwan, Bank of Xiamen provide innovative all-in-one financial services via the “WeChat Platform”, including travel document application service, transport booking, hotel reservation, shopping and support for travelers in Taiwan, etc..

BoCoM stepped up its international development and improved cross-border business capabilities

In 2016, BoCoM expanded its international presence focusing on Asian Pacific Region, Europe and America, and provided multi-layered cross-border financial products and services. The London Branch, Luxembourg Branch, BoCoM (Luxembourg) Paris Branch and BoCoM (Luxembourg) Rome branch were opened. Among others, the opening of the London Branch and the opening of BoCoM (Luxembourg) Paris Branch were respectively listed as Item 33 on the Eighth China-UK Economic and Financial Dialogue List of Policy Outcomes and Item 48 on the Fourth China-France High-level Economic and Financial Dialogue List of Policy Outcomes. BoCoM acquired a controlling interest in Banco BBM and the transaction has been completed. As of end-2016, BoCoM had 20 offices in 16 countries and jurisdictions.

2. Development of foreign banking institutions in China

In 2016, foreign banks continued to enter into the Chinese market. With the encouragement and guidance of the CBRC, they achieved steady growth. As of end-2016, banks from 14 countries and jurisdictions established 37 wholly foreign-owned banks (with 314 branches under them), 1 joint-venture banks (with 1 branch under them) and 1 wholly foreign-owned finance company. 68 banks from 26 countries and jurisdictions established 121 branches, and 145 banks from 44 countries and jurisdictions established 166 representative offices in China. Foreign banks
maintained presence in 70 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.

Table 1  Foreign banking establishments in China (As of end-2016)  

<table>
<thead>
<tr>
<th></th>
<th>Foreign banks</th>
<th>Wholly-owned banks</th>
<th>Joint venture banks</th>
<th>Finance companies</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Locally incorporated institutions (LII)</td>
<td>—</td>
<td>37</td>
<td>1</td>
<td>1</td>
<td>39</td>
</tr>
<tr>
<td>LII branches</td>
<td>—</td>
<td>314</td>
<td>1</td>
<td>—</td>
<td>315</td>
</tr>
<tr>
<td>Foreign bank branches</td>
<td>121</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>121</td>
</tr>
<tr>
<td>Sub-branches</td>
<td>24</td>
<td>532</td>
<td>—</td>
<td>—</td>
<td>556</td>
</tr>
<tr>
<td>Total</td>
<td>145</td>
<td>883</td>
<td>2</td>
<td>1</td>
<td>1,031</td>
</tr>
</tbody>
</table>

As of end-2016, the total assets of foreign banks in China were RMB 2.93 trillion, up by 9.19 percent year on year. The liabilities stood at RMB 2.56 trillion, up by 9.73 percent year-on-year. The loans granted by these institutions totaled RMB 1.11 trillion, a year-on-year decrease of 2.04 percent, and total deposits were RMB 1.66 trillion, up by 15.46 percent year on year. Financial derivatives business amounted to RMB 9.84 trillion, a year-on-year growth of 4.41 percent. In 2016, net profit by foreign banking institutions totaled RMB12.797 billion, with the NPL ratio standing at 1.15 percent and liquidity ratio at 67.11 percent.

Table 2  Foreign banking assets in China (2010—2016)  

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td></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>
<td>29,286</td>
</tr>
<tr>
<td>Contribution to total assets</td>
<td></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>
<td>1.29</td>
</tr>
</tbody>
</table>

Firstly, foreign banks attached great importance to the “Belt and Road” initiative. A number of banks from the “Belt and Road” countries have been approved to establish branches or representative offices or upgrade existing offices in China into wholly foreign-owned banks. Secondly, foreign banks increased the coverage of financial services. They actively established
offices in central and western regions, northeastern regions, as well as tier-2 and 3 cities. 50 percent of the branches established by foreign banks in 2016 were located in central and western regions or tier-2 or 3 cities. Thirdly, foreign banks leveraged their own strengths to make financial innovations. 3 locally incorporated foreign banks were granted the license to underwrite local bonds in pilot free trade zones.

Development of Hong Kong, Macau and Taiwan banks in Mainland China. Firstly, banks in Hong Kong and Macau were subject to the “Pre-establishment National Treatment and Negative List” model pursuant to the Mainland and Hong Kong Closer Economic Partnership Arrangement that became effective on June 1, 2016. 2 banks in Macau were approved for the first time to establish business offices in Mainland China. Secondly, Taiwan banks continued to establish institutions and expand business in Mainland China. 1 locally incorporated Taiwan-funded bank and 6 Taiwan bank branches were opened, and 3 Taiwan bank branches were granted approval for preparatory establishment. As of end-2016, 14 Taiwan banks established 3 locally incorporated banks (under which there were 9 branches and 17 sub-branches), 28 branches (under which there were 11 sub-branches) and 3 representative offices in Mainland China, with the operating outlets amounting to 68 in total.

In November 2016, the CBRC Guangdong Office approved the opening of BNU Hengqin Branch in Guangdong Pilot Free Trade Zone, which marked an important step in promoting Guangdong-Macau cooperation and implementing Supplement IX to CEPA as well as the Agreement on Liberalization of Trade in Services between Guangdong, Hong Kong and Macau. As the first foreign-funded bank established in accordance with the “Pre-establishment National Treatment and Negative List” model, the BNU Hengqin Branch is also the first outlet of a Macau bank operating in Mainland China, as well as the first branch-level foreign banking institution in pilot free trade zones. Its opening will provide valuable experiences for the liberalization of trade in services between Mainland and Macau.

III. Financial innovation

In 2016, the 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”. Banks innovated on financial products and business models, improving R&D and risk control capabilities, optimizing the supply of financial resources and avoiding inappropriate innovations that served the purpose of circumventing supervision and concealing risks.
**1. Improving efficiency to serve the real economy**

Firstly, banking institutions developed more financial products to meet the needs of the real economy and foster “new drivers” of growth. For example, they provided equity financing to tech startups through “debt-equity combined investment” programs, offered convenient access to finance for “going-out” companies via two-way cross-border RMB/foreign currency fund pools, and expanded the industrial chain financial service pilots of finance companies to support the development of corporate groups. Secondly, IT technologies were used to promote new service models with a view to addressing the issue of financing access and cost issues in the real economy. For example, big data technology was utilized to improve the risk identification capability, thereby reducing the reliance on collateral and optimizing loan pricing for MSEs; the “banking-tax interaction” model was employed to mitigate information asymmetry concerning financial services for MSEs. Thirdly, business processes and service channels were optimized to expand the coverage of services and improve customer experience. For example, banking institutions used e-business platforms, direct banking, mobile phone banking, etc. to make retail financial services more convenient, and jointly issued bonds and asset-backed securities with investment banks and fund companies to corporate customers.

**2. Lowering financial risks**

Firstly, banking institutions steadily securitized nonperforming assets, transferred the rights to earnings from nonperforming assets, and developed more channels for the disposal of NPLs, thereby enhancing the NPL disposal capabilities. Secondly, appropriate risk pricing models were developed for various innovative products or services to comprehensively assess potential underlying asset quality risk, counterparty credit risk and market risk, and risk controls, such as trading limit and stop loss, were improved. Thirdly, innovative capital instruments were developed, with preferred shares and tier-2 capital bonds issued in overseas markets to enhance the risk resilience.

**3. Protecting the legitimate interests and rights of investors and creditors**

Firstly, making financial innovations in a compliant manner. Top priority was given to compliance with rules and regulations when making financial innovations, and the post-evaluation mechanism for innovative products/services was effectively implemented. Secondly, information disclosure and market discipline were strengthened. Banking institutions effectively fulfilled the obligation to inform, with true, accurate and complete information disclosed to investors and creditors and false advertising and publicity avoided. They all set up special zones for WMP distribution and sales with both “audio and video taping” of the process as required, thus eliminating such practices as false commitment, misleading sales and marketing fraud.
ABC developed the “Fast Farmer Loan”—a microcredit product—for farmers based on the Internet and big data technologies. This product is designed to suit different business models and different farmers, granting loans using both online and offline methods. Loan applications are reviewed for approval automatically in the system, and if approved, loans will be granted in a batch-based, standardized and modularized way. Eligible farmers do not need to provide collateral, and may draw on the line of credit at their discretion in a revolving manner. As of end-2016, 10 sub-branches of 9 ABC branches in Fujian, Zhejiang, etc. rolled out pilots on “Fast Farmer Loan”, granting credit to 2,719 households, with outstanding loan balance of RMB133 million.

CCB promoted the transformation towards “universal banking, multi-functional services, intensive growth, innovative bank and smart bank”, aiming to lead the market in terms of product offering, service quality, responsiveness, and customer experience. A universal banking layout with a multi-functional service system has largely taken shape.

The platform is an Internet-based service platform for interbank cooperation, aiming to help partner institutions to enhance their overall service capabilities. The partner institutions mainly include city commercial banks, rural commercial banks, rural credit unions and other small and medium-sized financial institutions, as well as other types of financial institutions, such as securities, fund, trust, insurance, financial leasing, and finance companies.

CMB advanced the strategic transformation by combining financing with intellectual resources and integrating commercial banking with investment banking. It brought together the “new drivers” of investment banking and asset management with conventional advantages of retail businesses to improve its capabilities to identify and arrange assets, to build portfolios for asset management and design products, and to allocate assets for wealth management (private banking) and originate off-balance sheet funding.
Aiming to become a scenario bank, platform bank and asset management bank, China Bohai Bank created the “Online Bohai Bank” based on Internet-based financial products in an innovative manner. The bank has successfully extended services upstream and had interfaces with 20 Internet platforms, including Didi Chuxing, tuniu.com, Suning.com, chunyuyisheng.com, etc.

Box 5  Securitization of nonperforming assets restarted

In early 2016, the State Council approved the relaunch of the nonperforming asset securitization pilot program. After determining the scope of and criteria for pilot banks and following the principle of controlling the pilot size and keeping prudent and steady, 6 banks-ICBC, ABC, BOC, CCB, BoCom and CMB-were selected to implement the pilot program. These banks have extensive experience, strong risk resilience and proper qualifications. In December 2016, 12 more banking institutions were selected to join the pilot program as per the requirement of the State Council on steadily expanding the pilot scope. In addition to the selection criteria for the first 6 banks, a number of other factors were taken into consideration, including experience in securitization, corporate governance, internal control and risk management.

Securitization of nonperforming assets is an important channel for banks to improve their capability to dispose of nonperforming assets and leverage idle capital in a market-based, diversified and comprehensive manner. Firstly, the scope of nonperforming asset investors has been expanded beyond the previous four asset management companies and limited local asset management companies. Secondly, fair pricing for nonperforming assets has been facilitated. As nonperforming assets-backed securities are highly market-based and transparent, the pricing is fairer and more efficient. Thirdly, the efficiency of nonperforming asset disposal, especially nonperforming retail loans, has been improved.

As of end-2016, the first batch of pilot banks had issued nonperforming asset-backed securities. They implemented 14 pilot projects with total issuance of RMB15.6 billion, cumulatively disposing of RMB 51 billion nonperforming assets. The underlying assets covered corporate loans, MSE loans and loans to individual consumers. The securitization projects of the second batch of banks are under preparation.
Part Three

Supply-side Structural Reform

▶ Five major tasks
▶ Financial inclusion
▶ Major initiatives and programs
▶ New growth drivers
In 2016, the CBRC actively supported and participated in the supply-side structural reform, and guided banking institutions to focus on the five major tasks, serving and safeguarding the reform through institutional innovations and improving the quality and efficiency of financial services in serving the real economy.

I. Five major tasks

The five major tasks are to cut excess capacity, reduce inventories, de-leverage, lower costs and shore up weak growth areas. The CBRC supported the efforts to cut excess capacity by giving effective play to the creditors’ committees. The CBRC established and promoted the creditor’s committee mechanism, according to which a creditors’ committee shall be established if a corporate customer borrows a lot from more than three banks, and the committee shall discuss and determine customized actions, such as increasing, decreasing or restructuring loans. Banking institutions continued to give credit support to key economic sectors and industries as well as enterprises with a promising future and advanced technologies. For companies that suffered sustained losses and became insolvent and lack of competitiveness, explicit and feasible asset preservation plans were made to properly facilitate reorganization or exit thereof; no credit was granted to new capacity projects that had not been approved or authorized.

Box 6 Facilitating financial debt restructuring through creditors’ committee—an innovative practice promoted by the CBRC

In 2016, the CBRC effectively promoted the creditors’ committee mechanism, which was an innovative practice. Previously, creditors tried to protect their interests during the liquidation process. With this innovative mechanism, banks can take consistent actions to manage or increase loans to troubled companies.

The creditors’ committee has the following functions: (1) Maintaining credit. The committee can remove the information barrier between creditors and debtors, so that banks are able to get a full picture about the company, thereby reducing risk miscalculations and avoiding uninformed withholding or withdrawal of loans. More importantly, by determining consistent actions and appropriate restraints, the committee can effectively prevent individual banks from taking separate actions and hence allow the company more time to get through difficulties. (2) Maintaining expectations. The committee works with the company to develop the resolution plan, which provides for mid-to-long-term funding arrangements by means of loan extension or renewal to secure funds for the company’s business operation. Therefore, the company can focus on production and operation, rather than worrying about funding. (3) Maintaining support. If the company has advanced technologies and competitive
products but is temporarily distressed, the committee will, while maintaining the loans, help it expand the funding channels by organizing syndicate loans, granting M&A loans, offering interest rate discounts, assisting the issue of bonds, and implementing debt-to-equity swap. Hence, the company will enjoy lower financing cost and improve its sustainable development capability, thereby solving short-term problems and eliminating potential long-term risks.

In order to realize the above functions, the CBRC innovated on the creditors’ committee mechanism. Firstly, the priority was changed. Previously, the banks focused on overseeing the liquidation process; but now, their conduct was restrained, so that disorderly withholding and withdrawal of loans could be avoided. The shift from protecting banks’ interests unilaterally to maximizing shared interests was conducive to both banks and the company. Secondly, the working mechanism was changed. Previously, banks held close-door negotiations and then took unilateral actions, but now, they held joint negotiations and took consistent actions. Different stakeholders, including banks, the company and the local government participated in consultation meetings so as to develop a binding action plan that took into account the needs of and was recognized by related parties. Thirdly, the intervention approach was changed. Ex-post liquidation was replaced by ex-ante support. Intervention actions were adopted when the repayment problem initially arises rather than in the liquidation process. The actions were no longer limited to liquidating the assets for collection. Instead, a variety of supportive actions were taken to help the company maintain business operation and regain solvency.

The creditors’ committee mechanism has been widely recognized and welcomed by all parties concerned. The establishment of the creditors’ committee has turned from a guided action to a voluntary action by both banks and problem companies. As of end-2016, 12,836 creditors’ committees had been established for eligible corporate customers in most regions, involving a total credit of approximately RMB 15 trillion, helping 4,159 troubled companies, mitigating the risks associated with exposures worth RMB 1.74 trillion, and renewing loans worth RMB 1.23 trillion.

As for the steel and coal mining industries, the CBRC jointly issued the Opinions of the CBRC, NDRC and MIIT on Issues Concerning Financial Claims and Debts Arising from the Disposal of Excess Capacities in the Steel & Coal Mining Industries with other ministries.
and commissions, encouraging banking institutions to establish creditors’ committees for eligible steel and coal enterprises to restructure their financial bonds in a market-based and lawful manner. Such enterprises shall meet the following criteria: (1) actively cutting excess capacity, making structural adjustment and transforming the development pattern; (2) with development potentials; and (3) enjoying market demands for their products or services but encountering temporary distress. Active and steady support shall be given to M&A and restructuring of steel and coal enterprises that can produce synergy effects in accordance with the principle of compliance, independent decision making, controllable risks and commercial sustainability.

◎ The CBRC Shandong Office leveraged creditors’ committees to support the real economy

The CBRC Shandong Office drove the establishment of the liaison and coordination mechanism among government, supervisor, trade associations and creditors’ committees, with a view to supporting excellent companies, stabilizing troubled enterprises, restructuring risk assets, strengthening expectation management and lowering financing costs. Win-win results have been generated. As of end-2016, 1,138 creditor’s committees were established, involving a total credit line of RMB 3.12 trillion and total amount of loans worth RMB1.5 trillion. The Shandong Office guided the establishment of creditors’ committees for 83 key enterprises and helped 54 companies. For example, it guided the creditors’ committee for Feicheng Group to restructure financial bonds worth approximately RMB10 billion. Feicheng Group has gradually resettled the employees and made the plan to close 450,000 tons of capacity annually, thereby eliminating backward capacity, properly resolving risks and getting back on track.

◎ The CBRC Henan Office facilitated the establishment of creditors’ committees to help coal and steel enterprises

The CBRC Henan Office pushed the provincial government to issue the Implementation Opinions on Giving Active Play to the Functions of Banking Creditors’ Committees, which sets forth 15 specific actions that fall into 3 categories. The banking institutions were organized to set up group-level creditors’ committees for three coal enterprises (Henan Energy and Chemical Industry Group, Pingmei Shennma Group, and Zhengzhou Coal Industry Group) and one steel enterprise (An Gang Group) which took various actions to mitigate such problems as heavy operational burdens, high debt ratio, inability to issue new bonds when existing bonds become mature, and capital stress, etc. As of end-2016, 503 loans worth RMB 63.9 billion to these four enterprises were renewed. 1,284 creditors’ committees were established in Henan Province, involving loans worth RMB1,105.2 billion, accounting for 55% of total exposure to companies.
In 2016, the CBRC Jiangxi Office issued the Guiding Opinions on Establishing and Improving the Banking Creditors’ Committee Mechanism and the corresponding Implementation Plan, published the Creditor Cooperation Agreement (Sample), and established the “Information Sharing System for Banking Creditors’ Committees in Jiangxi Province”, gradually forming 5 bank-company interfaces including “Creditors’ Committee + Loose Syndicate” “Creditors’ Committee + Integrated Finance” “Creditors’ Committee + Removal of Guarantee Circle” and “Creditors’ Committee + Orderly Exit”. In 2016, 565 creditors’ committees were established for temporarily distressed customers, high-risk customers, and companies material to regional finance, involving a total amount of loans worth RMB 300.874 million.

The CBRC recently issued Notice on Improving the Work of Creditors’ Committees of Banking Institutions, requiring three or more banking institutions that are creditors of the same heavily indebted company to form a creditors’ committee. According to the Notice, the committee shall develop customized actions, such as increasing, stabilizing, decreasing or restructuring loans, for the corresponding company, and orderly carry out debt restructuring and asset preservation, so that there will be synergies in helping distressed companies to get through.

The Notice provides that banking institutions and other financial institutions approved by the CBRC that are creditors of a certain company shall, in principle, participate in the creditors’ committee. In order to ensure business operation, the committee may organize syndicated loans, set up joint credit granting mechanism or provide closed funding to the company with justifications for new funding. The banking institutions shall take consistent actions to effectively maintain expectations, credit and support, and may not withhold or withdraw loans at random discretion; they may maximize the support to the company by taking necessary actions, such as relending after recovery, and loan extension or renewal, provided that risks are controllable. The Notice provides that for a company to restructure its financial bonds, the following criteria shall be met: (1) the company complies with the macroeconomic policy, industrial policy and financial support policy; (2) the products and services have market demand, and the company has development prospect and is therefore worth restructuring; and (3) both the company and the creditor banks are willing to restructure the financial bonds.

(Excerpt from the People’s Daily, September 12, 2016, by Ouyang Jie.)
The CBRC Chairman Guo Shuqing said on March 2 that creditors’ committees could help to avoid panic and indifference caused by information asymmetry, and bring together banks, companies, local governments and other stakeholders to the table, so it would work better in disposing of “zombie companies”.

During a press conference held by the State Council Information Office today, the CBRC Chairman Guo Shuqing gave briefing on the support offered by the banking sector to the supply-side structural reform and answered questions from the press.

A journalist asked about creditors’ committees: a great number of creditors’ committees have been established since last year to address the “zombie company” issue and cut excessive capacity. How well does that mechanism work? Regarding institutional reform and innovation, what steps will be taken next?

Guo Shuqing responded that the creditors’ committee mechanism was excellent. A company, particularly a large one, might have borrowed from many banks. If all the banks concerned followed coordinated plans and took coordinated actions in restructuring and risk resolution, both the local government and the company would be happy. It was also conducive to the banks, and would help to avoid panic and indifference caused by information asymmetry.

He said that the CBRC needed to make more observations and decide how the mechanism should be further developed, but it was, currently at least, an excellent solution in that it could bring together banks, companies, local governments and other stakeholders to discuss the problems. No matter how serious they were, the problems could be discussed, be it in insolvency, bankrupt liquidation, or debt restructuring, because different parties had access to certain resources and could work out solutions jointly. In practice, the mechanism worked better in addressing “zombie companies”.

“When I worked in Shandong Province,” he said, “a mining group went through structural adjustment and debt restructuring, and in that process, the creditors’ committee played an important role. It held over 40 negotiations and eventually reached a solution that was satisfactory to all parties concerned. The debts were restructured consequently. Of course, there was no absolute satisfaction, the interests of all parties concerned were best protected, and that was the best solution.”

The CBRC Vice Chairman Wang Zhaoxing noted that the creditors’ committee was an innovative mechanism developed by the CBRC with a view to better safeguarding banks’ claims, preventing deliberate default and facilitating debt restructuring. The establishment of the committee was led by the largest lender. As an innovative and explorative practice aiming to achieve win-win results for both the company and the banks, the mechanism allowed the creditors and debtors to find the best solution through discussions and negotiations. So far, it has been working very well.

The CBRC Vice Chairman Cao Yu said that by the end of 2016, 12,836 creditors’ committees had been established by the end of last year, involving a total credit line worth approximately RMB14.85 trillion. Creditors’ committees did reduce the impact on operations of both the company and the banks due to unilateral actions by the banks, thereby achieving win-win results for both sides.

(Excerpt from chinanews.com, March 2, 2017.)
The CBRC Shanxi Office issued guiding opinions on local banking institutions supporting provincial coal groups to cut excess capacity and accelerate transformation and upgrading. Special 3 to 5-year mid and long-term loans were designed for provincial coal groups in an innovative manner. On one hand, existing short-term working capital loans were restructured to mid and long-term loans, and on the other hand, additional special mid to long-term loans were granted to provincial coal groups to meet their reasonable funding needs. As of end-2016, local banking institutions granted RMB157.4 billion worth special loans, with provincial coal groups accounting for 53% of banks’ total mid to long-term loans, up by 13 percentage points compared with the year beginning.

In December 2016, Cinda concluded the Strategic Cooperation Agreement on Supporting Supply-side Structural Reform by Shanxi Province with Shanxi Provincial Government. Cinda had intensive cooperation with Shanxi Provincial Government in a wide range of sectors, including coal, transport, culture and tourism, by setting up industry development fund, facilitating the disposal of nonperforming assets and supporting the reform of SOEs. It provided integrated financial services to support the transformation and supply-side structural reform of Shanxi Province.

The CBRC improved differentiated credit policies to support the reduction of inventories. (a) It issued Notice of the PBC and CBRC on Issues Concerning Policy Adjustment to Individual Mortgage jointly with the PBC, with a view to meeting people’s demand for housing and containing the speculative demand. (b) It encourages the satisfaction of reasonable funding needs; pursuant to the requirement on accelerating the urbanization process and deepening the housing reform, banking institutions intensified the efforts to develop more innovative home mortgage products and residential rental loans for rural-to-urban migrants, thereby supporting those with the actual demand for housing to buy or rent at the place of employment. (c) It guided banking institutions to implement the principle that houses are for living rather than speculation and strictly implement the requirements of minimum down payment policy, verification of the authenticity of sources of down payment, examination on loan repayment capacity, and etc. It earnestly cracked down on such illegal and non-compliant financing activities as down payment financing, and strengthened compliance oversight and fund flow management of consumer loans, personnel operating loans and credit card overdraft.
China Development Bank provided strong funding support for the redevelopment of shantytowns

The year 2016 marked a crucial year for China’s three-year plan for shantytown redevelopment and saw the peak of redevelopment. CDB continued to extend more support and remove the financing barriers. Its goal for 2016 was to grant RMB 950 billion or more redevelopment loans. As of end-2016, the loans it granted amounted to RMB 972.5 billion, effectively meeting the funding needs of both ongoing and new projects.

Sino-German Bausparkasse supported the efforts to reduce the inventories and improve people’s livelihood

Sino-German Bausparkasse effectively promoted the practice of housing savings, and explored ways to benefit and safeguard people’s livelihood through inclusive financial services and bank-government cooperation. It held a “Housing Savings Workshop” during the 10th Trade, Financing and Investment Fair in Tianjin. In 2016, the contracts on housing savings it concluded amounted to RMB 16.1 billion, absorbing RMB 3.4 billion worth of housing savings deposits and opening over 30,000 new accounts for housing savings; it granted RMB 7.9 billion worth of housing savings loans to over 20,000 families. The CBRC issued the Provisional Rules for Sino-German Bausparkasse, which provides the legal basis for further improvement of the regulations applicable to housing savings in China.

Differentiated policies were adopted to facilitate the deleveraging process. Banking institutions strengthened the management of bond investment leverage and appropriately control the leverage ratio. They were supported to carry out market-based debt-to-equity swaps. In addition, financial asset management companies were encouraged to tap the idle assets by acquiring nonperforming assets and making market-based debt-to-equity swaps, thereby reducing the companies’ leverage ratio. Trust companies were support to reduce the leverage by making investment in equity and specific asset income rights and issuing assets backed securities. Financial leasing companies were encouraged to help the lessees reduce their debt ratio through operational leasing activities. The CBRC issued the Provisional Rules on the Supervision of Specific Construction Funds jointly with the NDRC and other ministries or commissions with a view to regulating specific construction funds and helping companies to reduce their debt ratio.

Box 7 Guiding Opinions on Market-based Debt to Equity Swap

In September 2016, the Opinions of the State Council on Actively and Properly Reducing Companies’ Leverage Ratio and the Guiding Opinions on Market-based Bank Debt to
Equity Swap (the “Guiding Opinions”) were issued. The Guiding Opinions makes it clear that bank debts shall be swapped to equity in a market-based manner in accordance with the laws, and provides for a range of policy arrangements regarding the following aspects. Eligible companies and scope of claims: the criteria a company shall meet if it intends to do market-based debt to equity swap have been prescribed, with a ban on “zombie companies”, dishonest enterprises and companies that do not conform to national industrial policies; claims eligible for swap shall mainly include those arising from loans to companies and may include other claims where appropriate. Implementing agencies: unless otherwise provided for by the government, banks shall assign their claims to the implementing agencies which shall then swap the claims to equity of the targeted companies, and direct swap is prohibited. Price and terms: the bank and the company concerned and the implementing agency shall negotiate the prices and terms for the transfer of claims and swap, and a variety of market-based ways may be adopted for equity exit. In addition, the Guiding Opinions regulates the conduct of the government, companies, banks and implementing agencies, thus creating a favorable external environment for the swap.

Through supervisory interviews, supervisory guidance and field trips, the CBRC guided the banks, implementing agencies and companies to carry out pilot programs in light of actual conditions. At the same time, it also facilitated banks to establish new implementing agencies and drafted the administrative rules on implementing agencies.

The CBRC further strengthened policy support, guidance and risk monitoring, with new progress achieved in market-based debt to equity swap. Banks also actively implemented swaps by determining the targeted companies as well as the prices and terms for the transfer of claims and swap through negotiations. Rough estimates suggested that debt-to-equity swap contracts of RMB 430 billion have been concluded, with over RMB 40 worth of swaps already implemented.

ICBC supported the supply-side structural reform as well as the 5 major tasks through innovation of financial services. It centralized the management of incremental credit and idle capital, ensuring that funds collected were lent to key fields and weak areas of the real economy. In 2016, it granted RMB 3 trillion worth of new loans, RMB 2.2 trillion was relending of loans collected on maturity. Companies’ diversified financial needs were satisfied by means of credit + non-credit, equity + claims and on-balance sheet + off-balance sheet approaches. As of end-2016, ICBC provided RMB 2.5 trillion worth of non-credit funding through bond underwriting, equity financing, asset transaction, financial leasing and entrusted loans. While standardizing the service fees and charges, it exempted RMB 15 billion worth of fees and charges payable by companies and individuals, including RMB 7 billion payable by MSEs.
China Great Wall Asset Management provided a range of services to facilitate debt restructuring of China Railway Materials (CRM). It acquired CRM’s claims, provided additional funding, tapped CMR’s idle assets and implemented cooperative development. Through acquisition of nonperforming assets, and the use of other means, such as fund, trust and purchase of properties, it helped CRM to maximize its asset value, reduce debt ratio, and became more competitive.

The CBRC strengthened the supervision of service fees to further bring down the cost. It continued to clean up illegal fees, further strengthened the sanctions against illegal fee practices, and urged banking institutions to strictly control and standardize their fee charges, reduce fee items and provide fee discounts. According to the “see-through” and “substance over form” principles, the CBRC regulated the transfer of rights to earnings from banks’ wealth management, interbank, trust and credit assets, thereby restricting “idling” of funds, clearing the funding channels, and shortening the financing chain for companies. The CBRC facilitated the improvement of the government financing guarantee system and guided banking institutions to bring down the risk cost. It also issued the Guiding Opinions of the CBRC, NDRC, MIIT, MOF, PBC and CSRC on Financing Guarantee Companies Supporting Major Projects, aiming to encourage financing guarantee companies to extend more financial support to companies.

Financial services for weak areas were improved and weak growth areas were shored up. Through supervisory guidance, indicator-based appraisal and supervisory examinations, the CBRC guided banking institutions to provide more financial products and services to MSEs and to farmers, agriculture and rural areas, and effectively made financial services more accessible, available and satisfactory. Banking institutions were also guided to improve financial service mechanisms and product offerings and create a better external environment. A number of issues facing MSEs, such as information asymmetry, lack of credit, insufficient supply of financial services, were resolved, thus effectively improving the quality of financial services to MSEs. More funds were allocated to poverty alleviation efforts, with the working mechanisms and service policies improved and credit management and financial innovation strengthened, thereby enhancing the efficiency of targeted poverty alleviation with the support of financial services. Efforts were also made to explore new models of providing financial services to innovative companies and startups.

Developing green credit. The CBRC issued the Guiding Opinions on Building the Green Finance System jointly with the PBC and other ministries, which requires the results of green credit performance evaluation to be incorporated into the financial supervisory appraisal system. The CBRC also urged banking institutions to expand the sources of funding for green credit, optimize internal organization, and appraisal system, rules and procedures, and have in place long-term mechanisms in support of green credit development.
In 2016, the CBRC urged banking institutions to effectively develop green credit business, continue optimizing credit structure and innovate product and businesses, so as to facilitate economic restructuring.

Firstly, it issued guiding opinions with the PBC and other ministries to further define green credit priorities. Secondly, it continued to monitor green credit performance and conducted specific survey on major banking institutions. Thirdly, it put in place the green credit evaluation rules, requiring major banking institutions to conduct self-examination and evaluation against Key Indicators for Green Credit Performance Evaluation and identify deficiencies, with third-party agencies engaged to verify the findings, thereby urging them to further improve the green credit rules, procedures and management systems. Fourthly, an inter-agency information sharing mechanism was established to provide information to support industrial restructuring and upgrading and resolution of risks. Fifthly, it encouraged and supported eligible banking institutions to issue green financial bonds and issue securities backed by green credit assets, thereby expanding the sources of funding for green credit. In 2016, the green financial bonds issued by banking institutions in China accounted for two thirds of the global. Sixthly, the CBRC encouraged banking institutions to support industrial restructuring, transformation and upgrading, and extended more support to low-carbon, recycling and ecological sectors.

As of end-2016, green credit granted by 21 major banking institutions stood at RMB 7.51 trillion (including RMB 5.81 trillion worth of loans on energy efficiency and environmental protection projects and services and RMB 1.70 trillion worth of loans to strategic

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1. Major banking institutions, including China Development Bank, large commercial banks, joint-stock commercial banks and Postal Savings Bank of China.
emerging sectors, such as energy efficiency and environmental protection, alternative energy, alternative energy vehicles, etc.), up by 7.13 percent from the year beginning and accounting for 8.83 percent of total loans. Those energy efficiency and environmental protection projects and services were expected to reduce coal and water consumption by 188 millions tons (standard coal) and 602 million tons respectively, and bring down the emission of CO₂ equivalents, SO₂, COD, NOₓ, and ammonia-nitrogen by 427 million, 4.88 million, 2.71 million, 2.83 million and 3.59 million tons respectively.

Agricultural Development Bank of China (ADBC) boosted the transformation towards green economy

ADBC advocated saving resources and protecting environment, and facilitated and led green economic transformation. It has largely built a green financial service system comprising green credit, green bonds and so on. A pilot program of offering loans on forest resource development and conservation projects has been launched. The first group of pilot branches provided credit to support poverty alleviation through foreign development, ecological improvement in coastal areas, as well as coordinated ecological development of Beijing, Tianjin and Hebei. The first green financial bond was issued successfully, raising RMB 6 billion to specifically support the development of forest ecology.

The CBRC Xiamen Office boosted the green finance

The CBRC Xiamen Office issued the Opinions on Promoting the Development of Green Finance by Banking Institutions in Xiamen jointly with Xiamen Municipal Financial Service Office and Finance Bureau, and pushed Xiamen Municipal Government to issue relevant documents that provide for specific incentive policies and supervisory actions. It also held workshops and training sessions to publicize policies on green finance and established the communication platform for banks and companies.

Media perspective 3: Boosting economic restructuring through green credit

An official from the CBRC Policy Research Bureau said at the CBRC press conference today that by the end of June 2016, 21 major banking institutions had RMB 7.26 trillion of outstanding green loans, accounting for 9 percent of total loans. Among which, RMB 1.69 trillion went to strategic emerging sectors, such as energy efficiency and environmental protection, new energy, new energy vehicles, etc., and RMB
II. Financial inclusion

The CBRC issued the *Guiding Opinions on Promoting Financial Inclusion in 2016*, aiming to focus on institutional reform as the key, ensure smooth access to inclusive financial services, enhance the functions of inclusive financial services, thereby allowing more people to enjoy the fruits of reform and development. The CBRC put in place the systems for survey, analysis, appraisal and evaluation of financial inclusion, supported agricultural supply-side structural reform, improved the quality of financial services for MSEs, and increased the efficiency of targeted poverty alleviation through financial services.

### 1. Agricultural supply-side structural reform

The CBRC issued the *Notice on Improving Rural Financial Services in 2016*, urging banking institutions to enhance financial service capabilities at county level, support the efforts to accelerate the agricultural modernization, expand the coverage of rural basic financial services, and provide support to agricultural supply-side structural reform. It issued the *Notice on Improving...*
Large Banks’ Financial Service Capability in Counties, guiding large commercial banks to improve the credit granting management of their county-based sub-branches, appropriately set credit approval authority, and address insufficient supply of county-level financial services. Agro-related banking institutions were urged to allocate more resources. The CBRC facilitated the efforts to improve related mechanisms to address the “collateral issue” of rural finance, and worked with the Ministry of Finance to plan for establishing the national financing guarantee fund. It also promoted the efforts to increase the coverage of government-led provincial re-guarantee companies and enhance their risk sharing capability. The CBRC encouraged banking institutions to explore the pilots of granting loans pledged by forest right, rural land contract management right, and farmer’s housing property right. Banking institutions supported the efforts to transform agricultural development pattern and integrate rural industries, enhance grain productivity, improve the quality and safety of agricultural produces, and promote the application of farming technologies; they also supported the efforts to holistically enhance the agricultural industrial chain, with priorities given to processing of agricultural produces and construction of logistic facilities and markets; in addition, they provided financial services to emerging sectors in rural areas, such as rural e-stores, recreational farming, countryside tourism, etc..

The CBRC urged agro-related banking institutions to allocate more resources. The CDB was guided to support rural infrastructure projects related to high-standard paddy fields, water conservancy, etc.. The ADBC was guided to support the reform of grain procurement and storage practices and facilitate the “deleveraging” of state-owned grain, cotton and edible oil corporations. The ABC continued to reform the agro-related finance business unit, sparking new vitality in county-based business units. Rural credit unions continued with their reforms, playing a crucial role in supporting the farmers, agriculture and rural areas. The coverage of basic financial services in rural areas continued to increase. As of end-2016, basic financial services were made available in 542,000 villages, raising the financial coverage ratio to 95 percent. Agro-related loans continued to grow, with outstanding agro-related loans by banking institutions reaching RMB 28.2 trillion, an increase of RMB 2.4 trillion or 7.1 percent from the year beginning.
On September 8, 2016, the PSBC established the Agro-related Finance Business Unit, marking a new chapter in serving farmers and modern agriculture. As of end-2016, 5 PSBC branches in Inner Mongolia, Jilin, Anhui, Henan and Guangdong had officially established the Agro-related Finance Business Unit on a pilot basis. The pilot will be rolled out to other branches across China.

Jiangnan Rural Commercial Bank effectively resolved the illiquidity of contracted rural land, homestead and collectively owned commercial land by granting farmhouse secured loans. Specific practices include: the Bank actively supported the local governments to improve the farmhouse (including homestead) rights registration system and the local governments issued Certificate of Immovable Property Ownership to farmers who had completed the registration procedures; the risk sharing mechanism was introduced and rural property exchange platforms were built at district and township level; the collectively-owned economic organizations at the township or village where the farmhouse was located established the buy-back mechanism, which provided an “exit channel” for both the lender and the borrower.

In May 2016, the CBRC issued the Interim Rules on Loans Secured by Land Use Rights of Rural Collectively-owned Construction Land, (the “Rules”) jointly with the Ministry of Land and Resources, aiming to intensify rural land reform and financial coordination, and facilitating pilot areas to finalize the usufruct of rural collectively-owned commercial construction land. Commensurate with the reform requirements that the “same price for same rights” principle shall apply to rural collective-owned commercial construction land and state-owned construction land, the Rules is conducive to developing and improving the rules and procedures for putting rural collectively-owned commercial construction land on the market whereby “same price for same rights”, smooth circulation, and sharing of benefits are ensured. The Rules will help drive the efforts to generate reform results that can be copied and promoted elsewhere and are conducive to regulation amendments. In November, the CBRC issued the Notice on Expanding the Scope of the Pilot Program for Loans Secured by Land Use Rights of Rural Collectively-owned Construction Land, increasing the number of pilot areas to 33 counties (cities or districts) from 15 counties (cities or districts) with rural collectively-owned commercial construction land put on the market.
Box 10 Developing green credit and boosting sustainable economic growth

In June 2016, the National Agricultural Credit Guarantee Steering Committee was jointly established by the CBRC, MOF and MOA, with a view to better guiding agricultural credit guarantee in China. As of end-2016, a multi-layered institutional framework was largely established. At the national level, the National Agricultural Credit Guarantee Alliance Co., Ltd. was established with the approval of the State Council; at the provincial level, 30 provincial agricultural credit guarantee companies were established across China, and 3 more were under way. As of end-2016, the total amount of agricultural credit guarantees provided reached RMB 55.77 billion, with outstanding guarantees standing at RMB 20.03 billion. In 2016, RMB 17.53 billion worth of new guarantees were provided, effectively addressing the lack of access to finance and high financing cost faced by grain producers and agricultural companies. Policies have begun to show the effects of benefiting farmers and helping them prosper and thrive.

2. Financial services for MSEs

The CBRC urged the adoption of differentiated policies. Firstly, it further clarified the three growth targets (i.e. the growth rate of MSE loans is no lower than average loan growth rate; the number of MSE borrowers is no lower than that of the previous year, provided that the incremental loans are effectively increased; and MSE loan approval ratio is no lower than that of the previous year), and required commercial banks to make separate credit plan for MSEs and not to misappropriate planned credit for MSEs. Secondly, commercial banks were urged to implement NPL tolerances, due diligence and liability exemption policies. It issued the Notice on Further Strengthening Due Diligence and Liability Exemption for Commercial Banks’ Credit Extension to MSEs, urging commercial banks to put in place detailed implementation rules as soon as possible. Thirdly, banking institutions were urged to implement the policy of renewing MSE working capital loans without repayment of the principal, thereby mitigating the liquidity pressure on MSEs. Fourthly, the CBRC carried out specific examinations on the lack of access to finance and high financing cost facing privately owned enterprises and MSEs, and held banking institutions accountable if they failed to effectively implement relevant policies.

The CBRC supported the banking sector to provide more financial products for MSEs. Banking institutions were guided to (a) expand the coverage of financial services through online offering, thereby improving customer experience; (b) strengthen analysis and mining of data on companies’ transaction flows and business and tax records with the help of big data technology, while promoting new service models, such as bank-tax linkage and grassroots-level interaction; and (c) supporting technological and financial cooperation between domestic and overseas MSEs so as to enhance domestic MSEs’ capabilities to leverage the markets and resources at home and abroad.

All the three growth targets were achieved. As of end-2016, outstanding loans to MSEs stood at RMB 26.7 trillion, accounting for 24.1 percent of total loans. The growth rate of MSE loans was 0.8
Part Three  Supply-side Structural Reform

percentage point higher than average loan growth rate. There were 136.11 million MSE borrowers, up by 385,000 year on year. The MSE loan approval ratio reached 93.6 percent, a year-on-year increase of 0.8 percentage point.

© Bank of Guiyang developed and launched “Shugu E-loan” products with the use of big data technology

“Shugu E-loan” refers to a series of loan products developed by Bank of Guiyang for MSE owners and self-employed individuals. It features the combination of MSE finance and big-data-based risk control. Based on customer information from cellphone APP and big data on the customers obtained through external channels, “manual + model-based judgments” are made for loan applications to be automatically examined and approved or disapproved in a batch.

© Bank of Quanzhou helped MSEs to reduce costs

Bank of Quanzhou launched “Non-stop Loan” 3.0. In addition to previously available functions, “Non-stop Loan” 3.0 achieves the following breakthroughs. Firstly, given that MSE loans have quite short maturities, eligible first loans are included into scope of “Non-stop Loans”, thus allowing loan maturities to match seamlessly with borrowers’ production or operation cycles. Secondly, the scope of targeted borrowers is expanded from MSEs to individual borrowers, thereby addressing the lack of access to finance facing self-employed individuals. Thirdly, the service function is scaled up from loan renewal to integrated services including settlement, channel management, etc.. As of end-2016, “Non-stop Loan” 3.0 covered 69.9 percent of the Bank’s all customers, cumulatively helping customers to bring down financing costs by RMB150 million.

Box 11  The CBRC further promoted the bank-tax linkage

In 2016, the CBRC worked with the State Administration of Tax (SAT) to drive banking institutions to optimize the credit granting process based on tax data and increase the coverage of financial services.

Firstly, promoting bank-tax cooperation to a higher level. The provincial joint meeting mechanism for bank-tax cooperation has been put in place in all provinces. In many provinces, bank-tax cooperation platforms are being built at county or district level. According to rough estimate, over 1,200 such platforms have been established at prefectural, district, and county levels.

Secondly, summarizing and exchanging bank-tax cooperation experiences. The CBRC made several field trips for bank-tax cooperation research, and worked with the Inspection and Supervision Section of the State Council General Office, SAT and other ministries to hold workshops with banking institutions for sharing practical experiences and innovative
China Everbright Bank launched two tax record based financial products, i.e. “Tax Loan Easy” and “Tax Bank Card” through the use of bank-tax credit linkage. Supported by electronic payment technology, “Tax Loan Easy” marks a financial innovation with which the Bank provides loans and credits for MSE taxpayers based on the amount of tax paid and their taxation ratings. Based on tax payment information, “Tax Bank Card” allows the customers to apply for credit card on the Internet and be informed of the credit line on a real-time basis.

According to rough estimate, banking institutions launched approximately 900 bank-tax cooperation products in 2016, granting 192,000 loans to 105,000 companies (including 91,000 MSEs) and helping MSEs to reduce interest payment by about RMB1 billion.

3. Targeted poverty alleviation through financial services

In April 2016, the CBRC issued Guiding Opinions on Banking Institutions Actively Supporting Poverty Alleviation, which provides for the mechanism of poverty alleviation through financial services and sets forth the poverty alleviation goals and policy actions for the coming 5 years. It urged banking institutions to stay targeted and intensify the poverty alleviation efforts, enabling poverty-stricken areas and residents to access more favorable financial services in accordance with the principle of commercial sustainability. A national work conference on financial services supporting development-oriented poverty alleviation was convened jointly by the CBRC and the State Council Leading Group Office of Poverty Alleviation and Development, at which the banking sector was required to focus on granting and managing microloans in support of targeted poverty alleviation and improving the level of financial services for poverty-stricken areas and population.

Supervisory guidance. Differentiated supervisory policies were adopted for poverty alleviation through financial services. More relaxed licensing policy was applied to the establishment of offices and outlets in poverty stricken towns (townships) and villages. The construction of electronic banking facilities was intensified in poverty stricken villages, and priority was given to enabling access to basic financial services for each and every village in poverty stricken areas. Priority was also given to supporting credit cooperation pilots within farmer cooperatives in poor areas; poor counties were encouraged to establish guarantee companies funded by local governments to meet the needs of poverty stricken residents, and the establishment of microloan companies was also supported. Banking institutions were guided to put in place NPL tolerance and due diligence & liability exemption arrangements for poverty alleviation loans.
Accurate positioning. The CDB and ADBC were urged to allocate more funds to support infrastructure development, public service facilities, relocation and resettlement of migrants, ecological preservation, education and poverty reduction in poor areas. Commercial banks leveraged policy support to provide more credits to support key and competitive industries in poor areas. They also provided more microloans to poverty stricken residents. As a result, a poverty alleviation mechanism has take shape, featuring collaboration and cooperation between commercial, policy, development and cooperative financial institutions.

Making targeted efforts. Banking institutions were urged to support poverty alleviation efforts in a more refined manner. Firstly, they should allocate separate credit resources to serve poverty reduction. Second, key institutions should set up separate financial service units for poverty alleviation and development, while other institutions should put in place specific working mechanisms. The CDB and ABDC have established the Poverty Alleviation Finance Business Unit. Thirdly, the coverage of basis financial services was separately appraised. Fourthly, separate financial products were developed for poverty alleviation to meet the needs of poverty stricken areas and population.

Targeted granting of loans. Banking institutions were urged to accurately identify the targeted population so as to accurately meet their financial needs and provide financial services for poverty stricken residents and households and development-oriented poverty alleviation projects. Banking institutions focused on microloans when granting poverty reduction loans. They worked to increase the access to microloans for poor households and expand the application of microloans. They explored innovative service models to meet the financial needs relating to infrastructure construction, industrial development for poverty reduction purpose, and relocation and resettlement of migrants.

As of end-2016, outstanding microloans granted by banking institutions amounted to RMB165.8 billion, supporting 4.02 million households, and outstanding loans on poverty reduction projects stood at RMB 80.27 billion. Village banks with fixed outlets were established in 303 poverty stricken counties, and 156,000 villages in poverty stricken counties were banked through outlets, facilities, machines or mobile service facilities of banking institutions, with the coverage ratio of basic financial services reaching 92.9 percent.

The CBRC Sichuan Office effectively supported poverty alleviation

The CBRC Sichuan Office organized banking institutions in Sichuan Province to support the 6-year action plans of 88 poverty-stricken counties. Banking institutions were assigned to separately support individual poor counties. They sent 175 managers to reside at villages, helping 6,709 households, and donated RMB16.59 million to poor counties. They facilitated the creation of “Charity Fund of Sichuan Banking Sector for Poverty Reduction”, which provided funding support of RMB 2.16 million to 432 poor students. Banking institutions offered 637 internship placements for fresh college graduates from poverty stricken families and recruited 156 fresh collage graduates from poor rural families. As of end-2016, outstanding loans to 88 poor counties stood at RMB 631.914 billion, growing by 2.83 percentage points faster than the average growth rate of all loans.
The CBRC Gansu Office created a map showing the distribution of banking outlets at village level. On the map, “white flags” were pinned onto villages that were unbanked. The banking institutions in Gansu Province then developed “white flag removal” plans, having regard to unwillingness of some villagers to use banking facilities, instability of network signals in some areas, lack of training for managers, and insufficient cooperation with third parties. As of end-2016, banking institutions had 29,421 outlets (facilities) in 16,102 villages in Gansu Province, a year-on-year increase of 11,192 or 61.4 percent, with the number of unbanked villages dropping by 1,108 to 1,948, accounting for 12.1 percent of all villages, down by 7.12 percentage points year on year. The coverage of and satisfaction with banking services in administrative villages increase significantly.

The CBRC Ningxia Office issued the Guiding Opinions on Supporting Poverty Alleviation through Financial Services jointly with the Ningxia Poverty Alleviation Office and other departments, which sets forth 24 provisions on poverty reduction and requires banking institutions to help support individual areas they are assigned to. Banking institutions were guided to support the poverty reduction efforts. Two models were developed, including “Yanchi Model” (credit building + industrial funds + financial support) and “Caichuan Model” (industrial leading + driven by capable persons + financial aid and support). As of end-2016, outstanding poverty reduction loans granted by banking institutions in Gansu Province amounted to RMB 69.726 billion, up by 32.24 percent year on year.

The CBRC Anhui Office promoted “suitcase banking” practice in the northern part and Dabieshan region of Anhui Province, aiming to provide more complete financial services for rural areas. Relying on mobile information technology and dedicated equipment and staff, “suitcase banking” is capable of meeting the financial needs of remote areas and special groups of population. It is convenient, fast, easy to copy and close to customers, and features a number of functions, including payment, settlement, collection, enquiry and emergency services. As of end-2016, 877 sets of dedicated equipment were deployed, providing 9,942 service sessions for 1.59 million people and 5,448 villages, with the number of transactions exceeding 680,000.
China Huarong Asset Management supported poverty alleviation efforts of Xuanhan County in Sichuan Province for the 14th year in a row. It developed the Work Plan for Targeted Poverty Alleviation (2016—2020), giving priority to targeted aid and support for poverty stricken areas and population and aiming to get rid of poverty through facilitating industrial development and providing financial support. China Huarong create the poverty alleviation fund supporting agricultural industries to help poor villages develop unique products or industries. It altogether allocated RMB 288.04 million to poverty alleviation efforts in Xuanhan County, and gave cash and in-kind donations worth RMB11 million.

China Orient Asset Management was responsible for supporting poverty alleviation efforts of Shaoyang County of Hunan Province. It facilitated the establishment of a grape growing cooperative in Jintao Village, Huangtang Township. It made equity investment in the cooperative and then gave its shares to the village collective and poor households. By doing so, it not only solved the lack of front money faced by rural collective economy, but also turned short-term poverty alleviation effort to long-term efforts, providing some jobs for local residents. The cooperative purchased high-quality grape plantlets, giving them free of charge to villagers, and then engaged farming experts to provide technical guidance. Organic farmyard manure was applied throughout the growing process, reaching the pollution-free standard. Thanks to China Orient’s effective poverty alleviation efforts, the village’s grape growing has reached a certain scale, with the output value per hectare reaching RMB 533 to RMB 667.

Bank of Baoding built a 5-in-1 model of poverty alleviation through financial services, comprising government, bank, insurance company, guarantee company and farmers. It entered into a strategic cooperation agreement with the government of Fuping County, established long-term cooperation with guarantee companies, and made field trips to poverty stricken farmers. As a result, a three-layer financial service network was created to bridge the “last mile” for the offering of basic financial services. As of end-2016, it granted RMB 200 million wroth of loans to 220 households to shake off poverty, helping reclaim more than 1,330 hectares of barren hills and increase local residents’ income per capita by RMB 8,000.
Supporting village business entities to grow and share profits with farmers

Wangyuan Village of Mayang County in Hunan Province was a typical poor village located in a remote mountain region, with the poverty rate reaching 63 percent. The villagers made their living by cultivating citrus, farming, and working locally or outside the village. They had limited income sources.

Given the lack of money, skills and industries locally, external intellectual and financial resources were needed to support poor residents to shake off poverty. In 2015, the CBRC Hunan Office established a working team to facilitate poverty alleviation of Wangyuan Village. The team resided at the village, making field trips and visiting every household to understand their status and needs. In light of the causes of poverty and households’ productive capabilities, the team developed poverty alleviation plans and eventually made a three-year targeted poverty alleviation plan for the banking sector.

The team decided to support the establishment of joint-stock professional cooperatives. Poor households could make equity investment in the cooperatives with poverty reduction loans, land, etc. The cooperatives would be managed in a centralized manner, with dividend payout ratio of no less than 8 percent. The cooperatives would give priority to the villagers when recruiting employees and be responsible for repaying loan principals and interests. After the loans were paid off, the poor households could retain their shares at a value of 50% of their loans and be entitled to dividend payout.

Thanks to the efforts of the working team, two professional cooperatives and two industrial parks emerged in Wangyuan Village. By the end of 2015, 45 poor households invested RMB 2.1 million worth of microloans in Haitian Growers Cooperative which ran a black fungus growing base covering 3.3 hectares of land. The base was expected to generate an annual output of RMB 580,000 and a profit of RMB 285,000. 40 households took part in black fungus growing skill training organized by the cooperative.

Zhou Guilian was local resident in Wangyuan Village. His family had 6 people and was registered as a poor household. The working team developed detailed poverty reduction actions for him. In January 2015, the Lancun Sub-branch of Mayang Rural Commercial Bank granted him a microloan worth of RMB 50,000, the principal of which would be repaid by Haitai Cooperative and the interests would be subsidized in full by the county’s government poverty alleviation funds. He was encouraged to invest all the money in Haitian Cooperative. He went to work part-time at the cooperative. At the end of 2015, he received a fixed dividend of RMB 4,000 and another RMB 6,000 as compensation for his labor service. He earned much more than before.

“Mayang Model” and other innovative financial models in support of poverty alleviation have begun to deliver results. Data from the CBRC Hunan Office shows that in 2015, banking institutions in Hunan Province granted RMB 147.2 billion worth of development-oriented poverty reduction loans to 50 counties and RMB 1.36 billion worth of poverty reduction microloans to approximately 40,000 poor farmers. With sufficient liquidity, new-type agricultural business entities have sprung up like mushrooms, leading farmers to shake off poverty and prosper.

(Excerpt from The People’s Daily, May 20, 2016, by Ouyang Jie.)
Part Three Supply-side Structural Reform

III. Major initiatives and programs

1. Major initiatives

Firstly, banking institutions were guided to follow the principle of controllable risks and commercial sustainability and provide highly relevant integrated financial services with high value added.
In recent years, the CBRC guided banking institutions to actively support the “Belt and Road” initiative. Firstly, banking institutions further improved their network of offices and service outlets. As of end-2016, 9 Chinese banks established 62 tier-1 offices (including 18 subsidiaries, 35 branches and 9 representative offices in 26 countries along the Belt and Road. Secondly, the CBRC further opened up the banking sector. Banks from countries along the Belt and Road, including National Bank of Kuwait, United National Bank of UAE and Habib Bank of Pakistan, were granted the approval to establish branches in China; Banque Misr was granted the approval to establish a representative office in Guangzhou, and Kasikorn Bank was approved to convert its offices in China as a wholly foreign-owned bank. As of end-2016, 54 banks from 20 countries along the Belt and Road had 6 subsidiaries, 1 finance company, 20 branches and 40 representative offices in China. Thirdly, banking institutions were guided to improve financial services. Chinese banks actively developed the overall direction or implementation plans for supporting the “Belt and Road” initiative; they strengthened credit support to key projects and implemented a number of credit policies and actions to meet the funding needs 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. Secondly, banking institutions were urged to support international industrial capacity cooperation, and facilitate made-in-China products and equipment as well as Chinese enterprises to “go global”; they were also encouraged to expand international financing models, actively engage in export credit, trade finance, investment banking, cross-border RMB business, global treasury management, etc., and support foreign-funded banks to provide unique services by leveraging their global networks.
guide the allocation of credit resources to relevant projects; they developed innovative products to meet different projects’ needs for diversified financial services. Fourthly, the CBRC urged banking institutions to guard against cross-border risks. In many countries and jurisdictions along the Belt and Road, the economic foundations were quite weak, with complicated geopolitical relations. In the course of promoting financial services in and cooperation with countries along the Belt and Road, Chinese banks also adopted a variety of actions to fend off cross-border risks.

In addition, the CBRC actively expanded and deepened the cross-border regulatory cooperation with countries along the Belt and Road Initiatives, thus creating a favorable external environment for Chinese banking institutions to “go global”. As of end-2016, the CBRC entered into MOU or exchanged letters on cooperation with the financial regulators of 29 countries along the Belt and Road.

The CBRC Yunnan Office served the “Belt and Road” Initiative

In a bid to support the Yunnan Border Pilot Zone for Comprehensive Financial Reforms and the Yunnan Service Center for South Asia and Southeastern Asia, the CBRC Yunnan Office guided banking institutions to serve the “Belt and Road” Initiative. The Implementation Plan for Advancing the Reform and Development of the Banking Sector and Building the Yunnan Financial Service Center for South Asia and Southeast Asia was amended and then issued by the General Office of Yunnan Provincial Government. As of end-2016, outstanding loans granted to 9 prefectures of the Pilot Zone amounted to RMB 1,819.54 billion, an increase of RMB 195.913 billion from the year beginning, accounting for 77.33 percent and 87.28 percent of total outstanding loans and incremental loans respectively.

The CBRC Shaanxi Office supported the “Belt and Road” Initiative

The CBRC Shaanxi Office issued the Guiding Opinions on the Banking Sector of Shaanxi Province Supporting the Belt and Road Initiative. It established a coordination group to support the Belt and Road initiative, as well as a regular communication and coordination mechanism to facilitate the communication and coordination with government departments and banking institutions. It published the Silk Road Economic Belt Research Group Newsletter and Information on Progress of the Belt and Road Initiative on a quarterly basis. A number of events were successfully held, including the Workshop for Non-executive Bank Directors from Hong Kong, the Workshop for Senior Hong Kong Bankers, and the Seminar on “Belt and Road” Initiative and Opportunities for the Financial Industry, creating a new platform for financial cooperation between Shaanxi and Hong Kong.
The CBRC Qinghai Office boosted financial development in support of the “Silk Road Economic Belt”

The CBRC Qinghai Office guided banking institutions to actively meet the funding needs of key projects, enterprises and fields involved in connectivity and trade integration programs and construction of node cities. As of end-2016, the banking institutions in Qinghai Province provided syndicated loans to 43 investment projects, with outstanding syndicated loans standing at RMB 70.861 billion, up by RMB 3.199 billion from the year beginning, thereby effectively supporting the highway and railway construction along the Silk Road Economic Belt.

The Export-Import Bank of China actively supported national initiatives

The China Exim Bank stepped up its support for the “Belt and Road” initiative, international industrial capacity cooperation, international equipment manufacturing cooperation, and “going global” enterprises. In 2016, it supported 368 “Belt and Road” projects, covering 49 countries, with year-end outstanding loans totaling RMB 622.5 billion, up by 19 percent. It extended support to 235 international industrial capacity and equipment manufacturing cooperation projects, with year-end outstanding loans increasing by 9 percent year on year. It actively implemented the outcomes of Forum on China-Africa Cooperation and provided funding support to 85 infrastructure and livelihood projects covering highway, port, water supply, and power transmission and distribution in a number of African countries. It provided loans to 208 “going global” projects and allocated RMB 50 billion worth of specific loans on foreign trade upgrading and transformation.

Box 13 The banking sector supported the Coordinated Development of the Beijing-Tianjin-Hebei Region Initiative

In recent years, the CBRC guided banking institutions to follow the Outline of the Plan for Coordinated Development of the Beijing-Tianjin-Hebei Region and actively provide financial support in light of their actual conditions. Firstly, banking institutions strengthened the credit support. For example, the CDB entered into the MOU on Supporting Coordinated Development of the Beijing-Tianjin-Hebei Region through Development-oriented Finance with the local governments of Beijing, Tianjin and Hebei, with RMB 2.1 trillion earmarked to support the coordinated development from 2015 to 2017. ICBC launched an innovative product—loans on reducing non-capital functions. China Minsheng Bank and Huaxia Bank also earmarked funds for specific loans for Beijing, Tianjin and Hebei. Bohai Bank issued credit granting guidelines. Secondly, the banking reform continued to deepen. The first privately owned bank in the Beijing-Tianjin-Hebei region—Kincheng Bank achieved stable performance; and the first privately owned bank—Zhongguancun
Bank of Beijing entered into an agreement on building beautiful countryside and sharing resources with competent authorities of Beijing, Tianjin and Hebei respectively, according to which RMB 50 billion and 20 billion worth of loans would be granted respectively to 1 million farmers and 200,000 folk tourism host households. As of end-2016, 37 direct financial service stations and 257 cash withdrawal facilities were put in place, granting RMB 14 billion worth of loans.

Firstly, it cooperated with the World Bank to launch the “Beijing-Tianjin-Hebei Air Pollution Prevention Financing Innovation” program. As the first outcome-oriented green financial innovation program in China, this program involves an investment of RMB10 billion and is expected to reduce carbon emission by 2.46 million tons. Secondly, a RMB10 billion “Clear Water & Blue Sky Industry Fund” was created to support ecological and environmental improvement in Beijing, Tianjin and Hebei. Thirdly, Huaxia Bank improved intercity connectivity by developing personal business. It issued 1.7 million ETC cards and 1.03 million Beijing-Tianjin-Beijing Coordination cards, boosting the integration of financial services in the region. Fourthly, the Bank earmarks RMB 20 billion on annual basis to support the transport integration and industrial upgrading and relocation in the Beijing-Tianjing-Hebei region.

The CBRC encouraged banking institutions to provide high-quality financial services to support the YREB development. Banking institutions were guided to extend more funding support to key YREB projects and allocated more resources, products and
services to key fields, including ecological and environmental protection, transport, energy and industries, that are crucial to the YREB development. A number of key projects received funding support, including Jiayan Water Conservation Hub & Northwest Guizhou Water Diversion Program, China Guodian Dagangshan Hydropower Project, Shanghai–Kunming High-Speed Railway Project, etc. Secondly, the CBRC optimized the licensing process, further opening up the market and enhancing market dynamism. Thirdly, the BCRC facilitated the debt-equity combined investment pilots in the YERB region. Wuhan Donghu National Independent Innovation Demonstration Zone and Shanghai Zhangjiang National Independent Innovation Demonstration Zone were selected as pilot areas, which would be of great significance for bridging the financing gap of tech startups in the YREB region. Fourthly, the coverage of financial services was enlarged. Banking institutions built more outlets in the Yangtze River basin, thereby actively supporting local urbanization process, meeting the funding needs of government-subsidized housing projects, and facilitating the building of targeted poverty alleviation system. Fifthly, banking institutions supported the transformation, upgrading and “going global” of industries. They extended financial support to provinces along the Yangtze River to develop competitive industries with unique features, and facilitated orderly relocation of industries. They supported the development of export-oriented industrial parks, export brands, trade platforms and cross-border e-commerce parks along the YREB.

The CBRC Hubei Office guided banking institutions focus on supporting key fields, weak areas and emerging sectors. As of end-2016, outstanding YREB loans granted by the banking institutions in Hubei Province reached RMB 763.14 billion, up by 54 percent year on year. The “Finance Service Networking” Strategy was further implemented. As of today, there were 24,000 networked workstations, benefiting 605,000 residents.

2. Major projects

Banking institutions were urged to intensify the support to and meet appropriate funding needs of major projects, such as shanty town redevelopment, major water conservancy projects, highway and railway projects in central and western regions, that would drive the macro and regional economies. Firstly, supporting the redevelopment of shantytowns. As of end-2016, outstanding shantytown redevelopment loans granted by banking institutions stood at RMB 2.84 trillion, up by 75.21 percent year on year. Secondly, trust companies were guided to support the reform of railway investment and financing mechanism. Two trust companies were granted the approval to issue specific railway development trusts.
Box 15 Specific railway development trusts

The railway industry is characterized by heavy investment, long collection period and network-based operation, and therefore needs to attract private capital. In a bid to guide and support trust companies to implement the country’s industrial restructuring and macro-economic policies, the CBRC supported eligible trust companies to issue specific collective trusts to raise funds in support of railway construction. As of end-2016, Chongqing International Trust Co., Ltd. and Avic Trust Co., Ltd. were granted the license to issue such trusts.

Thematic Column 3

Supporting coordinated development in China’s northeast, Xinjiang and Tibet

In 2016, the CBRC guided banking institutions to follow regional development policies, and appropriately adjust and optimize the allocation of credit resources to boost coordinated regional development in accordance with the principles of risk controllability and commercial sustainability.

(1) Supporting China’s northeast
Firstly, banking institutions were guided to strengthen the support to infrastructure and livelihood projects, including shanty town redevelopment, urban rail transit, agricultural infrastructure and major water conservancy projects. Secondly, efforts were made to develop and improve the banking system in the northeastern region. Local small and medium-sized commercial banks were encouraged to provide more financial support to economically underdeveloped areas with insufficient access to financial services. Foreign-funded banks were encouraged to establish offices and operate in the northeastern region. The development of village banks and rural commercial banks was promoted. Eligible investors were supported to establish non-bank financial institutions in the northeastern region.

(2) Supporting the Xinjiang region
Firstly, banking institutions were guided to support local infrastructure projects and improvement of public service environment. They adopted favorable policies to provide more credit support to livelihood projects and weak areas. Secondly, more types of banking institutions were established in Xinjiang, with the banking system improved. Banks were guided to establish offices in Xinjiang. In November 2016, the Urumqi Branch of Habib Bank of Pakistan was granted the license, becoming the first foreign bank from a Belt and Road country to set up branch in Xinjiang. In December, the Bank of Xinjiang commenced its operation. A banking system comprising banking institutions with complementary functions gradually took shape. Thirdly, banking institutions were guided to focus on supporting the development of core areas in Xinjiang along the Silk Road Economic Belt (SREB), five centers (i.e. Transportation Hub, Commerce & Trade Logistics Center, Financial Service Center, Culture and Technology Center, and Medical Service Center along the SREB), and “three bases and one corridor” (i.e. a large oil & gas production, processing and storage base, a large coal, coal-fired power and coal-chemical base, a large wind power base, and a national energy resource land corridor).
As of end-2016, outstanding loans granted by banking institutions in Xinjiang totaled RMB 1.55 trillion, up by 11.54 percent from the year beginning. Among which, RMB 293.766 billion went to the five centers and three bases and one corridor, up by 16.18 percent from the year beginning, 4.64 percentage higher than that of all loans; RMB 9.036 was granted as poverty reduction loans to 35 poor counties. The “Financial Access for All Villages” program covered 71.03 percent of all villages, up by 8.29 percentage points from the year beginning.

(3) Supporting the Tibet region
Firstly, large commercial banks and joint-stock commercial banks were encouraged to improve their network in Tibet provided commercial sustainability was ensured. Secondly, banking institutions were guided to meet the financing demand of credit policies and regional economic development policies. Thirdly, the coverage of financial services was expanded, further expanding the scope of availability of basic financial services in remote agricultural and pastoral areas, particularly unbanked towns (townships). Fourthly, banking institutions were encouraged to implement differentiated performance appraisal to motivate their employees, having regard to the difference in terms of market conditions, customer portfolio, financial infrastructure availability, human resources and management cost.

As of end-2016, outstanding loans granted by the banking institutions in Tibet totaled RMB 304.864 billion, an increase of RMB 92.415 billion or 43.50 percent from the year beginning. In 2016, the amount of incremental loans was almost equal to total loans outstanding three years ago.

◎ The CBRC Dalian Office guided the banking sector to support the revitalization of the old northeastern industrial bases

The CBRC Dalian Office issued the Opinions on Following the Policy of the State Council to Revitalize the Northeastern Region and Supporting the Development of Pilot Zones and Jinpu New Area, earmarking RMB 18.14 billion worth of syndicated loans and RMB 6.05 billion worth of specific construction funds to support 49 key projects. It also guided banking institutions to support the transformation and upgrading of equipment manufacturing industry in accordance with the Made in China 2025 Program. Banking institutions provided RMB 48 billion worth of funding to about 70 enterprises that made investment in Belt and Road countries. The Dalian Office helped the local government to develop “18 new policies” on reducing the real estate inventories, with priority given to meeting the financing demand of first home buyers and government-subsidized housing projects.

◎ Harbin Bank built the China—Russia Financial Cooperation Platform

Harbin Bank actively established the China—Russia financial alliance and constantly provided innovative financial services to Russia, hence improving the level of opening up. In 2016, Harbin Bank linked arms with 10 domestic financial institutions to enter into an agreement on cross-border syndicated loans worth RMB 10 billion with VEB view a view to supporting China—Russia economic and trade ties and infrastructure projects.
The CBRC Xinjiang Office guided banking institutions to allocate more resources to four prefectures in Southern Xinjiang. They established more offices and outlets, developed innovative services, and granted more loans to these prefectures, striving to achieve the short-term growth targets (i.e. the growth rate of loans, amount of incremental loans and deposit-to-loan ratio are no lower than that of the previous year respectively) and long-term growth goals (i.e. the growth rate of loans, amount of incremental loans and deposit-to-loan ratio are no lower than that of the previous year respectively). Efforts were made to strengthen the offering of financial services to key projects covering oil and gas, power and transportation in Southern Xinjiang, urban infrastructure projects and weak areas. As of end-2016, outstanding loans granted to the four prefectures totaled RMB 174.697 billion.

Bank of Urumqi launched China’s first mobile banking App in Uyghur language on July 13, 2016, which was mainly promoted to Urumqi, Ili, Aksu and Kashgar where the Uyghurs lived. As of end-2016, the App had approximately 5,600 registered users, handling about 100 transactions per day. This mobile banking App filled a gap in the market.

The CBRC Tibet Office strengthened communications with external banking institutions and successfully encouraged a number of banks to set up offices in Tibet. The Lhasa Branch of Shangdong Pudong Development Bank and the Lhasa Credit Card Sub-center of CITIC bank have commenced operations. China Everbright Bank Lhasa Branch and Duilong Mintai Village Bank have also formed a preparatory establishment team in Lhasa. As of today, there are 15 banking institutions (excluding those under preparatory establishment) in Tibet, with the local banking system further improved.

Bank of Tibet provides bilingual (Chinese and Tibetan) information on LED screens, financial knowledge exhibition boards, consumer protection brochures and self-service facilities. In addition, lobby managers speak both Chinese and Tibetan. The business outlets also have a “Tibetan Language Service Window” to help local people with difficulty in speaking Chinese. These actions have helped the Bank to win trust of Tibetan customers.
IV. New growth drivers

1. Supporting innovation-driven development

Firstly, the CBRC actively facilitated the debt-equity combined investment pilot in a steady and orderly manner. Pilot banks were support to support tech startups in accordance with applicable laws, rules and regulations and on the basis of sound risk control. Secondly, banking institutions were encouraged to establish the Tech Loan Business Unit, and develop more products and services to support strategic emerging sectors and tech startups in light of such companies’ lifecycles and features of their industries. Thirdly, financial services for MSEs were improved, with more credit support extended to innovative and entrepreneurial MSEs. Fourthly, banking institutions enhanced financial services for key innovation and entrepreneurship groups, including students and migrant workers.

In April 2016, SPD Silicon Valley Bank published the *China Startup Outlook 2016* in Beijing. As the first such report in China, it included responses by the founders and managers of startups in the fields of technology and life sciences, with a particular focus on their views on business environment, financing demand and public policies.

In April 2016, the CBRC, Ministry of Science and Technology and the PBC jointly issued the *Guiding Opinions on Supporting Banking Institutions to Intensify Innovation and Carry out the Debt-Equity Combined Investment Pilot for Tech Startups (the Guiding Opinions)*, marking the official launch of the pilot. The first group of 10 pilot banking institutions would implement the pilot in 5 national independent innovation demonstration zones. The term debt-equity combined investment mentioned in the Guiding Opinions refers to a financing model a banking institution uses to provide sustained funding support to tech startups through a combination of loans granted by itself and equity investment made by its subsidiary with investment functions so that credit risk is offset by investment income. The purpose of the pilot is to motivate banking institutions to provide funding support to tech startups in seed, initial and growth stages, effectively increase total supply of finance for tech startups, optimize the structure of financial supply, and explore and improve the financial
In a bid to advance the debt-equity combined investment pilot, the CBRC Beijing Office led the efforts to establish the liaison working mechanism jointly with Beijing Municipal Bureau of Financial Work, Zhongguancun Administrative Committee, other competent authorities and 7 pilot banks. It issued the Several Measures on Supporting Banking Institutions to Implement Debt-equity Combined Investment Pilot for Tech Startups in Zhongguancun Science Park (Provisional), aiming to accelerate the licensing process and policy guidance for pilot banks to establish investment subsidiaries, franchised units, or special sub-branches. On November 25, 2016, Beijing Renchuang Eco Technologies Co., Ltd. received RMB 30 million worth of loans and RMB 30 million worth of equity investment respectively from CDB Beijing Branch and CDB Venture Capital, marking the conclusion of China’s first debt-equity combined investment project in Zhongguancun.

The CBRC Beijing Office facilitated the conclusion of China’s first investment-loan linkage project in Zhongguancun

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Hankou Bank actively promoted investment-loan linkage

As one of the first pilot banks and the only one such bank in China’s central regional, Hankou Bank set up a Fintech Business Unit in Donghu National Independent Innovation Demonstration Zone and contributed RMB 500 million to establishing a wholly-owned venture capital subsidiary. It has now developed business plan featuring the combination of “equity + claim +option loan” and selected 30 enterprises as projects in the pipeline.
Media perspective 5: Boosting supply-side reform through debt-equity combined investment

There is no doubt that as an important innovative practice encouraged by the government, the debt-equity combined investment is likely to drive fierce competition among banking institutions. On June 30, the CBRC Beijing Office issued the Implementation Plan for Investment-Loan Linkage Pilot in Zhongguangcun Science Park. The plan has already been submitted to the CBRC for record, marking that the framework for the pilot in Beijing has been put in place.

At an earlier time, goods news was reported in Shanghai. Organized by Shanghai Banking Association, three pilot banks, including Bank of Shanghai, Shanghai Huarui Bank and SPD Silicon Valley Bank published their initial plans for debt-equity combined investment on June 22.

In a meeting convened by the CBRC early this year, debt-equity combined investment was recognized by the CBRC as an important practice in supporting innovation and entrepreneurship. Senior officials began to pay attention to this in March when the two sessions were held. In the Government Work Report, Premier Li Keqiang stressed that “to launch the debt-equity combined investment” was one of the government’s priorities for 2016. Consequently, the CBRC, Ministry of Science and Technology, and the PBC jointly issued the Guiding Opinions on Supporting Banking Institutions to Intensify Innovation and Carry out the Debt-Equity Combined Investment Pilot for Tech Startups (the Guiding Opinions), specifying that the pilot will be implemented in 5 places by 10 banks.

To put it simple, debt-equity combined investment means to encourage commercial banks to provide financing services for tech startups through the combination of “loans and equity investment”. This new model is to meet the financing needs of high-tech and innovative enterprises. Jointly launched by three agencies of the Central Government, the pilot is highly relevant and all parties are willing to be part of it.

For the CBRC, MOST and PBC, the debt-equity combined investment will help mitigate the lack of access to finance and high financing cost, not to mention the fact more support is called for tech startups at a time of economic transition. Publicly available information shows that the CBRC started to work on facilitating the implementation of the pilot in May 2015. At a work conference held early this year, the CBRC said it was going to press ahead with the pilot. In mid-February, the PBC, the CBRC and other six ministries issued the Opinions on Supporting Steady Growth, Structural Adjustment and Profit Growth of Industries through Financial Services, specifying that “efforts will be made to advance the pilot in an active but steady manner, thereby effectively preventing risks and supporting sound growth of high-tech and innovative enterprises.”

For banks, financial innovation will facilitate their transformation and upgrading and improve their capability to serve growth customers. As for local governments in the pilot areas, the mass innovation and entrepreneurship program that is being actively implemented across China has opened up opportunities for investment-loan linkage as it can effective link commercial banks with tech startups with growth potential. The lack of access to finance and high financing cost will be mitigated to some extent, and the linkage will become a solid foundation for local governments to push the implementation of the innovation-driven strategy.

Everyone should not be overlooked. The CBRC local offices in the pilot areas have shouldered heavy responsibility in promoting the linkage. The CBRC local offices keep a close watch on pilot banks’ debt-equity combined investment actions with a view to controlling risks, and coordinate with local governments and other competent authorities involved to create favorable conditions in support of banks’ innovation.
Pilot banks are encouraged to explore diverse linkage models and develop innovative systems and mechanisms in light of their actual conditions.

The first group of pilot areas include 5 national independent innovation demonstration zones, which are Zhongguancun in Beijing, Donghu in Wuhan, Zhangjiang in Shanghai, Binhai in Tianjin, and Xi’an. Among others, Zhongguancun Science Park is the most famous.

Some market participants conclude that the debt-equity combined investment “mainly focuses on loans with investment as a supplement”. The supervisory authorities point out that “focusing on loans” is about the direction other than the size of funding. No matter investment before lending or vice versa, emphasis will be on granting loans to help tech startups to get finance and grow.

Unlike previous practice of debt being disguised as equity, the debt-equity combined investment pilot better embodies the principle of “offsetting risks with investment earnings”, that is, to cover the high risks in the early stage with huge earnings as valuations increase, thereby eliminating the imbalance between risks and earnings typical of conventional lending model. As the financial investor, banks’ investment subsidiaries do not pursue control of the company nor compete with the company for earnings. In addition, the subscription warrant is provided in the form of loan interest, and banks are not allowed to make investment with their own money. Banks hold equity in order to offset the risk losses of loans, so equity is like a kind of risk provision. They only make money from loan interest.

What kind of breakthroughs and innovations will be made in the pilot will depend on the creativities of market players. But the report believes that the debt-equity combined investment will have a better future in China if efforts are made to survey, monitor and compare the performance in different pilot areas.

(Except from The Financial News, July 8, 2016, by Han Xuemeng and Zhang Modong)

2. Supporting the pilot free trade zones

Banking institutions were guided to further implement the plans for pilot free trade zones and provide financial services for the zones by continuing with the institutional reform and developing innovative products. Firstly, improving the supervisory policies. The CBRC guided its local offices to further refine the supervisory policies governing local banking institutions within the pilot FTZs, and simplify and optimize the licensing process for higher licensing efficiency. Secondly, encouraging pilots. The CBRC appropriately adjusted the performance appraisal standards for relevant business activities and institutions within the pilot FTZs and delegated more autonomy to banking institutions, with the pilot FTZs becoming platforms for banking institutions to lead innovation and transformation. Thirdly, communicating and cooperating with other authorities. The CBRC actively strengthened communication and collaboration with other competent authorities, local governments and overseas supervisors, guiding domestic and foreign banking institutions to form banking clusters in the pilot FTZs. The CBRC also improved the business monitoring system for the pilot FTZs so as to timely obtain information about financial developments and risk trends within the pilot FTZs.

Banking institutions in the pilot free trade zones achieved positive results. Firstly, they provided unique and distinct services to support the pilot FTZs. Clusters of banking institutions were formed in the pilot FTZs. In Shanghai, they focused on supporting international trade, financial
services, shipping services, professional services and high-end manufacturing; in Guangdong, they supported the Guangdong Pilot FTZ to develop the Guangdong-Hong Kong-Macau In-depth Cooperation Demonstration Area, and build itself into an important hub for 21st-Century Maritime Silk Road and a pilot area for a new round of reform and opening up; in Tianjin, they focused on supporting financial leasing, high-end manufacturing and modern services; and in Fujian, they supported the Fujian Pilot FTZ to build itself into a demonstration area for deepening cross-strait economic cooperation and a new focus of opening up to and cooperation with countries and jurisdictions along the 21st Century Maritime Silk Road. Secondly, the innovation dynamism was enhanced constantly. Banking institutions were guided to improve the quality and efficiency of financial services and fully leverage both domestic and overseas markets and resources to improve financial services, expand companies’ access to finance, and provide financial support to functional industries within the pilot FTZs, such as financial leasing, cross-border e-commerce, shipping & logistics. Thirdly, risks were effectively controlled and prevented. Considering the risk profile of the pilot FTZs, relevant CBRC local offices continued to improve specific supervisory returns to monitor liquidity risk, market risk and country risk associated with free trade accounts, thereby effectively fending off banking risks within the pilot FTZs.

China Industrial Bank actively supported the development of the pilot FTZs by launching innovative products and services, including FTZ letter of credit, FTZ performance bond, mid to long-term liquidity loans for overseas companies, cross-border acquisition, syndicated loans within FTZs. It also provided financial service solutions to support companies’ development. It completed its overseas issue of interbank certificate of deposits denominated in foreign currency and further improved the FTZ-free accounting system of Shanghai Pilot FTZ. The interest rate swap transaction was included into Financial Innovation Cases in Shanghai (Shanghai) Free Trade Zone.

3. Improving consumer financial services

The CBRC issued jointly with the PBC the Guiding Opinions on Providing More Financial Support to Emerging Consumer Segments, guiding banking institutions to provide more intensive and extensive services and develop consumer financial services, thereby fostering new economic growth drivers. Firstly, improving the consumer financial service system. Qualified banking institutions were encouraged to set up consumer-loan business units, and the establishment of consumer finance companies were normalized in a bid to utilize the strengths of non-bank financial institutions. In 2016, consumer finance companies granted consumer loans worthy of RMB182.5 billion, and outstanding auto loans granted by auto finance companies totaled RMB 426.5 billion. Secondly, facilitating the development of innovative consumer financial products. Auto finance companies were allowed to offer loans on car add-ons and appropriately lower down
payment ratio for new energy vehicles and used vehicles, thereby expanding auto consumer credit. Banking institutions were encouraged to reengineer consumer financial products with the use of Internet and big data technologies so as to enable on-line loan extension and self-service consumption. Thirdly, banking institutions were encouraged to provide more credit support to 6 consumer segments, including (1) elderly care, domestic services, and health services, (2) information and online consumption, (3) green consumption, (4) tourism and recreation, (5) education, culture and sports, and (6) rural consumption.

Using “big data credit reporting” and “cloud computing”, Merchants Union Consumer Finance applied smart classification, automatic verification, and model-based rating, created risk profiles for customers with different risks, and then put in place differentiated risk control strategies. Fraud, faking and cashing-out were effectively prevented. An innovative multi-dimensional, multi-layer Internet-based risk control system was created, helping people with no credit records to access consumer finance. As of end-2016, this approach covered many unbanked areas in China, including tier-2 and tier-3 cities and rural areas, accounting for 86.62 percent of Merchants Union’s customer base. Those customers were mainly young people with low academic attainment and mid to low income, among which 68.01 percent holding two-year or three-year college diploma or below.
Part Four

Refining the Regulatory Regime and Mechanism

- Building the Regulatory Regime
- Exchange and Cooperation with Other Regulators
I. Building the Regulatory Regime

1. Improving the Legal and Regulatory Framework

The CBRC facilitated the amendments to the Commercial Bank Law and the Law on Banking Supervision and Regulation. Following modifying the LTD ratio provisions in the Commercial Bank Law, the CBRC initiated comprehensive amendments to the Commercial Bank Law. In addition, the CBRC worked to include the amendments to the Commercial Bank Law and to the Law on Banking Supervision and Regulation into the State Council’s Legislation Work Plan of 2016.

The CBRC worked to improve regulatory rules and documents. Together with other relevant ministries and commissions, the CBRC issued the Interim Rules on the Business Activities of Online Lending Information Intermediaries, and Rules on Bank Card Clearing Institutions. In addition, the CBRC also issued multiple other regulatory documents, including the Notice on the Issuance of the Guidelines for the Internal Audit of Commercial Banks, the Notice on Further Enhancing Credit Risk Management, the Notice on Regulating Credit Rights Transfer by Banking Institutions, the Notice on Regulating the Agency Sales Business of Commercial Banks, the Notice on Issuing the Guidelines on Comprehensive Risk Management of Banking Institutions, and the Notice on the Guiding Opinions on the Legal Advisory Work of Banking Institutions, covering corporate governance, internal control, business operation, and risk management of banking institutions.

Thematic Column 5

Interim Rules on the Business Activities of Online Lending Information Intermediaries

In August 2016, the CBRC, together with the Ministry of Industry and Information Technology (MIIT), the Ministry of Public Security (MPS) and the Cyberspace Administration of China (CAC), issued the Interim Rules on the Business Activities of Online Lending Information Intermediaries (“P2P Lending Rules”) which established the fundamental framework for regulating online peer to peer lending activities (P2P lending).

The P2P Lending Rules established the following overarching principles for P2P lending: 1) the focus should be on the business characteristics as well as the in-the-process and ex-post supervision and regulation of P2P lending entities. The P2P lending entities are in nature a kind of information intermediaries, not credit intermediaries, but P2P lending activities they are engaged in are a kind of financial information intermediary business, involving
Part Four Refining the Regulatory Regime and Mechanism

financing and related risk management. The focus for regulating P2P lending business should be on the establishment and improvement of the fundamental business rules, rather than on the authorization and approval procedures for entities and business, and also on the in-the-process and ex post supervision and regulation, in order to safeguard the lawful rights and interests of the clients; 2) A bottom-line based regulatory approach should be adopted with a negative list management mechanism. P2P Lending Rules prescribed the scoping of the P2P lending business with the negative lists and identified 13 prohibited activities for P2P lending entities. P2P lending and innovative activities complying with applicable laws and regulations would receive support and protection, while illegal financial activities like illegal fundraising in the name of P2P lending are outlawed and would be cracked down. In addition, the industrial information disclosure should be enhanced and risk monitoring improved, so as to defend the bottom line of no regional or systemic risks; 3) The methodology of regulating the industry should be innovated with clear definition and segregation of roles and functions as well as coordination. P2P lending is a new type of Internet based financial services, with clear cross-regional and cross-sector features, so traditional regulatory methodologies can not effectively regulate such business. For this reason, the P2P Lending Rules, leveraging the roles and capabilities of national regulators, local governments and CBRC local offices, adopted a “dual responsibility” approach to ensure effective synergy among different regulators with clear identification and segregation of roles and enhanced communication and collaboration based on their respective advantages. P2P lending, which is based on the Internet technologies, has no temporal or spacial limits. It enables the lenders and borrowers to have direct contact through the platform and therefore expands the coverage and scope of financial services. It has very positive effects to refining the financial system, improving financial efficiency, filling in the funding gap for micro and small businesses, helping micro and small businesses with limited access to financing, and addressing the need for private investment. The P2P Lending Rules were written in Item 47 under Article 8, covering the registration requirement for P2P lending entities, business rules and risk managements, protections for lenders and borrowers, information disclosure, supervision and regulation, liability and transitional arrangements.

The China Banking Regulatory Commission (CBRC), the Ministry of Industry and Information Technology (MIIT), the Ministry of Public Security (MPS) and the Cyberspace Administration of China (CAC) jointly issued the Interim Rules on the Business Activities of Online Lending Information Intermediaries. Compared with the consultation paper, the biggest change in the Rules was that the borrowing cap was specified. According to the Rules, the outstanding loans borrowed by a single natural person through the same P2P lending information intermediary shall not exceed RMB 200,000; the outstanding loans borrowed by a single corporate or other organization through the same P2P lending information intermediary shall not exceed RMB 1,000,000; the outstanding loans in aggregate borrowed by any natural person through
different P2P lending information intermediaries shall not exceed RMB 1,000,000; the outstanding loans in aggregate borrowed by any corporate or other organization through different P2P lending information intermediaries shall not exceed RMB 5,000,000.

The main purpose for setting borrowing caps is to mitigate credit concentration risk. According to the Rules, P2P lending should be mainly in small volume. P2P lending information intermediaries shall, based on their own risk management capabilities, control the caps of outstanding loans to a single borrower through one P2P lending information intermediary and through different P2P lending information intermediaries respectively.

The Rules also set the business scope through the negative list which prescribed 13 prohibited activities compared with 12 in the consultation paper. It explicitly prohibited deposit-taking from the public, creating funding pools through capital pooling, and providing any form of guarantee for the borrowers. In addition, it also prohibited risky activities such as claim transfer and financing information intermediary services. The Rules grants the power of regulating P2P lending and making rules for P2P lending to the CBRC and its branches. Local financial regulators were authorized to regulate P2P lending platforms within their respective jurisdictions, including filing and registration, regulation and guidance, risk prevention and resolution.

The CBRC stated that going forward supportive measures will be formulated to specify the rules on the custody of client funds, registration and information disclosure requirements for P2P lending entities and to improve the regulatory regime for the P2P lending sector.

(Source: Xinhua News Agency, August 24, 2016, LI, Yanxia, Hou, Yujie, edited)

2. The CBRC continued to improve the Prudential Rules

In 2016, in particular: 1) Researched and put forward action plans to research into and formulate prudential operational rules in 2016 which were included in the *Legislative Work Plan 2016 of China Banking Regulatory Commission*, sorted out prudential rules and regulations and reviewed rules on prudential operation. 2) Made and issued the *Guidelines on Comprehensive Risk Management of Banking Institutions*, created the overarching and comprehensive rules on the comprehensive risk management for the banking industry, put forward the objectives and main factors of comprehensive risk management for the first time, and promoted banking institutions to develop comprehensive risk management systems that cover all levels and types of risks. 3) Issued the *Notice on Further Strengthening Banking Institutions’ Management of Overseas Operational Risks, the Notice on Enhancing Regulation of Bill Business in order to Promote the Healthy Development of the Market* (jointly with the PBC), and strengthened risk monitoring and regulation in key areas.

3. Participating in the Formulation of Laws and Regulations

In 2016, the CBRC actively participated in the top level legislative design and cooperated with the National People’s Congress, the Legal Affairs Office of the State Council, and other relevant ministries and commissions in the research, refining, feed-backing and other related
work for the making and/or amending of over 40 laws and administrative regulations, including the Amendments to the Law of the People’s Republic of China on Administration of Taxation (for Approval), the Employment Contract Law of the People’s Republic of China, the General Principles of the Civil Law of the People’s Republic of China (Draft), the Audit Law, the Law of the People’s Republic of China on Promotion of Small and Medium Enterprises (Revised Draft), the Regulations for the Administration of Housing Provident Fund, the Law of the People’s Republic of China on the Administration of the Permanent Residency of Aliens (Draft), the Regulations on the Administration of the Development of Towers, Halls, Masons, Clubs and Similar Buildings and Structures by Governmental Agencies and Public Bodies (Draft), and the Regulations for the Administration of Carbon Emission Trading.

II. Exchange and Cooperation with Other Regulators

1. Cooperation and Information Sharing with Domestic Regulators

In 2016, the CBRC continued to enhance exchange and cooperation with other financial regulators and local governments. It enhanced coordination and cooperation with the PBOC and the Ministry of Finance (MoF) on the supervision of global systemically important banks (G-SIBs), and joined Crisis Management Groups for China’s G-SIBs; it created the collaboration and information sharing mechanism with China Securities Regulatory Commission (CSRC) on the regulation of the trust sector; it issued relevant instruments jointly with the National Development and Reform Commission (NDRC), the Ministry of Science and Technology (MOST), the MIIT, the MPS, and the PBOC to prevent financial risks in key areas and to promote the capabilities of the financial sector in serving the real economy; it continued to deepen the coordination mechanisms with the PBOC, the CSRC and the China Insurance Regulatory Commission (CIRC) and regularly held joint meetings.

2. Cooperation and Exchange with Foreign Regulators

Enhancing bilateral cooperation with foreign regulators: In 2016, the CBRC signed Memorandum of understanding on bilateral supervisory cooperation (MOUs) with the National Banking and Securities Commission of the United Mexican States (CNBV), the Nepal Rastra Bank (Central Bank), the Hungarian National Bank, the Abu Dhabi Financial Services Regulatory Authority, the Central Bank of Morocco and the Central Bank of the Laos, and signed the Agreement on Cross-border Crisis Management with the Central Bank of the Czech Republic. As of end-2016, the CBRC has signed MOUs and/or regulatory cooperation agreements with financial regulatory authorities from 67 countries.

Active participation in cross-border regulatory talks: The CBRC attended the seventh Japan/Korea/China Trilateral Financial Regulators’ High-level Meeting & The ninth Japan/Korea/China
Trilateral Financial Supervisory Cooperation Seminar, arranged or attended as a major counter-party the regional seminars on systemically important banks (SIBs) organized jointly by the Financial Stability Institute (FSI) and the Executives’ Meeting of East Asia-Pacific Central Banks (EMEAP). In 2016, the CBRC organized or attended over 20 bilateral dialogues of different levels, made positive commitments to further open up China’s banking sector and to attract foreign banks to establish offices, conduct business, and invest in domestic banks under the premise of meeting relevant requirements of applicable Chinese laws and regulations.

Active participation in multi-lateral and regional cooperation mechanisms, including: the International Monetary Fund (IMF), the World Bank, the Group of Twenty (G20), the United Nations, the Organisation for Economic Co-operation and Development (OECD), and the Asia Pacific Economic Cooperation (APEC).

Enhancing collaboration with the host regulatory authorities for the foreign offices of Chinese banks: the CBRC organized the cross-border crisis management group (CMG) meetings for four global systemically important banks (G-SIBs), i.e., the Industrial and Commercial Bank of China Limited (ICBC), the Agricultural Bank of China Limited (ABC), the Bank of China Limited (BOC) and the China Construction Bank Limited (CCB). The CBRC requested members of Cross-border Crisis Management Group including the PBC, the MOF and foreign regulators to sign the Cross-border Cooperation Agreement on the Recovery and Response Plan of the Industrial and Commercial Bank of China Limited, and the Agreement for Cross-border Cooperation on the Recovery and Response Plan of the Bank of China Limited; in addition, the CBRC held the joint regulatory conference on the four global systemically important banks (G-SIBs). We worked to help solve barriers faced by Chinese banks to “go global”, and communicated and made dialogs with relevant foreign regulators on risks faced by the foreign offices of Chinese banks; The CBRC facilitated eligible Chinese banks to open offices in certain foreign countries and helped them address the needs for cross-border operations in certain countries. For instance, the Bank of China Paris Branch applied to the Autorité de Contrôle Prudential et de Résolution (ACPR) for exemption of relevant regulatory indicators. The application was approved with the help of the CBRC, marking a major milestone of the multilateral coordination and communication under the China-France High Level Economic and Financial Dialogue Framework.

Strengthening communication and cooperation with the home regulators of foreign banks in China: the CBRC made regular working meetings with financial regulators of Hong Kong, South Korea and Singapore; it sent personnel to attend global and regional supervisory college meetings and CMG meetings organized by relevant home regulators.

Deepened participation in international financial regulatory reforms: as a member of the Financial Stability Board (FSB) and the Basel Committee on Banking Supervision (BCBS), the CBRC participated in various plenary meetings, working groups, and research projects, contributed to the agenda-making, standard-setting, and assessment and implementation for international financial regulatory reforms, actively fulfilled its international responsibilities, and continued to refine the prudential regulatory framework for China’s banking sector. The CBRC received the country review of G-SIB framework organized by the BCBS, the overall assessment result for China was “compliant”.

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Part Five

Supervisory Capacity Building

- Market access
- Off-site surveillance
- On-site examination
- Supervisory accountability and penalties
- Organizational Development
I. Market access

The CBRC continued to improve rules governing market access under the principle of streamlining administration and delegating power. We prepared checklists of matters requiring licensing and reporting as well as templates of administrative instruments, and completed and put into service the CBRC Licensing Hall to process administrative licensing applications accepted directly by the CBRC on the One-Window basis. The CBRC offices also launched programs to accept administrative licensing applications centrally. The CBRC launched an online platform for handling administrative licensing matters, which was based on the existing OA system with additional modules for the approval system for administrative licensing matters. In addition, the CBRC conducted self-assessment of its licensing activities in order to create a routine assessment system from the perspectives of rules and procedures, approval activities, and external evaluation.

Further optimizing the banking sector structure under the principle of opening up and inclusiveness. The CBRC provided support for the China Development Bank (CDC) and the Agricultural Development Bank of China (ADBC) to create their Poverty Relieving Finance Divisions, and for the Postal Savings Bank of China (PSBC) to create "Agricultural-Rural-Farmer (ARF)" Financing Division. The CBRC approved the Export-Import Bank of China (China Exim Bank) to prepare and establish five branches in provinces including Hebei, and guided large commercial banks, joint-stock commercial banks, and the PSBC to optimize the distribution of their offices, to take a prudential strategy for development and to increase the coverage of operating outlets in disadvantaged areas. The CBRC actively promoted the incorporation of new privately owned banks on a piecemeal approach with eligibility highlighted rather than rushing into mass action, and incorporations in middle and western provinces were encouraged. Meanwhile, the CBRC advocated and encouraged private capitals to invest in small financial institutions in rural areas.
Improving the competitiveness and the capabilities of the banking sector to serve real economy by encouraging innovation. With the approval by the CBRC, the PSBC increased its registered capital, revised its articles of association, and conducted its initial public offering (IPO) of H shares on the Hong Kong Stock Exchange. The CBRC also urged the PSBC to improve its corporate governance and put in place the mechanism for capital replenishment. The CBRC guided the banking institutions to facilitate implementation of the “Belt and Road” initiative and the “Go Global” efforts by Chinese enterprises in order to ensure overseas business development in a prudential and orderly manner. The CBRC also streamlined the approval procedures on licensing banking institutions in Shanghai, Tianjin and other free trade zones (FTZs). The CBRC encouraged and provided support for eligible banking institutions to carry out the business of credit asset securitization and to issue small and micro financial bonds and green financial bonds. The CBRC deepened research on the feasible paths for joint-stock commercial banks to run credit cards, wealth management and private banking businesses through pilot subsidiaries with refined pilot policies and feasibility plans.

Thematic Column 6

The CBRC furthered streamlining administration and delegating power with a balanced combination of regulation and liberalization

In accordance with the spirits of the National Teleconference on Further Streamlining Administration and Delegating Power together with Transforming Roles and Functions, the CBRC continued to streamline administration and delegate power so as to further motivate market vitality, effectively mitigate risks and inject new energies of the banking sector and better serve the real economy.

Firstly, continuing to remove matters requiring administrative approvals. In addition to the prior removal of three items requiring administrative approvals, and with approval by the State Council Office for Reforming Matters requiring Approvals (ORMA), the CBRC removed one more matter requiring administrative approval (i.e. “The Approval for Withdrawal of Interest-bearing Assets by Foreign Financial Institutions under Liquidation”) in 2016.

Secondly, cleaning up and regulating intermediary service matters in administrative licensing. With approval by ORMA, the CBRC removed 13 intermediary service matters in February 2016. As of end of 2016, the CBRC retained 18 intermediary service matters. Once with the ORMA's approval for removing intermediary service matter of “liquidation report”, the number of intermediary service matters retained by the CBRC would be further reduced to 17.

Thirdly, enhancing concurrent and ex-post supervision and service for matters removed for administrative approvals. In early 2015, the CBRC launched the reform of its organizational structure. It adjusted its internal departments and consolidated existing supervisory resources, and thus effectively enhanced concurrent and ex-post supervision with enhanced focus on its principal function, i.e. regulation, and substantially improved its supervisory capabilities. In 2016, in the case of reforming its organizational structure, the CBRC consolidated regulatory resources on licensing and market entry, actively promoted the centralized handling of licensing applications, and enhanced concurrent and ex-post supervision and service.
II. Off-site surveillance

Continuing refining the off-site surveillance framework. In specific, 1) the CBRC issued the **Opinions on Further Enhancing Off-site Surveillance** with institutional building pushed forward in ten aspects, namely, organizational framework, risk early warning, technologies application, data quality assurance, regulatory coordination, information, sharing, supervision of subordinated agencies, application of results, post evaluation and human resources; 2) in order to further optimize the reporting system for off-site surveillance, the CBRC issued the **Notice on Instructions for Off-site Surveillance Schedule Filling in 2017**, which for the first time included country risk, transfer of credit assets, market-oriented debts-to-equity swap, and the pilot of linking loan provision with equity investment into the scope of off-site surveillance. In addition, we revised and issued the **Off-site Surveillance Schedule on Information Technology of Banking Institutions (2016)**, and revised the **Indicators in the Off-site Surveillance Schedule for Asset Management Companies** in order to accurately reflect the business development and the actual risk profile of banking institutions; 3) we cast higher attention on data quality governance, regularly communicated over the quality of off-site surveillance data, issued regulatory alert letters, and convened thematic meeting on data quality to drive banking institutions to continuously improve the quality of regulatory data; and 4) in order to promote the development and application of CBRC’s big data, we established the CBRC Steering Group for Data Integration and Sharing to make relevant overarching design and planning for data integration and sharing.

Continuing enhancing the monitoring and early warning of banking sector’s operation and risks. In particular, we 1) monitored and analyzed the banking sector’s operation and risks on a monthly, quarterly and annual basis, with particular focus on key fields, businesses, institutions and areas, in order to analyze and assess the overall operational conditions and risks of the banking sector; 2) established regular analysis and reporting requirements for regional risks, enhanced monitoring and mitigation of regional risks, and prepared regional risk analysis reports on a quarterly basis; 3) continued to promote stress testing in the banking sector from the perspectives of enhancing
institutional framework and practical application so as to improve the quality of stress testing and the scope of its application; 4) upgraded and refined the “Risk Early-Warning System of Banking Institutions” to make it more forward-looking, accurate and effective; and 5) promoted the application of the Examination & Analysis System Technology (EAST) in off-site surveillance. We carried out 254 off-site projects nationwide, verified suspicious funds worth of RMB 337.103 billion, which marked the first massive application of the EAST system in off-site scenario.

Continuing enhancing cross-border cooperation on off-site surveillance. The CBRC solidly advanced related work on recovery & resolution plan (RRP) of large commercial banks, organized a panel of experts to assess the resolvability in the Agricultural Bank of China Limited, and incorporated off-site surveillance into the agenda of Cross-Border Crisis Management (CMG) meeting and Core Supervisory College for large commercial banks.

III. On-site examination

Highlighting philosophy. During our on-site examination, work quality and effectiveness was put as a priority with the following principles underscored: i) whether it would facilitate sustained safety and soundness of the real economy, ii) whether it would promote the reform and development of the banking sector, iii) whether it would help prevent and mitigate financial risks, and iv) whether it would promote the improvement supervisory effectiveness. In accordance, we strove to make breakthroughs on four aspects: i) propelling the combination of macroeconomic policy and specific regulatory measures, ii) addressing material risk events and prominent conflicts, iii) having financial institutions to perform their obligations on risk management and internal controls, and iv) solving the issue of repetitive misconduct by banking institutions and the existence of implicit rules in the sector.

Refining regulatory framework. The CBRC worked to refine and innovate the infrastructure of on-site examination with particular focus on the process, quality and resolution. It kicked off the revision of the On-site Examination Procedures, the Evaluation Measures for On-site Examination Quality Management and the Implementing Measures for Anti-Corruption Oversight of On-site Examination, to standardize on-site examination quality criteria, to optimize on-site examination process and to define the “bottom-line” for on-site examination disciplines.

Exploring methodologies and processes. The CBRC strictly followed “doubly stochastic process” to determine targets and examiners on a random basis in various projects. The CBRC made audits and inspections to provide foundation for regulatory decision-making, improving rules and regulations and enhancing supervision on a timely and effective manner. It also made trials on coordinated examinations to improve the overall planning and coordination of examination activities. In addition, the CBRC improved its talent training program, held workshops to improve the quality and effectiveness of on-site examinations and sent personnel to overseas for learning and exchange.

Implementing the “compulsory application of EAST”. The CBRC took all efforts to promote
the application of the EAST, strengthened IT supervision and achieved “multiplier effect” of examination results. The CBRC and its offices strictly followed the compulsory requirement for application of EAST and used the EAST system for data analysis for largely every on-site examination at banks. The use of EAST system has become a normal operating procedure and laid the foundation for creating a modern on-site examination model under the IT enabled environment.

The CBRC Qingdao Office enhanced internal training and exchange through various means such as “regulatory salon”, the EAST application information-sharing center, the model aggregation center and the experts-dispatching center. It enhanced the EAST system’s support for on-site examination, prioritizing review for “two reinforcements and two containments”. For this reason, it organized 12 on-site examinations, inspected businesses valued at RMB 427.5 billion, identified 563 issues, issued 27 Inspection Opinion Letters, and demanded relevant banking institutions to take actions against 424 personnel who violated laws and regulations. It explored the application of EAST system in off-site surveillance, licensing process, poverty relief endeavors by the financial sector, and made positive results in identifying potential risky customers, screening weak areas in financial services and implementing the requirements for poverty relief in the financial sector.

Box 16 Major On-site Examination Projects

On-site examinations made at large commercial banks include: on-site examination on the interbank and wealth management (asset management) business at the China Construction Bank Limited (CCB) and the Bank of Communications Limited (BoCom), and the comprehensive risk management inspection at the Industrial and Commercial Bank of China Limited (ICBC).

On-site examinations made at joint-stock commercial banks include: the full-scope examination at the China Merchant Bank Co., Limited (CMB), the Industrial Bank Co., Ltd. (CIB), and the Shanghai Pudong Development Bank Co., Ltd. (SPDB), on-site examination on the interbank and wealth management (asset management) business at the China CITIC Bank Corporation Limited (CITIC Bank) and the China Everbright Bank Co., Limited (CEB), Examination of the internal controls at overseas (US) offices and assessment of the management of consolidated offices at CMB, audit and inspection on major products of interbank and wealth management (asset management) business at the China Guangfa Bank Limited (CGB), the China Zheshang Bank Co., Ltd. (CZ Bank), China Minsheng Bank Co., Ltd. (CMBC), and China Bohai Bank Limited (Bohai Bank), and audit and inspection on data governance at CGB.
On-site examinations made at policy banks and foreign-funded banks include: on-site examination on credit assets in Brazil and Ecuador at China Development Bank (CDB), and full-scope examination at the Citibank (China) Co., Ltd..

On-site examinations made at city commercial banks and medium and small rural financial institutions include: audit and inspection on data governance at Hankou Bank Co., Ltd. and Harbin Bank Co., Ltd..

On-site examinations made at trust companies and banking asset management companies include: on-site examinations on risk controls for cross-regional businesses at the Minmetals International Trust Co., Ltd. (MinTrust) and the China Industrial International Trust Co., Ltd. (CIIT), and full-scope examination at the China Huarong Asset Management Co., Ltd. (CHMAC).

In addition, the CBRC made looking-back for “two reinforcements and two containments” at banking institutions and conducted thematic inspections on the high funding cost and difficult access to funding for private enterprises, credits extension to the steel-making and coal sectors and real estate business, etc..

**Box 17 CBRC carried out full looking-back for “two reinforcements and two containments” in the banking sector**

In order to consolidate and expand the achievements made during the examination for “two reinforcements and two containments”, and to consolidate the foundation for financial risk prevention and control, as guided by the State Council, the CBRC made full looking-back for “two reinforcements and two containments” at banking institutions and the CBRC between July and December 2016.

Well-designed arrangement and well-considered planning. In particular: 1) enhancing coordination of responsibilities for planning and implementation. The CBRC and the banking institutions established the steering group for “looking-back” activities and implemented the requirements for “chief’s” accountability and specific responsibilities of relevant stakeholders; 2) concurrency of regulatory examinations and self-assessments by financial institutions. The CBRC issued key points of working manual on a timely basis, strengthened process management, innovated working methods, specified quality standards, and aligned rectifications and accountability with examinations; 3) coordination of regulatory examinations and self-assessment by financial institutions. The CBRC urged banking institutions to make full self-assessments, strengthen internal control management while the regulators made random inspections in addition to the self-assessments by the banking institutions; and 4) combined use of “dual supervision” and the “doubly stochastic process”. The banking institutions made “top down” oversight on the results of self-assessments, while regulators made on-site inspection on the self-assessments by the banking institutions. Regulatory examinations follow the “doubly stochastic process”, i.e., the targets of examinations and the examiners are both selected on a random basis in order
to ensure the quality and effectiveness of examinations.

Being prioritized and targeted. In particular: 1) prioritizing issues identified during thematic examinations of “two reinforcements and two containments” and during inspection tours to ensure corrections and accountability implemented. The CBRC strictly followed the requirements in accordance with checklists of issues outstanding, checklists of issues corrected and follow-up inspections, ensured corrections of and accountability for issues identified, and took due actions against those failing to make corrections thoroughly or determine accountability sufficiently; 2) prioritizing hot and difficult issues which are of concerns by central government and the public to make the work more targeted. The CBRC made thematic inspections on the high funding cost and difficult access to funding of private enterprises, credits extended to the steel making and coal sectors and control policies for the real estate sector, and made investigations and rectifications for ten common issues, including inadequate implementation of central government macroeconomic policies and regulatory requirements, inappropriate assessment and incentive mechanisms, “outflow of funds from real economy into the virtual economy”, unauthorized fee-charging, and inadequate management and control of operational risks; 3) prioritizing key rules, key positions and key personnel to strengthen the effectiveness of internal controls. The CBRC focused on such important aspects as corporate governance, internal controls, risk management, case prevention and control and serving the real economy, with thematic examinations conducted on businesses such as deposits, credits, bills and notes, interbank business and wealth management; and 4) focusing on cross-market, cross-sector and cross-institutional risks to refine the comprehensive risk management framework. The CBRC made thematic examinations on interbank and wealth management (asset management) businesses, strengthened supervision on cross-sector businesses, promoted the creating of a comprehensive contingency plan on risk prevention and control, which covers 9 categories of risks including the cross-market and cross-sector risk contagion.

Formulating mechanism and gaining substantial achievements. In particular, 1) further improving the internal control capabilities of banking institutions. With the thematic examinations on “two reinforcements and two containments” and those “looking-back” activities, banking institutions implemented corrective actions proactively, enhanced the conscientiousness of compliance, continuously improving their internal control and governance, further enhancing the formulation of long-term mechanism, and reinforced their capabilities to serve the real economy; 2) further strengthening banking supervisory effectiveness. The CBRC and its offices continued to identify issues outstanding in its regulatory policies, supervisory effectiveness and regulatory discipline observance, and thus further optimized the regulatory process and improved the expertise and effectiveness of supervision; and 3) banking institutions further stepping up enforcement and penalization against violations of laws and noncompliance of regulations. Meanwhile, the CBRC continuously enhanced regulatory accountability and enforcement actions and further improved the conscientiousness of obligation and compliance for the banking sector.
IV. Supervisory accountability and penalties

In strict compliance with the *Rules on Administrative Penalties*, the CBRC took enforcement actions when appropriate and ensured the appropriate imposition of administrative penalties by the CBRC departments and offices. In 2016, the CBRC and its offices issued 1,050 pieces of Decisions for Administrative Penalties and 631 banking institutions (including their branches) were subject to penalties, 12 of which were subject to Warning. The CBRC imposed fines worth of RMB 240 million and confiscation of illicit income worth of RMB 29.59 million against relevant banking institutions. In addition, 442 persons were subject to personal penalties, 255 of whom were subject to Warning, 165 of whom were subject to fines of RMB 10.48 million in aggregate, 88 of whom were subject to barring from the position of banking directors and senior managers for a prescribed period of time up to lifetime, and 42 of whom were subject to restricted access to the banking profession for a prescribed period of time up to lifetime. Furthermore, seven of them were also referred to judicial authorities for actions due to involvement in criminal matters.

With respect to areas in the banking sector prone to non-compliance and violation, the CBRC investigated and penalized a series of non-compliances and violations, especially behaviors that harmed the interest of the people, aroused the concerns of the public and harmed the order of the financial sector. The Consideration Panel of the CBRC Administrative Penalty Committee made decisions on penalties for five non-compliance and violation cases in the banking sector, imposing fines totaling RMB 42.9 million. Eight people held responsible were subject to Warning or Fine.

In addition, the CBRC worked to further refine relevant regimes on administrative penalties. In particular, 1) the CBRC issued the *Code of Conduct on Anti-Corruption and Self-Discipline for Staff of the Administrative Penalty Committee*, specifying the requirements on anti-corruption and lawful performance of duty for staff of the committee; 2) the CBRC prepared the *Working Manual on Administrative Penalties* to define the responsibilities and process for the CBRC to impose administrative penalties; 3) the CBRC drafted the *Guiding Opinions on the Investigation and Review of Administrative Penalty Cases* to regulate the processes of administrative penalty cases, including the filing and jurisdiction, investigation and obtaining of evidence, admissibility of evidence, determination of subjects of penalties, criteria for fines and confiscation, and method of enforcement; and 4) the CBRC started research on the cause of action and the discretion for administrative penalty cases and prepared the *Rules on Cause of Action for Administrative Penalty Cases (Draft)*, *Guiding Opinions on Discretions for Administrative Penalty Cases (Draft)* and the *Operating Procedures for Administrative Penalty Cases (Draft)*.

In addition, the CBRC took heavy efforts to the training of human resources, information disclosure and exchange of experience on administrative penalties. In particular, 1) it created the Database of Reviewers for Administrative Penalties and selected professionals on administrative penalties of its local offices to attend joint review of the CBRC administrative penalty cases; 2) in order to improve statistics and information disclosure, it added a new column “Administrative Penalty” under the “Information Disclosure” section of the CBRC website to publish executive
summarizes of the previous Decisions on Administrative Penalties made by the Commission. As of the end of 2016, the CBRC and its offices have published 7,589 releases on past administrative penalties on the CBRC website; and 3) the CBRC conducted exchange of experience and training activities in multiple forms, including seminars and expert panel consulting conferences, enhanced communication with its local offices and external experts, continued to learn from past experience to improve the capabilities and standards of work on administrative penalties.

○ The CBRC Guangxi Office built the information management system for penalties imposed on banking professionals

As one of the first CBRC Offices for trial of the “information management system for penalties imposed on banking professionals”, the CBRC Guangxi Office built the Guangxi Information Management System for Penalties imposed on Banking Professionals, which comprises five modules, i.e., Information Search, Information Review, Data Analysis, System Module and Help Module. The Office also promoted the 146 banking institutions under its jurisdiction to have designated personnel responsible for management of information and data on persons subject to penalties and to provide data support for qualifications and on-boarding searches. All officers approved in 2016 were all subject to “qualification searches” to effectively minimize the risk of appointing, recruiting or seconding “questionable” employees.

V. Organizational Development

1. “Two Learnings and One Practice”

Following the requirements of central government, the CBRC Committee of the CPC was highly committed to “Two Learnings and One Practice” learning and training activities. It emphasized the combination of learning and practice, with a problem-oriented approach, focused on providing category-based guidance, enhanced performance of responsibility, promoted learning and practice in an effective and orderly manner, and made substantial achievements. The People’s Daily and the Organization Department of the CPC Central Committee' Newsletter on “Two Learnings and One Practice” published articles on the best practices of the CBRC.

Highlighting “learning being fundamental” to guide the party members to take real actions to learn. The CBRC Committee of the CPC emphasized the top-down and demonstration approach. It held 13 sessions of central group learning and four themed seminars centered on “four values and four traits” (i.e. to value the political correctness, rules, morals and devotions, and to demonstrate the traits of faithfulness, self-discipline, self-behavior and integrity) to learn and implement the CPC
charter and bylaws, learn and grasp the essence of speeches of General Secretary Xi Jinping, and to ensure the unity of learning, awareness and action. All members of the Committee participated in activities organized by the branches they belong to as party members. They supervised and mentored 22 person times from the grass-root units and delivered lectures for 31 person times. Shang Fulin, then Secretary of CBRC Committee of the CPC and CBRC Chairman, visited CBRC offices of Gansu, Shaanxi, Yunnan, Jiangxi and Shenzhen and the China Merchant Bank Co., Limited (CMB) for survey and mentoring and delivered 9 lectures. In accordance with the party leadership's requirements, the CBRC Committee of the CPC held high quality activities centered at the essence of the sixth plenary session of the 18th CPC Central Committee. The party units within the CBRC organization held over 43,000 themed workshops, provided 2,100 themed training sessions and arranged party-member officials to deliver lectures for 8,400 person times. In addition, they also invited external experts to deliver lectures, carried out educational activities on the revolutionary history, and added dedicated columns for learning and training in the intranet. They also used new media like “WeChat, Weibo and news clients” to enhance the attractiveness and effectiveness of learning and training.

Emphasizing combination of learning and practice to promote the implementation of core tasks. The Committee guided party members to make self-assessment based on the “four values and four traits” criteria and to evaluate the effectiveness of learning and training based on the strength of “four awareness”, level of regulatory authoritativeness, public image and level of integrity in behavior. In addition, the Committee also promoted the party members’ power of example by guiding party members to make and deliver commitments and learn from examples. In concurrency with the celebration for the 95th anniversary of the CPC, the Committee awarded 159 “Best Party Members”, 101 “Best Party Affair Workers” and 98 “Best Grassroots Party Units” across the CBRC. The CBRC Wuxi Sub-Office was awarded “National Best Grassroots Party Unit” by the Central Committee.

With a problem-oriented approach to prioritize resolving problems. The CBRC strove to enhance the awareness of party rules, to strictly enforce political rules within the party, and to motivate action and entrepreneurship. It organized extensive discussions and prepared checklists to guide party members and officials to identify points to improve in a thorough and specific manner, and to address the problems of “incapability, unwillingness, and lack of courage”. With respect to the development of grassroots party units, it strove to combine learning and training activities with special inspections by the central leadership and related corrective actions, special inspections for human resources and related corrective actions, and the improvement of grassroots party units. It issued Various Opinions on Further Promoting Comprehensive and Strict Governance within the Party to strengthen supervision, enforcement of disciplines and accountability, and to accomplish key tasks for development of grassroots party units.

Implementing strict and specific requirements for responsibility to deepen learning and training. The Committee drove the party committees at different levels within the CBRC to take on the responsibility, especially for the party branches to take on immediate responsibility and to satisfy the requirements for “three basics” (party branches as the basic units; party activities as the basic form; and training and governance as the basic support). It organized “three looking-backs” and “three screenings” as the effective tools of learning and training. The organization of learning and training activities became one of the important measures for assessing the performance of the
“trinity” of leadership, administrative affairs and daily work and was implemented with specific responsibilities for different positions. Together with implementing the grassroots points of contact requirements, 14 CBRC offices mentored by members of the Committee and 84 CBRC sub-offices mentored by representatives of the CBRC headquarters organized learning and training activities to build demonstration centers for learning and training within the CBRC. They compiled and distributed 22 issues of special features on learning and training to promote, guide and provide a desirable environment for learning and training.

© The CBRC Offices innovated their approaches to develop grassroots party units

The CBRC and its offices continued promoting the strategy of strict party governance and enforcing the responsibilities and oversight of owners. Together with the “two learnings and one practice”, they continuously explored new approaches to develop party organizations. For example, the CBRC Shanxi Office required “monthly report on development of party organizations” and created bulletin on responsibilities for developing party organizations. The CBRC Shanghai Office distributed the checklist of “two responsibilities”. The CBRC Hubei Office adopted the “requirements for two officers” by appointing “disciplinary officer” and “anti-corruption officer”. The CBRC Hunan Office prioritized key areas of supervision and strictly enforced disciplinary accountability and responsibility. The CBRC Guangdong Office fully promoted the idea of supervision for the people, led grassroots units under its jurisdiction to make achievements on “five outstanding”, whose practice was published on the website of the Publicity Department of the CPC Central Committee. The CBRC Chongqing Office issued Interim Provisions on Reporting of Certain Affairs during “Non-Working Hours” by Party Members and Officials. The CBRC Yunnan Office implemented the “six strengthening” strategy to fully perform the responsibilities for party governance. The CBRC Shaanxi Office created the mechanism for random verification and evaluation for ant-corruption. The CBRC Gansu Office made amendments to the Detailed Measures to Implement the Eight Point Code of Conduct of the Central Committee in 25 aspects. The CBRC Qingdao Office established the innovative regime of supervisory officers.

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

In 2016, the CBRC, in strict accordance with the essence of the speeches of General Secretary Xi Jinping and decisions of the Central Committee, emphasized political awareness, conformity with the overall strategy and the core leadership, and alignment with the central leadership. It strengthened enforcing two responsibilities and promoted the development of anti-corruption tasks in the CBRC organization to a higher level. The party and administrative profile were improved accordingly.

(1) Political development. In learning and understanding the essence of the speeches of General Secretary Xi Jinping and implementing the decisions of the 18th CPC National Congress and the
third, fourth, fifth and sixth plenary sessions of the CPC Central Committee, and the sessions of 18th CPC Central Commission for Discipline Inspection, the CBRC read the decisions and strategies of the central leadership and the tasks and missions for disciplinary and inspection affairs from the perspectives of “Five-in-one” strategy (the integrated development of ecology, economy, politics, culture and society) and coordinated advancement of “four fully” strategy (fully accomplish a well-off society, fully deepen reform, fully promote rule of law, and fully promote strict party governance). The “two learnings and one practice” activities were always incorporated in political learnings throughout the year. They made deep analysis and anatomy against the criteria for a qualified party member and made thorough discussions on four themes in order to intensify “four awareness”.

(2) Building a clean government. The CBRC organized special learning activities on “complying with party charter, abiding by party disciplines and party rules” and made progress in four steps, i.e., Learning, Self-assessment, Correction and Inspection. Following learning of party charter, disciplines and rules, the 100% of the staff of the CBRC organization participated and passed the online assessment on clean government. The intranet site of the Discipline Inspection Team for the CBRC was redesigned and WeChat public account “Qing-Feng-Hua-Yu” went online. They effectively played the role for making official releases, display of work results, promotion and publicity, interactivity and exchange, and online supervision. All of the 88,000 party members and officials in the CBRC organization participated in the screening against the six disciplines of the CPC. It made special screening for cases that officials took parallel jobs and receiving compensation or received benefits from designated newspapers during management of financial license announcements. In addition, it made specific screening of cases that officials held shares of financial institutions, provide security for loans, and/or ran businesses and enterprises. Fifteen inspection groups were established to ensure full coverage of themed learning activities and made inspection over subordinate units and made on-spot feedback and required corrective actions for issues identified.

(3) Disciplinary inspection. The CBRC adopted the Measures for Implementing Disciplinary Inspections by Disciplinary Inspection Units within the CBRC Organization, the Procedures for Complaint Responses and Leads Processing in the Disciplinary Inspection Team of the Central Commission for Discipline Inspection for the CBRC, and the Interim Measures for Communication and Disclosure by the Disciplinary Inspection Team of the Central Commission for Discipline Inspection for the CBRC to provide institutional support for performing the oversight, discipline enforcement and accountability determination. A weekly meeting for leads processing was created to collectively discuss the approaches for processing leads and decisions, and to improve the level of standardization and justification. The CBRC continued improving the CBRC information system for discipline and inspection and created and promoted the mechanism for oversight, analysis and reporting.

(4) Combined use of “four forms” of oversight. Shang Fulin, then Secretary of CPC Committee for the CBRC and CBRC Chairman, met and talked with 20 party chiefs of the CBRC departments, CBRC offices, and agencies under the CBRC on performance of duty and clean government. Du Jinfu, Head of the Disciplinary Inspection Team at the CBRC and members of the CBRC party committee interviewed 59 chief officials. This marked the routine use of the first form of oversight. The CBRC issued Interim Measures for Communications on Clean Government by
Disciplinary Inspection Units in the CBRC Organization and held special training workshops to regulate the use of the “four forms” of oversight. The Disciplinary Inspection Team at the CBRC made communications on clean government with 174 officials of the CBRC headquarters and 52 secretaries of discipline inspection committees in the CBRC organization. In addition, they also had communications in writing with members of the leadership of agencies under the CBRC. This achieved the full coverage over the organization. Furthermore, communications on clean government were also carried out for change of positions, new promotions and new appointments.

(5) Implementing the Eight-Point Code of Conduct of the Central Committee. The CBRC carried out “looking back” activities for corrective actions for issues identified on “four ethos” (i.e. formalism, bureaucracy, hedonism and extravagance) and found 37 new leads to issues on “four ethos”, and sorted out 3,939 relevant rules and regulations, revised and newly adopted 289 rules. It held seminars on implementing the eight-point code of conduct of the central committee and correcting issues on “four ethos” and revised and issued Measures of the CPC CBRC Committee for Implementing the Eight-Point Code of Conduct on Improving Working Ethos and Connecting the People. The CBRC closely monitored key issues such as entertainment, travel and gifts at critical times and with public funds, and made further investigation and took appropriate actions and disclosures for indications of “four ethos” identified during disciplinary inspections, circular inspections, and auditing.

(6) Enforcing accountability requirements. The full accountability for strict party governance was included as part of the central group learning and party school training. Yang Xiaodu, Vice Secretary of the Central Commission for Discipline Inspection was invited to mentor on the Regulations on Accountability for 8,910 party members of officials with the ranking of director or above within the CBRC organization. Themed training workshops on accountability were also provided to over 6,000 party members and officials. The CBRC issued Opinion on Implementing the Stricter Control and Governance of Party Affairs to enforce the collective accountability of the party committee leadership and the requirement that head of party committee should be ultimately responsible and other members should hold “dual responsibilities at one position”. In addition, the CBRC made the key points for clean government and party behavior. It organized 15 supervisory teams and 15 inspection teams to supervise and inspect the enforcement of the accountability requirements and proposed corrective action plans. It adopted the approach of “dual reviews for one case” to enforce the accountability of officials failing to enforce the accountability requirements and to supervise corrective actions.

(7) Institutional framework. The CBRC, when implementing corrective actions for inspection findings, revised the Working Rules for the CPC CBRC Committee, the Measures for Inspections in the CBRC and the Measures for Audit of Financial Accountability, and made the Negative List for “Six Disciplines” in the CBRC Organization, and the Provisions on Personal Investment Activities by CBRC Personnel. With respect to key areas for regulatory duties, the CBRC adopted the Measures for Clean Government related Supervision and Administration for On-site Examinations and the Code of Conduct on Anti-Corruption and Self-Discipline for Administrative Penalty related Staff to promote law-based supervision. In order to intensify oversight of supervisors, the CBRC adopted the Measures for Enforcing Accountability on Regulatory Duties of CBRC Staff and the Measures of the CBRC for Implementing the Rules on Accountability of the CPC, in order to enhance accountability requirements from the perspectives of administration and party affairs.
(8) Team building. In support of the reform of deployment, the CBRC transferred 26 positions and 16 staff to the Disciplinary Inspection Team at the CBRC. It emphasized coordination with and support for the Disciplinary Inspection Team at the CBRC in daily work. In order to create a desirable environment for the Disciplinary Inspection Team at the CBRC and the committees for disciplinary inspection within the CBRC organization, all Secretaries for Discipline Inspection of the CBRC offices, financial institutions administered by the CBRC and agencies directly subordinated to the CBRC have completed “triple transfer”. The CBRC improved the cross-regional transfer of Secretaries for Discipline Inspection within the CBRC organization to ensure the nomination and assessment of Secretaries and Vice Secretaries for Discipline Inspection are led by the Disciplinary Inspection Team at the CBRC in consultation with the organizational department. As of the end of 2016, the Disciplinary Inspection Team at the CBRC, in consultation with the Organization Department of the CPC CBRC Committee, nominated and assessed 40 Secretaries and Vice Secretaries for Discipline Inspection. The CBRC worked to ensure case investigation being led by superior authorities, made self-inspections on leads of issues on some key official not administered by the CBRC, to ensure the seriousness and authoritativeness of investigations.

Du Jinfu, Head of the Disciplinary Inspection Team of the Central Commission for Discipline Inspection at the CBRC, made a field visit in Shaanxi

Thematic Column 7

Central Inspection Team No.12 fed back to the CBRC on special inspections

“Having all issues corrected and each case resolved” is the overall requirement for corrective actions for issues identified during inspection by the Central Inspection Team. The Disciplinary Inspection Team at the CBRC attached high importance to, appropriately analyzed and classified, responded actively in accordance with relevant rules and regulations to, and solidly
drove the resolution of complaints referred. They made substantial progress and all complaints referred have been resolved.

Firstly, strengthening leadership and directing at the front line. The CPC CBRC Committee expressly required that leads to issues referred by the Central Inspection Team shall never be resolved perfunctorily, or by masking severity, or compromising the rules. Du Jinfu, Head of the Disciplinary Inspection Team at the CBRC, led arrangements and deployments, participated in key cases, coordinated key processes and supervised investigation of key leads.

Secondly, highlighting key areas and making accurate response strategy. With respect to key complaints of special importance as indicated by the Central Inspection Team, the CBRC responsibilities based on the “five ones” (one case, one responsible person, one team, one solution, and one timeline) principles. It insisted that new issues, issued not verified, and issues without adequate investigation conclusion and evidence should not be omitted during investigation and resolution of cases. It insisted the requirements for daily tracking, weekly summary, and half monthly supervision to ensure effective performance of tasks.

Thirdly, organization-wide collaboration to form the effect of synergy. The CBRC implemented the requirements for submittals and reporting, reported to the Central Commission for Discipline Inspection in a timely manner to obtain effective guidance. It maintained close communication with the CPC CBRC Committee to request high supports. The Disciplinary Inspection Team at the CBRC led and organized a number of Secretaries for Discipline Inspection of the CBRC offices to make expedited investigation and resolution and to achieve synergy effect. The processing of complaints referred by the Central Inspection Team was also a process to enforce disciplines. The Disciplinary Inspection Team at the CBRC took actions for leads to issues in strict compliance with the rules and disciplines, using the “four forms” and “five approaches”.

First, taking serious action against noncompliance and violations to create an environment that “deters corruption”. It took serious actions against violations of the eight-point code of conducts, made communications and public disclosures in a timely manner to effectively deter further violations;

Secondly, making root cause analysis and taking corrective actions accordingly to improve the mechanism of “being unable to corrupt”. It took preventative actions for issues identified during preliminary inspections and adopted a series of measures and continuously improved the design of relevant rules and regulations to strengthen disciplines. It combined the processing of complaints and special learning activities on “complying with party charter, abiding by party disciplines and party rules” to search for corrupt risks and to actively remedy vulnerabilities;

Thirdly, actively using “the first form” of supervision to create the ideology of “being unwilling to corrupt” among party members and officials. Heads of CBRC departments and financial institutions administered by the CBRC who are subject to admonition would be subject to communication with the chief of the CBRC. Other officials would be subject to communication with the officers of the CBRC in charge of the respective areas. This ensured a desirable environment for timely reminding, warning, and critic of non-compliances and violations. Together with the issues identified during inspection, the Disciplinary Inspection Team at the CBRC arranged comprehensive communications with 87 director-general level officials in the CBRC headquarters and all Secretaries for Discipline Inspection within the CBRC organization and arranged communications on “two responsibilities” with heads and secretaries for discipline inspection of some party units to ensure accountability.
3. Human resources

As of the end of 2015, the CBRC employed 23,707 people in total, including 635 at the headquarters, 5,605 at provincial offices, 13,254 at field offices and 4,213 at supervisory offices at the county level, accounting for 2.68 percent, 23.64 percent, 55.91 percent and 17.77 percent of the total respectively. Of all, female staff numbered 8,862 or 37.38 percent, staff holding undergraduate or higher degrees numbered 20,011 or 84.41 percent of the total, and staff under the age of 45 numbered 11,958 or 50.44 percent.

4. Leadership training

With a view to strengthening members’ faith, belief and party spirit, and to learn and implement the essence of speeches and the new philosophy, new thoughts and new strategies on state governance and administration of General Secretary Xi Jinping, the CBRC enhanced the leadership training for officials in combination with the activities of “two learnings and one practice”, thereby improving their competence and morale.

(1) The CBRC continued carrying out leadership training, focusing on enhancing the “four awareness”. Under the arrangement of the central leadership, members of the CBRC leadership attended courses held by the Central Party School and other educational institutions, and dispatched 39 director-general level officials to attend courses held by the Central Party School and other “One School and Five Institutes” programs, as well as 6 director-general level officials to attend special workshops. In addition, the CBRC organized director-general level officials of 404 person times in the CBRC who attended the online learning courses offered by China E-learning Academy for Leadership.

(2) The CBRC intensified learning of the party’s theory and party spirits, thereby enhancing training of director-general level officials. The CBRC held 2 sessions of special workshops on learning and implementing the essence of the fifth Plenary of the 18th CPC Central Committee and the “two learnings and one practice” activities to solidify the theoretical basis of leaders and improve their ability to perform duties. The CBRC held a teleconference on learning and implementing the essence of the sixth Plenary of the 18th CPC Central Committee and promoting fully party governance to better understand relevant theories, enhance the “four awareness” among director-general level officials, be unified more closely around the central leadership with the core of Xi Jinping, truly follow the essence of the plenary session from both the perspectives of ideology and action, so as to improve the ability to serve real economy, prevent and control risks, regulate the industry based on law, and promote reform and development.

(3) The CBRC enhanced training of director-general level officials, focusing on developing strict and honest work style and enhancing regulatory capabilities. The CBRC held learning and training workshops on “two learnings and one practice” for newly appointed director-level officials, and provided special training on for directors to perform the role of middle management, so as to solidify the foundation of regulatory functions. Efforts were made to promote the requirements for strict governance among the grassroots units and held 2 times of special workshops on developing party affairs for party secretaries of field offices. This included special training on how
to manage the critical few, how to perform the ultimate responsibility of the party secretary of field office, and how to deepen the development of party affairs in the grassroots units, thereby further enhancing the responsibility of the party secretary of the field office for management and governance of party affairs.

5. Staff training

With a view to serve regulatory functions and with a problem-oriented approach, efforts were made to promote training of regulatory capabilities of the officials. The CBRC headquarters organized a total of 35 onsite training workshops for more than 2,880 participants.

(1) Making the training more targeted. With a view of major national development strategies and requirements for the reform and development of the banking sector, and in line with the core tasks of supervision and requirements of respective supervisory roles and functions, the CBRC held 7 special training sessions on improving the regulatory capabilities with a focus on improving the skills, competence and expertise of the staff. In addition, the CBRC provided special trainings themed on individual business lines and comprehensive functions from the perspectives of regulatory rule-making, functional supervision, institutional supervision and supervisory support. The CBRC held 6 sessions of “Regulatory Knowledge Lecture” for all staff within the CBRC organization.

(2) Providing training based on different levels and types. The CBRC provided various types and categories of training for officials based on the path of career development and the composition of the CBRC officials. For the leadership, it emphasized training on theoretic philosophy, macro strategic thinking and leadership competence in order to improve the ability to solve complicated problems. In the case of backbone resources for regulatory functions, it strengthened training on awareness for overall strategy, awareness of accountability, and capability of execution, so as to improve capabilities to identify, measure, monitor, control risks and to coordinate and organize business. For the young officials, it focused more on enhancing the professional knowledge and skills, strengthening practical experiences and increasing the awareness of shared cultural values.

(3) Leveraging on international expertise. The CBRC held a number of overseas training workshops, with a view to promoting regulatory innovation, driving the green credits and deepening reform of financial regulation. 38 directors or higher level officials have received such training. 12 persons were dispatched to study in famous foreign universities under government-sponsored scholarship programs and 13 persons were dispatched to attend short-term training and medium and long term internship programs sponsored by foreign regulators and financial institutions. In addition, the CBRC, in cooperation with the Hong Kong Monetary Authority (HKMA), held 4 sessions of training workshops, hosting 117 participants.

6. Cultural building

Organizing contest on professional skills. With the platform offered by the trade union, the CBRC carried out a series of contests for “Best On-site Examination Projects”, “Best Chief Examiners” and “Best Examiners” and contests for “EAST Application Contest”. A number of best performers in on-site examination and application of the EAST system received awards. This motivated the enthusiasm among officials and staff of the CBRC.
Rewarding best performers. The CBRC awarded 20 Best Units for Administrative Jobs, 100 Best Performers for Regulatory Tasks, 37 Model Learning Units, and 37 Model Knowledgeable Employees. In addition, the CBRC recommended one candidate for Workers’ Awards, three for Workers’ Medals, and one for Demonstration Unit for Development of the Employees’ Representative Regime in the Financial System to the China Financial Workers’ Union, and one candidate for “National Workers’ Pioneer” to the All-China Federation of Trade Unions. Furthermore, the CBRC organized a series of Model Worker caring and treatment activities, participated by 45 model workers from the CBRC headquarters, 17 provincial offices and 27 field offices.

Helping employees in need. The CBRC updated the archive of employees needing help on a timely basis to ensure every employee needing help would receive cares of the whole organization. The total cost spent in 2016 on this matter reached RMB 816,000. The CBRC also granted allowance to 19 employees whose were with major diseases and whose medical costs accounted for more than 50% of their annual income within the CBRC organization. The total allowance granted reached RMB 876,300.

Enabling the growth of the youth. The “Glamour of Youth” for Excellence at Work Showcase was carried out, with 141 Projects of Excellence for Youth recommended. The CBRC implemented the “Skills and Service Capacity Enhancement Campaign for Young Banking Staff”, recommended 222 Best Performers and 224 Service Stars, 47 Projects of Excellence for the youth in the financial system nationwide, generating 127 “Golden Idea” solutions.
7. E-government

In 2016, pursuant to the requirement in the Guiding Opinions of the State Council on Expediting “Internet plus Government” Initiative (Guo-Fa (2016) No. 55), the CBRC continued to promote the go-on-line of administrative licensing, completed and improved the Online Licensing System of the CBRC Headquarters, to optimize work process and to ensure the full traceability and retrievability of administrative licensing matters processed online. In addition, a number of standard templates like the Notice on Handling and the Decision of Approval were added to the Licensing System to further standardize administrative licensing process. The CBRC had processed 470 administrative licensing matters on line, 365 of which were processed by the CBRC headquarters, and 105 of which were filed with the provincial offices but reviewed by the CBRC. All matters were processed within specified deadline.

8. IT Enablement

In 2016, the CBRC took efforts in in-house research and development of the core technologies for the regulatory information system, and had developed application system frameworks of well-designed functions and clear logic for four fundamental areas: the OA platform, off-site surveillance, on-site examination and licensing management. The Examination & Analysis System Technology (EAST) developed by the CBRC in-house has become one of the important regulatory innovations. As of the end of 2016, the system has collected 592TB of standardized data from 2,635 financial institutions nationwide, which represents a 6.6 times increase year on year. This covered 84% of the bank assets, increasing 52 percentage points year on year. The EAST effectively supported 1,044 projects on on-site examinations, off-site surveillance, and licensing, an increase of 60% year on year.


In 2016, pursuant to the requirement of the central government 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 the reform of official vehicles was further promoted so as to reduce overhead cost. Allocation of financial resources was increased for field supervisory activities and key regulatory areas and the expenditures directly for on-site examinations and the development of the regulatory information system accounted for 52 percent of the annual budget. The CBRC increased expenditures for promoting economic restructuring, financial support for SMEs, agriculture, rural areas and farmers, enhancing protection of financial consumers, and facilitating financial inclusion. The fiscal need for implementing the top-level design of deepening reforms and developing the prudent regulatory regime was prioritized. In addition, the CBRC worked to ensure financial resources for international regulatory cooperation, supporting the development of the Consumer Rights Protection Service Zones and lease and improvements of office premises.
Chart 8  Expenditure by Items to the CBRC’s 2016 Budget
Part Six

Regulatory Measures

- Prudential regulation
- Institutional supervision
I. Prudential regulation

1. Risk management

(1) Credit risk supervision

In 2016, the CBRC paid higher attention to prevention and control of financial risks, especially credit risks, which it took as the most important task for risk control in the banking sector. For this reason, the CBRC worked to strictly control incremental risks, mitigate existing risks, and defend the bottom line of avoiding systemic risks.

Firstly, further refining the risk management system. The CBRC drove the banking institutions to improve the management of unified credit extension, intensify assessment of customer risks, standardize the credit approval process, refine the framework for concentration risk management, enhance accuracy of classification of loans, make classification of non-credit assets and improve the effectiveness of risk mitigation measures. The CBRC guided banking institutions to adopt simple and transparent transaction structures, measure capital based on actual transfer of risks, make accounting calculation and set aside provisions accordingly, and enhance the rule of market to prevent regulatory arbitrage activities.

Secondly, intensifying management and control of credit risks in key areas. (i) taking specific strategies dependent on the particular categories to mitigate credit risks in over-capacity sectors. The CBRC guided banking institutions to follow principles of risk controllability and business sustainability. Credit would be continued to be extended to enterprises which, although from over-capacity sectors, have profitable operations, advanced technology and equipment, competitive products and substantial market. Loans would no longer be extended to enterprises adding new capacities in violation of relevant rules. Loans for enterprises that have long been in loss and unable to repay debts and have no market competitiveness, or that cannot meet relevant standards on environment, product quality, work safety, and technology and the remedy of which is not possible, or those whose capacity is obsolete or does not conform to industrial policies, would be immediately reduced and terminated; (ii) Controlling risks on real estate financial business. The CBRC asked banking institutions to take differentiated housing credit extension policies following the requirements for supporting destocking of the real estate sector, and to control the speed of business growth appropriately to effectively mitigate the concentration risks of the sector. In addition, it asked banking institutions to take a prudential attitude towards real estate intermediaries and developer related business, regulate the management of loan business, enhance management of wealth management funds, and conduct real estate trust business in a compliant manner. It inspected the risk of real estate financial business and took regulatory actions accordingly against failure or inadequacy in implementing macro control policies and requirements for prudential rules; and (iii) controlling risks in local government debts. In strict
compliance with the new Budget Law and *Opinions of the State Council on Strengthening the Management of Local Government Debts* (Guo Fa (2014) No. 43), the CBRC guided banking institutions to intensify management of all-factor risks of local government debts, prohibited the acceptance of local government’s guarantee for debts, “debts in the name of equity”, and new contingent local government debts through other channels.

Thirdly, striving to improve asset quality. (i) Strictly enforcing the standards of classification. It drove banking institutions to implement the requirements for classification of loan risks, enhance management of the classification of loan risks, achieve true presentation of loan quality, and regularly conduct internal audit on the policies and procedures for classification of loans. The CBRC increased penalties and strictly enforced the accountability for fraud in classification of loans to disguise the true state of loan quality. Furthermore, the CBRC required banking institutions to have specified standards and operating procedures for classification of non-credit assets to reflect the risk profile of non-credit assets in a true, accurate and dynamic manner; (ii) Controlling new non-performing loans (NPLs). The CBRC enhanced risk monitoring and analysis, had a dynamic understanding of the credit risk profile, and strengthened risk information sharing. At the same time, the CBRC strictly enforced the requirements for triple due diligence of loans, urged banks to enhance selection of customers and pre-warning of risks, improve risk contingency plans, carry out risk stress tests, and contain the increase of NPLs; and (iii) expediting disposal of existing risks. The CBRC intensified communication with fiscal and taxation authorities to fully use the deductions for NPLs and writing off for bad loans. By combination of restructuring, securitization, transfer of rights to earnings, batch transfers and other tools, the CBRC continued expanding channels for disposing of NPLs, exploring pilot projects of securitization and transfer of rights to earnings for NPLs. Banking asset management companies, local asset management companies, and trust companies were also encouraged to participate in disposal of NPLs.

Fourthly, further refining the concentration risk management framework. In 2016, the CBRC drove banking institutions to create concentration risk management frameworks fully based on the penetration principles and establish management information systems for concentration risks, so as to identify, monitor, analyze, and manage concentration risks in a multi-dimensional manner.

**Box 18** NPLs at commercial banks

As of the end of 2016, the outstanding NPLs at commercial banks in China were RMB 1.51 trillion, representing an increase of RMB 237.8 billion over the year beginning, which was RMB 194 billion lower than the figure one year before. The NPL ratio was 1.74%, representing an increase of 0.07 percentage point over the year beginning, which was 0.35 percentage point lower year on year. The NPL ratios of the four quarters were 1.75%, 1.75%, 1.76%, and 1.74% respectively. The increase of NPLs slowed down remarkably compared with 2015.

In 2016, the downward trend of the macro-economy put more pressure on the credit risk management in the banking sector. The CBRC urged banking institutions to enhance
control and management of NPL risks, strictly implement the requirements for “accurate classification, sufficient provision, solid profits, and adequate capital”, to present the true state of loan quality, improve the capability to assess risks, take multiple measures to mitigate existing risks, and ensure avoidance of systemic risks.

CBRC Zhejiang Office innovated a new mechanism to jointly combat against default of bank debts

The CBRC Zhejiang Office pioneered in exploring the mechanism for the banking sector to jointly combat against default of bank debts, organized banking institutions to sign cooperation agreements, to build an information platform for debt default, and to take joint actions against 12 types of related parties involved in debt default. In addition, the Office proactively persuaded the Zhejiang Provincial Government to arrange special campaign to fight against default of credits jointly with the police, taxation, judicial, and industry and commerce authorities. As of the end of 2016, the debt default information platform in Zhejiang has over 700 entries of information of debt default parties, with the outstanding amount of debts overdue reaching RMB 14 billion. Over 60 of them voluntarily repaid the principal and interests of loans, reached agreement on repayment or began to cooperate with judicial authorities within the warning period.

CBRC Hainan Office achieved tangible progress in promoting the “two reinforcements and two containments” and “looking back” campaign

The CBRC Hainan Office actively promoted the “looking back” activities, urged banking institutions to intensify internal control and strengthen the philosophy of compliance. In the on-site examination process, the Office adhered to the principle of using unified standards for allocation of examination human resources, for reviewing key issues, and for determining the nature of the problems found and deciding on the penalty measure, and largely promoted the application of the EAST system.

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Ningbo Donghai Bank achieved the goals for “dual zero” and strictly controlled asset quality

In 2016, the Ningbo Donghai Bank achieved the strategic goals for “dual zero”, i.e., zero growth both in overdue loans and non-performing loans (NPLs). The Bank combined the process of recovering loans and converting risks by making plans, monthly following-up, issuing policies and publicity tools to strengthen the effectiveness of implementation. The Bank recovered principal of risk loans of RMB 31.70 million in cash, mitigated risk in loan principal of RMB 45.92 million, wrote off RMB 63.47 million, and realized collaterals for loans of RMB 23.06 million. Total loans in risk disposed of reached RMB 164.15 million.
In 2016, the CBRC continued to strengthen regulation of bank capital, refined supporting regimes for the *Capital Rules of Commercial Banks (Provisional)* ("Capital Rules") to drive commercial banks to improve their capacity of risk management and capital planning, guide commercial banks to expand resources for capital replenishment, and improve commercial banks’ capability of robust operation. Firstly, consolidating regulation mechanism of the pillar II. In September 2016, the CBRC issued the *Notice on Intensifying Monitoring of Capital Adequacy Ratio of Commercial Banks* with a view to promote commercial banks to create internal procedures for assessing capital adequacy ratio (CAR) and to enhance the philosophy of operating business subject to the CAR. Secondly, continuously improving commercial banks’ capability of risk measurement and management, upgrading the information system for capital measurement and improving data automation. Thirdly, deepening innovation of capital tools. The eligibility to issue tier 2 capital bond instruments was being continuously expanded and has become one of the important resources for banking institutions to replenish capital. The eligibility to issued preferred shares has also been extended to most public listed banks.

(2) Liquidity risk supervision

Firstly, diversifying measure of liquidity risk supervision. The CBRC directed banking institutions to incorporate the management of liquidity risk into their overall development strategy and comprehensive risk management system, thereby forming a liquidity risk management system that covers both on- and off-balance sheet items, both local and foreign currency dominated items, and both domestic and overseas items. In addition, the CBRC intensified prevention and control of liquidity risks in key institutions, at special periods and in special business areas to enhance management of liabilities and improve the contingency plans for mitigating liquidity risks.

Secondly, preventing and controlling the risk of maturity mismatch in interbank business and wealth management business. The CBRC worked to regulate the investment and quota management for interbank business and wealth management business, ensure appropriate alignment between the development of business, maturity of investment and financing, and capacity of liquidity management, and strictly control multiples of leverage and layers of embedment. The CBRC also guided banking institutions to incorporate interbank business and wealth management business into the liquidity stress test framework, diversify tools of liquidity management, explore resources of emergency liquidity supply, and continuously improve liquidity management.

Thirdly, strengthening monitoring and early warning of liquidity risks. The CBRC closely monitored the liquidity risk profile at critical periods and made in-depth analysis of the development of liquidity risk in the banking sector. The CBRC held a series of seminars, regulatory conferences, and meetings to communicate its intention of regulation, key areas of supervision, and risk indicators with banking institutions and to enhance monitoring and guidance for institutions that
were disadvantaged in liquidity risk management.

Fourthly, improving the capacity of the banking sector for mutual liquidity support. The CBRC worked to establish and refine the mechanism for mutual liquidity support among city commercial banks and rural commercial banks and create the liquidity safety net for small and medium banking institutions, taking advantage of the Trust Protection Fund.

As part of the national pilot program, the CBRC Hebei Office directed 11 city commercial banks in the Province to design “wealth management products for Hebei Banking mutual liquidity support fund” and create a multi-layer mutual support system which is “based on wealth management fund products and supplemented by inter-bank accounts and emergency assistance by Bank of Hebei”. The mutual support fund was launched on 8 June 2016, and has completed single testing and concurrency testing under real scenarios and provided 16 times of mutual liquidity assistance, amounting to RMB 2.14 billion. The mutual support fund is not only an additional “safety net” for prevention of liquidity risks, but also the hub for city commercial banks to cooperate. This further enabled city commercial banks to work in synergy and refine liquidity management.

(3) Operational risk supervision

Firstly, continuing directing banking institutions to fulfill the requirements for risk prevention and control and to improve the internal control. Efforts were taken to refine the rules on operational risk management, create and improve internal communication channels, pay special attention to employees’ non-financial activities, improve the mechanism for regular screening and whistle-blowing of abnormal behavior of employees, and intensify accountability.

Secondly, strengthening prevention and control of operational risks at key areas. With respect to areas vulnerable for non-compliance, the CBRC carried out on-site examinations and continuously followed the corrective actions. It issued risk warnings and notices on typical cases such as violations in interbank note business and leakage of customers’ information, and held supervisory meetings with some banking institutions. The CBRC worked to continuously improve the risk information management system for cases and facilitated the trial operation of the penalty information management system for banking professionals, thereby strengthening management of the behaviors of banking professionals.

Thirdly, increasing verification and guidance on cases to curb the frequency and number of cases. The CBRC conducted on-site investigation on major cases in the banking sector and provided follow-up guidance to identify weakness in rules and management and promote accountability of cases. In close cooperation with the fiscal, audit and police authorities, the CBRC further improved response to and resolution of case risks.
In May 2016, the CBRC issued the *Notice on Regulating Distribution Activities of Commercial Banks* (the “Notice”) to further regulate the distribution business of commercial banks and protect investors’ interests with respect to the misleading sales behavior, unlicensed distribution, unauthorized distribution of products and vagueness in responsibilities with business partners and other issues in commercial banks’ distribution business. The Notice set forth specific requirements on internal management system, management of partners, access management, management of sales activities, information disclosure, confidentiality and improving supervision.

According to the Notice, distribution business is subject to four principles, i.e., compliance with laws and regulations, eligibility of relevant financial products, requirement for higher investor suitability and segregation of risks between distribution business and other businesses. Commercial banks are only authorized to distribute financial products issued by licensed financial institutions regulated by the CBRC, the China Securities Regulatory Commission (CSRC) and the China Insurance Regulatory Commission (CIRC), and shall not distribute products issued by any other organizations, except for government bonds, physical precious metals or products otherwise prescribed by the CBRC.

According to the Notice, commercial banks shall establish and improve management rules for distribution business and exert centralized and unified management of distribution business by the head office. The head office of commercial banks shall conduct due diligence on business partners and set up a name list of partners. In principle, the distribution agreement shall be signed between the head office of commercial banks and headquarters of business partners, and products to be distributed shall be subject to approval by the head office of the commercial banks. Commercial banks shall strengthen investor suitability control, fully state the nature of distribution during sales process, make adequate disclosure of risks on distributed products instead of misleading customers to purchase products by exaggerated or false marketing means, and make visual and audio recordings in accordance with relevant regulations. Commercial banks shall keep confidential customer information as provided by law, direct business partners to make timely, accurate, and complete disclosure on products, and, together with the partners, set up procedures to handle customer complaints and respond to emergency.

According to the Notice, commercial banks shall have clear authorization for salespersons and scope of products distributed, prohibit unauthorized distribution activities, forbid persons other than their own personnel to carry out promotional or sales activities at bank outlets, and shall not mix distributed products with deposits or wealth management products issued by the banks themselves.

(4) Market risk supervision

The CBRC directed banking institutions to appropriately respond to challenges due to changes in interest rates and exchange rates, establish and improve the market risks management system,
refine the framework for analyzing financial market risks, and combine various measurement tools to assess risks in interest rates and exchange rates. Banks shall actively react to interest rate liberalization and fluctuation in the exchange market, refine the standards for market risk capital measurement and to improve the granularity of market risk capital measurement. With respect to rising default risks in the debt market and high risks in certain banking institutions’ bond underwriting business, the CBRC guided relevant banking institutions to improve management of bond duration, and control the outstanding balance of bonds and size of operations in a reasonable manner. In addition, the CBRC also guided banking institutions to enhance management of foreign exchange positions and exposures, track the trends of the exchange market and make hedging operations as appropriate, and enhance risks management for financial products and minimize impact of external market changes to the operation of banking institutions.

Media perspective 7: Cattle pen is not for cats

On 2 March 2017, GUO Shuqing, Chairman of the CBRC, indicated at the press conference hosted by the State Council Information Office that the CBRC would attach greater importance to preventing and controlling financial risks and financial regulators would act as the role of “doorkeeper” and “night guard” for the country and the people.

Financial risks are complicated, implicit and contagious, and therefore forward-looking supervision is particularly important. Regulators should try to “race against risks”, i.e. to refine regulations based on the latest changes in market before risks materialize, avoid “fencing cats with the cattle pen”, improve regulators’ awareness for “early warning and patrolling”, and have the courage to take action against and reveal non-compliances and violations, in order to protect investors and consumers and maintain financial stability.

Before, the CBRC proposed to set aside countercyclical buffers, i.e., banking institutions shall set aside higher provisions in years when growth of loans and net income were both high for loan impairment, in a bid to maintain robust risk-absorbing capability. This “forward-looking” measure has displayed its benefits today.

The banking sector has a long tradition of “strict control of balance sheets, accounting and policies”. In the future, this practice should be maintained with the regulators responsible for supervising risks and banking institutions responsible for implementing risk controls. The roles and responsibilities should be clearly identified and performed and accountability for non-compliance enforced.

In addition, regulators should continue to improve their own capacity for market research and risk identification, investigate and correct business activities that diverge from the purpose of serving the real economy, and take special measures against regulatory arbitrage and arbitrage through falsifying operations and affiliated transactions. The regulators should continue to improve governance, combat non-compliances and violations, and carry out specific campaigns, especially against activities involving non-compliant connected transactions, channeling of benefits in disguised forms, and omission of material operational and management information.

Only “having the courage to take action against and reveal non-compliances and violations” can the regulators fulfill the duty of “doorkeeper” and “night guard” for the country and the people.

(Source: Economic Daily, 3 March 2017, by Guo Ziyuan, edited)
(5) Country risk supervision

Firstly, the CBRC continuously drove banking institutions to implement the *Guidelines on Country Risk Management for Banking Institutions*, create and improve the country risk management system in alignment with their strategic objectives and the size and complexity of exposures to country risks, refine the mechanisms for assessing, monitoring and mitigating country risks, make sufficient reserves, intensify credit management, and improve the capacity for country quota management.

Secondly, the CBRC intensified monitoring and analysis of country risks and assessing level of country risks and impact of major international incidents. With respect to economic instability in Europe and the United States, material changes in the head office of foreign banks, and policy changes of foreign regulators, the CBRC continued monitoring and analyzing the level of risks and changes at individual banking institution and the whole banking sector, and directed banking institutions to enhance management and take appropriate measures according to the development of country risks.

Thirdly, the CBRC urged banking institutions to enhance control of overseas risks. The CBRC guided banking institutions to enhance study on the strategy of internationalization and expansion of overseas business, appropriately assess country risks of different countries, create clear and effective management models and reporting paths for overseas offices, enhance substantive analysis and guidance on the risk management of overseas offices, expedite development of information system for overseas offices and improve the timeliness, completeness and accuracy of corporate data. The CBRC guided banking institutions to achieve reasonable development of overseas business and effectively minimize risks.

Box 21  CBRC strengthened risk management of banking institutions’ overseas operations

In order to further promote the development of overseas business of banking institutions, mitigate risks in overseas business, and better serve the real economy, the CBRC issued in March 2016 the *Notice on Further Strengthening Banking Institutions’ Management of Overseas Operational Risks*, which further directed banking institutions to effectively strengthen risk management for overseas operations from the perspectives of internal management and external supervision, advocated banking institutions to support enterprises “go global” and the Belt and Road initiatives and improve overall quality and efficiency of services with risks under control.

Firstly, improving the capacity of operational risk management. The CBRC directed banking institutions to intensify analysis and assessment of the business environment and risk profile of overseas business development, refine the management rules on decision making for overseas business, clarify the operational responsibilities for overseas business, follow loan approval procedures and credit management rules, and make proprietary investments in a prudential manner. Banking institutions were also required to strengthen control of country risks, enhance
internal control and compliance, refine the management information system, and accomplish the assessment, monitoring, early warning and resolution of risks on overseas business. Furthermore, banking institutions were required to enhance accountability for non-compliance and supervision on relevant staff, strengthen corrections of issues identified during internal audits, intensify penalties and disciplinary actions against non-compliance, and strengthen management of overseas offices and team building.

Secondly, enhancing policy support and external supervision. The CBRC encouraged banking institutions to set up the mechanism for information exchange to promote sharing of best practice of overseas business and collaboration in business. The CBRC strengthened supervision on overseas business in terms of market entry, off-site surveillance, on-site examination and cross-border regulatory cooperation.

(6) IT risk supervision

Firstly, refining the IT risk supervision system. The CBRC promulgated and issued the *Regulatory White Book on the “Thirteenth Five Year Plan” for Information Technology in China’s Banking Sector, Return on Off-site Surveillance of Information Technology in Banking Institutions (2016), and Guiding Opinions on Strengthening the IT Development and Management in Non-bank Financial Institutions*. The CBRC further improved the regulatory ratings for information technology to refine rating methodologies and optimize rating criteria and rating rules. IT ratings were incorporated into ratings of banking institutions and rating results were communicated promptly to improve the quality and effect of IT regulatory ratings.

Secondly, combating new types of violations and crimes related to telecommunication services and the Internet. The CBRC, jointly with other relevant ministries, issued the *Notice on Joint Operation for Combating Illegal Trading of Banking Card Information (Yin Fa (2016) No. 235)* to comprehensively screen and investigate telecommunication fraud activities, leakage of customer information, and bank card fraud, organized special campaigns on protection of banking customer information, made action plans for the banking sector to prevent and control IT risks on illegal trading of bank cards, directed banking institutions to enhance institutional framework and internal controls and effectively protect banking customer information.

Thirdly, strengthening supervision on risks of IT outsourcing in the banking sector. The CBRC issued the *Notice on Regulating Information Technology Outsourcing of the Banking Industry*, directed banking institutions to perform the responsibility of outsourcing management, refine outsourcing management procedures, and mitigate the risk of outsourcing concentration. The CBRC also enhanced resolution of material outsourcing incidents in the banking sector, directed banking institutions to deepen assessment and investigation of major risks in IT outsourcing and promoted earlier resolution of outsourcing risks.

Fourthly, intensifying supervision of network and information security for the banking sector. The CBRC carried out assessment of risks in network security protection system of the banking sector, built the mechanism for information sharing of network security risks, the mechanism for consultation of network security risks and the mechanism for joint action on network security of the banking sector, and enhanced risk information sharing across the industry. In addition, the CBRC
carried out monitoring of vulnerabilities of the Internet based system and phishing sites of the banking sector, promptly shared relevant information with the whole industry, and urged relevant corrective actions. The CBRC made penetration test on Internet based system security of banking institutions and enhanced supervision on risks of Internet based application security.

Fifthly, enhancing analysis and assessment as well as resolution of IT risk incidents. The CBRC made timely assessment of the trend of banking IT risks based on off-site surveillance returns and other regulatory data. It resolved several IT risk incidents in banking institutions and guided banking institutions to make self-assessment of risks and prevent contagion of material risks in a timely manner. In 2016, the number and extent of impact of IT risk incidents in the banking sector decreased compared with the previous year.

China Minsheng Bank developed an in-house management system for information security threats which effectively defended over 14.4 million network attacks and over 300,000 virus incidents. In addition, the bank developed a distributed financial cloud solution plan and an external data platform and intelligent analysis system to improve its capacity of intelligent financial services. The bank has joined the R3 Blockchain Alliance, built its blockchain cloud service platform, and launched business applications based on the blockchain technology.

China Minsheng Bank substantially expedited the development of financial IT security

Firstly, together with the Supreme People’s Court and other authorities, the CBRC issued the Notice on Preventing and Combating New-Type Violations and Crimes related to Telecommunication Service and the Internet and the Opinions on Further Preventing and Combating New-Type Violations and Crimes related to the Telecommunication Service and the Internet, which made specific requirements for the banking sector to combat telecommunication frauds. In addition, the CBRC issued jointly with the Ministry of Public Security (MPS) the Requirements on the Return of Frozen Funds in New-type Telecommunication and Online Frauds and the Implementation Rules of the Requirements on the Return of Frozen Funds in New-type Telecommunication and Online Frauds, and created together with the MPS the “MPS Center for Investigation and Control of New-Violations and Crimes related to Telecommunication Service and the Internet” to effectively solve the issues that victims of telecommunication frauds found it difficult to recover their money subject to fraud.

Secondly, the CBRC used the EAST system to make big data analysis of telecommunication and Internet fraud activities in a innovated way. It analyzed the characteristics of fund

Box 22 The banking sector combated new-type telecommunication violations and crimes
flows in victim accounts and suspect accounts, such as opening of multiple bank cards, opening of bank cards not in due process, and opening of bank cards on behalf of others, directed banking institutions to create and refine the mechanism to prevent and control telecommunication frauds with big data. Some CBRC offices also used the EAST system to make big data analysis, and captured over 1,200 suspect accounts with indicators of fraud activities, 500 of which were confirmed being used for telecommunication fraud. The offices also directed banking institutions to carry out monitoring jointly with other related parties, successfully prevent over 400 telecommunication fraud attempts, and recovered over RMB 16 million of loss for customers.

Thirdly, the CBRC made efforts to build the Internet based investigation and control platform which enabled the interconnectivity between the Supreme People’s Court, the Supreme People’s Procuratorate, the MPS, and the Ministry of National Security, playing an important role for effectively preventing and combating telecommunication fraud.

The CBRC Fujian Office issued the Notice on Further Promoting the Banking Sector to Prevent and Combat New-Type Violations and Crimes related to the Telecommunication Service and the Internet, cooperated with the Department of Public Security to create 9 Anti-Fraud Centers, and jointly issued the Details Operating Procedures of the Anti-Fraud Center for Quick Query, Suspending Payment and Freezing Bank Accounts Involved, directed 7 banking institutions to assign 110 bank staff to the Anti-Fraud Centers, and assisted the quick query of 32,700 bank accounts involved, with a total amount of RMB 668 million. The Office strengthened the real name requirements for bank cards and terminated 54,600 cards opened not in due process and 2,880 bank cards not satisfying the real name requirement. The Office held the “Preventing Telecom Fraud Month” campaign which benefited 12 million people. With a series of effective measures, the increase of crimes related to telecommunication services and the Internet has been contained.

(7) Reputational risk supervision

Firstly, organizing the banking sector to make comprehensive reputational risk self-assessment for the first time. The CBRC organized 36 CBRC offices and major banking institutions to make top-down self-assessment on reputational risks, covering 25 lines of business, including mortgage loans, credit cards, counter services, notes, wealth management, and automated machines. The scope of self-assessment included management rules, organizational structure, implementation team, prevention and controls, response plans and support mechanism. The purpose was to fully understand the current conditions and issues outstanding in reputational risk management of the banking sector in recent six year.

Secondly, effectively preventing reputational risk events. With respect to reputational risk events such as cases and negative media coverage, the CBRC demanded banking institutions to keep
close eyes on the development of events, strictly follow the requirement for reporting material events, and continuously monitor media coverage to control reputational risks. Banking institutions were required to improve their capability to respond to mass events and abrupt events, prepare response plans beforehand, implement the plans in a steady manner, identify relevant support measures and minimize the adverse impacts of negative media coverage on relevant banking institution.

Thirdly, actively exploring the use of Weibo and WeChat platforms. The CBRC innovated its supervisory tools. It extended its hands from “15 Financial Street” to improve the banking sector’s use of Weibo and WeChat platforms. It guided banking institutions to fully leverage new media for information disclosure and image promotion and actively express their voices.

(8) Risk resolution and market exit

Firstly, further refining the mechanism for risk mitigation and market exit. The CBRC worked to create a legal system for resolution and bankruptcy of banking institutions adapted to domestic conditions and to promote the institutionalization of the mechanism for financial market exits. The CBRC guided large commercial banks to establish recovery and resolution plans (RRPs) and to maintain financial security and stability.

Secondly, strengthening risk resolution in high-risk regions and enterprises. The CBRC held regular meetings with heads of relevant banks involved in projects of material risks and continuously track the risk resolution for key customers’ projects. The CBRC supervised risk resolution in high-risk banks in multiple provinces, municipalities and autonomous regions and made regulatory requirements for mitigating risks in banks under special monitoring.

Thirdly, expediting risk resolution in rural cooperative institutions. The CBRC further eased the requirements on scope of merger, acquisition and restructuring, qualifications for acquirers, and the requirements on shareholding, and guided the interlinking of risk resolution in problem financial institutions with the performance assessment of senior management to reinforce regulatory constrains. In 2016, 132 rural credit cooperatives (RCCs) with the regulatory rating below level 4 were restructured into rural commercial banks nationwide, and RMB 51.2 billion of non-performing assets and losses were resolved.

On 6 September 2016, the Banking Industry Registration and Trading Center for Non-Performing Assets Corporation Limited (BIRTC) approved the application of Bank of Jiangsu and made registration and transfer of rights to earnings from non-performing assets for the bank. This was the first ever transfer of rights to earnings from non-performing assets made by commercial banks in China since the CBRC issued the Notice on Regulating Transfer of Rights to Earnings from Credit Assets by Banking Institutions. This marked the formal launch of pilot transfer of rights to earnings from non-performing assets and provided new channels for the banking sector to dispose of non-performing assets in a market oriented and institutionalized manner.
The CBRC Liaoning Office promoted risk resolution at high risk rural credit institutions by forming rural commercial banks, based on “qualified-ones-only” principle. In 2016, the Office pushed forward the forming of five rural commercial banks and disposed of six high risk banking institutions with RMB 3.75 billion of non-performing assets. In addition, seven banking institutions from Fushun, Benxi, Chaoyang, Panjin and Tieling have also made progress in restructuring.

The China Trust Protection Fund Corporation, with reference to best practice for risk resolution in other sectors domestically and internationally, and considering the operational features and risk profiles of China’s trust companies, formed a specialized team for trust risk resolution, prepared supportive operational procedures for the Work Plan for Risk Resolution and Mitigation at Trust Companies and promulgated the Operating Procedures for Risk Resolution at Trust Companies. It made in-depth research on the triggers, rules and procedures and operating process for disposal of high risk trust companies and gradually built the mechanism to dispose of high risk institutions.

In September 2016, the CBRC issued the Guidelines on Comprehensive Risk Management of Banking Institutions (the “Guidelines”), which created the overarching and comprehensive rules on the comprehensive risk management for China's banking industry, and promoted banking institutions to establish comprehensive risk management systems that cover all levels and types of risks and improve the level of comprehensive risk management.

Firstly, the Guidelines put forward the objectives and principles for comprehensive risk management and focused on the comprehensiveness and interconnection. It provided that comprehensive risk management at banking institutions should follow four principles: matching, full coverage, independence and effectiveness. It emphasized that a comprehensive risk management system should sufficiently consider the interconnection between risks and assess mutual impact of material risks on a prudential basis.

Secondly, the Guidelines put forward components of comprehensive risk management in order to create a systematic framework for comprehensive risk management. The five
major components are i) risk governance structure, ii) risk management strategy, risk appetite and risk limits, iii) risk management policies and procedures, iv) management information system and data quality control, and v) internal controls and audit. It also defined management requirements for and mutual relationship between each of the components in order to create a systematic framework for comprehensive risk management.

Thirdly, the Guidelines improved operability and provided guidance on comprehensive risk management and supervision. It defined regulatory requirements for comprehensive risk management, drove banking institutions to enhance and expand application of results of comprehensive risk management. This would help banking institutions to refine their risk management procedures and improve their comprehensive risk management system on one hand and can also become the reference for regulatory assessment of comprehensive risk management on the other.

Fourthly, the Guidelines gave due consideration to differences. It positioned itself as the systematic guiding framework for banking institutions to improve their comprehensive risk management systems. On this basis, the Guidelines gave due consideration to the differences of various types of banking institutions, allowed for differentiated application and defined the principle of matching. Certain provisions provided conditions of application.

Thematic Column 8
Special rectification actions for P2P online lending risks

In accordance with the requirements by the State Council, the CBRC played a leading role in the special rectification actions for P2P online lending. In April 2016, the CBRC jointly with 14 other ministries issued the Implementation Plan for Thematic Rectification on P2P Online Lending Risks, created the mechanism to coordinate rectification actions at both the central and local government levels. It organized special teams and clearly defined the roles and responsibilities to drive the special rectification actions.

The special rectification actions comprised three stages: screening, classification and resolution, and inspection and institutionalization. By careful screening of different types of P2P lending entities and differentiated strategies, P2P lending entities were guided to focus on their main lines of business and regain their nature of information intermediary. The actions achieved the objectives of encouraging the good and discouraging the bad, regulating activities and rectifying non-compliance, regaining main business, and addressing both short-term and long-term goals. The actions led to a virtuous cycle that balanced innovation, regulation and development. As of the end of 2016, task for the first stage, screening, had been completed and the work for the second stage, classification and resolution proceeded well.
In September 2016, the CBRC Chongqing Office received reporting that someone was doing business in the name of “×× Commercial Bank (Chongqing Preparatory Office)”. The Office attached great importance to the matter and immediately sent examiners to verify and collect information on site in the morning of the day. After initial verification, the Office transferred relevant data to the police for the latter to close down the entity. It was found that the suspect surnamed He falsified documents of the banking regulator approving the preparation and establishment of a banking institution, created the ×× Commercial Bank (Chongqing Preparatory Office) without authorization, and collected investment from investors by pretending to increase shareholders. This was in fact a kind of illegal fundraising. Now the investigation of the case has almost been finished and the procuratorate has approved the arrest of the suspect He. Thanks to the Office’s timely response and fast action of the police, the entity only existed for a very short period of time with no member of the public suffered losses.

The CBRC Ningbo Office pushed forward the special rectification actions for P2P online lending risks by organizing business training, making rectification plans, organizing comprehensive screening, carrying out focused inspection, and intensifying classification and resolution. As of the end of 2016, the Office had completed screening of 135 P2P lending entities in the jurisdiction, carried out over 18 focused inspections, and identified 10 categories of non-compliance. In addition, the Office also took special rectification actions for P2P lending in educational institutions and created a dynamic early warning mechanism together with the education authority to build the P2P lending risk firewalls on campus.

In recent years, the risks of illegal fundraising occurred frequently with multiple of major cases disclosed. In accordance with the requirements of the central leadership, the Inter-Ministerial Joint Meeting for Anti-Illlegal Fundraising took a series of action and carried out special rectification actions against illegal fundraising nationwide from June to December 2016. The Joint Meeting directed relevant authorities of the provinces, municipalities and autonomous regions to fully screen and curb the risks of illegal fundraising in key areas such as investment and wealth management, guarantee, real estate, rural cooperatives, and pension and retirement service entities, to effectively contain illegal fundraising activities and actively and prudentially prevent and mitigate risks and hazards, and to actively identify vulnerabilities, enhance prevention and control from the sources, focusing on the long-term resolution of illegal fundraising risks and effectively maintaining social and economic stability.

In September 2016, the CBRC Chongqing Office received reporting that someone was doing business in the name of “×× Commercial Bank (Chongqing Preparatory Office)”. The Office attached great importance to the matter and immediately sent examiners to verify and collect information on site in the morning of the day. After initial verification, the Office transferred relevant data to the police for the latter to close down the entity. It was found that the suspect surnamed He falsified documents of the banking regulator approving the preparation and establishment of a banking institution, created the ×× Commercial Bank (Chongqing Preparatory Office) without authorization, and collected investment from investors by pretending to increase shareholders. This was in fact a kind of illegal fundraising. Now the investigation of the case has almost been finished and the procuratorate has approved the arrest of the suspect He. Thanks to the Office’s timely response and fast action of the police, the entity only existed for a very short period of time with no member of the public suffered losses.
In 2016, with respect to main risks in cross-sectoral financial business of financial institutions, the CBRC refined its rules and regulations and directed banking institutions to prudentially assess and carry out cross-industry, cross-border and cross-market cooperation, to create a comprehensive risk identification, measurement, monitoring, early warning and management system for risks that are “cross-sector and contagious”.

Firstly, the CBRC issued the Opinions on Preventing and Mitigating Financial Risks and Defending the Risk Bottom Line, which expressly defined the requirements for prevention and mitigation of cross-sectoral financial risks. It continued innovating regulatory tools to enhance management, monitoring and analysis of financial products to ensure the “visibility, manageability and controllability” of cross-industry, cross-border and cross-market fund flows and to prevent contagion of risks and regulatory arbitrage.

Secondly, the CBRC carried out risk monitoring and enhanced information sharing. It directed banking institutions to enhance the mechanism to manage cross-sectoral financial risks. It strengthened monitoring of cross-product risks and enhanced look-through supervision based on the monthly and quarterly risk monitoring and analysis results to track the pattern of operations, structure of transactions and risk profile, thereby substantially improving banks’ ability to identify risks. It enhanced sharing of information from off-site surveillance and issued timely risk alert. With respect to doubtful issues identified during off-site surveillance, the CBRC directed its provincial offices to conduct inspections and take appropriate actions in a timely manner.

Thirdly, the CBRC enhanced routine supervision of cross-sectoral financial risks. The ratio of wealth management investments to non-standard debt assets, the liability dependency ratio of subsidiaries on the group, and the concentration of credit to a single industry and other indicators of cross-sectoral financial risks were included as part of the higher regulatory standards for large commercial banks. In order to enhance regulation of cooperation between banks and trust companies, the CBRC put forward requirements for trust companies to control cross-sectoral financial risks, collected underlying data on the operation and management of trust companies, created analysis models, and made look-through analysis of cooperation between banks and trust companies to strengthen the identification of risks.

Fourthly, the CBRC made on-site examinations to drive banking institutions to continuously improve their capabilities in managing cross-sectoral financial risks. The CBRC inspected the compliance of cross-sectoral financial business in terms of business operations, flow of capital, and risk buffers, timely terminated non-compliant operations and imposed penalties as appropriate. It invited experts in the industry to provide training on risks in cross-sectoral business for regulators. The CBRC also made special inspections on banking institutions where the cross-sectoral financial business grew too fast. For the cooperation between trust companies and banks, the CBRC made on-site examinations accordingly by joint inspections on relevant banks and their trust company partners, and conducted consolidated inspections over banks and their subsidiary trust companies.
2. Internal control

In 2016, based on the development in internal audit of the banking sector and with reference to international best practice, the CBRC revised and issued the Guidelines on the Internal Audit of Commercial Banks to further regulate the internal control at banking institutions. In addition, the CBRC worked hard to promote long-term mechanism for compliance in the banking sector.

**Box 26 CBRC issued the Guidelines on the Internal Audit of Commercial Banks**

In April 2016, the CBRC issued the Guidelines on the Internal Audit of Commercial Banks (the “Guidelines”) which superseded the Guidelines on the Internal Audit of Banking Institutions issued in 2006.

Major revisions include: 1) enhancing the independence of the internal audit function at commercial banks, 2) refining the organizational structure of internal audit, 3) strengthening institutional framework for internal audit of commercial banks, 4) defining the operating procedures of internal audit of commercial banks, 5) regulating the outsourcing of internal audit function, 6) defining the mechanism for regulatory assessment, and 7) differentiated requirements for banking groups and village and township banks.

Following the revisions, the Guidelines has become even more comprehensive and will play an important role for expediting the reform of internal audit system at China’s commercial banks, improving the standardization, independence and effectiveness of internal audit, optimizing corporate governance of banks, and promote the robust operation of banks.

**Box 27 CBRC promoted long-term mechanism for compliance in the banking sector**

On 15 July 2016, the CBRC held a seminar on promoting long-term mechanism for compliance in the banking sector. SHANG Fulin, the former CBRC Chairman, attended the seminar and delivered a speech. WANG Zhaoxing, CBRC Vice Chairman, presided over the seminar with heads of 27 banking institutions present. The Chairmen from five large commercial banks spoke on their experience in compliance, reflected on issues outstanding, introduced plans for next steps, and made suggestions.

According to the seminar, banking institutions were actively implementing the Guidelines
on Compliance Risk Management of Commercial Banks and made progress in compliance. It was emphasized that banking institutions should correctly recognize the importance of developing long-term compliance mechanisms. It was required that banking institutions should from the following aspects drive the development of long-term compliance mechanisms to ensure compliance with laws and regulations, achieve sustainable and healthy growth and better serve the real economy: 1) consolidating the foundations. With the philosophy of “top down compliance”, the chairman of the board of directors, president, and chairman of the board of supervisors and other officers of the bank should become the initiator, planner and doer to develop the compliance culture. With the philosophy of “responsibility of compliance for everyone”, efforts should be taken to guide each employee to become the advisor, participant and doer to develop the compliance culture. It should be ensured that employees’ behavior was “always compliant” and the development of business was “compliant at each step”; 2) clearly defined orientation. Three important shifts were required for the future, i.e., shift from rectification of short-term issues to the development of long-term mechanisms, shift from ex post remedies to ex ante prevention and control, and shift from external compliance requirements to internal management initiatives; 3) combination of efforts. The roles and responsibilities for compliance governance under the structure of “the general meeting, board of directors, board of supervisors and senior management” should be further defined to enable effective coordination for decision-making, execution and oversight and enhance cooperation between functions; 4) being focused. Existing rules, regulations, and procedures should be sorted out, consolidated and optimized and gaps should be identified and addressed. Compliance should play its role as early as possible and cover routine operations. Minor non-compliance should be reported, and stopped as early as possible to ensure compliance of key processes; 5) enhancing supervision and accountability. More comprehensive and systematic accountability requirements should be made to create the threshold for penalties and investigations against non-compliance and violations, and to strictly implement the requirements for “holding directors of two ranks above accountable” and “dual lines of accountability”; 6) enhancing support. Assessment measures and methods for compliance functions should be appropriately made to create effective incentive and constraint mechanisms for compliance. More compliance personnel experienced in laws and regulations, business and customers should be assigned for the compliance function. Efforts should be taken to develop the compliance information system; 7) being specific, emphasizing effectiveness and focusing on the long term. Efforts should also be made to ensure “looking-back” examinations for “two reinforcements and two containments”. The heads of entities should take the ultimate responsibility to ensure full coverage of all offices, all businesses and all rules and regulations. Taking this opportunity, banks should create a long-term mechanism for compliance; and 8) enhancing overseas compliance. Development plans for overseas operations should be made appropriately to ensure the implementation of globalization strategy. Communication with regulators should be reinforced and operations should be carried out in strict compliance with applicable laws and regulations.
II. Institutional supervision

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

(1) China Development Bank (CDB) and policy banks

Firstly, the CBRC directed the China Development Bank (CDB) to make regular screening of risks. The CBRC intensified routine off-site surveillance of risks and window guidance to continuously improve the risk prevention and control mechanism, and to minimize potential risks at key areas. The CBRC tracked the effect of rectification for “two reinforcements and two containments” and directed CDB to improve its compliance performance and enhance the awareness of risk control. The CBRC conducted special researches and studies and put forward regulatory requirements for risks and issues in specific areas. Secondly, the CBRC directed the Export-Import Bank of China (China Exim Bank) and the Agricultural Development Bank of China (ADBC) to screen risks in key risk sectors, regions and customers to have a true understanding of their risk profiles. The CBRC continued to attach importance to the risks in loans to local government financing platforms (LGFPs) and directed the ADBC to focus on the risks in loans to county level LGFPs and arrange appropriate swap of local government debts. The CBRC prioritized the tracking of risks and accountability for cases of the ADBC. In addition, the CBRC studied the “go global” business of
Part Six  Regulatory Measures

the China Exim Bank and directed the bank to enhance management of loans extended overseas and explore business models and management models for overseas loans with risks controllable. The CBRC continued tracking the bank’s resolution of risks in overseas projects.

(2) The Postal Savings Bank of China (PSBC)

The CBRC provided support for PSBC to deepen shareholding reform. The CBRC guided PSBC to revise the articles of association (AOA) after the investment by strategic investors and initial public offering and create the mechanism of coordination with the strategic investors. The CBRC further supported PSBC to create three audit offices in Shenyang, Nanchang and Xi’an and form an audit structure comprising the “audit board at the head office, audit offices and audit department of tier-one branches”. The CBRC directed PSBC to follow its positions, leverage its advantages in physical presence, and increase credit support for MSEs, “agriculture, rural areas and farmer”, and other weak links and key areas. The CBRC urged the bank to regulate its offices operating under agency arrangements and to implement the Rules governing the Offices of Postal Savings Bank of China Operating under Agency Arrangements. In addition, the CBRC guided PSBC to improve the effectiveness of capital management and refine its capital replenishment mechanism, enhance risk prevention and control for key areas, and strengthen the prevention and control as well as rectification of cases.

2. Large commercial banks

(1) Refining regulatory framework to create a new shield for risk control. Firstly, the CBRC issued the Higher Regulatory Standards for Large Banks (Provisional) (HRS). Following review of the existing regulatory indicators, the CBRC issued higher regulatory standards with reference to latest international regulatory standards. The HRS comprise 9 control indicators and 13 monitoring indicators, covering 8 core areas, including capital adequacy, provisioning coverage, three major risks, consolidation and cross-sectoral risks. Secondly, the CBRC actively implement the recommendations of the China-Germany High-Level Economic and Financial Dialogue, revised the Provisional Rules on the Administration of the Sino-German Bausparkasse, and guided the Sino-German Bausparkasse to return to its principal operations. Thirdly, the CBRC guided the work of refining the national social security mechanism and diversifying the financial system and drafted the Provisional Rules on the Administration of Pension Management Companies. The CBRC established the mechanism for routine oversight of pension management companies, covering both prudential regulation and conduct supervision.

(2) Improving the risk control capabilities of large commercial banking groups. Firstly, the CBRC prioritized consolidated supervision and forward-looking analysis of banking groups, promoted supervision of banking groups on a consolidated basis, and organized assessment of consolidated management. Secondly, the CBRC continued to require the banks to build the capability in aggregation of risk data. Banking groups were required to conduct self-assessment and make action plans according to the Principles on Aggregation of Effective Risk Data and Risk Reporting. Thirdly, the CBRC steadily carried out the work related to the recovery & resolution plans (RRPs). It organized panels of experts to make resolvability assessments on the Agricultural Bank of China (ABC) and held meeting of the cross-border crisis management working group. Fourthly, the CBRC made assessments on the implementation of Advanced Approach projects at the ABC and
the Bank of China (BOC). Fifthly, the CBRC refined its requirements for regulatory reporting and enhanced monitoring and assessment of the overall group risks.

(3) Strengthening prevention and control of risks at key areas. The CBRC made in-depth analysis of cases relating to bill business risks from both the short-term and long-term perspectives. It enhanced monitoring, prevention, control and mitigation of credit risks, strengthened the capabilities to identify risks and make forward-looking early warnings, enhanced screening of high-risk business, and actively implemented the polices for reducing over-capacity, de-stocking and de-leveraging. Given the market turmoil in 2016, the CBRC prioritized banks’ ability to manage and control market risks and made in-depth analysis of group customers’ risks, with a special focus on major social risk events.

3. Joint-stock commercial banks

The CBRC enhanced research and monitoring of cross-market, cross-entity risks and risks in key sectors to improve the forward-lookingness of supervision and actively made intrusive supervision to provide timely guidance on emerging issues and to prevent contagion of risks. The CBRC solidly carried out prevention and control of credit risks and effectively promoted mitigation of risks. It also enhanced classification of asset quality in strict compliance with the five categories of loan quality, and encouraged joint-stock commercial banks to innovate approaches to dispose of NPLs and expedite the disposal process. The CBRC continued refining the mechanism for monitoring liquidity risks to improve the level of liquidity management at banks. The CBRC took active actions for prevention and control of reputational risks, guided joint-stock commercial banks to appropriately respond to material abrupt incidents and handled 78 complaints and re-examinations in the year. The CBRC promoted the prevention and control of operational risks and contained the increase of cases.

4. City commercial banks and private banks

Firstly, refining the differentiated supervision over private banks. The CBRC offered certain regulatory tolerance to newly established private banks, did not apply “universal” and “satisfying indicators” requirements considering their market positioning, and provided mentoring and services. The CBRC issued the Guiding Opinions on the Supervision of Private Banks, which provided that prudential regulation and innovation would be both prioritized, whole process supervision, innovative supervision and coordinated supervision would be balanced, and universal supervision and differentiated supervision would be applied in combination with pilot experience and normalized establishments.

Secondly, enhancing prevention and control of risks. The CBRC enhanced supervision of high-risk city commercial banks, strengthened guidance and field research, closely tracked the progress and enhanced sharing of best practice. It has made substantial achievements in mitigating existing risks and historical issues of banks. It attached great importance to key risks and directed city commercial banks to develop the mechanism of mutual liquidity assistance and to improve the abilities to prevent and control risks. With respect to risk incidents such as notes defaults, the CBRC provided timely risk alerts and briefings, put forward regulatory opinions and oversaw
implementation and rectification. Guiding opinions were made after analysis of root causes and review of existing rules.

Thirdly, promoting better service to motivate development. The CBRC selected and supported a number of city commercial banks with sound business development and risk management to experiment on innovative products and services and to leverage their pioneering roles in reform and transformation. The CBRC increased support and assistance to the sector and encouraged the establishment of sector cooperation platforms in a market-oriented manner to achieve the synergetic effect.

5. Small- and medium-sized financial institutions in rural areas

Firstly, the CBRC directed small- and medium-sized financial institutions to abide by the strategy of supporting agriculture, rural areas, and farmers and small businesses to increase financial support to less developed areas. For the first time, the CBRC conducted assessment on 821 rural commercial banks across the country to review the mechanism for the financial sector to serve "agriculture, rural areas and farmers".

Secondly, the CBRC steadily deepened reforms. It enhanced overall planning and policy guidance and steadily promoted the establishment of rural commercial banks and village and township banks. It also further relaxed the scope and shareholding requirements for private investors to participate in merge & acquisition and restructuring. Furthermore, it organized the comprehensive regulatory evaluation of 25 provincial credit unions’ performance in 2015. The CBRC steadily proceeded with the pilot projects on the reform of provincial credit unions.

Thirdly, defending the bottom line of risk control. The CBRC supervised the strict implementation of differentiated management of loan limits to effectively prevent and mitigate the concentration risks of large-amount loans. The CBRC also worked to screen credit risks in sectors with overcapacity so as to have a true understanding of the risk profile. The CBRC strictly implemented the differentiated mortgage loan policies, and the proportion of real estate related loans to the total was kept at a low level. It worked to resolve NPLs through multiple means and ensured decrease in both the NPL outstanding balance and the NPL ratio at the year end.

Fourthly, the CBRC supported banks to expedite transformation of business. The CBRC steadily
proceeded with implementation of Basel III and promoted the business philosophy centered on capital constraints to drive the appropriate budgeting, allocation and assessment of capital. With the principle of “less dividends and more retained earnings”, the CBRC enhanced guidance to small- and medium-sized financial institutions in rural areas on distribution of profits, in a bid to improve their risk-absorbing capacity and ensure robust and sustainable development.

The CBRC Hunan Office steadily drove the reform of small- and medium-sized financial institutions in rural areas under its jurisdiction. As of the end of 2016, 93 rural commercial banks were open for business and risks in 53 high-risk banking institutions in the province had been substantially resolved. Additionally, 39 village and township banks had been established, covering 46 counties. With the establishment of rural commercial banks and village and township banks, 14 cities in the province had one bank each, and rural commercial banks in 9 cities were officially open for business. Furthermore, 52.9% of the counties had two banks each, 17.3 percentage points higher than the figure at the year beginning.

6. Foreign banks

Firstly, enhancing regulatory framework. The CBRC adopted the Framework for Regulatory Ratings for Foreign-funded Banks (Provisional). It deepened cross-border regulatory cooperation and periodically held bilateral supervisory meetings and attended cross-border supervisory colleges held by foreign regulators to intensify cross-border regulatory exchanges. The CBRC for the first time used the Risk Early-warning Analysis and Supporting System (REASS) to make analysis for early warning of risks in foreign banks operating in China and issued the Internal Procedures for Off-site Surveillance on Banking Institutions directly Regulated by the Foreign Bank Supervision Department of the CBRC (Provisional).

Secondly, defending the risk bottom line. The CBRC steadily promoted merger, conversion and exit of foreign banks and equity restructuring of existing legal entities. The CBRC took actions to control credit, operational and reputational risks. It closely monitored the liquidity risks and cross-border risk contagion, continuously tracked the impact of overseas events on foreign banks operating in China, such as the “Brexit”, EU banking market turmoil, changes in head offices of foreign banks and intensified regulation by foreign regulators, in a bid to effectively prevent cross-border risk contagion.

7. Trust companies

Firstly, enhancing infrastructure of the industry. The CBRC set up the requirements for registration of trust products, established the China Trust Registration Co., Ltd., issued the Rules on the
Supervision of China Trust Registration Corporation Limited to further refine the operational environment and risk control system for the trust sector.

Secondly, further improving the trust regulatory framework. The CBRC issued the Opinions on Further Enhancing Risk Supervision for Trust Companies to direct trust companies to reinforce comprehensive risk management. It also issued the Rules on Regulatory Ratings for Trust Companies, refined the regulatory rating framework and standards for trust companies, and enhanced classified supervision and guidance to improve the efficiency in allocation of resources.

Thirdly, continuously improving regulatory tools. The CBRC created the risk analysis framework for trust companies, defined key points for risk analysis for trust companies, provided specialized training to front line trust regulators, and communicate regulatory requirements for risks to improve the professionalism and effectiveness of risk supervision.

Media perspective 8: City commercial banks strived to enhance MSE financial service and to provide accessible and affordable financing

“Difficult and expensive financing” has been one of the bottlenecks which constrained the development of MSEs. Journalist learned from the recent routine press conference that as the main force to serve MSEs, city commercial banks innovated MSE financial services, in order to support the rapid development of MSEs. Considering that MSEs have different financing demands compared with large corporations, many city commercial banks have established community finance Special Business Units (SBUs). Their outlets mainly focused on MSEs and, with “familiarity of people, location and conditions”, provided more professional and targeted services for MSEs.

The head of Bank of Suzhou said that targeted at different industries and customers, Bank of Suzhou has set up the MSE SBU, Small-sized Enterprise SBU, and Enterprise Innovation Financial Support Center to focus on MSE services.

“Now Nanchong City Commercial Bank has nearly 800 full-time and part-time customer managers in 70 groups to provide financial services for MSEs, accounting for over 60% of total employees. The customer manager groups are segmented by specific industries and areas, and trainings for MSE teams have been further intensified.” said the official from the Nanchong City Commercial Bank.

Facing the current situation that MSEs have low assets, high risks, and difficulty in financing, Bank of Suzhou launched the option products targeted at enterprises with strong financing demands and promising market prospects. The option products supported enterprises through the “equity+option” model, formed combined effects of credit funds and equity investment, and reduced the overall risk. Recently, Bank of Suzhou has approved 237 projects, among which 161 enterprises have finished signing for option agreements.

Furthermore, in order to solve the expensive financing problem, city commercial banks promoted differentiated pricing mechanism, reduced the cost and burden of enterprises, and supported the their transition and development.
Official from Nanchong City Commercial Bank said that the bank implemented the differentiated pricing mechanism and tried to maximize the benefits for its customers. As of end-September, Nanchong City Commercial Bank issued loans of RMB 1.168 billion to MSEs through “refinancing loans in support of MSEs” and supported 212 enterprises.

Taking advantage of the “Internet +”, city commercial banks consistently optimized their marketing and service models and got through “the last kilometer” of MSE financial service.

According to the introduction, Bank of Suzhou developed the “Su e-financial cloud platform”, which embedded MSEs’ accounting systems into bank’s service systems through cloud computing, providing free and one-stop financial services for MSEs. As of end-September, 951 MSEs registered on the platform and the total credit extension reached RMB 1.227 billion.

Due to the distinctive features of MSE financial service, Bank of Dongguan abandoned the traditional assessment items for its Hi-tech branches and MSE branches, mainly focusing on their performance in serving Hi-tech companies and MSEs. The NPL tolerance for MSE loans was increased and the bank was further motivated to develop its MSE business.

(Source: Xinhua News Agency, 20 October 2016, by Hou Yujie and Li Yanxia, edited)

8. Other non-bank financial institutions

The CBRC continued guiding banking asset management companies to stick to their principal business and focus on non-performing assets, appropriately reduced the risk weight of some non-performing assets business and staged equity investment business in capital provisions. It guided two banking asset management companies to convert to joint-stock companies, and directed banking asset management companies to enhance group governance and control, refine comprehensive risk management system, and improve internal transaction management to prevent operational risks at the corporate level. The CBRC directed banking asset management companies to optimize the development model and overall planning of the corporate business platforms, balancing speed and quality of growth. The CBRC continued refining the regulatory framework, issued and implemented the Notice on Asset Risk Classification and Management for Banking Asset Management Companies, to create a universal, feasible, and featured framework for classification of asset risks and setting side risk reserves.

The CBRC continued guiding financial leasing companies to achieve differentiated, customized and specialized development and supported eligible financial leasing companies to expand the sources of funds and capital. Financial leasing companies were approved to establish project companies for financing leasing business and encouraged to participate in international competition in a steady manner. The CBRC approved the first overseas specialized subsidiary of a financial leasing company. It supported financial leasing companies to set up specialized teams, divisions or subsidiaries to achieve further development in areas of competitive advantages and to intensify differentiated operations. For the core businesses closely connected with the real economy, such as direct leasing and operational leasing, the CBRC encouraged financial leasing companies to support the “agriculture, rural areas and farmers” and the development of MSEs, ease the issue of unavailability of financing faced by enterprises, and promote industrial
restructuring, transformation and upgrading.

The CBRC continued guiding finance companies of corporate groups to stick to industrial financing, restrict new credits extended to enterprises from over-capacity sectors and restricted sectors, increase credit supports for M&A and restructuring by corporate groups, “go global” initiative and strategic emerging sectors, and provide support for transformation and upgrading of the group. The CBRC expanded the scope of pilot projects on industrial chain financing by finance companies of corporate groups, encouraged the latter to provide financial services to upstream enterprises of the group, reduce financing cost and improve efficiency of fund utilization. The CBRC cooperated with state-owned enterprises (SOEs) to restructure and consolidate finance companies of corporate groups and to ensure the sustainability and stability of financial services.

The CBRC guided consumer finance companies to enhance the fundamental role of consumption for economic growth. The CBRC steadily promoted the normalized establishment of consumer finance companies and guided eligible private capitals to enter the consumer finance sector to increase supply of consumer financing. The CBRC supported consumer finance companies to carry out customized operations, follow the idea of financial inclusion, position at serving the low and medium income people, and provide small-amount and low threshold special financial products, thereby addressing the gaps in consumer credits for low and medium income people and improving the coverage, availability and satisfaction of consumer financial services.

The CBRC guided auto financing companies to better serve the development of the auto industry and encouraged them to improve the efficiency of financial services through expanded channels and innovative means. The CBRC permitted auto financing companies to provide value added financing services on auto purchase in order to improve the ability to provide “one-stop” service. Auto financing companies were supported to expand market-based financing sources, increase the source of medium- and long-term funds and improve their liquidity management. The CBRC also guided auto financing companies to provide greater financial support for new energy vehicles and second-hand vehicles on a voluntary basis subject to controllable risks, to promote the transformation and upgrading of the auto industry.

The CBRC guided money brokerage firms to assess the impacts of interest rate liberalization, the internationalization of the RMB and the deepened reform of the financial markets on the industry, satisfy market needs, optimize business structure and improve efficiency of financial intermediary services.

Media perspective 9: Consumer finance companies—facilitating consumption upgrading and promoting financial inclusion

As the economy enters the stage of structural transformation, consumer finance has become a new blue ocean. On 15 December 2016, the 87th routine news conference of the banking sector cast its eyes to this area. At the conference, which was themed “the specialized development path for consumer finance
companies”, head of the Non-bank Financial Institution Supervision Department of the CBRC together with heads of Sichuan Jincheng Consumer Finance Company, the Merchants Unicom Consumer Finance Company (MUCFC) and the Suning Consumer Finance Company, answered questions from the press on the current status and challenges of consumer finance companies.

No expansion of numbers at the cost of standards
Consumer finance companies in China have only 6 years’ history. Despite the small number, as a special and innovative financial service provider, consumer finance companies have displayed astonishing speed of growth.

In 2009, the State Council approved the pilot program on consumer finance companies in Beijing, Tianjin, Shanghai and Chengdu. In September 2013, the number of cities under the pilot program was expanded to 12 with the scope of service also enlarged. In June 2015, the executive meeting of the State Council decided to expand the pilot program to the whole country. So far, there have been 16 consumer finance companies approved to open across the country.

According to the head of the Non-bank Financial Institution Supervision Department of the CBRC, most of existing consumer finance companies have mixed ownership structure and the diversity of shareholders has brought a variety of advantaged consumer financial resources such as the channels, customers, data and technology, which could help consumer finance companies and their shareholders achieve desirable interaction and balanced development.

“The CBRC will strictly follow the decisions of the State Council and actively promote the normalization of establishment of consumer finance companies, adhering to the principle of ‘approving qualified ones only’. ” The said head of the Non-bank Financial Institution Supervision Department of the CBRC said, “based on practice, investors satisfying the conditions on eligibility and having consumption scenarios, business channels, customer base and risk control capacity are suitable to be shareholders of consumer finance companies.”

In particular, 1) licensing for consumer finance companies should be based on the requirements that “in accordance with applicable laws and regulations, with the orientation of market needs, and based on the principle of gradual development and balanced growth, only qualified application would be approved”. There should be no expansion of numbers at the cost of standards and the focus should be on quality; and 2) both “risk management and quality control” should be prioritized.

According to the head of the Non-bank Financial Institution Supervision Department of the CBRC, the main goal of regulation was to guide financial institutions to continue improving organic growth momentum, enhance comprehensive risk management, build the awareness of risk mitigation and robust development, carefully explore consumer scenarios, and follow the “craftwork spirit” to keep sustainable development. The regulator would further enhance and improve regulatory services and take differentiated supervision strategies to support the advantaged and contain the disadvantaged. In addition, the regulator would also enhance coordination and cooperation with fiscal, taxation, credit rating and judicial authorities, to continuously improve the external environment for consumer finance companies.

Market potential to be uncovered
As the non-bank financial institutions specialized in providing small-amount unsecured consumer loans without mortgage, consumer finance companies have been, since launch of the pilot program, playing an important role in driving the structural transformation of the economy, facilitating the transformation and upgrading of consumption and supporting social welfare, displaying great vitality and potential.

Journalists at the conference learned that in recent years, consumer finance companies have been closely following consumption scenarios and actively expanding consumer credit business. The type of business partners has been expanded from traditional retailers to various emerging consumption fields, such as
education, tourism and health care. By promoting traditional as well as emerging consumptions, consumer finance companies helped promote the growth of consumption in various areas and enhance the support of domestic consumption for economic growth. By providing small-amount and low-threshold financial products, consumer finance companies effectively improved the consumption capacity of low and medium income people and played a positive role to promote consumption, benefit social welfare and help stabilize the economic growth.

As one of the first four consumer finance companies under the pilot program, Jincheng is committed to customers of low and medium income. Vice Chairman of the company said that Jincheng’s customers are positioned at the people with low and medium income and less covered by traditional banking service. Its typical customers were aged between 25 and 30, with the monthly income below RMB 5,000. With a series of consumer credit products in alignment with real needs, Jincheng has served over 320,000 customers through all its products.

As the first consumer finance company with an Internet retailer as the major shareholder, the general manager of Suning Consumer Finance Company said that by complying with the “financial inclusion” principle, the company has completed over 10 million transactions of consumer credit, with an average amount of RMB 1,100 each and total amount exceeding RMB 11 billion. Seventy percent of its customers were people of low and medium income. This greatly lowered the threshold of financial services.

Core competitiveness to be strengthened

So far, the development of consumer finance companies is stable overall but they are less experienced in responding to risks and challenges. Due to the changes of consumer behaviors and the impact of Internet-based financing, in addition to consumer finance companies approved by the CBRC, the banks, e-commerce platforms and Internet-based financial service providers all entered the market, so consumer finance companies are faced with high pressure for transformation and development.

The participants of the consumer credit market increased greatly, so the competition has become extremely fierce. On one hand, with the interest rate liberalization, commercial banks begin to abandon the mere pursuit for size and scope of business. They actively transform toward customized areas, including providing financial innovation and support for consumer finance with their franchise offices, specialized outlets, Internet banking, mobile banking and credit cards. On the other hand, the evolution of the Internet technologies has created new forms of business. P2P lending intermediaries, micro credit companies, and e-commerce platforms also provide products to address the needs of low and medium income classes and they have achieved fast growth. With the fierce competition, consumer finance companies are faced with challenges for their specialized development.

General Manager of MUCFC commented that with the fierce market competition, future consumer finance companies should focus on the online, low profit business with operational risks. One of their major characteristics would be with “small-amount business monetarized and large-amount business contextualized”. With this idea in mind, MUCFC decided to adopt the strategy of pure online service based on financial technology (Fintech) with light operational activities. It covered a vast number of customers that cannot be served by traditional banking business through its Internet platform, to provide safe and convenient online consumer credit services.

The head of the Non-bank Financial Institution Supervision Department of the CBRC commented that consumer finance companies should first focus on specialization, differentiation, and expertise, and the fundamental is to cultivate their own core competitiveness. In particular: 1) contextualization. Consumer finance is of high contextualization in nature and the close connection with consumption scenarios would help companies gain stable growth and make profits. Specialized products and brand awareness would also develop, and the sector has high potentials; 2) prioritizing customer experience. Consumer finance
companies should adapt to customers’ consumption patterns and innovate their products and operations with the objective to improve customer experience and better serve customers in a changing market; and 3) creating smart risk control systems. The core of financial institutions is the capability of risk identification, pricing and risk control. Efficient data accumulation and analysis can effectively minimize information asymmetry, reduce transaction costs and improve efficiency of capital allocation.

(Source: Financial Times, 16 December 2016, by Han Xuemeng, edited)
Part Seven

Banking Consumer Protection and Education

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

1. Refining the consumer protection framework

In February 2016, the CBRC issued the Guiding Opinions on Strengthening Banking Consumer Protection and Addressing Issues Concerned by the People, which put forth 23 regulatory standards and requirements, covering refining the regulatory framework, regulating operational behavior, enhancing regulatory guidance, strengthening publicity and education. It defined the overall road map for banking consumer protection and provided systematic and effective guidance for CBRC offices and banking institutions to strengthen consumer protection and protect the legitimate rights of banking consumers.

2. Revising Rules on Assessment of Performance in Consumer Protection for Banking Institutions

Firstly, the CBRC refined assessment organizations and required the establishment of a specific Assessment Committee to assess from perspectives of routine regulatory tasks, such as market access, off-site surveillance, on-site examination and supervisory rating, in order to fully drive the combination of supervision of banking consumer protection and routine prudential regulatory tools. Secondly, the CBRC optimized the assessment process, including simplifying some steps and further defining connection between steps to ensure smooth implementation of all procedures of assessment, openness and transparency of all procedures, and objectiveness and completeness of the results. Thirdly, the CBRC refined and specified the assessment indicators, expanded the depth and width of assessment scope, thus making the assessment more scientific and practical. Fourthly, the CBRC strengthened the application of assessment results, refined the classification of assessment results with higher precision to further leverage the role of assessment results for correcting non-compliances and protecting consumer rights in banking institutions’ operational activities.

3. Sorting out consumer protection frameworks of CBRC local offices

The CBRC directed its local offices to sort out and report on consumer protection frameworks. It was found that the CBRC offices have issued over 170 implementing rules, measures, guiding
opinions and notices on banking consumer protection since 2012. It was also found that since the second half of 2014, the institutional framework for banking consumer protection has been focused on specific arrangements rather than fundamental rules. CBRC local offices have issued a number of working procedures specific to different localities, and the framework and implementation mechanism for banking consumer protection have been enriched and refined to a high degree.

4. Enhancing the institutional framework for banking consumer protection

The CBRC directed banking institutions to effectively institutionalize the rules on consumer protection and to standardize their working procedures. As of end-2016, major commercial banks have established considerable institutional frameworks for consumer protection, which comprised “the overall policies on consumer protection, plus detailed procedures for complaint handling, information protection, publicity and education, internal assessment and audit and employee behavior management, plus management rules for specific products and services”, and can make regular or non-regular arrangement based on regulatory requirements and/or market changes.

Firstly, setting up the framework and enhance staffing. As of end-2016, nine banking institutions established designated functions with over 260 staff. Secondly, promoting assessment of performance. Over 30 banking institutions have included consumer protection as part of their performance assessment system. Thirdly, exploring self-assessment opportunities during product development. Fourthly, continuing promoting the requirements for “designated area, dual recordings and triple disclosures” during distribution process. Fifthly, strengthening management and control of banking outlets and employee behaviors. Sixthly, improving diversified dispute resolution mechanism. The Office promoted the establishment of Shanghai Banking Dispute Mediation Center, which was the first privately owned non-profit mediation center in China. In 2016, the Center handled 252 disputes, 202 of which was subject to mediation and 173 went through the process with a success rate of 85%. Seventhly, refining the administrative remedy system. Eighthly, carrying out various financial literacy activities.

1 This included 23 documents on general operating procedures, such as the rules on consumer protection and annual key tasks, guiding opinions; 38 documents regulating the handing of complaints by regulators; 12 documents regulating the handling of complaints and reporting by banking institutions; 14 documents on the joint meetings for consumer protection; 2 documents on creating the high level steering committee; 5 documents on creating the working committee, steering committee and expert panel for consumer protection; 7 assessment implementation rules or plans; 14 publicity and educational plans and programs; 7 documents on regulating consumer protection mechanisms; 8 documents on requirements for wealth management products and underwritten products; 7 documents on services for special types of customers; 13 documents on the requirements for designed zones and dual recordings; 2 documents on service procedures and standardization of language; 13 documents on special tasks and risk advisories; and 5 documents redistributing documents of the CBRC and putting forth detailed requirements.
In order to eliminate activities of “unauthorized sales”, misleading sales of financial products, “deposits are transferred into insurance”, and cultivate the market awareness of “caveat emptor”, the CBRC required banking institutions to enhance management of WMP sales zones and underwritten products and to make video and audio recordings of the whole sales process in 2016.

As of the end of 2016, except for certain small and medium institutions in rural areas, all banking institutions that sell and distribute wealth management products have installed and operated video and audio recording equipment. The requirements for “dual recordings” at sales zones were implemented successfully. The current practice of “dual recordings” at the sales zones strengthened the dynamic monitoring and management of the sales and distribution of wealth management products and is positive to effectively regulate sales and distribution activities of banking institutions, improve the level of standardization in services and risk mitigation, minimize disputes between banking institutions and consumers, and effectively protect banking consumer rights.

II. Promoting banking institutions to fulfill their duties

The CBRC continued strengthening banking consumer protection. It issued the Key Tasks for Banking Consumer Protection in 2016, which defined key tasks and requirements for the year. In
addition, the CBRC directed banking institutions to perform their duties for consumer protection through effective routine regulatory measures.

Firstly, the CBRC urged banking institutions to sort out internal rules and procedures on business and management, to create a catalogue of internal consumer protection rules and procedures, and to make supportive detailed rules and operating procedures for each line of business on consumer protection. Secondly, the CBRC urged banking institutions to enhance management of operational activities, strengthen protection of consumer information, regulate service charges, and implement the requirements for designated zones for selling and distributing wealth management products, and for video and audio recordings of the sales and distribution process. Thirdly, the CBRC urged banking institutions to better handle consumer complaints, enhance statistical management of consumer complaints, make in-depth analysis of frequent complaints by consumers, put forth specific and feasible proposals for improvement, and submit complaint data and analysis reports to the regulator semi-annually. Fourthly, the CBRC urged banking institutions to enhance team building, include consumer protection as part of their routine employee trainings, and motivate employees to actively and voluntarily attend training through contests, assessments and awards. Fifthly, the CBRC urged banking institutions to continue promoting financial literacy and increase support for financial literacy activities carried out for public interest.

III. Promoting financial literacy

1. Collective publicity activities

In order to improve the financial literacy and the awareness to mitigate risks and correctly use regulated financial services among the public, the CBRC organized “National Financial Education” campaign participated by all banking institutions across the country in September 2016.

Firstly, focusing on key areas. In 2016, illegal and non-compliant Internet based financial services, P2P lending activities in campus, and telecommunication frauds arouse extensive public concerns. Considering the designated zones for selling wealth management products and underwriting products, and the “dual recordings” requirement, the themes of the “National Financial Education” campaign was determined as promoting regulated financial service channels to avoid harms from illegal and non-compliant financial services; protecting personal financial information from illegal fraudulent activities; and selecting regulated banking offices, staff and business to protect consumer rights.

Secondly, leveraging government resources. The CBRC offices actively coordinated with other authorities for rectifying Internet based financial services, P2P lending in campus, and telecommunication frauds. They leveraged resources of local government for publicity activities, guiding banks to educate the public about basic financial knowledge, and help them select formal financial service channels and products, and improve people’s awareness for identifying and
preventing risks as well as protecting their own legitimate rights.

Thirdly, uniform publicity design. The CBRC solicited and selected five versions of posters and directed its local offices and banking institutions to use these posters at business venues, automated machines, official websites, Weibo, WeChat, local communities and universities and colleges to ensure the publicity uniformed and highly recognizable.

Fourthly, strengthening exchange and sharing. In order to ensure the campaign was carried out with consolidated themes, dates and principles, the CBRC carried out cross-supervisions and timely prepared and distributed newsletters to create a platform of sharing and exchange for its local offices and banking institutions.

During the one-month campaign, the CBRC organization and banking institutions nationwide used 1.98 million human resources, covering 207,200 banking outlets. They made 183,000 displays, distributed 85.91 million marketing materials, sent 158 million short messages and WeChat messages, covering 370 million people. This campaign received positive public feedback.

2. Financial literacy activities for different types of audience

The CBRC, based on the needs of different types of audience, guided and supported banking institutions to carry out specific publicity and educational activities in order to improve the financial
literacy. Firstly, the CBRC continued providing support for the Financial Education Carnival Tour, Community Financial Education for the Young and the Middle and Primary School Financial Knowledge Contest. It together with the Central Committee of the Communist Youth League of China and the Ministry of Education (MOE) carried out the “Financial Knowledge in the Campus” and held financial literacy workshops to improve the financial literacy and awareness of financial risk mitigation among the students. Secondly, the CBRC supported financial literacy forum and researched on improving financial literacy with the academic and educational experts. Thirdly, the CBRC guided the China Trust Association to make investor education, help investors deepen knowledge and understanding of the trust industry and services, and establish scientific investment mindset.

3. Improving public consultation

The CBRC established a specific public education zone to communicate with the public and provide consultation services. In 2016, the CBRC received 7,087 phone calls from the public, providing an important channel for the public to understand regulatory policies and improve financial literacy. The CBRC renovated the infrastructure of the education at its headquarters and added “future bank display zone” to provide more intuitive and convenient financial experience for the public.

© Hengfeng Bank offered cares to special consumers

Hengfeng Bank, with due consideration of the rights of migrant workers, people of disability, the unemployed and the senior, issued the Operation Procedures of “Special Cares for Special Consumers” of Hengfeng Bank Retail Business, which defined the operating procedures for serving people without civil capacity, customers who are physically handicapped, or having difficulty in mobility. It also refined the operating procedures and risk controls for the senior and customer in sickness, pregnancy or in the need of other help, or customers unable to be present due to being abroad or accidents.

Box 29   CBRC continued the “Financial Knowledge to Countryside” campaign

In 2016, the CBRC continued carrying out the “Financial Knowledge to Countryside” activities and led young employees from banking institutions to serve young entrepreneurs in rural areas. Some 140,000 publicity or consulting activities were held nationwide, distributing 14.75 million pieces of leaflets on “agriculture, rural area and farmers”, covering 14.81 million people in rural areas. Banking institutions enhanced their services for “agriculture, rural area and farmers” and carried out various forms of financial literacy and accessible services and continued diversifying services for rural areas, such as providing small-amount start-up loans to young people in rural areas; with that, the financial services in rural areas have been improved significantly.
Part Eight

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 for information disclosure

In 2016, the CBRC continued refining its rules on performance assessment on website management and information release and disclosure. It improved the management of its official website, standardized information collection, review and release, and enhanced interactions with the public and used the official website as the main channel for government information release, information disclosure, public service, and publicity and education. The CBRC also released government information in a timely and active manner, and transparency of government administration has been improved. The CBRC issued the Notice on Further Strengthening the Management of the CBRC Official Website, created the mechanism for quarterly routine inspections to ensure the “public disclosure” of administrative licensing and penalties. The website increased a column for reporting errors under “I find an error on the government website” and handled 22 messages from the public.

2. Comprehensive information disclosure

Firstly, disclosing information in key areas. In 2016, the CBRC published 37,385 pieces of information on its official website, including 27,985 pieces of licensing information, 6,866 pieces of administrative penalties, and 63 replies to NPC and CPPCC proposals, with over 4.52 million clicks throughout the year.

Secondly, the CBRC regularly released statistical information. As per the CBRC schedule for releasing regulatory and statistical information in 2016, the CBRC expanded the coverage of information disclosure, made detailed clarification of the dimensions to be disclosed, provided explanations on data, 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 public concerns through news media. The CBRC implemented 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 2016, the CBRC accepted approximately 1,500 interview requests by domestic and foreign journalists. Regarding the topics of public concern, the CBRC organized 10 field trips together with journalists, held 73 press briefings or conferences, and released about 188 pieces of interpretation and responses.

Fourthly, enhancing communication with the market. The CBRC prioritized listening to public opinions and reflecting public concerns and media reports in its regulatory activities. It improved
the efficiency of regulatory activities accordingly, such as soliciting public opinions when making material public regulations and policies, and having due consideration of reasonable public opinions and advices.

Fifthly, information disclosure upon request. In 2015, the CBRC accepted 1,566 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 from the public.

II. Improving transparency of the banking sector

In 2016, the CBRC continued guiding banking institutions to implement the Guidelines on Corporate Governance of Commercial Banks, the Rules on Information Disclosure of Commercial Banks and the Guidelines on the Disclosure of Capital Adequacy Ratio Information by Commercial Banks, improving the coverage and quality of information disclosure.

It worked to refine the routine press conference mechanism for the banking industry, providing a platform for banking institutions to make press release and thereby further enhancing the transparency of the banking sector. The CBRC required commercial banks to further regulate their underwriting activities and strengthen integrity. It also intensified penalties against misleading marketing and charging lack of transparency. In 2016, the CBRC for the first time invited foreign banks to hold press briefings at the platform, in order to promote the public’s understanding of the operations and development of foreign banks and their services for the real economy, providing an in-depth understanding of foreign bank’s commitment in China.

Guided and propelled by the CBRC, banking institutions further improved their information disclosure regime, and 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.

III. Strengthening market discipline

Firstly, the CBRC adhered to full disclosure by timely and regularly disclosing banking institutions’ assets, liabilities, profits, NPLs as well as other indicators, providing convenience to all stakeholders and intermediaries’ in research, analysis and study.

Secondly, the CBRC promoted the self-regulation of the sector. It continued to encourage trade
associations including the China Banking Association (CBA), the China Trustee Association (CTA), the China National Association of Finance Companies (CNAFC), the China Financing Guarantee Association (CFGA), and the China Micro-credit Companies Association (CMCCA), to fulfill their duties, establish and improve self-regulatory mechanisms, and perform the functions of coordination, self-regulation and rights protection as self-regulatory organizations (SROs), thereby ensuring fairness and order in the market competition.

In 2016, The CBA released the Report on the Service Improvement of China’s Banking Industry for the ninth year in a row, the Report on the Development of China’s Banking Sector for the sixth year in a row, and published for the first time the top 100 Chinese banks by net core tier one capitals. It released the results of GYROSCOPE system for the second consecutive year to evaluate commercial banks’ sound development capability, with the coverage expanding from 6 banking financial institutions to 127. The CBA also sponsored the establishment of the China Banking magazine, building a banking publicity platform with multiple channels, tools and forms owned by the whole sector and shared by the whole society. The CTA carried out the rating of trust companies for the first time and completed rating of 68 trust companies. The rating results were based on three levels, A, B and C, which can be used as an important reference for regulatory rating. The CNAFC revised and issued the Rules on Rating of Finance Companies of Corporate Groups (Provisional) and used the industrial statistical analysis system to conduct the regulatory rating in 2016, and the rating results of 218 finance companies were released during the annual conference. The CFGA improved its statistical data analysis system, and promoted the information disclosure mechanism. The CMCCA established the special committee for local associations, carried out sector-based researches, published the Report on the Development of the China Micro-credit Companies Sector and the Report on the Administrative Policies, Laws and Regulations on the China Micro-credit Companies Sector. The China Trust Protection Fund Co., Ltd. worked to build the mechanism for risk resolution of the trust sector and sent the signals of enhancing market discipline and competition.

Based on the needs of the sector and members, the CMCCA provided 14 field training and forums, attended by over 1,700 people, centered on themes such as financial inclusion, micro-credits, VAT conversion, legal and debt collection practice, financing sources, strategic innovation, and FinTech.
Part Nine

Corporate Social Responsibility

- Improving the CSR-related mechanisms and developing innovative approaches
- Improving credibility and reducing social cost
- Securing financial services to maintain social order
- Supporting charity and poverty-stricken areas
- Safeguarding employees’ rights and interests and building harmonious employer-employee relations
In 2016, the CBRC encouraged and guided banking institutions to increase the corporate social responsibility (CSR) awareness, improve the mechanisms, and fulfill the social responsibility of safeguarding public interest, enhancing social stability, promoting community development and building harmonious employer-employee relations, while serving the real economy, maintaining financial stability and protecting financial consumers.

I. Improving the CSR-related mechanisms and developing innovative approaches

Firstly, the CBRC encouraged banking institutions to incorporate the CSR concept and practices into their development strategy, corporate governance and daily management. Some banking institutions set up a CSR Committee under the Board of Directors and employed full-time CSR managers; they provided CSR trainings for employees, strengthened communications with stakeholders, such as governments, shareholders, employees and the public, through CSR report publication, and subjected themselves to supervision.

Secondly, the trade associations played a positive role in strengthening the CSR performance. The China Banking Association (CBA) optimized the evaluation system and selected institutions and employees with outstanding CSR performance; it popularized best CSR practices in the banking sector, and published the Social Responsibility Report on China’s Banking Sector for eight consecutive years. The China National Association of Finance Companies (CNAFC) published the first Social Responsibility Report on Finance Companies of Corporate Groups, fully disclosing CSR information.

Thirdly, the CBRC encouraged the development of innovative CSR approaches and products. In 2016, the CBRC actively took part in the formulation of the Charity Law, and encouraged trust companies to issue charitable trusts. A number of trust companies have created charitable trusts, which helped improve the efficiency of charitable funds and played a positive role in student assistance, poverty alleviation and elderly care.

In 2016, the CNFCA published the Social Responsibility Fulfillment Report on Finance Companies of Corporate Groups (2015), which was the first industry report on CSR performance. Based on the analysis of CSR cases and expert recommendations, this report shows the features of this industry, and unfolds the CSR reality in a comprehensive manner. The report exhibits the practice and effectiveness of compliance business operation and CSR fulfillment for finance companies, which aim to meet the requirements of corporate groups and serve the real economy. Social communities can have an extensive grasp of finance companies’ social responsibilities, which is serving the Group and the real economy.
II. Improving credibility and reducing social cost

On September 1, 2016, the date when *the Charity Law of the People’s Republic of China* became effective, Avic Trust created and launched the “Ai Fei Ke Charitable Trust”, which was one of the first charitable trusts launched after *the Charity Law* became effective. This Trust places emphasis on improving infrastructure of rural areas, assisting poor students to complete schools, and improving the livelihood of the elderly people. The Trust also provides fund to popularize basic aerospace knowledge and culture, support poverty alleviation cause in targeted areas and fields, and help promote green and environmental protection, etc..

In May 2016, the CBRC issued *the Notice on Further Improving the Integrity of the Banking Sector*, guiding banking institutions to participate in and boosting the establishment of the social credit system, in order to create a more favorable environment and market order.

Firstly, advocating business integrity and setting good examples. Banking institutions are required to designate a leading department to promote business integrity across all business lines and branch offices. Banks shall improve credibility by providing consumers with necessary information in a timely manner, and fulfillment the contracts. They have to set up special sales zones and record through “audio and video” during the sales process as required, thus eliminating such practices as misleading sales and marketing fraud. Banks shall improve information disclosure, informing the public of events materials to their operations, changes in services, launch of new products, etc. in a timely manner.

Secondly, efforts were made to fight against dishonest conduct, such as strategic default. Banking institutions collected information about dishonest acts published by judicial authorities and competent agencies and used such information as an important reference when making loan-granting decisions. Loan applications will be rejected if the applicants are found to be dishonest. Banking institutions also actively collect information about dishonest conduct, such as strategic default, fraud, etc., and strengthen coordination and information sharing with local governments and judicial authorities, with joint sanctions imposed on dishonest companies and owners. As a result, a company or owner will be subjected to all kinds of restrictions once being found dishonest.

Thirdly, banking institutions actively took part in cracking down on telecom frauds and illegal fund-raising with a view to improving the credibility of the sector. Banking institutions took a number of actions, such as improving the online investigation and control platform, cleaning up illegal purchase and sales of bank card information, enhancing the effectiveness of information security measures, etc. to crack down on telecom frauds. Banking institutions strengthened monitoring, early warning, publicity and education, and coordinate the efforts to prevent and
handle illegal fund-raising.

III. Securing financial services to maintain social order

Banking institutions are core participants of the economic system as well as an important part of the social system. During important holidays, major events, or natural disasters, governments, the public and other organizations need urgent financial services, and their demands are quite complex, requiring banking institutions to provide a complete range of financial services. In 2016, banking institutions continued to secure financial services to maintain orderly functioning of the society.

Firstly, ensuring quality financial services during public festivals and holidays. More financial resources were allocated and business hours were rescheduled to ensure availability of financial services. In addition, security guard and contingency management were strengthened, with self-service facilities used to improve customer experience. In addition, financial literacy publicity and education were also strengthened.

Secondly, ensuring financial services during major events. More information system and human resources were allocated to improve the availability of financial services for foreign guests attending G20 summit and other major events. Contingency plans were improved to enhance the emergency response capability. In a bid to ensure financial services during G20 summit in Hangzhou, local banking institutions actively renovated their outlets and self-service facilities, and placed temporary financial service points around the meeting venues and at large hotels. During G20 summit, foreign guests withdrew RMB 600,000 from ATMs and exchanged foreign currencies worth RMB 7.16 million.

During G20 summit in Hangzhou, China Zheshang Bank carried out over 20 drills and exercises in case of fire, robbery, power failure and Internet disruption with a view to ensuring preparedness, safety, and service delivery as per the requirements of “being the best, fastest, most practical and most effective”. All banking outlets in downtown area were added to an opening hour to ensure financial services during G20 summit.

Thirdly, the CBRC organized the banking sector to respond to storms, typhoons and other natural disasters and support disaster relief and post-disaster reconstruction. Banking institutions checked the safety of business outlets and vaults in the first place, safeguarding employees' safety and the safety of public properties. By repairing power and telecommunication facilities and setting up “tent banks”, banking institutions resumed the delivery of basic financial services and stabilized the financial order in disaster-stricken areas. They actively coordinated with local governments and affected enterprises and other organizations and provided financial support to meet the funding needs for relocating the affected people, purchasing disaster relief goods, repairing transportation...
Since the flood season came in 2016, Guizhou saw a number of regional heavy precipitation events, with some areas severely hit, causing heavy pressure on flood prevention. The CBRC Guizhou Office made field trips in the first place to learn about the impact on the banking sector. It coordinated efforts to timely resume the operation of banking outlets, provide available cash for withdrawal, set up temporary service stations and teams to provide free drinking water and food for the affected people and disaster relief personnel, and opened a green channel for transferring disaster relief funds and donated funds. As of end-2016, RMB 716 million worth of disaster relief loans were granted to 57 counties (cities/districts), and about 3,000 loans defaulted due to disasters were extended.

The heads of the CBRC Jiangsu Office paid a visit to the tornado-hit areas and convened a banking-government workshop with a view to understanding the needs of the affected areas for financial services. The Jiangsu Office required banking institutions to adjust their credit policies and provide specific credit support. It issued the Notice on Securing Banking and Financial Services for Tornado-hit Areas, urging relevant banking institutions to identify and eliminate hidden dangers at banking outlets, and provide disaster relief services via emergency windows, mobile service points, and other temporary facilities. It organized the banking institutions to make cash and in-kind donations and blood donation, and provide voluntary services. As of end-2016, the banking institutions in Jiangsu Province granted RMB 2.689 billion worth of loans to tornado-hit areas.

IV. Supporting charity and poverty-stricken areas

In 2016, the CBRC donated RMB 4.368 million to poverty-stricken areas and undertakings such as poverty alleviation, students aid and disaster relief. Guided and encouraged by the CBRC, banking institutions made supporting charity and giving back to the community as important element of CSR performance. A number of charity brands with banking characteristics were
Ping An Bank fulfilled its corporate social responsibility by supporting charity and poverty-stricken and vulnerable groups. In 2016, it rolled a charitable program nationwide dedicated to the theme “You Make Cities Better”, involving over 1,000 business outlets of 58 branches to give cold drinks to sanitation workers, traffic and patrol officers, urban facility repair workers and other outdoor workers who worked under high temperature in hot summer; invite outdoor workers to take a rest and have hot water at their business outlets or special areas in cold winter; some outlets provided micro-wave ovens and dining areas; and some employees went outdoors to give greetings to the workers.

In July 2016, Shanghai Pudong Development Bank launched the Program of Offering Further Education for 100 Pediatric Doctors and Nurses from Western Region. This program involves the grant of a RMB 5 million fund to support 100 grass-roots pediatric doctors and nurses to study for 2 years at outstanding pediatric hospitals in Beijing and Shanghai. As of end-2016, 40 such doctors and nurses started to study at Children’s Hospital Affiliated to Capital Institute of Pediatrics and Children’s Hospital of Shanghai.
To leverage the strengths of the financial industry and the organizational advantages of the Central Committee of the Communist Youth League (CYL), the CBRC and CYL have been assigning young staff to work temporarily at the grass-root level. From 2015 to 2016, 2,017 young staff were assigned to work at 1,900 CYL committees at county levels. Banking institutions established electronic credit records for 2.29 rural young people, and granted RMB 32.6 billion worth of microloans to 350,000 young entrepreneurs, thereby promoting business and job creation for rural young people, particularly those in poverty-stricken areas.

Box 30  Bank-CYL cooperation

To manage volunteers and voluntary services more efficiently, Bank of Hainan and CYL Hainan Provincial Committee jointly developed the “Hainan Volunteers APP”. After registration, volunteers will get a “Volunteer Co-branded Account”. Relying on the individual electronic account at Bank of Hainan, the “Volunteer Co-branded Account” provides access to “dining, accommodation, travel, tourism, shopping and entertainment” services for registered volunteers.

© Bank of Hainan developed “Hainan Volunteers APP” jointly with CYL Hainan Provincial Committee

V. Safeguarding employees’ rights and interests and building harmonious employer-employee relations

In 2016, banking institutions strengthened accountability pursuant to applicable laws, regulations and supervisory policies. While enhancing risk controls, they avoided holding employees to account partially or inappropriately. Guided by the CBRC, banking institutions continued to improve the rules governing paid leaves and pay rise for grassroots employees, effectively safeguarded employees’ rights and interests, and helped with employees’ career development by providing staff training.
Part Ten

Outlook

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

Looking into the year of 2017, the world economy might still be in the course of moderated recovery. Deglobalization, trade protectionism, political uncertainties in the US and Europe, bifurcated monetary policies of major countries and geopolitical factors are getting more complicated. Compared with developed countries, emerging economies may continue to sustain relatively high growth rates, thought with notable divergences across countries. It is expected that the Federal Reserve will continue with the gradual tightening of its monetary policy, while initiatives proposed by President Donald Trump on infrastructure building, tax cut and trade protection policies remain highly uncertain, with the impact on the US economy yet to be seen. The decline of labor force participation, slow productivity growth and widening income disparity may continue to constrain the long-term economic growth in the US. Economic recovery in the Eurozone remains fragile, with the banking sector struggling in some countries. Political uncertainties resulting from Brexit and elections in Germany, France and the Netherlands may impact economic growth. Japan is still facing the pressure of aging population and mounting government debt, with limited policy options and therefore difficult to shake off low growth rate in the short term. In addition, the rise of trade protectionism, strong dollar and capital outflows, among others, may afflict substantial impact on emerging markets.

Domestically, the economy remains in the course of development featuring new normal, with supply-demand structure adjusting and economic drivers changing. Despite existing difficulties and challenges, China still enjoys a benign prospect of development opportunities. The deepening of supply-side structural reform will lead the economy to grow with higher quality, efficiency, equality and sustainability. Monetary policy will remain prudent and neutral, while fiscal policy will be more proactive and effective, so as to create a more stable policy environment for economic growth. Reforms in such key areas as state-owned enterprises, property rights protection, fiscal and financial institutions and pension schemes will continue to advance. With profound changes taking place in external environment, the banking sector in China is facing increasingly complex risks. Hence, greater importance should be attached to the prevention and control of financial risks, with particular efforts made to resolve prominent risk points so as to keep systemic risk at bay. At the same time, grasping the opportunities unleashed by economic restructuring and upgrading, banking institutions should return to focus on their core business activities to better underpin the real economy.

II. Supervisory focuses

In 2017, the CBRC will fully carry out the call of the central government and the requirements
of the Central Economic Work Conference, to make risk mitigation and control a high priority on the work agenda and continue guiding banking sector back to the core businesses. Following the general tone of seeking progress while maintaining stability, the CBRC will remain committed to facilitating the supply-side structural reform, earnestly improving the quality and efficiency of serving the real economy, enhancing the risk control capabilities, ensuring law- and rule-based supervision, and further promoting reform and open up, thereby nurturing new financial engines for steady and sound social and economic development.

1. Supporting supply-side structural reform

Focusing on five major tasks (cut overcapacity and excess inventory, deleverage, reduce costs, and strengthen points of weakness), the CBRC will continue to provide support to the deepening of supply-side structural reform. Commercial banks and other banking institutions will be guided to establish close contacts with companies and local governments, resolutely dispose of “zombie companies”, explore flexible debt resolution approaches, and firmly advance the efforts to cut excess capacity. In line with the principle that “houses are for living, not for speculation”, differentiated control policies will be applied to real estate financing with a view to promoting steady and sound growth of the market and effectively reducing inventory. Banking institutions will be encouraged to actively implement market-based debt-to-equity swaps in accordance with applicable rules and regulations, and conduct independent negotiations with the targeted companies to determine the prices and terms for swap, thereby accelerating the deleveraging process. The CBRC will further strengthen policy support, guidance and risk monitoring to facilitate new progress in market-based debt-to-equity swap. It will further strengthen the regulation of fee-charging activities, encourage banking institutions to provide fee discounts, and firmly clean up any non-compliant business operations, transactions, incentives and fee charges, thereby effectively facilitating cost reduction. The CBRC will also actively promote the debt-equity combined investment pilot in a steady and orderly manner, roll out best practices, expand the pilot scope where appropriate and encourage the establishment of Tech Loan Business Unit. Banking institutions will be guided to support supply-side structural reform in agriculture, provide more credit support to agro-related developments and MSEs, and improve the efficiency of targeted poverty alleviation through financial services and financial inclusion, thereby shoring up the weak areas of financial services.

Through institutional reform and innovation, and by better utilizing incremental loans and revitalizing idle capital, banking institutions are expected to provide customers with tailored and integrated financial services, thereby better serving the real economy. Banking institutions will hold firm to the customer-centered concept, continue to improve banking services and refrain from such malpractices at some branches where banks charged customers without really serving them, and implement the regulatory requirement on rectifying regulatory arbitrage, idle fund arbitrage and related entity arbitrage. The CBRC will guide the banking sector to develop effective business models that help alleviate funding difficulties and costs for MSEs and agro-related development.

2. Promoting risk control and prevention in key areas

In view of the risk profile and characteristics of the banking sector, the CBRC will focus on key
areas of risk prevention and control and weak links, take firm actions to address risks, effectively eliminate a number of key risks and potential risks, thereby ensuring sound performance of the banking industry and defending the bottom line of no occurrence of systemic risk. The CBRC will strictly control the risk of non-performing loans, develop a thorough understanding of the risk profile, refine the classification of credit assets, and intensify efforts to identify credit risks associated with key areas, industries and customers. The CBRC will accelerate the resolution of existing risks, strengthen the handling of material risk events, such as loan defaults of large corporate groups, and strengthen the identification, prevention and control of risks associated with the guarantee circle. The CBRC will strictly monitor liquidity risk, improve contingency management and banking sector’s capabilities to provide mutual assistance, establish a sound mechanism for both city and rural commercial banks to provide mutual liquidity support, and give full play to the role of China Trust Protection Fund. The CBRC will exercise strict control over cross-sector financial risks, implement the “penetration” principle, and strengthen consolidated supervision. It will prevent credit risks facing local government funding platforms, and promote the formulation of plans for resolving risks associated with mid to long-term debt, thereby effectively addressing local risks. The CBRC will strictly control Internet financial risks, continue to clean up P2P online lending risks, and accelerate differentiated resolution and regulation. It will severely tackle the risk of illegal fund-raising, and promote local governments and member organizations to perform their duties, and facilitate the promulgation of the Regulations on Handling Illegal Fund-raising. It will prevent the transmission of risks associated with private financing activities.

3. Resolutely addressing financial misconducts

The CBRC will highlight financial risk prevention and control high in its work priorities and ensure that there is no occurrence of systemic financial risk. The CBRC will actively join the effort to establish supervisory coordination mechanism, deepen information sharing and coordination with the PBC, CSRC and CIRC as well as other ministries, and improve the mechanism for the monitoring, early warning, prevention and control of systemic risks. The CBRC will promptly improve regulatory deficiencies, identify loopholes in the regulatory regime, and improve regulatory rules. In light of new changes, developments and features of banking business and risks, and with reference to international regulatory standards, the CBRC will review all kinds of regulatory rules applicable to banking activities, fill up the regulatory gaps as soon as possible, and update the regulatory rules that have lagged behind business and risk development, and abolish outdated rules and regulations, if any. The CBRC will clean up misconducts in the market and resolutely crack down on illegal activities. The CBRC will continue to clean up illegal actions and noncompliant behaviors, particularly focusing on the following aspects, i.e., illegally conducting connected transactions, tunneling of interests in disguised forms, underreporting material business information, and illegally holding bank shares on behalf of others. The CBRC will give full play to the deterrent effect of sanctions and promote the sound performance of the banking sector.

4. Strengthening team building

Banking is an industry that operates risk. As the authority that supervises operational risks, the
CBRC must enhance its awareness of racing with risks. We should run ahead of risks in order to gain advantages. To that end, the banking sector must strengthen team building and foster positive professional ethics: working for the people, being practical, uncorrupt, loyal, clean and responsible. The CBRC will continue to promote good bookkeeping, accounting and compliance practices and keep the customers’ money safe. The CBRC will strengthen party discipline, abide by the law, and resolutely punish collusion, embezzlement, tunneling of instests, and other illegal or noncompliant conducts. The CBRC will enhance the awareness of responsibility, strengthen accountability, and ensure that banking institutions are responsible for controlling risks, and supervisory authorities are responsible for risk-based supervision. The CBRC will also attach importance to Party building and supervisory activities, give top priority to compliance with disciplines and rules, and establish the sense of commitment. The CBRC will require every employee to separate personal affairs from work, follow the withdrawal requirement in the event of conflict of interest, put an end to malpractices, rent setting, rent seeking, or abuse of power or influence to seek personal gains. While strengthening Party building, the CBRC will enhance banking regulation and supervision, so as to become a trustworthy guardian for the country and people.

5. Promoting strict Party governance

The CBRC will willingly maintain the consciousness of the need to maintain political integrity, think in big-picture terms, uphold the leadership core and keep in alignment. The CBRC will resolutely carry out the requirements of the central government, and closely follow the central guidance in terms of thinking, political stand, and action. The CBRC will promote strict Party governance, strengthen the Party work and administration. The main leaders of the CBRC will fulfill the duty of promoting the rule of law, strengthen the practice of tough supervision, and empower the supervisors to be responsible, so that every department and employee across the CBRC system dare to confront and solve the problems and shoulder their due responsibilities.
Appendixes

- Appendix 1  Responsibility description of the CBRC departments and local offices
- Appendix 2  Financial management activities of the CBRC
- Appendix 3  Rules and regulatory documents issued in 2016
- Appendix 4  MOUs and SOCs with Overseas Regulators
- Appendix 5  Significant regulatory and supervisory events in 2016
- Appendix 6  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 rules for banks and non-bank financial institutions, coordinate off-site surveillance work, and analyze and apply the off-site surveillance statistics; collect and compile various comprehensive supervisory returns, and disclose and share relevant statistical information; undertake identification, measurement, monitoring, analysis and reporting of systemic and regional risks of the banking sector, issue warnings and reminders on significant risks that may trigger systemic and regional financial risks; and put forward measures and suggestions to control and mitigate risks.

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 financial guarantee companies; 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. Human Resources Department
Be responsible for the organizational development, the management of the senior management, and the organization establishment.

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

23. Inspection Office of the CPC CBRC Committee
Be responsible for inspection affairs of the CPC CBRC Committee and internal auditing in CBRC.

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 2016, 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 law enforcement, case investigation, regulatory examination, supervisory information system establishment, inclusive financial development and international regulatory cooperation. 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 2016

Rules

Decree of the PBC and CBRC No. 2, 2016
Rules on Bank Card Clearing Institutions, issued on June 6, 2016

Decree of the CBRC, Ministry of Industry and Information Technology, Ministry of Publicity Security, and Cyberspace Administration of China (CAC) No. 1, 2016
Interim Rules on the Business Activities of Online Lending Information Intermediaries, issued on August 17, 2016

Regulatory Documents

Yin Jian Fa No. 1, 2016
Guiding Opinions of the CBRC, NDRC, MIIT, MOF, PBC and CSRC on Financing Guarantee Companies Supporting Major Projects, issued on January 11, 2016

*NDRC refer to National Development and Reform Commission
MIIT refer to Ministry of Industry and Information Technology
MOF refer to Ministry of Finance; PBC refer to People’s Bank of China;
CSRC refer to China Banking Regulatory Commission

Yin Fa No. 26, 2016
Notice of the PBC and CBRC on Issues Concerning Policy Adjustment to Individual Mortgage, issued on February 1, 2016

Yin Jian Ban Fa No. 24, 2016
Guiding Opinions on Promoting Financial Inclusion in 2016, issued on February 6, 2016

Yin Jian Ban Fa No. 26, 2016
Notice on Improving Rural Financial Services in 2016, issued on February 19, 2016

Yin Jian Fa No. 5, 2016

Yin Fa No. 92, 2016
Guiding Opinions of the PBC and CBRC on Increasing Financial Support to Emerging Consumption Sectors, issued on March 24, 2016
<table>
<thead>
<tr>
<th>Document Number</th>
<th>Title</th>
<th>Issued Date</th>
</tr>
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<tbody>
<tr>
<td>Yin Jian Fa No. 9, 2016</td>
<td>Guiding Opinions on Banking Institutions Actively Supporting Poverty Alleviation</td>
<td>April 1, 2016</td>
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<tr>
<td>Yin Jian Fa No. 11, 2016</td>
<td>Notice on Issuing the Implementation Plan for Thematic Rectification on P2P Online Lending Risks</td>
<td>April 13, 2016</td>
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<td>Yin Jian Fa No. 14, 2016</td>
<td>Guiding Opinions of the CBRC, Ministry of Science and Technology (MOST), and PBC on Encouraging Banking Innovation to Implement the Pilot Program of Combined Debt-Equity Investments for Tech Startups</td>
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<td>Yin Jian Fa No. 12, 2016</td>
<td>Notice on Issuing the Guidelines on the Internal Audit of Commercial Banks</td>
<td>April 16, 2016</td>
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<td>Yin Jian Ban Fa No. 82, 2016</td>
<td>Notice on Regulating the Transfer of Credit Beneficiary Rights by Banking Institutions</td>
<td>April 27, 2016</td>
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<td>Yin Jian Fa No. 24, 2016</td>
<td>Notice on Regulating Distribution Activities of Commercial Banks</td>
<td>May 5, 2016</td>
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<tr>
<td>Yin Jian Ban Fa No. 89, 2016</td>
<td>Notice on Further Improving the Integrity of the Banking Sector</td>
<td>May 6, 2016</td>
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<tr>
<td>Yin Jian Ban Bian Han No. 1196, 2016</td>
<td>Notice on Improving the Work of Creditors’ Committees of Banking Institutions</td>
<td>July 6, 2016</td>
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<tr>
<td>Yin Jian Fa No. 26, 2016</td>
<td>Notice of the CBRC and Ministry of Land and Resources on Issuing the Interim Rules on Loans Secured by Land Use Rights of Rural Collectively-owned Construction Land</td>
<td>May 13, 2016</td>
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<tr>
<td>Yin Jian Fa No. 41, 2016</td>
<td>Notice of the CBRC and Ministry of Public Security on Issuing the Requirements on the Return of Frozen Funds in New-type Telecommunication and Online Frauds</td>
<td>August 4, 2016</td>
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<tr>
<td>Yin Jian Fa No. 44, 2016</td>
<td>Notice on Issuing the Guidelines on Comprehensive Risk Management of Banking Institutions</td>
<td>September 27, 2016</td>
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<tr>
<td>Yin Jian Fa No. 47, 2016</td>
<td>Notice of the CBRC, CAC, MPS and State Administration for Industry and Commerce (SAIC) on Further Rectifying Online Lending on Campus</td>
<td>October 18, 2016</td>
</tr>
<tr>
<td>Yin Jian Ban Fa No.</td>
<td>Document Title</td>
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<tr>
<td>49, 2016</td>
<td>Guiding Opinions on the Work of Legal Advisors of Banking Institutions</td>
<td>November 16, 2016</td>
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<tr>
<td>163, 2016</td>
<td>Notice on Improving Large Banks’ Financial Service Capabilities in Counties</td>
<td>November 24, 2016</td>
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<td>51, 2016</td>
<td>Opinions of the CBRC, NDRC and MIIT on Issues Concerning Financial Claims and Debts Arising from the Disposal of Excess Capacities in the Steel &amp; Coal Mining Industries</td>
<td>November 28, 2016</td>
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<td>56, 2016</td>
<td>Notice on Further Strengthening Due Diligence and Liability Exemption for Commercial Banks’ Credit Extension to MSEs</td>
<td>December 28, 2016</td>
</tr>
<tr>
<td>57, 2016</td>
<td>Guiding Opinions on the Supervision of Private Banks</td>
<td>December 30, 2016</td>
</tr>
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</table>
## Appendix 4  MOUs and SOCs with Overseas Regulators

<table>
<thead>
<tr>
<th>No.</th>
<th>Overseas Regulators</th>
<th>Country/Region</th>
<th>Effective Date</th>
</tr>
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<tbody>
<tr>
<td>1</td>
<td>Monetary Authority of Macao</td>
<td>Macao SAR</td>
<td>August 22, 2003</td>
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<td>2</td>
<td>Hong Kong Monetary Authority</td>
<td>Hong Kong SAR</td>
<td>August 25, 2003</td>
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<td>3</td>
<td>Financial Supervisory Commission</td>
<td>Korea</td>
<td>February 3, 2004</td>
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<tr>
<td>4</td>
<td>Monetary Authority of Singapore</td>
<td>Singapore</td>
<td>May 14, 2004</td>
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<tr>
<td>5-1</td>
<td>Board of Governors of the Federal Reserve System (FED)/ Office of the Comptroller of the Currency (OCC) / Federal Deposit Insurance Corporation (FDIC)/</td>
<td>US</td>
<td>June 17, 2004</td>
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<tr>
<td>5-2</td>
<td>California Department of Financial Institutions</td>
<td></td>
<td>November 6, 2007</td>
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<tr>
<td>5-3</td>
<td>New York State Banking Department</td>
<td></td>
<td>May 7, 2009</td>
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<td>6</td>
<td>Office of the Superintendent of Financial Institutions Canada</td>
<td>Canada</td>
<td>August 13, 2004</td>
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<td>7</td>
<td>National Bank of the Kyrgyz Republic</td>
<td>Kyrgyzstan</td>
<td>September 21, 2004</td>
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<td>8</td>
<td>State Bank of Pakistan</td>
<td>Pakistan</td>
<td>October 15, 2004</td>
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<tr>
<td>9</td>
<td>Federal Financial Supervisory Authority (BaFin)</td>
<td>Germany</td>
<td>December 6, 2004</td>
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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>
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<td>11</td>
<td>Commission Bancaire</td>
<td>France</td>
<td>March 24, 2005</td>
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<tr>
<td>12</td>
<td>Australian Prudential Regulation Authority</td>
<td>Australia</td>
<td>May 23, 2005</td>
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<td>13</td>
<td>Banca d’Italia</td>
<td>Italy</td>
<td>October 17, 2005</td>
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<td>14</td>
<td>Bangko Sentral ng Pilipinas</td>
<td>Philippines</td>
<td>October 18, 2005</td>
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<tr>
<td>15</td>
<td>Central Bank of the Russian Federation</td>
<td>Russia</td>
<td>November 3, 2005</td>
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<tr>
<td>16</td>
<td>Banco de Espana</td>
<td>Spain</td>
<td>April 10, 2006</td>
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<td>17</td>
<td>Jersey Financial Services Commission</td>
<td>Jersey</td>
<td>April 27, 2006</td>
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<td>No.</td>
<td>Overseas Regulators</td>
<td>Country/Region</td>
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<td>18</td>
<td>Banking Regulation and Supervision Agency of Turkey</td>
<td>Turkey</td>
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<td>19</td>
<td>Bank of Thailand</td>
<td>Thailand</td>
<td>September 18, 2006</td>
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<td>22-1</td>
<td>Qatar Financial Centre Regulatory Authority</td>
<td>Qatar</td>
<td>May 11, 2007</td>
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<td>22-2</td>
<td>Qatar Central Bank</td>
<td>Qatar</td>
<td>November 3, 2014</td>
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<td>23</td>
<td>Icelandic Financial Supervisory Authority</td>
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<td>June 11, 2007</td>
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<td>24-1</td>
<td>Dubai Financial Services Authority</td>
<td>Dubai</td>
<td>September 24, 2007</td>
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<td>24-2</td>
<td>The Central Bank of the United Arab Emirates</td>
<td>United Arab Emirates</td>
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<td>Abu Dhabi Global Market Financial Services Regulatory Authority</td>
<td>Abu Dhabi</td>
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<td>25</td>
<td>Swiss Federal Banking Commission</td>
<td>Switzerland</td>
<td>September 29, 2007</td>
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<td>De Nederlandsche Bank</td>
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<td>December 25, 2007</td>
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<td>27</td>
<td>Commission de Surveillance du Secteur Financier Luxemburg</td>
<td>Luxemburg</td>
<td>February 1, 2008</td>
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<td>28</td>
<td>Financial Services Agency of Japan</td>
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<td>Banking, Finance and Insurance Commission of Belgium</td>
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<td>31</td>
<td>Irish Financial Services Regulatory Authority</td>
<td>Ireland</td>
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<td>32</td>
<td>Central Bank of Nigeria</td>
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<td>February 6, 2009</td>
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<td>33</td>
<td>Bank Negara Malaysia</td>
<td>Malaysia</td>
<td>November 11, 2009</td>
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<tr>
<td>34</td>
<td>Financial Supervisory Commission of Chinese Taipei</td>
<td>Chinese Taipei</td>
<td>November 16, 2009</td>
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<td>35</td>
<td>The Czech National Bank</td>
<td>Czech Republic</td>
<td>January 5, 2010</td>
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<td>The Malta Financial Services Authority</td>
<td>Malta</td>
<td>February 2, 2010</td>
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<td>Bank of Indonesia</td>
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<td>No.</td>
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<td>The Bank Supervision Department of the South African Reserve Bank</td>
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<td>November 17, 2010</td>
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<td>39</td>
<td>National Bank of Tajikistan</td>
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<td>November 25, 2010</td>
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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>
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<td>42</td>
<td>The Superintendency of Banks and Financial Institutions of Chile</td>
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<td>43</td>
<td>The Central Bank of Cyprus</td>
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<td>July 15, 2011</td>
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<td>The Central Bank of Argentina (The Superintendence of Financial and Exchange entities)</td>
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<td>Guernsey Financial Services Commission</td>
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<td>Banco Central do Brasil</td>
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<td>The Financial Supervision Commission of the Isle of Man</td>
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<td>Bank of Zambia</td>
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<td>Superintendencia de Servicios Financieros del Banco Central del Uruguay</td>
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<td>The Supervisor of Banks at the Bank of Israel</td>
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<td>The Central Bank of Bahrain</td>
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<td>The National Bank of Kazakhstan</td>
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<td>The Bank of Mongolia</td>
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<td>The Superintendence of Banking, Insurances and Private Pension Fund Administrators of Peru</td>
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<td>Bank Al-Maghrib</td>
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<td>67</td>
<td>Bank Of Lao P.D.R</td>
<td>Laos</td>
<td>September 8, 2016</td>
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</table>
Appendix 5  Significant regulatory and supervisory events in 2016

January 6  The CBRC and the National Banking and Securities Commission of Mexico signed Memorandum of Understanding (MOU) on bilateral supervisory cooperation.

January 11  The then CBRC Chairman Shang Fulin met with Ratna Sahay and other members of FSAP Team from IMF and World Bank.

January 11  The CBRC held National Banking Regulation and Supervision Work Conference.

January 21 to 22  The Third Meeting of the 2nd Standing Committee of All-China Financial Youth Federation was held in Beijing.

January 26  The CBRC held the Conference on Party Work-style and Clean Government Building as well as Disciplinary Inspection to communicate and study important speeches by President Xi Jinping and the spirit of the 6th Plenary Session of the 18th CPC Central Commission for Disciplinary Inspection.

February 2  The 12th Central Leading Group for Inspection Work communicated the findings of thematic inspections to the CBRC Party Committee.

February 19  The then CBRC Chairman Shu Fuling met with Nathan Sheets, Under Secretary for International Affairs, the U.S. Department of the Treasury.

February 19  The CBRC issued the Notice on Improving Rural Financial Services in 2016, aiming to facilitate banking institutions to improve rural financial services and provide more financial support to farmers, agriculture and rural areas.

March 8 to 12  The CBRC officials attended the 159th BCBS Plenary Meeting in Basel, Switzerland.

March 14  The Seminar on China’s Banking Sector Supporting the “Belt and Road” Initiative was held in Beijing.

March 21  The CBRC and the Nepal Rastra Bank signed Memorandum of Understanding (MOU) on bilateral supervisory cooperation.

March 24  The CBRC issued jointly with PBC the Guiding Opinions on Increasing Financial Support to Emerging Consumption Sectors, aiming to foster and develop consumer finance organization system, accelerate the innovation of consumer credit management framework and products, intensify financial support to emerging consumer segments, and improve and optimize the environment for consumer finance.
March 29  The CBRC and the Central Bank of Czech jointly held China-Czech Financial Cooperation Forum under the Belt and Road Initiative in Prague, the Czech Republic.

March 31  The CBRC and the Central Bank of Hungary signed Memorandum of Understanding (MOU) on bilateral supervisory cooperation.

April 12  The General Office of the State Council issued the Implementation Plan for Clean-up of Internet Financial Risks, providing overall instructions on cleaning up Internet financial risks.

April 13  The CBRC issued the Notice on Issuing the Implementation Plan for Thematic Rectification on P2P Online Lending Risks jointly with the MIIT, MPS and State Internet Information Office, specifying the objectives, principles, scope, priorities, standard measures and division of roles and responsibilities of the rectification work.

April 15  A national work conference on financial services supporting development-oriented poverty alleviation was convened jointly by the CBRC and the State Council Leading Group Office of Poverty Alleviation and Development, at which the banking sector was required to focus on granting and managing micro loans in support of targeted poverty alleviation and improving the level of financial services for poverty-stricken areas and population.

April 15  The CBRC, Ministry of Science and Technology and PBC jointly issued Guiding Opinions on Encouraging Banking Innovation to Implement the Pilot Program of Combined Debt-Equity Investments for Tech Startups, encouraging and guiding banking institutions to implement investment-loan linkage pilot and improve financial services for tech startups.

April 16  The CBRC revised and issued the Guidelines on Internal Audit of Commercial Banks, aiming to improve the compliance, independence and effectiveness of internal audit of commercial banks and optimize the corporate governance.

April 25  The CBRC Party Committee held a video conference to communicate instructions on “Two Studies, One Action”.

April 26  The then CBRC Chairman Shang Fulin met with Gaston Reinesch, Governor of the Central Bank of Luxembourg.

April 28  The then CBRC Chairman Shang Fulin signed the MOU on banking supervisory cooperation with Richard Teng, CEO of the Financial Services Regulatory Authority of the Abu Dhabi Financial Market.
<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>May 5</td>
<td>The CBRC issued the <em>Notice on Regulating Agency Business of Commercial Banks</em>, further regulating agency business of commercial banks and protecting investors' lawful rights and interests.</td>
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<tr>
<td>May 12</td>
<td>The CBRC held a videoconference on implementing the requirements of the training seminar for chief and deputy chief disciplinary inspectors dispatched by central disciplinary commission.</td>
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<tr>
<td>May 13</td>
<td>The CBRC issued jointly with the Ministry of Land and Resources <em>Notice on Issuing the Interim Rules on Loans Secured by Land Use Rights of Rural Collectively-owned Construction Land</em>, specifying the purpose, basis and overall requirement of such loans, the scope of loan business, lifecycle loan management, risk prevention mechanism, and powers and duties of supervisory agencies.</td>
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<tr>
<td>May 17</td>
<td>The then CBRC Chairman Shang Fulin met with Abdulla Saoud Al-Thani, Governor of Qatar Central Bank.</td>
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</tr>
<tr>
<td>June 6</td>
<td>The CBRC issued jointly with the PBC <em>the rules on Bank Card Clearing Institutions</em>, aiming to orderly open up the bank card clearing market in accordance with law, regulate the administration of bank card clearing agencies, and promote the soundness of the bank card clearing market.</td>
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<tr>
<td>June 6 to 7</td>
<td>The CBRC officials attended the 8th China-US Strategic and Economic Dialogue in Beijing.</td>
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<tr>
<td>June 7</td>
<td>The then CBRC Chairman Shang Fulin met with Saeb Eigner, Chairman of the Dubai Financial Services Authority.</td>
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<tr>
<td>June 7 to 14</td>
<td>The CBRC officials attended the 160th BCBS Plenary Meeting in Basel, Switzerland.</td>
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<tr>
<td>June 10</td>
<td>The CBRC and the Central Bank of Morocco signed Memorandum of Understanding (MOU) on bilateral supervisory cooperation.</td>
<td></td>
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<tr>
<td>June 13</td>
<td>The then CBRC Chairman Shang Fulin met with David Lipton, First Deputy Managing Director of the IMF.</td>
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</tr>
<tr>
<td>June 16</td>
<td>The then CBRC Chairman Shang Fulin met with Mr. Bohuslav Sobotka, Prime Minister of the Czech Republic.</td>
<td></td>
</tr>
<tr>
<td>June 26</td>
<td>“Chinese Dream•Financial Dream” All-China Financial Youth Forum &amp; Hong Kong Interns Workshop was held in Beijing.</td>
<td></td>
</tr>
<tr>
<td>June 27</td>
<td>The then CBRC Chairman Shang Fulin met with Pierre Gramegna, Minister of Finance of Luxembourg.</td>
<td></td>
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</table>
July 1  The CBRC Party Committee held the Commemoration and Awards Ceremony on the 95th Anniversary of the Founding of Communist Party of China.

July 6  The CBRC issued the *Notice on Improving the Work of Banking Institutions’ Creditor Committees*, aiming to guide banking institutions to strengthen the management of financial claims, preserve economic and financial order and support the real economy.

July 14 The CBRC held the First Semi-annual Working Conference on National Banking Supervision Work & Economic and Financial Briefing in 2016, 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 2016, requiring analysis of latest economic and financial conditions and the focus on supply-side structural reform so as to guard against financial risks.

August 4  The CBRC issued jointly with the MPS the *Regulations on the Return of Frozen Funds in New-type Telecommunication and Online Frauds*.

August 16  The 23rd Bilateral Regulatory Consultation Meeting between the CBRC and the Hongkong Monetary Authority (HKMA) was held in Beijing.

August 17  The CBRC issued the *Provisional Rules on the Business Activities of Online Lending Information Intermediaries* jointly with the MIIT, MPS and State Internet Information Office, aiming to guide online lenders to meet the investment and financing needs of MSEs, farmers, agriculture and rural areas, and innovative companies and individuals.

August 19  The 7th Japan/Korea/China Trilateral Financial Regulators’ High-level Meeting & The 9th Japan/Korea/China Trilateral Financial Supervisory Cooperation Seminar was held in Yantai, Shandong.

September 10 to 17  The CBRC officials attended the meeting of GHOS and the 161st BCBS Plenary Meeting in Basel, Switzerland.

September 22 to 23  The 2016 Annual Work Conference on City Commercial Banks was held in Nanchang.

September 27  The CBRC issued the *Guidelines on Comprehensive Risk Management of Banking Institutions*, aiming to guide banking institutions to further improve comprehensive risk management and better serve the real economy.

September 29  The CBRC and the China Youth League (CYL) Central Committee jointly held the 2016 “Bank-CYL” Work Meeting in Beijing.

October 8 to 15  The CBRC officials attended the 8th China-UK Economic and Financial Dialogue in England and the 4th China-France High-level Economic and Financial Dialogue in France.
October 13 The CBRC Party Committee held a meeting to advance the “Two Studies, One Action” program.

October 16 China Orient Asset Management Co., Ltd. was formally established.

October 17 The CBRC officials attended the Sixth China-EU High Level Economic and Trade Dialogue and related events in Brussels and Luxembourg.

October 21 The CBRC held the Q3 Conference on Economic and Financial Condition Briefing and Analysis.

October 28 The CBRC Party Committee held a meeting to communicate the spirit of the 6th Plenary Session of the 18th National Congress of CPC and of important speeches by President Xi Jinping, and discuss the actions of the CBRC to further study and implement the spirit.

November 16 The CBRC issued the Guiding Opinions on the Work of Legal Advisors of Banking Institutions, aiming to drive banking institutions to implement the legal advisor system, improve the management of legal risk so as to ensure compliance of business operations.

November 22 The CBRC Party Committee held a conference to thoroughly study and implement the spirit of the 6th Plenary Session of the 18th National Congress of CPC and promote strict Party governance across the CBRC system.

November 24 to December 2 The CBRC officials visited Brazil and Chile, holding high-level meetings with Central Bank of Brazil and attending the 163th BCBS Plenary Meeting in Santiago.

December 8 The then CBRC Chairman Shang Fulin met with Christian NOYER, Honorary Governor of the Bank of France.

December 11 China Great Wall Asset Management Co., Ltd. was formally established.

December 12 to 13 The 2016 Annual Work Conference on National Joint-stock Commercial Banks was held in Tianjin.

December 13 The then CBRC Chairman Shang Fulin met with Chedly Ayari, Governor of the Central Bank of Tunisia.

December 15 to 16 The core college of ICBC, ABC, BOC and CCB was held by the CBRC.

December 26 The 2016 Annual Work Conference on the Trust Sector was held in Shanghai.

December 30 The CBRC issued the Guiding Opinions on the Supervision of Private Bank, forming a harmonized, well-coordinated, safe and efficient regulatory regime for private banks with powers and responsibilities clearly defined, and thereby safeguarding the soundness of private banks.
## 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><strong>Banking Institutions</strong></td>
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<td>policy banks, large commercial banks, joint-stock commercial banks, city commercial banks, private 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, Chinese Trust Registration Company)</td>
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<td>Commercial banks</td>
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<td>Same as institution coverage</td>
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<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, China Construction Bank, and Bank of Communications</td>
<td>Same as institution coverage</td>
</tr>
<tr>
<td>Small-and medium-sized commercial banks</td>
<td>Joint-stock commercial banks, city commercial banks and private banks</td>
<td>Same as institution coverage</td>
</tr>
<tr>
<td>Joint-stock commercial banks</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>
</tr>
<tr>
<td>-------------------------------------------</td>
<td>-----------------------------------------------------------------------------------------</td>
<td>----------------------------------------------------</td>
</tr>
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<td>Banking Asset management companies</td>
<td>China Huarong Asset Management Co., Ltd., China Great Wall Asset Management Corporation, China Orient Asset Management corporation, and China Cinda Asset Management Co., Ltd.</td>
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</tr>
<tr>
<td>Non-bank Financial Institutions</td>
<td>Trust companies, finance companies of corporate groups, financial leasing companies, money brokerage firms, auto financing companies and consumer finance companies</td>
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</tr>
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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>
</tr>
<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>
Part Twelve

Statistics

- Appendix 1  Total assets of banking institutions (2003—2016)
- Appendix 2  Total liabilities of banking institutions (2003—2016)
- Appendix 3  Total owner’s equity of banking institutions (2003—2016)
- Appendix 4  Total deposits and loans of banking institutions (2003—2016)
- Appendix 5  Profit after tax of banking institutions (2007—2016)
- Appendix 6  Returns of banking institutions (2007—2016)
- Appendix 7  NPLs of banking institutions (2010—2016)
- Appendix 8  Liquidity ratio of banking institutions (2007—2016)

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### Appendix 1: Total assets of banking institutions (2003—2016)

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<tbody>
<tr>
<td>Banking institutions</td>
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<td>439,500</td>
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<td>631,515</td>
<td>795,146</td>
<td>953,053</td>
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<td>1,336,224</td>
<td>1,513,547</td>
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<td>24,123</td>
<td>29,283</td>
<td>34,732</td>
<td>42,781</td>
<td>56,454</td>
<td>69,456</td>
<td>76,521</td>
<td>93,133</td>
<td>112,174</td>
<td>125,278</td>
<td>156,140</td>
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<td>229,935</td>
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<td>325,751</td>
<td>407,998</td>
<td>468,943</td>
<td>536,336</td>
<td>600,401</td>
<td>656,005</td>
<td>710,141</td>
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<td>54,446</td>
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<td>88,337</td>
<td>118,181</td>
<td>149,037</td>
<td>183,794</td>
<td>235,271</td>
<td>269,361</td>
<td>313,801</td>
<td>369,880</td>
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<td>41,320</td>
<td>56,800</td>
<td>78,526</td>
<td>99,845</td>
<td>123,469</td>
<td>151,778</td>
<td>180,842</td>
<td>226,802</td>
<td>282,378</td>
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<td>Rural commercial banks</td>
<td>385</td>
<td>565</td>
<td>3,029</td>
<td>5,038</td>
<td>6,097</td>
<td>9,291</td>
<td>18,661</td>
<td>27,670</td>
<td>42,527</td>
<td>62,751</td>
<td>85,218</td>
<td>115,273</td>
<td>152,342</td>
<td>202,680</td>
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<td>—</td>
<td>2,750</td>
<td>4,654</td>
<td>6,460</td>
<td>10,033</td>
<td>12,791</td>
<td>15,002</td>
<td>14,025</td>
<td>12,322</td>
<td>9,570</td>
<td>7,625</td>
<td>4,359</td>
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<tr>
<td>Urban credit cooperatives</td>
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<td>1,787</td>
<td>2,033</td>
<td>1,831</td>
<td>1,312</td>
<td>804</td>
<td>272</td>
<td>22</td>
<td>30</td>
<td>—</td>
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<td>—</td>
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<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>
<td>72,047</td>
<td>79,535</td>
<td>85,951</td>
<td>88,312</td>
<td>86,541</td>
<td>79,496</td>
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<td>10,162</td>
<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>
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<td>13,492</td>
<td>17,423</td>
<td>21,535</td>
<td>23,804</td>
<td>25,628</td>
<td>27,921</td>
<td>26,808</td>
<td>29,286</td>
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<td>New-type rural financial institutions &amp; Postal savings bank</td>
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<td>10,850</td>
<td>13,787</td>
<td>16,122</td>
<td>17,687</td>
<td>22,163</td>
<td>27,045</td>
<td>35,101</td>
<td>43,536</td>
<td>53,511</td>
<td>62,110</td>
<td>70,981</td>
<td>83,024</td>
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</tr>
</tbody>
</table>

Notes: Data from 2003 to 2006 refer to the combined assets of banking institutions within China. Data from 2007 to 2016 refer to the consolidated assets of banking institutions within and outside China.
### Appendix 2: Total liabilities of banking institutions (2003—2016)

#### Notes:
- Data from 2003 to 2006 refer to the combined assets of banking institutions within China.
- Data from 2007 to 2016 refer to the consolidated assets of banking institutions within and outside China.

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<td>750,706</td>
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<td>1,600,222</td>
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<td>657,135</td>
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<td>778</td>
<td>173</td>
<td>145</td>
<td>129</td>
<td>107</td>
<td>86</td>
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<tr>
<td>Foreign banks</td>
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<td>8,523</td>
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<td>19,431</td>
<td>21,249</td>
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<td>24,832</td>
<td>23,298</td>
<td>25,566</td>
</tr>
<tr>
<td>New-type rural financial institutions &amp; Postal savings bank</td>
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**Unit:** RMB 100 million
### Appendix 3: Total owner’s equity of banking institutions (2003—2016)

**Unit: RMB 100 million**

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<td>101,716</td>
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<td>152,053</td>
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<td>4,902</td>
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<td>44,394</td>
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<td>330</td>
<td>534</td>
<td>1,115</td>
<td>2,026</td>
<td>3,320</td>
<td>4,910</td>
<td>6,726</td>
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<td>12,000</td>
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<td>2,344</td>
<td>2,793</td>
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<td>2,855</td>
<td>3,833</td>
<td>4,757</td>
<td>6,105</td>
<td>7,728</td>
<td>9,738</td>
<td>12,226</td>
<td>14,673</td>
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<td>1,420</td>
<td>1,674</td>
<td>1,854</td>
<td>2,104</td>
<td>2,555</td>
<td>2,732</td>
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<td>0</td>
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<td>221</td>
<td>332</td>
<td>736</td>
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<td>1,799</td>
<td>2,297</td>
<td>3,009</td>
<td>4,030</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 2016 refer to the consolidated assets of banking institutions within and outside China.
Appendix 4: Total deposits and loans of banking institutions (2003—2016)

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<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>
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<td>612,006</td>
<td>733,382</td>
<td>826,701</td>
<td>943,102</td>
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<td>1,173,735</td>
<td>1,397,752</td>
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<td>126,196</td>
<td>147,054</td>
<td>166,617</td>
<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>
<td>489,798</td>
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<td>Domestic long-term</td>
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<tr>
<td>Domestic bill</td>
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<td>19,314</td>
<td>23,879</td>
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<td>15,154</td>
<td>20,447</td>
<td>19,616</td>
<td>29,233</td>
<td>45,838</td>
<td>54,779</td>
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</table>

Unit: RMB 100 million

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. The table is non-comparable with the previous year.
### Appendix 5: Profit after tax of banking institutions (2007—2016)

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<td>6,684.2</td>
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<td>1,383.0</td>
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<td>Rural cooperative banks</td>
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<td>181.9</td>
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<td>125.5</td>
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### Appendix 6: Returns of banking institutions (2007—2016)

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<td>1.2</td>
<td>1.2</td>
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<td>19.2</td>
<td>19.0</td>
<td>18.5</td>
<td>17.1</td>
<td>14.3</td>
<td>12.6</td>
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<tr>
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<td>1.0</td>
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### Appendix 7: NPLs of banking institutions (2010—2016)

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<td>0.6</td>
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### Appendix 8: Liquidity ratio of banking institutions (2007—2016)

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### Appendix 9: NPLs, asset impairment provisions and provisioning coverage ratio of commercial banks (2007—2016)

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<td>991.6</td>
<td>1,538.6</td>
<td>2,391.1</td>
</tr>
<tr>
<td>NPL ratio</td>
<td>6.1</td>
<td>2.4</td>
<td>1.6</td>
<td>1.1</td>
<td>1.0</td>
<td>1.0</td>
<td>1.2</td>
<td>1.7</td>
<td>1.7</td>
<td></td>
</tr>
<tr>
<td>Substandard</td>
<td>1.0</td>
<td>1.1</td>
<td>0.7</td>
<td>0.4</td>
<td>0.4</td>
<td>0.4</td>
<td>0.6</td>
<td>0.8</td>
<td>0.7</td>
<td></td>
</tr>
<tr>
<td>Doubtful</td>
<td>2.2</td>
<td>1.0</td>
<td>0.7</td>
<td>0.5</td>
<td>0.4</td>
<td>0.4</td>
<td>0.5</td>
<td>0.7</td>
<td>0.8</td>
<td></td>
</tr>
<tr>
<td>Loss</td>
<td>2.8</td>
<td>0.2</td>
<td>0.2</td>
<td>0.2</td>
<td>0.2</td>
<td>0.1</td>
<td>0.1</td>
<td>0.2</td>
<td>0.3</td>
<td></td>
</tr>
<tr>
<td>Asset impairment provisions</td>
<td>6,029.6</td>
<td>7,801.4</td>
<td>8,750.5</td>
<td>10,308.1</td>
<td>12,677.1</td>
<td>15,307.9</td>
<td>17,551.1</td>
<td>20,686.5</td>
<td>24,680.0</td>
<td>28,780.5</td>
</tr>
<tr>
<td>Provisioning coverage ratio</td>
<td>41.4</td>
<td>116.6</td>
<td>153.2</td>
<td>217.7</td>
<td>278.1</td>
<td>295.5</td>
<td>282.7</td>
<td>232.1</td>
<td>181.2</td>
<td>176.4</td>
</tr>
</tbody>
</table>

### Appendix 10: NPLs of commercial banks (2016)

<table>
<thead>
<tr>
<th>Institutions/Year</th>
<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>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding balance of NPLs</td>
<td>15,122.5</td>
<td>7,761.2</td>
<td>3,407.0</td>
<td>1,497.7</td>
<td>2,348.8</td>
<td>103.1</td>
</tr>
<tr>
<td>Substandard</td>
<td>6,091.4</td>
<td>2,896.7</td>
<td>1,424.3</td>
<td>747.6</td>
<td>1,005.3</td>
<td>16.5</td>
</tr>
<tr>
<td>Doubtful</td>
<td>6,640.1</td>
<td>3,576.4</td>
<td>1,238.0</td>
<td>523.1</td>
<td>1,237.7</td>
<td>61.9</td>
</tr>
<tr>
<td>Loss</td>
<td>2,391.1</td>
<td>1,288.1</td>
<td>744.7</td>
<td>227.0</td>
<td>105.9</td>
<td>24.7</td>
</tr>
<tr>
<td>NPL ratio</td>
<td>1.7</td>
<td>1.7</td>
<td>1.7</td>
<td>1.5</td>
<td>2.5</td>
<td>0.9</td>
</tr>
<tr>
<td>Substandard</td>
<td>0.7</td>
<td>0.6</td>
<td>0.7</td>
<td>0.7</td>
<td>1.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Doubtful</td>
<td>0.8</td>
<td>0.8</td>
<td>0.6</td>
<td>0.5</td>
<td>1.3</td>
<td>0.6</td>
</tr>
<tr>
<td>Loss</td>
<td>0.3</td>
<td>0.3</td>
<td>0.4</td>
<td>0.2</td>
<td>0.1</td>
<td>0.2</td>
</tr>
</tbody>
</table>
### Appendix 11: Distribution of NPLs of commercial banks by sectors (2016)

Unit: RMB 100 million, percent

<table>
<thead>
<tr>
<th>Institutions/Year</th>
<th>Outstanding balance</th>
<th>NPL ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>A Agriculture Forestry, Animal Husbandry and Fishing</td>
<td>748.1</td>
<td>3.57</td>
</tr>
<tr>
<td>B Mining</td>
<td>676.5</td>
<td>3.57</td>
</tr>
<tr>
<td>C Manufacturing</td>
<td>5,018.1</td>
<td>3.85</td>
</tr>
<tr>
<td>D Production and Supply of Electricity, Gas and Water</td>
<td>120.9</td>
<td>0.35</td>
</tr>
<tr>
<td>E Construction</td>
<td>575.6</td>
<td>1.67</td>
</tr>
<tr>
<td>F Wholesale and Retail Trade</td>
<td>4,523.6</td>
<td>4.68</td>
</tr>
<tr>
<td>G Transport, Storage and Post</td>
<td>342.1</td>
<td>0.54</td>
</tr>
<tr>
<td>H Lodging and Catering Services</td>
<td>204.2</td>
<td>2.68</td>
</tr>
<tr>
<td>I Information Transmission, Computer Services and Software</td>
<td>40.7</td>
<td>0.79</td>
</tr>
<tr>
<td>J Financial Services</td>
<td>11.0</td>
<td>0.13</td>
</tr>
<tr>
<td>K Real Estate</td>
<td>576.9</td>
<td>1.04</td>
</tr>
<tr>
<td>L Leasing and Business Services</td>
<td>263.2</td>
<td>0.52</td>
</tr>
<tr>
<td>M Scientific Research, Technical Services</td>
<td>20.7</td>
<td>1.12</td>
</tr>
<tr>
<td>N Management of Water Conservancy, Environment and Public Facilities</td>
<td>49.4</td>
<td>0.16</td>
</tr>
<tr>
<td>O Services to Households, Maintenance and Other Services</td>
<td>98.1</td>
<td>2.55</td>
</tr>
<tr>
<td>P Education</td>
<td>14.2</td>
<td>0.42</td>
</tr>
<tr>
<td>Q Health and Social Work</td>
<td>6.1</td>
<td>0.16</td>
</tr>
<tr>
<td>R Culture, Sports and Entertainment</td>
<td>26.3</td>
<td>0.87</td>
</tr>
<tr>
<td>S Public Management, Social Security and Social Organization</td>
<td>6.0</td>
<td>0.19</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>1,741.4</td>
<td>0.76</td>
</tr>
<tr>
<td>Credit Card</td>
<td>740.6</td>
<td>1.90</td>
</tr>
<tr>
<td>Automobiles</td>
<td>37.7</td>
<td>2.29</td>
</tr>
<tr>
<td>Home Mortgage Loans</td>
<td>607.1</td>
<td>0.36</td>
</tr>
<tr>
<td>Other Personal Loans</td>
<td>356.0</td>
<td>1.73</td>
</tr>
</tbody>
</table>
### Appendix 12: Distribution of NPLs of commercial banks by region (2016)

<table>
<thead>
<tr>
<th>Districts/Items</th>
<th>Outstanding balance</th>
<th>NPL ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Headquarters</td>
<td>841.9</td>
<td>2.10</td>
</tr>
<tr>
<td>Eastern region</td>
<td>8,198.5</td>
<td>1.64</td>
</tr>
<tr>
<td>Beijing</td>
<td>260.2</td>
<td>0.55</td>
</tr>
<tr>
<td>Tianjin</td>
<td>375.8</td>
<td>1.79</td>
</tr>
<tr>
<td>Hebei</td>
<td>502.2</td>
<td>1.87</td>
</tr>
<tr>
<td>Liaoning</td>
<td>606.2</td>
<td>2.09</td>
</tr>
<tr>
<td>Shanghai</td>
<td>307.7</td>
<td>0.68</td>
</tr>
<tr>
<td>Jiangsu</td>
<td>1,146.1</td>
<td>1.42</td>
</tr>
<tr>
<td>Zhejiang</td>
<td>1,568.1</td>
<td>2.26</td>
</tr>
<tr>
<td>Fujian</td>
<td>782.4</td>
<td>2.73</td>
</tr>
<tr>
<td>Shandong</td>
<td>1,321.1</td>
<td>2.48</td>
</tr>
<tr>
<td>Guangdong</td>
<td>1,300.9</td>
<td>1.38</td>
</tr>
<tr>
<td>Hainan</td>
<td>27.7</td>
<td>0.73</td>
</tr>
<tr>
<td>Central Region</td>
<td>2,849.3</td>
<td>1.97</td>
</tr>
<tr>
<td>Shanxi</td>
<td>409.5</td>
<td>2.72</td>
</tr>
<tr>
<td>Jilin</td>
<td>290.1</td>
<td>2.68</td>
</tr>
<tr>
<td>Heilongjiang</td>
<td>182.6</td>
<td>2.04</td>
</tr>
<tr>
<td>Anhui</td>
<td>357.9</td>
<td>1.60</td>
</tr>
<tr>
<td>Jiangxi</td>
<td>357.8</td>
<td>2.22</td>
</tr>
<tr>
<td>Henan</td>
<td>473.9</td>
<td>1.84</td>
</tr>
<tr>
<td>Hubei</td>
<td>415.8</td>
<td>1.68</td>
</tr>
<tr>
<td>Hunan</td>
<td>361.6</td>
<td>1.75</td>
</tr>
<tr>
<td>Western region</td>
<td>3,186.0</td>
<td>2.15</td>
</tr>
<tr>
<td>Chongqing</td>
<td>256.3</td>
<td>1.28</td>
</tr>
<tr>
<td>Sichuan</td>
<td>763.9</td>
<td>2.33</td>
</tr>
<tr>
<td>Guizhou</td>
<td>249.0</td>
<td>2.02</td>
</tr>
<tr>
<td>Yunnan</td>
<td>409.7</td>
<td>3.07</td>
</tr>
<tr>
<td>Tibet</td>
<td>6.0</td>
<td>0.27</td>
</tr>
<tr>
<td>Shaanxi</td>
<td>389.9</td>
<td>2.23</td>
</tr>
</tbody>
</table>

Unit: RMB 100 million, percent
<table>
<thead>
<tr>
<th>States</th>
<th>Outstanding balance</th>
<th>NPL ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gansu</td>
<td>155.3</td>
<td>1.77</td>
</tr>
<tr>
<td>Qinghai</td>
<td>72.0</td>
<td>2.10</td>
</tr>
<tr>
<td>Ningxia</td>
<td>77.4</td>
<td>2.05</td>
</tr>
<tr>
<td>Xinjiang</td>
<td>125.4</td>
<td>1.40</td>
</tr>
<tr>
<td>Guangxi</td>
<td>242.2</td>
<td>1.91</td>
</tr>
<tr>
<td>Inner Mongolia</td>
<td>438.9</td>
<td>3.57</td>
</tr>
<tr>
<td>Total (domestic)</td>
<td>15,075.6</td>
<td>1.81</td>
</tr>
<tr>
<td>Total (overseas branches)</td>
<td>46.9</td>
<td>0.14</td>
</tr>
</tbody>
</table>

## Appendix 13: CAR of commercial banks (2010—2016)

<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>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core capital</td>
<td>42,965.1</td>
<td>53,366.6</td>
<td>64,340.1</td>
<td>Core capital</td>
<td>75,793.2</td>
<td>90,738.6</td>
<td>106,268.3</td>
<td>119,366.9</td>
</tr>
<tr>
<td>Supplementary capital</td>
<td>10,294.5</td>
<td>14,417.6</td>
<td>17,585.1</td>
<td>Supplementary capital</td>
<td>75,793.2</td>
<td>92,480.8</td>
<td>110,109.4</td>
<td>124,860.5</td>
</tr>
<tr>
<td>Capital deductions</td>
<td>3,196.4</td>
<td>3,735.4</td>
<td>4,057.1</td>
<td>Capital deductions</td>
<td>92,856.1</td>
<td>113,269.3</td>
<td>131,030.1</td>
<td>147,419.6</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>On-balance sheet risk-weighted assets</td>
<td>696,582.6</td>
<td>763,911.1</td>
<td>884,711.6</td>
<td>1,012,258.6</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>Off-balance sheet risk-weighted assets</td>
<td>59,124.0</td>
<td>68,193.5</td>
<td>77,226.1</td>
<td>84,235.6</td>
</tr>
<tr>
<td>Market risk capital</td>
<td>273.3</td>
<td>296.3</td>
<td>388.4</td>
<td>Market risk capital</td>
<td>6,066.5</td>
<td>6,845.4</td>
<td>8,613.1</td>
<td>12,053.3</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>10.6</td>
<td>10.9</td>
<td>10.8</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>
<td>13.3</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)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></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>4,212</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—2016)

<table>
<thead>
<tr>
<th>Year</th>
<th>Items</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of institutions examined</td>
<td>2.8</td>
<td>2.4</td>
</tr>
<tr>
<td></td>
<td>Funds confiscated</td>
<td>5.3</td>
<td>2.7</td>
</tr>
<tr>
<td></td>
<td>Number of senior managerial personnel with qualifications revoked</td>
<td>68</td>
<td>88</td>
</tr>
<tr>
<td></td>
<td>Number of measures taken</td>
<td>3,207</td>
<td>5,025</td>
</tr>
<tr>
<td></td>
<td>Number of senior personnel punished by institutions examined</td>
<td>5.6</td>
<td>3.1</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-2016)

Unit: Person, number of banks

<table>
<thead>
<tr>
<th>Institutions' Items</th>
<th>Number of staff</th>
<th>Number of banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policy banks and the CDB</td>
<td>63,700</td>
<td>3</td>
</tr>
<tr>
<td>Large commercial banks</td>
<td>1,676,601</td>
<td>5</td>
</tr>
<tr>
<td>Joint-stock commercial banks</td>
<td>435,354</td>
<td>12</td>
</tr>
<tr>
<td>City commercial banks</td>
<td>401,003</td>
<td>134</td>
</tr>
<tr>
<td>Private Banks</td>
<td>2,424</td>
<td>8</td>
</tr>
<tr>
<td>Rural credit cooperatives</td>
<td>297,083</td>
<td>1,125</td>
</tr>
<tr>
<td>Rural commercial banks</td>
<td>558,172</td>
<td>1,114</td>
</tr>
<tr>
<td>Rural cooperative banks</td>
<td>13,561</td>
<td>40</td>
</tr>
<tr>
<td>Finance companies of corporate groups</td>
<td>11,644</td>
<td>236</td>
</tr>
<tr>
<td>Trust companies</td>
<td>19,236</td>
<td>68</td>
</tr>
<tr>
<td>Financial leasing companies</td>
<td>4,954</td>
<td>56</td>
</tr>
<tr>
<td>Auto financing companies</td>
<td>8,046</td>
<td>25</td>
</tr>
<tr>
<td>Money brokerage firms</td>
<td>857</td>
<td>5</td>
</tr>
<tr>
<td>Consumer finance companies</td>
<td>57,758</td>
<td>18</td>
</tr>
<tr>
<td>Banking asset management companies</td>
<td>7,883</td>
<td>4</td>
</tr>
<tr>
<td>Foreign financial institutions</td>
<td>45,613</td>
<td>39</td>
</tr>
<tr>
<td>Other institutions (1)</td>
<td>486,337</td>
<td>1,506</td>
</tr>
<tr>
<td>Banking institutions in total</td>
<td>4,090,226</td>
<td>4,398</td>
</tr>
</tbody>
</table>

(1) Other institutions include new-type rural financial institutions, postal savings bank, and Sino-German Bausparkasse. Note: Statistics of China Trust Protection Fund are excluded in this annual report.
Chief Editor of this Annual Report: CAO Yu

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