CHINA BANKING REGULATORY COMMISSION

Annual Report 2009
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Note: Unless otherwise indicated, the currency unit used in the CBRC Annual Report 2009 is RMB.
Disclaimer: This English version of the CBRC Annual Report 2009 is for reference only. The information it contains is translated from and subjected to, the Chinese version.
2009 was the most difficult year for China since the new century, with economic development being seriously challenged. In the wake of the severe shock rendered by the global financial crisis, world economy experienced twists and turns, and global financial market remained volatile. As the global economy slipped into deep recession, China’s economic performance was by no means de-coupled. Against the backdrop, China’s central government resolutely steered the nation to face up to the challenges and overcome the unprecedented adversities. Thanks to these efforts, downturn of the economy was reined in successfully, and the economy was placed back on track of an overall recovery and sustained development.

Implementing macroeconomic adjustment policies

China’s central government responded to the fallout of the global financial crisis in a timely manner by adopting a host of measures to support sustained growth, boost domestic demand, adjust economic structure and improve people’s livelihood. The implementation of these policies required swift, resolute and effective endeavors. On its part, the CBRC instructed all banks to take into account the macroeconomic adjustments in providing credit support for the real economy, while holding on firmly to risk controls in the course of credit supply. In the first quarter when economic growth was mostly unsatisfactory, the banking sector provided a monthly average of RMB1.5 trillion of new loans, which contributed significantly to shoring up the economic recovery and preventing enterprises from falling due to broken liquidity chain. With the economy being re-stabilized, the CBRC timely guided the banking industry to bring credit expansion back on a normal track since the second quarter. Hence, credit supply slowed down steadily for the rest of the year, matching up sensibly with economic recovery pace.

In the meantime, the CBRC required banking institutions to actively optimize credit portfolio and allocation, so as to give bank credit a full play in the transformation and restructuring of the national economy. Specifically, banking institutions were urged to increase the agricultural and SME loans, develop green credit, support energy-saving enterprises and projects, provide consumer credit for purchasing first homes, household appliances, automobiles and agricultural equipments, and facilitate key projects in line with national industrial policies. Overall, the banking industry played a pivotal role in underpinning economic recovery and restructuring in 2009.

Enhancing supervisory effectiveness

Bearing in mind the mandate of conducting risk-based supervision, the CBRC remained vigilant against the embedded risks accumulated in the course of rapid credit expansion in 2009. Meanwhile, effective countermeasures were taken in a timely manner.
Against the credit risks associated with banks’ lending to local government funding platforms (LGFPs), the CBRC specified three ‘bottom lines of defense’. Firstly, banks are forbidden to extend package loans. Secondly, banks are prohibited from signing loan contracts with local governments to fund the projects with large contractual values but lack of commercial viability. Thirdly, banks are restricted in lending to the LGFPs recognized for insufficient equity, unsound corporate governance, weak internal controls, inefficient risk management, or unsatisfactory fund management and utilization.

As for credit risks associated with real estate loans, the supervisory requirements are no less resolute and stringent. First of all, banks are required to follow the supervisory guidance in adjusting the down payment and mortgage rates. In case of providing residential mortgages, banks should interview and sign the contract with the borrowers in person, and should pay visit to the resident property in question in order to curb speculative investment. When lending to real estate projects, banks should examine the self-raised funds of the projects with due diligence. Besides, credit to property development companies should be managed on a consolidated basis rather than on a standalone basis. Where property developers are found to be in material violation of laws or regulations, banks are forbidden to grant loans regardless of the form and terms of loans. On top of the above requirements, loan disbursement procedures should be further refined to ensure the loans are disbursed to the ultimate beneficiary, while the flow of loans should be monitored, reviewed and properly controlled in order to prevent the misappropriation of loans.

To address the impact of the global financial crisis and maintain the soundness of the banking industry, the CBRC attached equal importance to macro- and micro-prudential supervision, strengthened counter-cyclical supervisory measures, and refined prudential supervisory toolkit. In terms of micro-prudential supervision, banking institutions were required to ensure efficient capital replenishment, limit cross-holding of subordinated debts, control large exposures, adjust LTV ratio dynamically, and adopt dynamic provisioning practices. On the front of macro-prudential supervision, the CBRC focused on updating supervisory policies on banks’ credit supply in tandem with changing macroeconomic situations, applying stress tests to assess industry-wide risks, further raising banks’ awareness of macroeconomic risks, and intensifying cooperation and information sharing with other government agencies.

As tested by the global financial crisis, the CBRC’s practices in holding on to China-specific supervisory principles as well as China’s approach to applying simple, basic and useful supervisory ratios and methods proved effective and useful. The China-specific principles include combining rule-based and principle-based supervision, integrating micro- and macro-prudential supervision, expanding the scope of supervision and preventing cross-border and cross-sector risk contagion. Such principles and approaches are adopted based on our past experiences, both reflective of China’s specific circumstances and largely consistent with the recent international recommendations on financial regulatory reform. Hence, we will continue such supervisory practices with appropriate updates, so as to better serve the broader endeavors of financial reform and sustained economic development in China.

**Promoting mechanism building for effective supervision**

In 2009, remarkable progress was made in mechanism building for effective supervision. After a wide range of consultations, the CBRC released a set of rules on loan disbursement and management, including the **Provisional Rules Governing the Management of Fixed Assets Loans**, the **Provisional Rules Governing the Management of Working Capital Loans**, the **Provisional Rules Governing the Management of Retail Loans** and the **Guidelines on Project Financing** (‘Three Rules and One Guidelines’), which marked a milestone in the transformation of loan management practices of China’s banking sector. The ‘Three Rules and One Guidelines’ require banking institutions to foster the concept of disbursing loans based on real economic demands, and establish the lending processes and procedures in which the functions of
marketing, review, disbursement and management of loans are properly segregated. The purpose is to standardize loan disbursement practices, reinforce loan management and ensure that credit is properly disbursed to underpin the development of real economy.

Apart from the reform of loan management practices, the CBRC continued to strengthen other aspects of the regulatory framework and enforcement. Guidelines were issued on the management of the key risks faced by the banking industry, including operational risk, liquidity risk, interest rate risk in the banking book, and reputational risk. Supervisory framework on IT risk was also developed. On-site examination and off-site surveillance functions continued to improve, with the on-site examination analysis system (EAST) being applied in trial operations and the off-site surveillance system (OSS) being updated to enable consolidated supervision.

Implementation of the Basel II forged ahead. Along the process, the existing supervisory rules were reviewed, evaluated and amended where necessary. In particular, in-depth reviews were made on the rules pertaining to corporate governance, compensation schemes, capital replenishment, leverage, liquidity, systemically important institutions and financial conglomerates, among others, with corresponding guidelines being issued or amended. In 2009, the CBRC became full member of the Financial Stability Board (FSB) and the Basel Committee on Banking Supervision (BCBS).

Facilitating balanced and sustained development of the banking industry

The overall strength and international competitiveness of China’s banking industry have been significantly elevated since the onset of reform and opening up, especially in the last seven years. This has enabled the banking system to maintain sound performance in 2009 even against the headwinds of the global financial crisis. As of end-2009, total assets of the banking industry reached RMB78.8 trillion, up by 26.2 percent compared with the beginning of the year. The average risk-weighed capital adequacy ratio (CAR) of commercial banks was 11.4 percent. The stock and ratio of non-performing loans (NPLs) falling to RMB497.3 billion and 1.58 percent respectively. The provisioning coverage ratio of commercial banks reached 155 percent, up by 38.6 percentage points from the year beginning. Net profit (after-tax) was RMB668.4 billion and return on equity (ROE) was 16.2 percent. Three large commercial banks in China, the Industrial and Commercial Bank of China, Construction Bank of China and Bank of China were ranked within world’s top five by capitalization.

In 2009, banking sector reform continued. China Development Bank, the Export-Import Bank of China, the Agricultural Bank of China, the Postal Savings Bank of China and the new-type rural financial institutions as well as the 4 banking asset management companies all pressed ahead with reform and restructuring. Opening up of the banking sector proceeded smoothly, with domestic banks prudently expanding overseas presence, foreign banks actively broadening services into China’s western regions, Hong Kong and Macao banks permitted to open application-free inter-city sub-branches within Guangdong province. Last but not the least, major progress was made in enhancing the banking supervisory cooperation cross the Strait.

Encouraging financial innovations in a safe and sound manner

In 2009, the CBRC pushed forward commercial banks’ pilot engagement in cross-sector financial activities. Banks are allowed to make equity investment in insurance companies on a trial basis, with the investment by any one bank being limited to one insurance company. Other pilot schemes were also rolled out, including allowing listed banks to trade bonds in the stock exchanges and to invest in financial leasing companies. Pilot program for establishing consumer finance companies was officially launched to support the efforts in boosting domestic demand and stimulating the economy. A new department was set up within the CBRC to coordinate the supervision of credit guarantee firms, so as to alleviate the loan guarantee difficulties of the SMEs. Furthermore, innovation on low carbon financial products and green credit was advocated.

While encouraging financial innovation, the CBRC also
adopted effective measures to prevent associated risks. Banks are required to spin off the cross-sector activities if the ROA and ROE gained from such activities are below the average of corresponding sectors. The overriding principle for financial innovation is that innovation must serve the real economic needs, with the cost being carefully accounted, risk being effectively managed and information being sufficiently disclosed.

**Guiding the industry to provide quality services and fulfill social responsibility**

In 2009, the CBRC guided the banking industry towards improving services and alleviating the crisis' negative impact on banking industry and economy. Commercial banks were encouraged to establish strategic business units (SBUs) for small enterprises lending. Licensing policy for small- and medium-sized commercial banks was adjusted to encourage their increased presence and services in rural areas. Intensified efforts were dedicated to extend coverage of financial services in under-banked and unbanked areas. Preparations for securing quality financial services for the 2010 Shanghai World Expo and the 16th Asian Games in Guangzhou were also the key focuses of the CBRC’s work in 2009.

Supervisory efforts were also made to guide the banking industry to earnestly protect the interests of financial consumers and undertake social responsibilities. Banks were encouraged to play their role in the reconstruction of the earthquake-stricken regions by providing the needed credit support and streamlining the lending and NPL write-off procedures. Banks were also called for to promote financial education, assist with the job creation for home-coming migrant rural workers and the young population, and improve financial services for the disadvantaged customers.

**Looking Forward: Vigilant and Prepared**

Despite the encouraging signs in the world economy and global financial market, a recovery on firm ground is yet to land and stay. For the Chinese economy, endogenous forces driving the rebound remain insufficient and structural imbalances stay acute. The banking sector is facing equally daunting challenges in the course of running the business and managing risks, as new problems and old ones are coexisting and intertwined. Domestically, soundness of the banking sector is being tested by the increasing pressure of NPLs rebound, by the potential credit risks associated with lending to the LGFPs, and by the real estate sector and industries with excess capacity. Internationally, fundamental flaws underlined by the recent global financial crisis have not been resolved. Supervisors are still seeking for effective solutions to address such regulatory issues as too-big-to-fail, systemic risks, cross-sector risk contagion, toxic assets stuck with the banking system, un-regulated shadow banking and quasi-banking institutions. In the meantime, trade protectionism and disputes, sovereign debt crisis, high unemployment rate and potential capacity overhang all point to the possibility of new challenges to the world economy. Vigilance is thus called for on the possible impact of these post-crisis threats.

Coming through the global financial crisis, China’s banking sector has stepped onto a new level. We have full confidence in the progress and rise of China’s banking sector, but we remain cool-headed about the weaknesses to be addressed and fixed. As an ancient Chinese poem says, there will be a day when we brave the strong wind and surge the mountains high waves, hoist a sky-reaching sail to voyage on the vast blue sea. Our pursuit for the safety and soundness of China’s banking sector is non-stop.

Chairman LIU Mingkang
China Banking Regulatory Commission
2010
About the CBRC

Our Mandate, Objectives & Missions

Mandate
Regulating and supervising banking institutions and their business operations in China.

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

Supervisory Missions
Protecting the interests of depositors and consumers and maintaining market confidence through prudential supervision; increasing public knowledge about modern financial products, services and the related risks through education and information disclosure; and reducing banking-related crimes to maintain financial stability.

Our Philosophy, Approach & Criteria

Supervisory philosophy
Conducting consolidated and risk-based supervision, ensuring the supervised institutions establish effective risk management and internal control systems, and enhancing transparency.

Supervisory approach
Conducting prudential supervision to ensure accurate loan classification, sufficient loss provisioning, acceptable profitability and adequate capital.

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

Chairman LIU Mingkang
Responsible for the overall work of the CBRC.
Responsible for the CBRC staff compliance, administrative affairs, publicity, anti-illegal fund raising, banking security and safeguard activities, the supervision and regulation of banking innovation activities, and coordinating with the China Banking Association.

Responsible for the supervision of policy banks and the CDB, postal savings bank, banking asset management companies, non-bank financial institutions and credit guarantee institutions, and overseeing the rule-making and staff training of the CBRC.

Responsible for overseeing the CBRC accounting activities, human resources management and development, supervisory information technology development, the activities of the China Banking Staff Union.

Responsible for the supervision of large commercial banks, rural commercial banks, rural cooperative banks, rural credit cooperatives and new-type rural financial institutions, and overseeing the staff service function.

Responsible for the supervision of joint-stock commercial banks, city commercial banks, urban credit cooperatives, foreign banks, and overseeing the CBRC statistical, international and policy research activities.

Responsible for the supervision of large commercial banks, rural commercial banks, rural cooperative banks, rural credit cooperatives and new-type rural financial institutions, and overseeing the staff service function.
Chief Advisor

Mr. Andrew Sheng
Former Chairman of the Hong Kong Securities and Futures Commission

Responsible for advising the CBRC leadership on rule-making, financial innovation, construction of supervisory information system and the coordination of the IAC activities.

The International Advisory Council (IAC)

Established in 2003, the IAC comprises some world-renowned financial regulators and experts, and convenes meetings on an annual basis to provide advice to the CBRC in formulating supervisory strategies and policies.

On June 10, 2009, the management team of the CBRC met with the foreign members of the International Advisory Council.
Foreign IAC Members

Mr. Andrew Sheng
Convener of IAC meetings, former Chairman of the Hong Kong Securities and Futures Commission.

Sir Andrew Crockett

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

Sir Howard Davies
Director of London School of Economics and Political Science, former Chairman of the U.K. Financial Services Authority.

Mr. Masamoto Yashiro
Chairman, President and CEO of Shinsei Bank, former independent director of China Construction Bank.

Mr. Roger Ferguson
President and CEO of TIAA-CREF, former Vice Chairman of the Board of Governors of the Federal Reserve System, former voting member of the Federal Open Market Committee, and former Chairman of the Financial Stability Forum.

Thanks to: Ex-IAC Member

Mr. Jaime Caruana
General Manager of Bank for International Settlements
former Counselor, Director of Monetary and Capital Markets
Department of the IMF, former Governor of the Banco de Espana, and
former Chairman of the Basel Committee on Banking Supervision.
(Left the IAC after the 6th Annual Meeting)
Organizational Structure

As of end-2009, the CBRC departments and local offices numbered 2,074, including various departments at the head-office (listed below), 36 provincial offices (listed below), 300 field offices and 1,735 supervisory agencies. In addition, the CBRC maintains 4 training centers in different localities.

1. Head office

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<tr>
<th>Department</th>
<th>Person in Charge</th>
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<tbody>
<tr>
<td>General Office</td>
<td>LIAO Min</td>
</tr>
<tr>
<td>Supervisory Rules and Regulations Department</td>
<td>HUANG Yi</td>
</tr>
<tr>
<td>Policy Research Department</td>
<td>LIU Chunhang</td>
</tr>
<tr>
<td>Banking Supervision Department I</td>
<td>YANG Jiacai</td>
</tr>
<tr>
<td>Banking Supervision Department II</td>
<td>XIAO Yuanqi</td>
</tr>
<tr>
<td>Banking Supervision Department III</td>
<td>YANG Liping (Ms)</td>
</tr>
<tr>
<td>Banking Supervision Department IV</td>
<td>DENG Hongguo</td>
</tr>
<tr>
<td>Non-bank Financial Institutions Supervision Department</td>
<td>KE Kasheng</td>
</tr>
<tr>
<td>Cooperative Finance Supervision Department</td>
<td>ZANG Jingfan</td>
</tr>
<tr>
<td>Supervisory Cooperation Department for Banking Innovation</td>
<td>LI Fu’an</td>
</tr>
<tr>
<td>Credit Guarantee Supervision Department</td>
<td>NIU Chengli</td>
</tr>
<tr>
<td>Banking Irregularity Inspection Department (Banking Security &amp; Safeguard Department)</td>
<td>LI Yunqi</td>
</tr>
<tr>
<td>Anti-Ilegal Fund Raising Office (Office of Inter-agency Anti-illegal Fund Raising Taskforce)</td>
<td>LIU Zhangjiun</td>
</tr>
<tr>
<td>Statistics Department</td>
<td>LIU Chunhang</td>
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<tr>
<td>Department</td>
<td>Person in Charge</td>
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<td>------------------------------------------</td>
<td>---------------------------</td>
</tr>
<tr>
<td>Accounting Department</td>
<td>LI Huaizhen</td>
</tr>
<tr>
<td>International Department</td>
<td>HAN Mingzhi</td>
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<tr>
<td>(Office of Hong Kong, Macao SARs and Taiwan Affairs)</td>
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</tr>
<tr>
<td>Staff Compliance Department</td>
<td>HUANG Jiaquan</td>
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<td>Human Resources Department</td>
<td>XING Benxiu</td>
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<tr>
<td>Publicity Department</td>
<td>ZHANG Dongfeng</td>
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<tr>
<td>CPC Committee of the CBRC Headquarters</td>
<td>GONG Jiande</td>
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<tr>
<td>Party School</td>
<td>ZHOU Guangxiang</td>
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<tr>
<td>China Banking Staff Union</td>
<td>SU Baoxiang</td>
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<td>Youth League Committee</td>
<td>LIAO Min</td>
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<tr>
<td>Information Technology Center</td>
<td>WU Yue</td>
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<td>Training Center</td>
<td>LUO Ping</td>
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<tr>
<td>Staff Service Center</td>
<td>ZHANG Fuhao</td>
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Note: As of end-2009.
## Organizational Structure

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<td>Beijing Office</td>
<td>LOU Wenlong</td>
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<tr>
<td>Tianjin Office</td>
<td>WANG Jincheng</td>
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<tr>
<td>Hebei Office</td>
<td>GUO Jinzhou</td>
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<tr>
<td>Shanxi Office</td>
<td>DENG Zhiyi</td>
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<tr>
<td>Inner Mongolia Office</td>
<td>XUE Jining</td>
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<td>Liaoning Office</td>
<td>LI Lin</td>
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<tr>
<td>Jilin Office</td>
<td>GAO Fei</td>
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<tr>
<td>Heilongjiang Office</td>
<td>ZHOU Minyuan</td>
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<tr>
<td>Shanghai Office</td>
<td>YAN Qingmin</td>
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<tr>
<td>Jiangsu Office</td>
<td>YU Xuejun</td>
</tr>
<tr>
<td>Zhejiang Office</td>
<td>YANG Xiaoping (Ms)</td>
</tr>
<tr>
<td>Anhui Office</td>
<td>YU Longwu</td>
</tr>
<tr>
<td>Fujian Office</td>
<td>WANG Xiaohui</td>
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<tr>
<td>Jiangxi Office</td>
<td>XIAO Yuhuai</td>
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<td>Shandong Office</td>
<td>ZHOU Zhongming</td>
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<td>Henan Office</td>
<td>ZHI Deqin</td>
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<td>Hubei Office</td>
<td>HAN Yi</td>
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<td>Hunan Office</td>
<td>SHI Aiping (Ms)</td>
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<tr>
<td>Guangdong Office</td>
<td>LIU Fushou</td>
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<tr>
<td>CBRC Offices</td>
<td>Person in Charge</td>
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<td>Guangxi Office</td>
<td>XIONG Liangjun</td>
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<td>Hainan Office</td>
<td>JIA Xiaofeng</td>
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<td>Chongqing Office</td>
<td>HONG Peili (Ms)</td>
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<td>Sichuan Office</td>
<td>WANG Junquan</td>
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Note: As of end-2009.

Thanks to:
- Ms. LIU Baofeng, former Director General of CBRC Beijing office, left in February 2009;
- Mr. LIU Nanyuan, former Director General of CBRC Fujian office, retired in April 2009;
- Mr. LONG Gangjia, former Director General of CBRC Guangxi office, retired in May 2009;
- Mr. DENG Ruilin, former Director General of CBRC Guizhou office, retired in July 2009;
- Mr. LI Shi, former Director General of CBRC Ningxia office, retired in August 2009;
- Mr. ZHANG Qiang, former Director General of CBRC Shaanxi office, retired in November 2009.
Part One

Economic & Banking Developments

The Forbidden City
1. International economic and financial developments

In 2009, encouraging signs emerged in global economic activities and financial markets as a result of massive government intervention. The global economy was gradually pulling out of the deep recession though the recovery was not yet on firm ground. As of end-2009, the world economy registered a negative growth of 0.6 percent, down by 3.97 percentage points year-on-year (source: World Economic Outlook published by the IMF in April, 2009). Largely because of the unconventional fiscal stimulus and inventory rebuilding, the U.S. economy gradually recovered, the economic slowdown in Japan became less pronounced, and the economies of other major developed countries gradually stabilized and even returned to the positive growth track. The emerging economies generally recorded a higher-than-expected growth, amongst which the ‘BRIC economies’ (Brazil, Russia, India and China) played an increasingly important role in shoring up global economic growth. Asian economies spearheaded the global economic turnaround, with China being the regional growth driver. Economic growth in the Middle East, Africa and Latin America all slowed down albeit at a better-than-expected pace. Sovereign credit risks surged in Dubai, Greece, Portugal, Ireland, Italy and some other countries and regions. Subsequent credit rating downgrades weighed on market sentiment, hence became potential threats to the outlook of global economic recovery.

Economic growth in developed countries still acutely lacked internal driver. Employment in developed countries remained a gloomy picture, with the unemployment rate staying above 10 percent in the U.S. and exceeding 10 percent for the first time in the Eurozone in November, 2009. The overhang of excess capacity stifled investment, leading to only 66.6 percent and 69.6 percent industrial capacity utilizations in the U.S. and the Eurozone respectively, which were 14 and 12 percentage points lower than the historical average in the respective regions. In addition, a new wave of protectionist attempts hampered international trade recovery, as some countries used trade protectionism to increase business start-ups, create more jobs, and alleviate political and economic pressure at home.

Although the financial markets rebounded, many uncertainties remained. A clear reform roadmap was yet developed to address the deficiencies and shortcomings of the financial system exposed during the latest global financial crisis. The toxic banking assets in developed countries were still large, and the disposal methods and outcome remained unclear. Given the lax monetary policy stance, restless hot money added to the risks of financial turbulence and asset bubble accumulation around the globe. The high indebtedness of banks and public sectors remained a source of stress on the financial markets, with around USD7 trillion worth of bank debts falling due in two years and the average debt-to-GDP ratio in OECD economies surging to nearly 90 percent in 2009 from 20 percent in 2007.

2. Domestic economic and financial developments

By promptly embarking on various undertakings in a bid to maintaining economic growth, boosting domestic demand, adjusting economic structure and improving people’s livelihood, China successfully reversed economic slowdown mainly caused by shrinking external demand and brought the economy back on track of recovery in 2009. The GDP grew by 8.7 percent, industrial production increased by 11 percent, and the price level remained generally stable. Consumption and investment continued to drive economic growth. Retail sales rose by 16 percent in real terms with the car sales increasing by 48.2 percent. Fixed
Box 1: Measures taken by the CBRC to address the global financial crisis

In 2009, the CBRC adopted a number of counter-cyclical regulatory measures to offset the impact of the financial crisis on the banking industry, mitigate relevant financial risks, and lend strong support to reverse economic slowdown.

1. Measures to protect the domestic banking sector from the global financial crisis

   (1) Actively promoting cross-border supervisory cooperation and information exchange. Specifically, the CBRC (a) kept in close contact with the regulatory authorities in 25 countries to understand the operational conditions of the parent companies that have banking establishments in China; (b) worked closely with the U.S. regulators to minimize the negative impact of the closedown of a U.S. bank on its Chinese operations; and (c) engaged in active communications with international regulatory counterparts to seek solutions to the global financial crisis.

   (2) Developing the mechanism to prevent cross-border contagion of bank risks. The CBRC promptly established contingency mechanisms against risk contagion of foreign banks, including regulatory measures pertaining to the Chinese branches of foreign banks in crisis situation, which provides a supervisory toolkit to mitigate the risk contagion of foreign banks operating in China.

   (3) Enhancing the monitoring and assessment of banking institutions’ overseas assets. The CBRC conducted monthly assessment of the performance and structural changes in overseas equity investments of 20 major commercial banks, adjusted the policies on mark-to-market valuations of foreign currency assets of large commercial banks, and intensified supervision on banks’ derivatives trading and wealth management businesses.

2. Measures to mitigate uncertainties faced by the banking sector

   (1) Providing guidance on the credit support to economic recovery. With a view to minimizing the impact of the global financial crisis on the real economy, the CBRC continued to guide banks to provide stronger credit support to the economic activities and industrial sectors encouraged by the central governments. In the meantime, the CBRC also required banks to hold back from lending to projects that failed to comply with industrial policies or

asset investment grew by 30.1 percent on a year-on-year basis. The employment situation improved, with 11.02 million new jobs being created. The per capita disposable income of urban residents and the per capita cash income of farmers increased by 9.8 percent and 8.5 percent respectively in real terms.

Proactive fiscal policy was implemented and massive fiscal spending increase was accompanied by structural tax cuts. Moderately accommodative monetary policy was adopted to expand credit and direct financing, with M2 rising by 27.7 percent on a year-on-year basis. As of end-2009, the outstanding balance of loans made by banking institutions reached RMB42.6 trillion, while the new RMB-denominated loans made during the year amounted to RMB9.59 trillion, of which the quarterly growth was adjusted at a reasonable pace. Meanwhile, the resilience of the banking industry was further improved with both the level and ratio of the NPLs continuing on a downward trend, and the provisioning coverage ratio of commercial banks reaching 155 percent.
China’s banking industry has withstood the recent global financial crisis, exemplified by its continuously stable development in financial strength and asset quality. In light of the financial supervision deficiencies identified by the crisis both in and outside China, the CBRC believes it is important for Chinese regulators to abide by the following principles:

1. Adopting supervisory philosophy and approach with Chinese characteristics

Soon after its establishment, the CBRC has announced its supervisory objectives, missions, approaches and criteria. These have constituted the prudential banking regulatory framework established by taking into account the Chinese realities. While focusing its prudential supervision on monitoring and mitigating the risks of individual banks, the CBRC has also adopted a system-wide approach by continuously monitoring and analyzing the overall conditions and risks of the banking sector as a whole.

2. Adhering to traditional prudential supervisory policies and instruments

In the face of rapidly changing financial markets, the CBRC has adhered to ‘simple’ and clear-cut prudential supervisory policies and instruments, focusing on ‘traditional’ indicators, such as corporate governance structure, capital adequacy, large exposure, liquidity, non-performing assets, provisioning adequacy and coverage, and information disclosure. In addition, the CBRC has always stressed on banks’ diligent credit review and management, and other rigorous internal controls.

3. Combining both rule-based and principle-based supervision

The CBRC has formulated a whole set of prudential rules and guidelines governing various aspects of banking operations, including corporate governance, capital adequacy, credit risk management, market risk management, operational risk management, and liquidity risk management. On the other hand, the CBRC has established a
series of general regulatory principles. For instance, the principle for credit risk regulation is to ensure accurate loan
classification, sufficient loss provisioning, acceptable profitability and adequate capital; the principle for financial
innovation regulation is to ensure risks being effectively managed, cost being clearly calculated and information
being fully disclosed, and to subject the innovation products, businesses, institutions and market behaviors to
regulation.

4. Complementing micro-prudential supervision with macro-prudential supervision

While continuously improving its supervision of individual banks, the CBRC has adopted a system-wide approach to
banking supervision. Specifically, the CBRC has (1) prioritized the banking reforms on systemically important banking
institutions; (2) regularly communicated with the banks its views on the latest macroeconomic situations and
potential risks facing the banking sector, and thereby conveying its supervisory requirements; (3) guided the banking
sector in conducting stress tests with respect to potential credit and market risk; and (4) conducted supervisory
rating and peer-group comparison and assessments.

5. Broadening regulatory coverage

The CBRC has always attached great importance to the issues concerning regulatory boundary and coverage,
emphasizing the full coverage of all material risks and the elimination of supervisory loopholes. Specifically, the
CBRC has (1) established the matrix supervision model that combines institutional supervision with functional
supervision; (2) continued to refine the risk supervision of different categories and strengthen the surveillance of
risks arising from financial innovations; and (3) extended prudential supervision to cover the banking institutions’
products, businesses and market behaviors.

6. Preventing cross-border and cross-sector risk contagion

The CBRC has conducted stringent supervision and regulation on cross-border and cross-market risks. Firewalls are
established to prevent risk contagion across banking, securities, insurance and real estate markets. Moreover, rules
are promulgated to strictly prohibit banks from financing speculative stock trading and property investments, and
measures are taken to minimize the impact of international market turbulences on China’s banking system.

Box 3: Features of latest international banking developments

1. The banking sector worldwide suffered the severest shock since the Great Depression in the 1930s. Such shock
was mainly shown in the sharp decline of bank profits, massive write-downs of banking assets and rapidly rising
losses particularly in the U.S. and Europe, and liquidity stress faced by banking institutions in many countries.
According to the Banker, the world’s top 1,000 banks lost approximately USD4 trillion in total assets during the year
of 2009 compared to the asset scale in 2007.

2. Banks’ operational mode underwent changes. Given the huge amounts of toxic assets and the capital constraints
caused by tightened leverage rules, the banking industry was under persistent pressure to deleverage and reduce
credit supply. The formerly excessive use of money market instruments for funding was being contained and
household savings as a stable source of funding was gaining weight. The income and profit structures of banks were
changing and the trend in the banking industry towards pursuing short-term gains was being modified as well.

3. The banking industry became further concentrated. The few large banks in the U.S. and Europe that had survived
the crisis further gained competitiveness and advantage in consolidation which led to a higher degree of industry
concentration. The banking systems in the emerging economies were gaining a larger global market share.

4. Product structure in the global financial markets was adjusted. In comparison with the year 2007, the bond
market lost approximately USD6 trillion in terms of the total mark-to-market value and the derivatives market lost approximately USD25 trillion in terms of the nominal value in 2009. The pace in securitization slowed down in the U.S. and Europe while the trading of certain financial derivatives was subject to substantially heightened regulation.

5. The global weighting of regional markets underwent certain changes albeit small. Although the U.S. financial system was hit hard during the recent global financial crisis, the central role of U.S. dollar in the international payment system as the international reserve currency was hardly affected. Trading volumes in the U.S. capital and money market continued to account for more than half of the world’s total. European and Japanese markets stayed relatively stable in their global market share, while the markets in Asia and Pacific region was gaining a larger share.

Box 4: Progress in international financial regulatory reform

In 2009, the financial authorities at both national and international levels continued in their diligent efforts to revamp the financial supervisory policies and repair fundamental loopholes. With the advocacy by the G20 leaders and the coordination by international organizations such as the FSB and the BCBS, the international reform of financial regulation achieved substantial progress summarized as follows.

1. Reform the governance framework pertaining to international financial regulation

The G20 replaced the G8 as the leading force in reforming the international financial regulatory regime. The FSB, established to succeed the Financial Stability Forum (FSF), extended its membership to major emerging economies including China, Brazil, India and Russia. Some international organizations such as the BCBS, the International Organization of Securities Commissions (IOSCO) and the International Association of Insurance Supervisors (IAIS) were also included in the membership of the FSB, while the latter thus played a significant role in developing and implementing international financial regulatory policies. In 2009, the BCBS also invited China and some major emerging countries to become its new members. Hence, the participation in steering the development of international financial regulation was no longer limited to developed countries only.

2. Further strengthen the capital regulation

The BCBS issued in July 2009 the revised New Capital Accord to further strengthen the capital regulation. As an important part of the enhancement of the regulatory capital framework, this program aims to introduce new standards in order to: (a) promote the build-up of capital buffers that can be drawn down in periods of stress; (b) strengthen the quality of bank capital; and (c) introduce a leverage ratio as a backstop to Basel II capital requirements. Under the program, the BCBS is also taking measures to mitigate any excess cyclicality of the minimum capital requirements and to promote a more forward-looking approach to provisioning.

3. Reform the supervisory system for capital and liquidity

On December 17, 2009, the BCBS released two consultative documents, namely, Strengthening the Resilience of the Banking Sector, and International Framework for Liquidity Risk Measurement, Standards and Monitoring. These two documents have proposed revisions on how to enhance bank capital and liquidity management and improve risk resilience. The publishing of these documents signified the consensus of the major economies on substantially reforming capital regulation and introducing new international standards for liquidity risk supervision.
4. Strengthen the supervision of systemically important institutions

The FSB proposed a set of work programs to ‘reduce the moral hazard risk posed by systemically important institutions’, according to which: (a) the criteria and methodology to determine systemically important institutions are to be established; (b) supervisory colleges for 35 super-large internationally active financial institutions are to be convened to enhance cross-border supervisory cooperation and information exchange; (c) systemically important institutions are to be subject to more stringent prudential requirements; and (d) efforts are to be made to reduce the probability and impact of the failure of systemically important financial institutions, while the related resolution legislation and working mechanism are to be established.

5. Improve the coverage of financial regulation

Improving the coverage of financial regulation has been regarded as an important issue by the financial regulatory authorities at both national and international levels. Specifically, efforts are made to ensure that hedge funds be subject to mandatory registration, ongoing prudential regulation and information disclosure requirements, while information exchange on hedge funds among regulators be enhanced as well. In addition, the regulatory authorities are making efforts to bring the rating agencies under more rigorous oversight or disciplinary restrictions. For instance, the Code of Conduct Fundamentals for Credit Rating Agencies was issued by IOSCO, and various countries and regions such as the U.S., Japan and the EU have improved their legislation on rating agencies. The financial regulators across the world are expected to reach a consensus on rating agency regulation in 2010. Furthermore, regulatory efforts are also made to strengthen the supervision of off-balance-sheet derivatives trading, and to improve the consistency of regulatory standards across different financial markets to avoid regulatory arbitrage.

6. Reinforce the consumer protection

Regulatory authorities around the world have taken various measures to reinforce the consumer protection. The U.S. is in the process of creating an independent consumer protection agency, while the UK specifies in its White Paper on Reforming Financial Markets that the government intends to support and protect consumers with measures to raise financial capability; improve access to simple, transparent products; enable consumers to take group action for collective redress in the cases of widespread complaints; and improve depositor protection.

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The CBRC’s supervisory accomplishment in 2009 gained world-wide recognition.

1. The CBRC and its Chairman LIU Mingkang were awarded ‘the 2009 Risk Manager of the Year’ by the Global Association of Risk Professionals.
2. The CBRC was granted the Asian Banker Achievement Award for Regulation in the Financial Services Industry.
3. Chairman LIU Mingkang was awarded by Financial Times as one of 50 figures who have led the trend of politics, economics, business and culture in the last decade.
4. Chairman LIU Mingkang was granted as ‘40 Most Influential People of China’ by Business Week.
II. Latest developments in China’s banking industry

As of end-2009, China’s banking sector comprises 2 policy banks and China Development Bank (CDB), 5 large commercial banks, 12 joint-stock commercial banks, 143 city commercial banks, 43 rural commercial banks, 196 rural cooperative banks, 11 urban credit cooperatives (UCCs), 3,056 rural credit cooperatives (RCCs), one postal savings bank, 4 banking asset management companies, 37 locally incorporated foreign banking institutions, 58 trust companies, 91 finance companies of enterprise groups, 12 financial leasing companies, 3 money brokerage firms, 10 auto financing companies, 148 village and township banks, 8 lending companies and 16 rural mutual cooperatives. The total number of banking institutions registered at 3,857 which possess approximately 193,000 outlets and 2.845 million employees.

1. Banking assets further growing

As of end-2009, the total assets of China’s banking institutions increased by RMB16.4 trillion or 26.3 percent on a year-on-year basis to RMB78.8 trillion; total liabilities rose by RMB15.7 trillion or 26.8 percent year-on-year to RMB74.3 trillion; owner’s equity grew RMB648.1 billion or 17.0 percent year-on-year to RMB4.4 trillion (see Chart 1); the combined assets of the 5 large commercial banks totaled RMB40.1 trillion, up 25.9 percent year-on-year.

Changes were witnessed in the market share of banking institutions as measured by asset size (see Chart 2). Large commercial banks, joint stock commercial banks and rural cooperative institutions were the largest three types of banking institutions by asset size, accounting for 50.9 percent, 15.0 percent and 11.0 percent of the total banking assets respectively in 2009. The market shares of joint stock commercial banks, city commercial banks and urban credit cooperatives, and the non-bank financial institutions under the CBRC’s jurisdiction rose by 0.84, 0.49 and 0.08 percentage point respectively year-on-year. On the other hand, the market shares of policy banks and the CDB, large commercial banks, foreign-funded banks, postal savings bank, and rural cooperative institutions dropped by 0.23, 0.13, 0.44, 0.12 and 0.48 percentage point respectively from 2008.

2. Bank deposits and loans further rising

As of end-2009, the outstanding balance of deposits maintained by banking institutions
increased by RMB13.2 trillion or 27.7 percent year-on-year to RMB61.2 trillion, among which the household savings deposits grew by RMB4.3 trillion or 19.5 percent year-on-year to RMB26.5 trillion, the corporate deposits rose RMB6.1 trillion or 36.5 percent year-on-year to RMB22.4 trillion; the outstanding balance of loans made by banking institutions increased by RMB10.5 trillion or 33.0 percent year-on-year to RMB42.6 trillion (see Chart 3), among which the short-term loans grew RMB2.3 trillion or 17.7 percent year-on-year to RMB15.1 trillion, the medium- to long-term loans rose by RMB7.1 trillion or 43.5 percent year-on-year to RMB23.6 trillion, the consumer loans rose by RMB1.8 trillion or 48.6 percent year-on-year to RMB5.5 trillion, and the commercial paper financing increased by RMB455.7 billion or 23.6 percent year-on-year to RMB2.4 trillion.

3. All Commercial banks having met the CAR requirement.

Despite the significant increase in bank lending and more stringent requirements on capital quality, the CAR of China’s commercial banks in 2009 generally sustained the level at the end of 2008. As of the end of 2009, the weighted average CAR of China’s banking industry stood at 11.4 percent, higher than the international minimum requirement. In the meantime, all 239 commercial banks satisfied the minimum CAR requirement (see Chart 4).

4. Banks’ asset quality further improving

As of end-2009, the NPLs of commercial banks measured by the five-category loan classification
criteria amounted to RMB497.3 billion, RMB63 billion lower from the year’s beginning; the NPL ratio registered at 1.58 percent, down 0.84 percentage point (see Chart 5). Meanwhile, the commercial banks continued their restructuring efforts and accelerated write-offs of NPLs, which contributed to further improvement in assets quality.

5. Banks’ risk resilience further strengthening

As of end-2009, the asset impairment provisions set aside by commercial banks increased by RMB94.7 billion from the year beginning to RMB868.3 billion, while the banks’ provisioning coverage ratio rose by 38.6 percentage points to reach 155 percent. This signified the stronger resilience of banking system (see Chart 6). Specifically, the adequacy ratio of loan loss provisions of large commercial banks reached 183.1 percent, up 30.2 percentage points year-on-year, and their provisioning coverage ratio reached 147.2 percent, up 37.4 percentage points year-on-year. The adequacy ratio of loan loss provisions of joint stock commercial banks registered at 162.3 percent, down 36.2 percentage points year-on-year, and their provisioning coverage ratio reached 201.8 percent, up 32.2 percentage points year-on-year.

6. Banks’ profitability and revenue structure further improving

In 2009, China’s banking industry generated RMB668.4 billion in after-tax profits, with the average ROE registering at 16.2 percent and ROA at 0.9 percent respectively. In terms of revenue structure, net interest income, investment returns and fee-based income are the three major sources of banks’ income (see Chart 7).

7. Liquidity of banking system on moderate decline

As of end-2009, the overall liquidity ratio of the banking industry declined by 3.6 percentage points year-on-year to 46.4 percent; the overall loan-to-deposit ratio rose by 2.7 percentage points year-on-year to 71.9 percent; the ratio of the RMB-denominated excess reserve ratio of commercial banks declined by 1.8 percentage points year-on-year to 3.8 percent. Nevertheless, all commercial banks have met the minimum regulatory liquidity ratio requirement of 25 percent, and their liquidity management capability notably improved (see Chart 8).
Part Two
Banking Reform & Opening-up
I. Latest developments in China's banking reform

1. Forging ahead the reform of the policy banks and the CDB

The China Development Bank (CDB) made further progress in its transformation into a commercial bank. In 2009, apart from guiding the CDB to improve its corporate governance, the CBRC approved the CDB’s investment worth of RMB35 billion in establishing the CDB Finance Co., Ltd. and the CDB’s acquisition of the Aviation Securities Co., Ltd. Equipped with new subsidiaries, the CDB put into place the corresponding capital management and oversight mechanisms, and more importantly the firewall arrangements between the parent company and its subsidiaries, and between banking and non-banking businesses.

In 2009, the reform of the Export-Import Bank of China (EIBC) was also launched. Instead of changing its nature as a policy bank, the EIBC focused its reform on revising its Articles of Association, replenishing capital, improving corporate governance and risk controls, and strengthening its policy service capacity.

2. Ongoing reforms of large commercial banks

In 2009, the large commercial banks further streamlined their organization by introducing the practices of strategic business units (SBUs), and further improved corporate governance to highlight the independence, professionalism and oversight capability of the board of directors. These banks also accelerated their efforts to move towards Internal Ratings-based Approaches and prepare for the implementation of Basel II in a bid to further strengthen their risk management. In addition, these banks are expanding into overseas markets in a prudent manner to tap the business opportunities provided by these markets.

Box 5: Joint stock reform of the ABC

Following its incorporation as a joint stock company on January 16, 2009, the Agricultural Bank of China (ABC) continued to reform its corporate governance structure, optimize its operational and management mechanism, and enhance its capacity of serving the rural and agricultural development as well as farmers. Specifically,

1. The ABC has established a corporate governance structure modeling of a modern financial enterprise, which includes the general meetings of shareholders, board of directors, supervisory board and senior management, with their duties and responsibilities clearly defined in the articles of association. Such structure also incorporates the necessary checks and controls.

2. The ABC further optimized its operational and management mechanism to highlight the independence of the internal audit function, strengthen internal controls and compliance function, improve accounting practices, introduce the EVA- and RAROC-based performance evaluation practices, centralize the back-office operations, improve human resources management, promote the construction of core banking systems and IT innovations.
3. Reform of the PSBC in progress

In 2009, the Postal Savings Bank of China (PSBC) pressed ahead the reform of its corporate governance structure by completing the establishment of the board of directors, supervisory board and senior management, developing relevant working rules and procedures, and setting up the mechanism for policy making and implementation.

To assist the reform of the PSBC, the CBRC issued the **Provisional Guidelines on the Agencies of the PSBC**, and approved the **Correspondent Banking Agreement between the PSBC and China Postal Group Corporation** which clearly defines the respective duties and accountability of the two institutions in their correspondent banking relationship. Under the guidance of the CBRC, the PSBC added RMB10 billion as its registered capital, introduced the mechanism for capital replenishment and management, and improved the structure and management of its branch network.

4. Reform of small- and medium-sized commercial banks leading to enhanced resilience

In 2009, small- and medium-sized commercial banks continued their reforming efforts to strengthen their corporate governance, risk management and sustainable development capability. Such efforts led to notably improved resilience of these banks. As of end-2009, the average CAR of joint stock commercial banks and city commercial banks were 10.3 percent and 13 percent respectively, illustrating the substantial improvement of their financial strength. The NPL ratio and stock of small- and medium-sized commercial banks were reported at 0.95 percent and RMB63.72 billion respectively, both at the lowest level in history. The provisioning coverage ratios of joint stock commercial banks and city commercial banks reached 202 percent and 182.28 percent respectively, both at a record high level.

Urban credit cooperatives (UCCs) and city commercial banks also made breakthroughs in shaking off their historical burdens. By the end of 2009, the number of UCCs was reduced from 37 to 11, and some city commercial banks, such as the Zhuhai Commercial Bank, Jinshang Commercial Bank, Kelamayi Commercial Bank, have completed their NPLs disposal and corporate restructuring.

5. Reform and development of rural financial institutions making substantial progress

The year 2009 also witnessed the substantial progress in the reform and development of rural financial institutions. A total of 43 rural commercial banks and 196 rural cooperative banks were incorporated in 2009. Among them, 6 banks located in Wuhan, Ma’anshan, Chengdu, Guangzhou, Dongguan and Jiangnan were approved to commence business.

At the same time, breakthroughs were made in providing rural financial services.
in allowing cross-region equity investment and branching. Accordingly, 4 rural commercial banks in Jiangsu province invested a total of RMB420 million into 7 RCCs and rural cooperative banks headquartered in other cities of the province. The rural commercial banks in Jiangsu province opened 16 inter-city branches within the province and 2 branches outside the province, those in Anhui province opened 3 inter-city branches within the province, and those in Tianjin opened 2 branches outside the city.

Progress was also witnessed in disposing of the NPLs. Rural credit cooperatives in Guangzhou, Shunde, Chengdu and Wuhan successfully disposed of RMB18.2 billion worth of NPLs during their corporate restructuring process, and their practices exemplified the success of experiments in using market approaches to resolving the NPLs.

Box 6: Continuous development of new-type rural financial institutions

The CBRC made further efforts to develop new-type rural financial institutions, with the latter continuing to grow in 2009 both in number and geographical coverage. During 2009, the pilot program of promoting the new-type rural financial institutions made further progress as summarized below.

1. The General Working Plan for New-type Rural Financial Institutions (2009-2011) was drafted. According to the plan, additional 1,300 institutions are to be established around the country with the priority being given to the under-banked regions in central and western China. It is expected that the new rural financial institutions will supplement the existing institutions to accomplish the ‘inclusive finance’ in rural China in the next three years.

2. By drawing upon the experience of the past three years in developing new-type rural financial institutions, the CBRC has announced an array of policies to emphasize the requirement for the rural financial institutions to stick to their market niche, enhance their risk management and maintain safe and sound operations. Meanwhile, the CBRC encouraged large- and medium-sized commercial banks to invest in the rural financial institutions.

3. The CBRC revised the Provisional Rules Governing Lending Companies, which signified the lending companies’ broadened access to financing.

As a result of these and other supportive policies, a total of 172 new-type rural financial institutions were incorporated by the end of 2009, including 148 village and township banks, 8 lending companies and 16 rural mutual cooperatives. These institutions received RMB7 billion in equity capital and RMB26.9 billion in deposits, and made a total of RMB18.1 billion worth of loans. Among the loans, RMB6.6 billion was disbursed to 51,000 rural households and RMB9.1 billion was disbursed to 5,000 rural small businesses, respectively accounting for 36.5 percent and 50.3 percent of the total loans disbursed.

6. Reform and innovation of non-bank financial institutions achieving solid progress

As of end-2009, 58 trust companies managed a total of RMB2.06 trillion of assets. Among these trust companies, 49 obtained a new license, and 4 underwent restructuring.

Finance companies of enterprise groups made further efforts to strengthen their fund management capabilities and were allowed to issue financial bonds on an experimental basis. By the end of 2009, among the 91 finance companies, 7 companies including those affiliated to China National Petroleum Corporation, China Power Investment Corporation, China Petrochemical Corporation, China North Industries Group Corporation, China Guodian Corporation, and Haier Group were approved to issue financial bonds with their issuance in 2009 totaling RMB22.5 billion; 4 companies affiliated to China Minmetals Corporation, China Power Investment Corporation,
SAIC Motor, and Haier Group were among the first batch of finance companies approved to access the Electronic Commercial Paper System maintained by the People’s Bank of China (PBC).

Major progress was also made in allowing auto financing companies to issue financial bonds, and in the pilot program of enlarging the business scope of financial leasing companies. Specifically, the CBRC and the PBC jointly announced the decision to allow the issuance of financial bonds by financial leasing companies and auto financing companies, which served as a part of solution to the funding bottleneck faced by the two types of financial institutions. In addition, the financial leasing companies were allowed on an experimental basis to expand into large property leasing undertakings given their continuously improved financial strength and management capability. Meanwhile, breakthroughs were made in solving the taxation issues that have functioned as constraints on the business development of financial leasing companies. Furthermore, progress was made in allowing commercial banks to establish or participate in the restructuring of financial leasing companies, though no more than 10 banks will be allowed to be the major investors in financial leasing companies in the next two years.

The program of establishing consumer finance companies was launched in an experimental basis. The CBRC issued the Rules Governing Pilot Consumer Finance Companies in July 2009, according to which consumer finance companies were allowed to be established in a pilot approach in the cities of Beijing, Tianjin, Shanghai and Chengdu. By the end of 2009, the CBRC has received four applications of the kind, and have approved three of them.

Box 7: The pilot program of establishing consumer finance companies

In response to central government’s call for maintaining economic growth, boosting domestic demand, adjusting economic structure and improving people’s livelihood, the CBRC issued the Rules Governing Pilot Consumer Finance Companies in July 2009. The Rules signified the decision to allow the establishment of consumer finance companies in a pilot approach, which was carried out first in the cities of Beijing, Tianjin, Shanghai and Chengdu. Upon receiving the applications, CBRC will review the qualifications of the investors, the professionalism of the proposed management, the proposed strategic and operating plan, internal controls, risk management, the projected financial condition, the operational policies, procedures and systems, etc.

As of end-2009, 3 domestic commercial banks and 1 foreign financial institution had submitted applications to the CBRC for establishing consumer finance companies. Specifically, Bank of Beijing proposed to set up Bei Yin Consumer Finance Co., Ltd in Beijing wholly owned by the bank itself. Bank of China, jointly with Shanghai Brilliance Group Ltd. and Shanghai Lujiazui Finance Development Co., proposed to establish Zhong Yin Consumer Finance Co., Ltd in Shanghai. Bank of Chengdu, together with Hong Leong Bank from Malaysia, proposed to set up Sichuan Jingcheng Consumer Finance Co., Ltd in Chengdu. The PPF Group from Czech Republic applied to open a wholly-owned consumer finance company in Tianjin.

7. Strategic transformation of banking asset management companies

Banking asset management companies proceeded with their strategic transformation in 2009. China Great Wall Asset Management Corporation acquired 50 percent of the shares of Nissay-SVA Life Insurance Co., Ltd., and jointly established the Nissay-Greatwall Life Insurance Co., Ltd. China Cinda Asset Management Corporation and China Orient Asset Management Corporation proposed to invest respectively in Xi’an City Commercial Bank and Golden Credit Rating International, Inc.
8. Progress in subjecting credit guarantee activities to proper supervision

At present, there are approximately 10,000 guarantee institutions of various kinds in China, among which approximately 4,200 institutions provide guarantee services for the small enterprises financing, hence referred to as credit guarantee institutions. Generally speaking, China’s credit guarantee industry is still in an early stage of development, with many issues remaining to be addressed, such as inadequate legislation and regulatory framework, weak corporate governance and risk management, lack of standardized operational procedures and risk distribution mechanism, and insufficient information disclosure, etc. Some guarantee institutions are thus exposed to substantial risks.

In 2009, the State Council announced the decision to set up an inter-agency taskforce for improving the supervision of credit guarantee activities and appoint the CBRC as the leading agency. The decision also provided that local governments at various levels should be responsible for the administration of credit guarantee institutions, and the government departments issuing licenses to credit guarantee institutions should be responsible for the supervision of the licensed institutions and for the resolution of the problem institutions. After being subjected to proper supervision and being given supportive policies subsequently, the credit guarantee institutions are expected to play an increasingly important role in alleviating the financing difficulties of small enterprises.

II. Latest developments in the opening-up of banking sector

1. Steady development of foreign banking institutions

As of end-2009, 194 banks from 46 countries and regions set up 229 representative offices in China; 33 banks from 13 countries and regions were locally incorporated which maintained 199 branches. In addition, there were 2 Sino-foreign joint venture banks (maintaining 6 branches and one subsidiary), 2 wholly foreign-owned finance companies, and 95 foreign bank branches

Table 1: Foreign banking establishments in China (As of end-2009)  

<table>
<thead>
<tr>
<th></th>
<th>Foreign banks</th>
<th>Wholly foreign-owned banks</th>
<th>Joint-venture banks</th>
<th>Wholly foreign-owned finance companies</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Locally incorporated institutions (LII)</td>
<td>33</td>
<td>2</td>
<td>2</td>
<td>37</td>
<td></td>
</tr>
<tr>
<td>LII branches and subsidiaries</td>
<td>199</td>
<td>7</td>
<td></td>
<td>206</td>
<td></td>
</tr>
<tr>
<td>Foreign bank branches</td>
<td>95</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>95</td>
<td>232</td>
<td>9</td>
<td>2</td>
<td>338</td>
</tr>
</tbody>
</table>

Vice Chairman Cai Esheng chaired a meeting for the executives of credit guarantee institutions on November 20, 2009.
established by 71 banks from 24 countries and regions (see Table 1). Furthermore, 49 foreign bank branches and 32 locally incorporated foreign banks were approved to engage in the RMB businesses, and 54 foreign banking institutions were authorized to engage in derivatives trading activities. In 2009, foreign banking institutions further enlarged their geographic presence in China to meet their business growth needs and development strategies.

During the recent global financial crisis, the major shareholders of some foreign banking institutions encountered severe financial difficulties. Given the situation, the CBRC reacted promptly by taking various measures to prevent the risk contagion and ensure stable operations of foreign banking institutions in China. Overall, foreign banking institutions have performed well in 2009. As of end-2009, their total assets increased by 0.33 percent year-on-year to RMB1.349 trillion (see Table 2), accounting for 1.71 percent of total banking assets in China; their total liabilities increased to RMB1.182 trillion, accounting for 1.59 percent of the total; and the ratio of their domestic assets to domestic liabilities reached 141.11 percent. Their profits in 2009 amounted to RMB6.446 billion. Their total capital increased by 16.33 percent year-on-year to RMB143.51 billion, accounting for 5.86 percent of total paid-in capital of all banking institutions in China. Their average CAR and Tier-1 CAR registered at 21.22 percent and 20.76 percent respectively. The asset quality of these institutions was relatively sound, with their NPL balance standing at RMB6.18 billion and the NPL ratio at 0.85 percent. Like their Chinese counterparts, foreign banking institutions also increased their loan loss provisions. As a result, their provisioning coverage ratio and adequacy ratio stood at 139.66 percent and 140.86 percent respectively. The overall liquidity of foreign banking institutions remained stable, with their overall liquidity ratio registering at 58.83 percent and with every institution having a liquidity ratio well above the minimum requirement of 25 percent. The reliance of foreign banking institutions on inter-bank market for financing purpose continued to decline, and their loan-to-deposit ratio continued on the downward trend as well.

### Table 2: Foreign bank operations in China (2003-2009)

<table>
<thead>
<tr>
<th>Item/Year</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of institutions*</td>
<td>188</td>
<td>207</td>
<td>224</td>
<td>274</td>
<td>311</td>
<td>338</td>
</tr>
<tr>
<td>Assets (RMB100 million)</td>
<td>5,823</td>
<td>7,155</td>
<td>9,279</td>
<td>12,525</td>
<td>13,448</td>
<td>13,492</td>
</tr>
<tr>
<td>As of the total banking assets in China (%)</td>
<td>1.84</td>
<td>1.91</td>
<td>2.11</td>
<td>2.38</td>
<td>2.16</td>
<td>1.71</td>
</tr>
</tbody>
</table>

* Including headquarters, branches and subsidiaries.

### Box 8: Supplementary Agreement VI to the Closer Economic Partnership Arrangements (CEPA)

In a bid to further enhancing the banking cooperation between the Mainland and the Hong Kong, Macao SARs, and in line with the Supplementary Agreement VI to the CEPA, branches of a Hong Kong / Macao bank in Guangdong province are permitted, starting from October 1, 2009, to apply for setting up inter-city sub-branches within Guangdong province. Where the locally incorporated subsidiary of a Hong Kong/ Macao bank owns a branch in Guangdong province, such branch is permitted to apply for setting up inter-city sub-branches within Guangdong province.
2. Utilization of international funds by the banking industry

In 2009, China’s banking industry continued their efforts in introducing foreign capital, expertise, systems and best practices, under the principle of seeking win-win benefits. During the year, one joint stock commercial bank raised HKD30.4 billion in its IPO in Hong Kong SAR, and 7 non-bank financial institutions received USD160 million worth of equity investment from 7 foreign financial institutions. Partnership with foreign institutional investors has not only helped to replenish the capital strength and diversify the shareholding structure of China’s banking institutions, but also helped the latter to bolstering their corporate governance, operational management and risk controls. On the other hand, the foreign financial institutions also benefited from their Chinese partners’ local knowledge, branching network and customer base.

3. Expanded overseas presence of China’s banking institutions

To keep pace with economic and financial globalization and to meet the needs of Chinese enterprises for cross-border financial services, many Chinese banking institutions redesigned their business strategies to broaden their global presence in order to better serve their customers or tap the opportunities provided by international markets. In 2009, the ICBC was approved to establish a subsidiary in Malaysia and a branch in Abu Dhabi, which made the ICBC the first foreign bank in both countries to have obtained a banking license in several decades. By the end of 2009, 5 large commercial banks have set up 86 branches and subsidiaries outside China, and acquired or invested in 5 foreign banks. Their overseas activities cover commercial banking, investment banking, insurance and other financial services. 5 joint stock commercial banks have also established branches or representative offices or acquired equity in foreign institutions.

III. Financial innovation and regulation

1. Principle for financial innovation

In light of the recent global financial crisis, the CBRC reiterated the requirement in 2009 that financial innovations of commercial banks should serve the practical needs of the real economy, and should follow the principle of ‘effectively managing associated risks, clearly calculating all possible cost, and adequately disclosing the related information’. Meanwhile, the CBRC continued to improve its regulation on financial innovations by taking into account the lessons learnt from the latest international economic and financial developments. During its on-going prudential supervision, the CBRC closely monitors banks’ innovative activities susceptible to risks, and takes prompt actions to warn against potential risks where necessary.

2. Financial innovation for diversified products and services

(1) Fast growth of bankcard business

As of end-2009, the banking institutions in China issued a total of 2.03 billion bankcards, representing a year-on-year growth of 14 percent. The transaction volume of these bankcards totaled RMB162.8 trillion, a year-on-year growth of 46 percent. Among all bankcards, credit cards numbered 165 million, achieving a transaction volume of RMB3.5 trillion, including RMB1.9 trillion in consumption volume. In 2009, the consumption volume of credit cards accounted for 15.2 percent of the total retail sales (as compared to 3.1 percent in 2006), and for 5.7 percent of the GDP (as compared to 1.1 percent in 2006). Hence, the bankcard business is playing an increasingly
important role in boosting consumption in China.

(2) Solid growth of wealth management business

As of end-2009, 98 commercial banks launched a total of 5,728 wealth management products, with a total book balance of RMB974.4 billion. The wealth management activities that are steadily growing in volume have brought to banks another solid source of revenue. The diversified wealth management products have also enabled Chinese investors to enjoy more flexibility in managing their assets and liquidity.

(3) Robust growth of other banking services

At present, banks are increasingly serving as agencies for investment funds, insurance companies and fee-charging entities. Banks are also exploring various innovative products and services for their household and corporate customers. In the meantime, banks are developing their electronic service capacity. In 2009, the major banking institutions made a total of 34.25 billion electronic transactions of various kinds, marking a year-on-year growth of 49.34 percent. The number of e-banking customers exceeded 197 million, and the number of e-banking transactions reached 13.71 billion with a total volume of RMB325.96 trillion.

3. Engagement in financial market innovation

(1) Engagement in bond trading

The CBRC has worked with China Securities Regulatory Commission (CSRC) in setting forth the requirements that the listed commercial banks should meet in order to apply for bond trading at securities exchanges, as well as the required application that should be filed with the CBRC and the CSRC. The CBRC has also specified the requirements for risk management and business restrictions that are applicable to the banks engaging in bond trading.

(2) Regulation of the domestic gold futures trading

The CBRC further improved the regulatory policies and procedures pertaining to the gold futures trading of commercial banks, and at the same time enhanced supervisory coordination and communication with other related regulatory authorities. At present, the ICBC, the BoCOM, Minsheng Bank and Industrial Bank have obtained the proprietary trading licenses from the Shanghai Futures Exchange.

4. Promotion of commercial banks’ cross-sector operations in a prudent manner

In 2009, the CBRC proceeded with the pilot program of permitting selected banks to invest in insurance companies and trust companies, or set up financial leasing companies and consumer finance companies. Such permission was granted under the pre-condition that the associated risks are effectively managed. In selecting the eligible banks, priorities were given to the large banks with stronger management capability and competitiveness, while the healthy and well-managed small- and medium-sized banks were also rendered with favorable consideration. In performing its supervisory functions, the CBRC carefully reviews each application, closely monitors the performance of the banks’ cross-sector operations, and takes prompt supervisory actions when the ROA and the ROE of banks’ non-banking businesses fall below the average levels of the corresponding industry.
Part Three
Macro Prudential Supervision
I. Adopting prudential supervisory policies

1. Adjusting supervisory policies on credit activities to revive the economy

(1) Announcement of policy package

In line with the macroeconomic policies adopted by the central government, the CBRC issued a series of policies to help bring the Chinese economy back onto a healthy growth track. Firstly, the CBRC announced several measures intended to support sound economic development (see Box 9). Secondly, the CBRC, jointly with the Ministry of Finance (MOF), the National Development and Reform Commission (NDRC) and the PBC, issued a set of policies aiming to improve credit supply, facilitate industry upgrading, job creation, enterprise restructuring and consolidation, improve the capacity of service-outsourcing industry, and support the high-tech SMEs. Thirdly, the CBRC adopted a host of measures in its efforts to underpin the support for micro finance, rural finance and export finance, promote domestic consumption and help with the reconstructions of the regions stricken by earthquake and other disasters.

(2) Pace of credit supply

In 2009, the CBRC guided the pace of credit supply with a view to ensuring sound and sustainable credit growth. In face of the sharp slow-down of GDP growth in the first quarter (down to 1 percent on a month-on-month basis), credit growth was substantial, with a monthly average of RMB 1,527 billion of new loans being disbursed in an effort to shore up economic recovery. Later on, as the GDP growth picked up quarter by quarter, the quarterly disbursement of loans declined gradually, evidenced by the monthly average disbursement of loans in the next three quarters decreasing to RMB 929.7 billion, RMB 432.1 billion and RMB 309.2 billion respectively. As a result, the new loans disbursed in the entire year of 2009 reached RMB 9.59 trillion.

(3) Geographic allocation of loans

Among the top five provinces reporting the highest year-on-year loan growth rates in 2009, three were located in western China, while among the top ten, five were western provinces. In the meantime, five provinces and municipalities in eastern China (Jiangsu, Zhejiang, Shandong, Guangdong and Beijing) were also among the top list of localities noted for the highest year-on-year credit growth, as these places are relatively more open and thus more affected by the global financial crisis.

(4) Credit support to underpin key projects

In 2009, the CBRC continued its guidance on banks’ credit activities with a view to enabling sound and sustainable economic development. Specifically, credit support was provided to the national key projects, small enterprises, rural development, construction of affordable houses, major science and technology projects, and projects for energy saving and pollution reduction. As of end-2009, the medium- to long- term loans to infrastructure projects rose by RMB2.5 trillion, with the outstanding balance at the year end registering a year-on-year growth of 43.0 percent, 19.6 percentage points higher than that of a year ago. Among these loans, those to projects in relation
Box 10: Measures to ensure credit support to the real economy

In 2009, the CBRC took various measures, such as issuing risk warnings, formulating or amending relevant rules, conducting targeted examinations, etc. to ensure that bank credit is allocated efficiently to the real sectors of the economy and to key projects that may contribute to improved economic well-beings, and people’s livelihood, while preventing the bank loans from being diverted into stock market and real estate market.

1. Issuance of risk warnings. The CBRC has always paid close attention to the possible malpractices of diverting bank loans into the stock market and real estate market. Whenever such malpractices were detected, the banks...
2. Using prudential supervisory tools to mitigate banking risks

(1) Introduction of counter-cyclical buffer

In view of the macroeconomic conditions, the rapid growth of credit supply and the associated risks in 2009, the CBRC made a prompt decision to impose counter-cyclical buffers. Specifically, banks were required to raise their capital adequacy ratio for counter-cyclical purpose above the required minimum ratio of 8 percent. Accordingly, the capital adequacy ratio of small- and medium-sized banks as a whole was required to reach 10 percent, while that of the systemically important large banks reached 11 percent. Meanwhile, the CBRC placed limits on the issuance of long-term subordinated debt in terms of both the amount of issuance and the qualification requirements for issuers. Cross-holding of subordinated debt among banks was factored into capital deduction, subject to grandfathering. The purpose of these policies is to ensure that credit expansion of banks is based on sufficient capital.

(2) Dynamic provisioning requirements

The CBRC required banks to prudently assess the actual and expected losses of assets in adjusting their loan loss provisions. In addition, the CBRC raised the provisioning coverage ratio from 100 percent to 130 percent and further to 150 percent in a bid to enhance the capacity of the banking industry to deal with potential risks.

(3) Introduction of leverage ratio

In line with policy recommendations of the BCBS, the CBRC developed preliminary plans in June, 2009 for the supervision of banks’ leverage ratio, which would require that the major assets both on- and off-balance sheet could not exceed owner’s equity by a given multiplier.

(4) Improvement of liquidity supervision

As a member of the BCBS, the CBRC actively participated in the committee’s effort to develop policy recommendations for liquidity supervision. In September, 2009, the CBRC issued its own Guidelines on Liquidity Risk Management of Commercial Banks, setting forth specific requirements on banks’ liquidity management, in particular requiring banks to hold more liquid assets to guard against liquidity risk.

(5) Dynamic adjustment to Loan-to-Value Ratio (LTV)

In a bid to address bank risks associated with real estate loans, the CBRC has required banks to be especially prudent in lending to real estate developers and second home buyers ever since the build-up of bubbles in real estate markets became an issue of concern in 2007. Specifically, the related LTV ratio was lowered from 70 percent...
to 60 percent, and down payment ratio was raised from 30 percent to 40 percent. The purpose of the adjustment was to curb speculation in the real estate market and control risks of housing credit.

(6) Concentration risks under strict control

The CBRC has always required banks to limit exposures to a single client within 10 percent of net equity, and limit exposures to a group of connected clients within 15 percent. Any breach of the ceilings would be subject to corrections or sanctions. The purpose of the policy is to prevent excess concentration of a bank’s consolidated exposures to a certain business sector, a certain geographic location, a certain project or a certain client. Meanwhile, the CBRC has encouraged banks to participate in lending arrangements such as syndicated loans or loan clubs as another means of avoiding risk concentration. Furthermore, the CBRC has required banks to include assets, such as short- and medium-term commercial papers into the consolidated credit limits approved for corporate clients.

3. Keeping vigilant against systemic risks

(1) Allocation of supervisory resources to systemically important institutions

The CBRC has always focused supervisory efforts on institutions of systemic importance. Accordingly, priority has been given to the restructuring and reform of large banks and rural credit cooperatives that are systemically important to China’s banking system.

(2) Risk alerts

The CBRC closely observes and assesses changes in macroeconomic activities, industrial policies and asset prices, and communicates its observations and assessments to the banking industry on a regular basis. Whenever potential risks are detected, the CBRC would promptly alert the banking industry through various means, such as holding quarterly briefings on economic developments, organizing workshops or supervisory meetings on assessment of particular risks, or issuing notices. Through these communications, the CBRC not only alerts institutions of potential risks, but also requires them to make due efforts to deal with the risks and update their operational and management strategies accordingly.

(3) Enhanced early warning function

To assist early detection and warning of systemic risks, the CBRC has developed and implemented an early warning system. The system draws on data from the supervisory information system and applies a set of benchmarks and indicators to scan potential risks of both individual banks and the banking system as a whole. The system has proven to be a practical tool for identifying high-risk banks or banking groups.

(4) Stress testing

The CBRC has issued the Guidelines on Stress Testing by Commercial Banks to provide guidance on banks’ stress testing on credit risk. Banks are encouraged to conduct stress tests, in particular, to assess potential risks arising from the real estate market or certain high-risk industries. By evaluating testing results, the CBRC has been able to identify and measure the major risks faced by the banking system as a whole. Banks are also encouraged to improve contingency plans and make corrective actions by using the results of the tests.

In recent years, as local governments intensified their efforts to boost local economic growth, their growth was constrained by limited fiscal revenues and financing channels. As a result, the LGFPs came into being to provide finance for local infrastructure construction. In 2009, out of total newly disbursed loans worth of RMB 9.59 trillion to support the RMB 4 trillion stimulus package, a substantial proportion went to the LGFPs for two major reasons. First, the financing needs of some projects, once held back by tight monetary policy in 2008, were
unleashed in large amount in 2009 by the abrupt policy easing. Second, the central government-endorsed stimulus package incentivized local governments to leverage their LGFPs to finance large projects, especially in the fields of infrastructure building, welfare programs, environmental protection and post-earthquake reconstruction, etc.

Indeed, the LGFPs proved effective in financing large projects, such as social welfare programs and key infrastructure projects. These played a vital role in stoking local economic recovery and offsetting the negative impact of the global financial crisis. However, the rapid expansion of these LGFPs also created problems and concerns. In particular, certain banking institutions accumulated large exposures to the platforms, giving rise to the supervisory concerns of relatively high concentration risk, lax loan review procedures, inadequate risk controls and rising risks.

Since the formation of the LGFPs in January 2005, the CBRC has been paying attention to supervising the associated credit risks by urging banks to step up risk control and monitor the cost-effectiveness of the projects. In 2005, the CBRC issued risk alerts to the CDB on its exposure to the LGFPs, requiring it to adjust risk management practice and standardize loan management procedures. In 2006, the CBRC joined hands with the NDRC, the MOF, the PBC, and the Ministry of Housing and Urban-Rural Development (MOHURD) to issue the Notice on Rectifying and Standardizing Package Loans, urging banking institutions to sort out all kinds of package loans to local governments. In 2008, a taskforce was established by the CBRC to review lending to the LGFPs. The review report was submitted to the State Council, which presented an analysis of lending by policy banks to the local governments, and highlighted the need to regulate local governments’ financing activities and clarify the roles and functions of policy banks without compromising the proper financing demands of the local governments.

Since the beginning of 2009, the CBRC adopted a set of measures to strengthen supervision of credit risks and urge banks to better manage risks associated with lending to the LGFPs. To be specific, in-depth surveys on the LGFPs and lending to the LGFPs were organized by the CBRC in different localities, through which weaknesses were identified and policy recommendations were made from the perspectives of both the banking sector and other related parties. Banks were also required to evaluate the loan repayment capability, strengthen loan monitoring and opt for loan syndication when lending to the LGFPs for the purpose of mitigating high concentration risks. Above all, banks should abide by three “bottom lines of defense” in the process of lending to the LGFPs. Firstly, banks are forbidden to extend package loans. Secondly, banks are prohibited from signing a loan contract with local governments with large contractual value but lack of commercial viability. Thirdly, banks are restricted in lending to the LGFPs with insufficient equity or unsound corporate governance, weak internal controls, inefficient risk management or unsatisfactory fund management and utilization. Where these problems are identified, corresponding countermeasures should be immediately worked out.

Box 12: Measures to ensure the sound development of the real estate market through credit management

In 2009, the CBRC continued its efforts to urge banks to strengthen the management of real estate loans in order to ensure the safety of loans as well as contribute to the sound development of the housing market. For instance, the CBRC took the following measures in response to the price surge in some local real estate markets.

1. Controlling the use of loans for speculative investments in the real estate market. Ever since 2007, the CBRC has required, for the purchase of second homes, a down payment of no less than 40 percent and the mortgage rates be determined on the basis of stringent risk assessment. In 2009, the CBRC reaffirmed the same policies for the second home mortgages. Meanwhile, through closely monitoring and assessing the developments of the housing market,
the CBRC has issued prompt guidance and risk warnings with respect to real estate lending. In addition, the CBRC has specifically required banks to carefully review and verify the purpose of mortgages as well as the qualifications of borrowers through face-to-face interviews with borrowers.

2. Managing the credit to real estate projects. The CBRC has required banks to carefully examine the financial conditions of each real estate project before making the lending decision. The examination is expected to focus on validating the other sources of project funds and identifying possible changes in funding capacity of project sponsors. By requiring stringent checks on the viability of each real estate project, the CBRC has intended to help banks avoid the situation where they are forced to provide extra funding or face losses otherwise.

3. Supervising and managing the credit to real estate enterprises on a consolidated basis. Firstly, the CBRC has required banks to manage credit to the real estate developers, project sponsors and their parent companies on a consolidated basis, so as to avoid both excessive leverage of real estate enterprises and the malpractice of funding capital investments with bank credit. Secondly, the CBRC has required for the cooperation and information exchange among banks to avoid the situation where multiple banks were exposed to the same real estate enterprise. Thirdly, the CBRC has required banks to pay due attention to the developers that have made extensive land investments by paying high prices, the state-owned enterprises that have deviated from their core businesses to invest in the real estate market, and the developers that have expanded their investments across the border. Fourthly, the CBRC prohibited banks from lending to real estate developers that have records of illegal activities.

4. Preventing bank loans from being diverted into the real estate market. The CBRC has required banks to disburse loans directly to the beneficiaries on behalf of borrowers, and strengthen management of the lending process by conducting stringent pre-lending credit reviews and after-lending inspections on the disbursement and uses of loans.

4. Preventing cross-market risk contagion

(1) Institutional arrangements for the prevention of cross-market risk contagion

In 2009, the CBRC continued to stress on the prevention of risk contagion across different markets. Firstly, by issuing and implementing ‘Three Rules and One Guidelines’ (See Box 14), the CBRC emphasized on the importance of disbursing loans directly to the beneficiaries, with a view to preventing bank loans from being used for non-contractual purposes, especially for stock trading. In an effort to prevent risk spread between the credit market and the stock market, the CBRC conducted inspections on loan management of banks and ordered prompt corrective actions for identified deficiencies. Secondly, the CBRC prohibited banks from providing guarantees for the bonds issued by their corporate clients. Banks investing in bonds are subject to tightened supervisory requirements on their risk management and controls, stress tests, accounting practices, capital charges, etc. The purpose was to prevent the risk spread between the credit market and the bond market. Thirdly, banks were required to apply higher down payments and interest rates for mortgages not intended for borrowers’ own residence so as to segregate risks of the credit market and of the real estate market.

(2) Strengthened supervision on banks’ cross-sector operations

The CBRC has taken a prudent and experimental approach to allowing banks’ engagement in cross-sector operations. Firstly, the CBRC has maintained a prudential checklist for reviewing and approving banks’ application for engagement in non-banking activities. An approval can be revoked if a bank fails to perform as expected. Secondly, banks engaging in cross-border operations are required to have in place stringent policies and procedures for consolidated management, and the board of directors of the controlling shareholders are held...
ultimately responsible for the effective functioning of firewall mechanisms established to prevent risk contagion among different affiliates. Thirdly, the CBRC has issued prudential guidelines on banks’ engagement in cross-sector activities, including those on banks’ wealth management and insurance agent activities.

(3) Monitoring and handling cross-border risks

II. Improving financial services for small enterprises

1. Establishment of special business units
The CBRC has encouraged the 5 large commercial banks, 12 national joint stock banks and the Postal Savings Bank of China to set up special business units to provide exclusive services for small enterprises. These units are expected to have independent credit limits, independent management and operation teams, independent policies and procedures for credit review, and an independent accounting book for small enterprises businesses. After more than six months of trial operation, loans to small enterprises made by these special business units increased to over 60 percent of the total SME loans made by the above mentioned banks. Hence, these special business units are playing an increasingly important role in promoting financial services to small enterprises.

2. Market entry threshold adjusted to provide a supportive environment for small enterprises financing
In 2009, the CBRC adjusted market entry policies for small- and medium-size banks, which signified an encouragement for these banks to expand branch network into the under-banked western and north-eastern China. In addition, favourable market entry policies were continuously applied to the new type rural financial institutions. These institutions were funded mainly by private capital and became an increasingly robust source of services for the local small enterprises. Moreover, the CBRC implemented new policies to promote the development of credit guarantee institutions, encourage eligible trust companies to set up guarantee companies and support financial leasing companies to provide financial leasing services for the small enterprises. These policies proved to be effective in easing the funding difficulties encountered by small enterprises.

3. Other measures to promote small enterprises financing
In 2009, the CBRC joined the MOF and other government agencies in issuing a set of policies to promote small enterprises finance. These policies include risk compensation for small enterprises financing, interest and principal concessions on associated NPLs, pre-tax provisioning, etc. In 2009, the CBRC and the CCTV jointly launched a promotion campaign and an international forum under the theme of ‘overcoming financing difficulty of SMEs’. In addition, the CBRC organized 30 banks to participate in the Sixth China International SMEs Expo. Last but not least, the CBRC organized workshops attended by the SMEs, banks, guarantee companies and regulators to explore means of easing the small enterprises financing difficulties.

4. Financing support to high-tech small enterprises
Jointly with the Ministry of Science and Technology
As a result of various promotion measures and supportive policies adopted by the CBRC, financing difficulties of small enterprises were effectively alleviated and financial services to small enterprises notably improved. As of end-2009, the outstanding balance of bank loans to small enterprises amounted to RMB5.8 trillion, accounting for 22.2 percent of total corporate loans made by banks, an increase of 0.8 percentage point from the year beginning. In terms of growth volume, loans to small enterprises increased by RMB 1.4 trillion from the year beginning, accounting for 24.8 percent of corporate loan growth of banks. The growth rate of loans to small enterprises was 32.2 percent from the year beginning, 4.5 percentage points higher than the growth rate of total corporate loans for the same period.

In addition, under the supportive policies, banks made tremendous progress in service and product innovations for small enterprises lending, such as ‘Express Loans’ developed by the CCB, ‘Start-up Express Loans’ by the BoCOM, ‘Professional Market Loans’ by China Merchants Bank, loans offered by Bank of Beijing with intellectual property rights as pledges, the re-employment loans for laid-off workers offered by rural commercial banks, loans offered by rural credit cooperatives to the home-coming farmers for starting an undertaking, etc. Furthermore, banks have made significant progress in developing unique and efficient credit review and approval systems for small enterprises financing. For example, the CCB and the BOC have developed ‘credit factory model’ to enable batch processing for small enterprises lending. The BoCOM and China Merchants Bank have applied the ‘scoring card model’ to streamline credit review and approval processes to improve service efficiency. Zhejiang Tailong Commercial Bank and BaoShang Bank have employed their grassroots knowledge to develop a model of ‘acquaintance reference plus credit review techniques’ for the credit evaluation of potential customers.

(MOST), the CBRC issued, in 2009, the Guidance on Extending Credit Support to High-tech SMEs and the Guidance on Inviting High-Tech Experts to Participate in the High-Tech SMEs’ Credit Review and Approval. These guidelines signified enhanced credit support to high-tech SMEs. Accordingly, the MOST recommended 1,000 experts to provide independent professional advice in the reviews and approval of credit to high-tech SMEs.

III. Improving rural and agricultural finance

Ever since its establishment, the CBRC has always placed emphasis on the improvement of rural and agricultural financial services. In 2009, the CBRC continued its endeavours to promote rural financial reforms, further improve operations and management as well as service quality of rural financial institutions to ensure efficient and effective credit supply to agricultural and rural development. As a result, growth volume and speed of related lending were both higher than those in the previous year.

1. Expansion of servicing channels

With the CBRC support, the Agricultural Development Bank of China expanded the scope of agriculture-related services and financing channels. The Agricultural Bank of China completed the establishment of its Agricultural and Rural Finance Department. The Postal Savings Bank of China enlarged the scope of lending services to agricultural activities and rural households. In addition, the roles of small- and medium- sized rural financial institutions in serving agricultural
production and rural development continued to be highlighted, while the roles of local small- and medium-sized banks in serving rural development were enhanced as well. Furthermore, the CBRC implemented the General Working Plan for New-type Rural Financial Institutions (2009 - 2011) to promote the establishment and growth of the three new types of rural financial institutions, i.e., village and township banks, lending companies and rural mutual cooperatives, under the principles of ‘lower entry threshold combined with firmer supervision’. According to the plan, the whole process would be carried out in a phased-in approach. By the end of 2009, 172 new-type rural financial institutions were established, including 148 village and township banks, 8 lending companies and 16 rural mutual cooperatives.

2. Expansion of services outreach
In a bid to enhance the outreach of basic financial services in rural areas, the CBRC has issued guidelines and held thematic workshops on the promotion of banking services in under-banked regions. Adjusted market entry thresholds and fast-track approval process have been adopted for setting up new-type rural financial institutions and expanding existing banking institutions in under-banked regions. In addition, the CBRC has encouraged banks to employ modern technologies and explore various service modes such as ‘bank-on-wheels’ to serve the under-banked areas and populations. As a result, the number of villages and towns without banking institutions was reduced to 2,792 at the end of 2009 from 2,945 at the end of June, 2009, while the number of villages and towns not covered by banking services at all was reduced to 342 from 708.

3. Priorities of services highlighted
In line with the priorities of agricultural and rural development plans, the CBRC has issued guidelines jointly with the Ministry of Agriculture, the PBC and other government agencies, on the promotion of banking services to the business cooperatives formed by farmers in a bid to help rural households and home-coming migrant workers launch new businesses locally, to fund productive farming or other undertakings, and to cultivate a new force in developing rural areas. In addition, banking services have been promoted to serve the forestry industry by widening the range of effective guarantees in conjunction with the reform of collective forest rights. Last but not least, bancassurance activities have been promoted as another means of rural and agricultural finance.

4. Formulation of beneficiary policies
The CBRC has actively engaged in formulating beneficiary policies, together with the MOF, the PBC and the State Administration of Taxation (SAT), for banking institutions that offer rural and agricultural finance. These policies include, in succession, the provision of cost subsidies for new-type rural financial institutions, expanding range of refinancing beneficiaries for offering agricultural and rural finance, awarding county-level financial institutions for remarkable growth in agricultural or rural services, introducing favourable policies for the write-off and restructuring of the associated NPLs, and permitting before-tax loss provisioning. Through these beneficiary policies, the CBRC has intended to promote agricultural and rural finance by playing a role of ‘diversion canal’ rather than ‘suction pump’.

A RCC staff provided door-to-door lending service for a herdsman in Tibet in August 2009.
Part Four
Regulatory & Supervisory Developments
1. Rule-making developments

The CBRC promulgated ‘Three Rules and One Guidelines’ in 2009, namely, the Provisional Rules Governing the Management of Fixed Assets Loans, the Provisional Rules Governing the Management of Working Capital Loans, the Provisional Rules Governing the Management of Retail Loans and the Guidelines on Project Financing (see Box 14). The promulgation of these rules was based on the wide solicitation of feedback from both the industry and the public. The rules highlight stringent management of loans by banks throughout the lending process for the purposes of mitigating the risks of loan misappropriation and making sure the credit support being given to real economic sectors.

In addition, more rules on risk management of banking institutions were formulated, such as the Guidelines on Liquidity Risk Management of Commercial Banks, the Guidelines on Information Technology Risk Management of Commercial Banks, the Guidelines on Reputational Risk Management of Commercial Banks, and the Guidelines on Developing Risk Management Mechanism by Small- and Medium-sized Rural Financial Institutions.

Rules on capital regulation were also further enriched. New rules promulgated in 2009 included the Guidelines on Information Disclosure of Commercial Banks’ Capital Adequacy, the Guidelines on Validation of Advanced Approach of Commercial Banks for Regulatory Capital Purpose, the Guidelines on Commercial Banks’ Management of Interest Rate Risk in Banking Book, and the Guidelines on Credit Risk Mitigation for Regulatory Capital Purpose, etc.

2. Improvement of rule-making activities

In 2009, the CBRC issued the Notice on Improving Rule-making Mechanism and the Rules on Record Filing Requirements for Regulatory Documents of the CBRC Local Offices. These two documents are intended to standardize the activities in formulating, issuing, record-filing and interpreting the regulatory policies by the CBRC and its local offices. The CBRC also initiated the process of post-evaluation of regulatory policies, and conducted post-evaluation on the Rules on Information Disclosure by Commercial Banks and CBRC Provisions for Rule-making Activities. Furthermore, the CBRC amended and consolidated 44 administrative licensing items, and continued to improve the mechanism for imposing administrative sanctions, as well as the policies and procedures for administrative reconsideration and response to law suits. In 2009, the CBRC received 14 applications for administrative reconsideration, of which 14 were closed.

3. Participation in national legislation

In 2009, the CBRC actively participated in drafting or amending a number of legislations, such as the Anti-Unfair Competition Law of the People’s Republic of China, the Appraisal Law of the People’s Republic of China and the Advertising Law of the People’s Republic of China. Meanwhile, the CBRC provided opinions on the formulation or amendments to a series of regulations promulgated by the State Council, such as the Regulations on Cash Management, the Regulations on Credit Investigation, the Regulations on Gold Market, the Implementation Rules of the Patent Law of the People’s Republic of China and the Regulations on the Promotion of Trade in Services.

4. Improvement of external environment

In 2009, the CBRC acted proactively to enhance the policy making coordination and cooperation with other related government agencies, such as the NDRC, the MOF, the Ministry of Commerce (MOFCOM), the PBC, and the CSRC. In addition,
the CBRC was also in frequent contacts and communications with various local governments. These undertakings were intended to improve the policy environment for banking operations as well as strengthen the cooperation and coordination in banking supervision.

Box 14: Three Rules and One Guidelines

Since the reform and opening-up policy was adopted in China, the Chinese banking sector has achieved a steady growth in terms of banking assets and credit supply. Especially in recent years, the banking sector has undergone extensive structural and institutional reforms. The reforms contributed to notably improved financial strength and risk management capability of banking industry, which in turn enabled an accelerated growth of banking services. However, compared with the advanced international banks, the Chinese commercial banks still lag behind in their loan management practices, mainly reflected in their weaknesses in monitoring the loan disbursements and uses. As a result, the cases of credit frauds and loan misappropriation were reported from time to time, which posed a significant threat to the sound operations of banking system.

In response, the CBRC formulated and promulgated the ‘Three Rules and One Guidelines’, namely, the Provisional Rules Governing the Management of Fixed Assets Loans, the Provisional Rules Governing the Management of Working Capital Loans, the Provisional Rules Governing the Management of Retail Loans and the Guidelines on Project Financing (hereinafter referred to as the Rules). By drawing upon the international credit management experiences and taking into account the Chinese realities, the Rules contain the following requirements that intend to underpin the stringent loan management throughout the entire lending process.

(1) Segregation of credit approval and loan disbursement. The Rules signify a change in the traditional practices of disbursing the credit funds into the bank account of borrowers upon the credit approval. According to the Rules, banks are expected to hold the payment of the credit funds until receiving the application from borrowers for using the loans. The new practice is intended to reduce the idling of credit funds and prevent the funds being used for non-contractual purposes.

(2) Payment of loans based on practical consumption or investment needs. This requirement contains two aspects: firstly, the amount of loans borrowed and lent shall be equivalent to the amount actually needed by borrowers for consumption or investment purposes; secondly, the loans shall be paid to the beneficiaries on behalf of the borrowers, instead of to the borrowers themselves. This practice intends to ensure that loans are disbursed and used to facilitate the real consumption or investment activities of borrowers.

(3) Enforcement of loan contracts or agreements. The Rules emphasize the requirement for clarifying and enforcing the respective responsibilities and obligations of both lenders and borrowers in loan contracts or agreements. According to the Rules, the borrowers are expected to provide to the lenders full and truthful information about their financial conditions and borrowing needs and make sure that loans are used as contracted or agreed, while the lenders shall perform due diligence in credit review and disbursements. In case of violation of loan contracts or agreements, the responsibilities of the lenders and borrowers shall be investigated according to loan contracts or agreements.

(4) Loan management throughout the lending process. According to the Rules, the lenders are expected to have in place stringent policies and procedures for due diligence, risk assessment, credit approval, contract signing, loan payment, post-lending loan management, NPLs resolution, etc. The lenders are also expected to clarify relevant responsibilities and accountability for the loan management throughout the lending process.

(5) Clearly defined legal liabilities of loan management. In pursuance to the Law of the People’s Republic of China on...
Banking Regulation and Supervision, the Rules have clarified the legal liabilities and sanctions of various degrees on banks in case of their violations of relevant regulations on credit approval, loan disbursement and management. The promulgation of the Rules signifies some fundamental changes in the loan disbursement and management practices. The main purpose is to address the existing deficiencies and malpractices in banks’ lending activities. The adoption of the new practices is expected to enable banks to provide credit support for the real demand of economic activities, while keeping the credit risks under firm control.

II. Enforcement of on-going supervision

1. Licensing

In 2009, the CBRC and its local offices handled a total of 52,715 administrative licensing matters, including 28,730 matters concerning establishments, changes and termination of banking institutions, 2,881 matters concerning new business review and approval, and 21,308 matters concerning the qualification review and approval of board of directors and senior management of banking institutions.

(1) Licensing of establishments in line with economic and market development strategies

Firstly, the CBRC has based its licensing of new banking establishments on the applicants’ compliance record as well as on the supervisory assessments of their performance in capital and risk management. Secondly, the CBRC has taken into account the government’s regional development strategies in guiding the geographic distribution of banking establishments. For instance, the CBRC encourages the eligible small- and medium-sized banks or foreign banks to expand their branching network into the under-banked or un-banked regions to serve the local needs for banking services. Thirdly, the CBRC has continued to encourage the local incorporation of foreign banks. In 2009, the CBRC gave licenses to 3 locally incorporated foreign banks and approved 5 locally incorporated foreign banks to commence business. Fourthly, the CBRC has encouraged the establishment of dedicated financial service units within both large and small- and medium-sized banks to provide better services for small enterprises. Last but not the least, the CBRC has permitted, in an experimental approach, the establishment of consumer finance companies, banks’ investment in financial leasing companies, participation of banking institutions in the restructuring of and equity investment in trust companies, establishment of finance companies by eligible corporate enterprises and of auto financing companies by eligible automobile manufacturing enterprises.

(2) Licensing of new businesses under prudential principles

Firstly, the CBRC has proceeded with the pilot program of allowing banks’ engagement in cross-sector activities. For this purpose, the CBRC issued in 2009 the Rules on Pilot Equity Investment by Commercial Banks in Insurance Companies to supplement the regulations on standardizing the cross-sector business operations. Secondly, the CBRC has continued the practice of licensing the RMB business applications of foreign banks or their applications for adding RMB capital. The CBRC urged foreign banks to have in place effective mechanism for capital replenishment. Thirdly, the CBRC has strengthened the regulation of wealth management businesses of banks. For this purpose, the CBRC issued in 2009 the Notice on Further Regulating the Investment Activities in Relation to the Personal Wealth Management Business of Commercial Banks. The Notice emphasizes the prior notification requirements...
for banks wishing to market the personal wealth management products.

(3) Standardization of qualification review and approval processes

Firstly, the CBRC has further improved the processes and procedures for the fit and proper tests on the board members and senior management of banking institutions, which include those for qualification review of the candidates, and for performance monitoring and evaluation of duty performance. Secondly, the CBRC has improved the processes and procedures for reviewing and assessing the suitability of banks’ shareholders. The review and assessment shall cover the shareholders’ corporate governance, business performance and management, internal controls, and financial conditions, etc. Thirdly, the CBRC has closely monitored the performance of the strategic partnership between Chinese and foreign banks, and updated the related qualification review and approval processes.

2. Off-site surveillance

(1) Upgrading of off-site supervisory information system

By applying the advanced technology and software systems, the CBRC has reconstructed its off-site supervisory information system. The new system facilitates efficient collection, processing, monitoring and analysis of data of various types for the purpose of off-site surveillance. The new system also reflects the consolidation of the data marts used to be maintained separately by different supervisory departments, and the flexibility in meeting the changing needs of supervisory functions. In addition, the CBRC is in the process of developing a comprehensive supervisory information system for the non-bank financial institutions under its jurisdiction.

(2) Off-site monitoring and early warning function enhanced

Firstly, the CBRC has developed and implemented a risk early warning system (REASS) to assist in prompt risk detection and early warning, which draws on the data from supervisory information system, and applies a variety of models and tools to differentiate banks by their potential risk levels. The results serve as an important reference for supervisors in issuing risk warning and taking supervisory actions. Secondly, the CBRC has strengthened the monitoring of banks’ investment activities, including their investments in both RMB-denominated securities and foreign currency-denominated bonds. For this purpose, the CBRC also urged the banking institutions to improve their policies and procedures for such investments, and in particular strengthened their monitoring and assessment of the changes in the credibility of bond issuers and transaction counterparts. In addition, the CBRC also focuses its monitoring on potential risks arising from the off-balance sheet activities of banking institutions. Thirdly, the CBRC closely monitors the changes in the shareholding structure, operations and financial positions of parent banks of foreign banks and the possible impact on their Chinese operations. Based on the monitoring, the CBRC produced a list of banks under close watch. Particular attention was also given to the liquidity changes of foreign banks as well as large cross-border transactions and capital flow.

(3) Improvement of consolidated supervisory function

The CBRC further improved the mechanism for the consolidated supervision of the major banking institutions and assigned the supervisor-in-charge to perform such functions. The CBRC also conducted comprehensive assessments on the consolidated management of banking groups themselves, the results of which were factored into the supervisory ratings assigned to each banking group. Where deficiencies were identified in the consolidated management of banking groups, the groups in question would be subject to supervisory actions and adjustment to their supervisory ratings.

(4) Improvement of supervisory rating activities

The CBRC has developed a supervisory rating system by applying the methodology of ‘CAMELS+’, which facilitates the assignment of
supervisory ratings based on the assessments of various qualities of banks. The supervisory information system developed with various tools and platforms facilitates not only institutional analysis, but also peer group comparisons. The assessment results and ratings serve as an important reference for the prioritization of supervisory work and allocation of supervisory resources.

(5) Supervisory dialogues and tripartite meetings continued

The CBRC continued the practice of holding periodic meetings with the banks’ board of directors, supervisory board and senior management to communicate on the significant issues identified during the on-going supervision, and require banks to take corrective actions if necessary. The respective supervisory departments also held workshops on a regular basis with senior management of the banking institutions under their jurisdiction to discuss the latest macroeconomic and market developments and the possible impact on the banks’ operations. Last but not the least, the CBRC held tripartite meeting with banks’ management and external auditors to discuss the results and significant findings of the external auditing. The purpose is to strengthen external oversight on banks’ activities.

3. On-site examinations

In 2009, the CBRC and its local offices covered a total of 58,831 banking entities in their on-site examinations. Through examinations, rule-breaking activities with an aggregate value of RMB1.15 trillion were identified. Accordingly, 4,212 banking entities in breach of rules were sanctioned and 86 senior executives in charge were disqualified. On-site examinations in 2009 were recognized for the notable improvement in their entity coverage, comprehensiveness, intensity and effectiveness.

(1) Appropriately planning on-site examinations

In 2009, the CBRC highlighted the roles of off-site surveillance in appropriately planning on-site examinations. Specifically, supervisors were required to prepare plans for on-site examinations in accordance with the conclusions of off-site surveillance and under the principle of ‘the higher the risk, the higher the frequency of examination’. The planning also took into account the varying impact of the global financial crisis on different types of banking institutions and in different geographic locations. The examinations were conducted either on banks’ headquarters or branches, either on solo or consolidated operations, either by CBRC head-office or by its local offices, and typically involving supervisory interviews, document review and data analysis. The examinations carried out in 2009 focused on the risks of newly disbursed loans, banks’ corporate governance and consolidated management, credit card businesses, banks’ investment in foreign currency bonds, off-balance-sheet exposures, loan loss provisioning, wealth management activities, etc.

(2) The EAST system in trial operation

The on-site examination system developed by the CBRC, also known as the Examination & Analysis System Technology or EAST system, was put into trial operations in 2009. The information technology-based EAST system provides the functions of process management, data analysis and regulatory information sharing. During 2009, the CBRC applied EAST system to finish on-site examinations of 77 banking institutions, including policy banks and the CDB, large commercial banks, joint-stock commercial banks, city commercial banks and rural financial institutions. The examinations covered loan risks, off-balance-sheet exposures, loan loss provisioning, wealth management activities, etc.
sheet businesses, bond investments, wealth management businesses, consolidated operations and management, etc. The success of these examinations proved that the EAST system could be applied to banking institutions of different types and scales, and could facilitate the cross-institution, cross-region and cross-product examinations.

(3) Proper use of extended examination power

In 2009, with its extended examination power vested by law, the CBRC conducted on-site examinations on banks’ borrowers and guarantors as well. During examinations, some business entities were discovered to have involved in fraudulent activities, such as presenting false information when applying for credit, or using loans for non-contractual purposes. These entities were either punished by the CBRC or subjected to the sanctions by judicial departments. Some rule-breaking entities serving as intermediaries were subjected to the punishments of various kinds by their respective authorities. Based on the findings, the CBRC developed a watching list of business entities, the future activities of which would be closely scrutinized. For banking institutions being involved in these fraudulent activities, the CBRC either ordered corrections or imposed penalties. The CBRC also continued the practice of closely monitoring and evaluating the implementation of corrective actions by banks, and communicating with the banking industry the common problems identified by on-site examinations.

Box 15: Summary of key on-site examinations in 2009

1. On-site examinations of large commercial banks
   (1) Examinations on the risks of loans newly disbursed by 5 large commercial banks;
   (2) Examinations on consolidation management of the BOC, the CCB, and the BoCOM;
   (3) Examinations on bank-card businesses of the ABC and the CCB;
   (4) Examinations on foreign currency bond investments of the ICBC and the ABC;
   (5) Examinations on off-balance-sheet businesses of the ICBC and the BOC;
   (6) Examinations on loan loss provisioning of the BOC;
   (7) Examinations on wealth management businesses of the BoCOM.

2. On-site examinations of small- and medium-size commercial banks
   (1) Examinations on off-balance-sheet businesses of Shanghai Pudong Development Bank (SPDB);
   (2) Examinations on credit review and loan management activities of Jinan Branch of China Minsheng Bank and Nanjing Branch of the SPDB;
   (3) Examinations on IT risks of China CITIC Bank, China Minsheng Bank, China Bohai Bank, and Guangdong Development Bank;
   (4) Examinations on credit management and off-balance-sheet businesses of PingAn Bank;
   (5) Examinations on the risks of loans newly disbursed by Hangzhou Branch of Beijing Bank and Guangxi Beibu Gulf Bank.

3. On-site examinations of policy banks and the CDB, the Postal Savings Bank of China (PSBC) and banking asset management companies
   (1) Examinations on loans, foreign currency investments and treasury businesses of the CDB;
   (2) Examinations on credit and risk management of food, cotton and oil-related loans of the ADBC;
   (3) Examinations on the risks of newly disbursed loans, guarantee and L/C businesses of ADBC, and foreign currency bond investments and foreign currency derivatives trading activities of EIBC;
   (4) Examinations on commissioned businesses of PSBC, including commissioned insurance businesses, commissioned
funds businesses and wealth management businesses;

4. On-site examinations of rural financial institutions
(1) Examinations on compliance and risks of treasury activities of Jiangsu and Gansu provincial rural credit unions;
(2) Examinations on management performance of Hubei provincial rural credit union;
(3) Examinations on anti-fraud activities of Henan provincial rural credit union and 2 rural credit cooperatives (RCCs) within the province.

5. On-site examinations of non-bank financial institutions
(1) Examinations on corporate governance, investment activities, real estate trust businesses and trust business; settlement risks of Beijing International Trust Co., Ltd., Bridge Trust Co., Ltd., Hangzhou Industrial and Commercial Trust Co., Ltd. Comprehensive examination on PingAn Trust & Investment Co., Ltd;
(3) Examinations of 35 finance companies, including CNOOC Finance Company, China Power Finance Company and Minmetals Finance Company;

6. On-site examinations of foreign financial institutions
(1) Examinations of 11 newly incorporated foreign banks focusing on corporate governance, risk management and internal controls;
(2) Examinations on liquidity management and risk profile of foreign banks hit by financial crisis;
(3) Examinations on wealth management businesses and related complaints handling activities of foreign banks;
(4) Examinations on lending process management, NPLs management and loan loss provisioning of foreign banks.

4. Market exit and risk resolution
Major progress was made in the restructuring and market exit of urban credit cooperatives (UCCs) in 2009. By the end of year, 26 UCCs were closed down or restructured.

Notable progress was also made in risk resolution of non-bank financial institutions under the CBRC’s jurisdiction. 7 high-risk trust companies were closed down, 2 were in the process of being restructured, and 3 were in the process of bankruptcy liquidation. It deserved a special note that following the bankruptcy of Islam International Trust and Investment Company (IITIC), COFCO participated in the restructuring of IITIC which led to the establishment of COFCO Trust Company Ltd. in July 2009. In addition, a number of finance companies and financial leasing companies were restructured in 2009.

Progress was also made in the consolidation and restructuring of the rural credit cooperatives (RCCs), with 4 RCCs being closed down in 2009. In addition, the CBRC cooperated with the U.S. regulatory authorities in handling the bankruptcy of a U.S. bank to avoid the disruption to the Chinese operations of the bank.
III. Supervisory cooperation and coordination

1. Domestic supervisory cooperation and information sharing

(1) Improved policy coordination

In 2009, the CBRC worked closely with the Ministry of Land Resources (MOLR) to develop a state land information inquiry system used by banks. The purpose was to improve the use of land-registration information by banks in helping them prevent relevant business risks. In addition, together with the PBC, Ministry of Public Security (MPS) and State Administration of Industry and Commerce (SAIC), the CBRC issued a joint Notice on Strengthening the Security of Bank Cards and Combating Bank Card-related Crime. The purpose was to boost the awareness of banks in strengthening their management of bank card business and preventing bank cards being used to facilitate criminal activities. Furthermore, the CBRC worked with the Supreme Court, National People’s Congress and other related government agencies to formulate policies for trust registration and public listing of trust companies. Last but not the least, The CBRC worked with the NDRC, the MOF, the MOFCOM and National Bureau of Statistics in drafting the policies regarding the export tax rebate of financial leasing companies.

(2) Strengthened supervisory cooperation

In 2009, the CBRC continued to actively promote cross-sector supervisory cooperation and information exchange among different financial regulatory authorities in China.

The CBRC worked with the PBC to issue the guidelines on adjusting the credit supply to promote sustained and sound economic development. In addition, the CBRC made joint efforts with the CSRC to carry out on-site examinations on banks’ activities in selling funds as commissioned agencies and on the consolidated management practices of banking groups. Furthermore, the CBRC and China Insurance Regulatory Commission (CIRC) jointly issued the Rules on Pilot Equity Investment by Commercial Banks in Insurance Companies to regulate the equity investment activities in question. Last but not the least, the CBRC joined the CIRC to issue a series of regulatory documents to standardize the management and supervision of banks’ activities in selling insurance products as commissioned agencies.

2. Cross-border supervisory communication and cooperation

(1) Continued promotion of bilateral supervisory cooperation

By the end of 2009, the CBRC had signed the memorandum of understanding (MOU) or other forms of agreements with financial supervisory authorities in 36 countries and regions, including the MOUs or agreements signed with Nigeria, Malaysia and Taiwan in 2009 alone.

Box 16: MOU on cross-strait banking supervisory cooperation

On November 16, 2009, Mr. LIU Mingkang, representing mainland China’s banking regulatory agency, and Mr. CHEN Chong, representing Taiwan’s financial regulatory agency, signed a Memorandum of Understanding on Cross-strait Banking Supervisory and Regulatory Cooperation. The MOU intends to facilitate banking supervisory cooperation across the Strait in information sharing, new establishments approval, crisis management and
The recent global financial crisis has underscored the importance of strengthening the cross-border supervisory communication and cooperation. Ever since its establishment, the CBRC has actively promoted the set-up of close working relationships with overseas financial regulatory authorities as a key part of the supervisory process.

After being invited into the membership of the FSB and the BCBS, the CBRC established, in line with the requirements of the FSB, the mechanism of supervisory college for China’s largest internationally active banks. From November 12 to 13, 2009, the CBRC hosted the 1st Supervisory College of the ICBC. Senior supervisors from 10 countries and regions attended the college and shared information and perspectives on the ICBC’s activities in their respective jurisdictions. This ICBC supervisory college was the very first of its kind held by the Chinese financial regulators. Such practice has proven to provide an important platform for the supervisory communication and cooperation between home and host country regulators.

(4) Cross-border on-site examinations

As another move to carry out cross-border supervision, the CBRC sent two examination teams in 2009 to Hongkong SAR to examine the local branches of Chinese banks under the MOU framework with Hongkong Monetary Authority (HKMA). The CBRC also assisted supervisory authorities in the U.S. and the Philippines in...
Box 18: CBRC participation in the FSB, BCBS and G20 undertakings

1. Active participation in the work of the FSB
On March 26, 2009, China became a member of the FSB and obtained three seats, one of which was delegated to the CBRC by the State Council. Since then, the CBRC has been actively engaged in the policy dialogues regarding financial regulation under the FSB framework, and has regularly attended the FSB meetings for more than 10 times, including plenary meetings, teleconferences and technical meetings at working level.

From June 25 to 29, 2009, Chairman LIU Mingkang participated in the First Plenary Meeting of the FSB, where he contributed to the discussions on such issues as prudential supervisory policy, supervisory college and reform of compensation mechanism. With the approval of the State Council, Chairman LIU Mingkang accepted the offer to be the Vice Chairman of the Standing Committee on Supervisory and Regulatory Cooperation (SCSRC) under the FSB.

2. Active participation in standard-setting work under the BCBS
On March 12, 2009, the CBRC became a member of the BCBS representing China, and since then has been actively engaged in standard-setting under the BCBS in a multi-leveled, substantial manner.

On September 6, 2009, Chairman LIU Mingkang was invited to attend the Meeting of Governors and Heads of Supervision (GHOS), where he made important comments and proposals regarding core issues like definition of capital, counter-cyclical supervision and liquidity regulation. Besides, many professional staff of the CBRC have also participated in standard-setting and technical discussions under the BCBS, mainly through attending various BCBS working groups, including Policy Development Group (PDG), Standard Implementation Group (SIG), Corporate Governance Group (CGG) and Macro Prudential Group (MPG), as well as subgroups working on liquidity and definition of capital.

3. Participation in the G20 undertaking
The CBRC was an active member of the G20 working group ‘Enhancing Sound Regulation and Strengthening Transparency’ and has participated in the drafting of Strengthening Prudential Supervision, which is an important supporting document for the G20 Summit in London. According to the deployment of the State Council, the CBRC led the research project of strengthening international financial supervision, and contributed to the official speech at the G20 Summit in Pittsburgh as well as the preparation of documents that express the standpoints of China. The CBRC also keeps close tracks with the follow-ups of this project, and actively promotes the implementation of the policies proposed at these Summits.
The 7th Annual Meeting of International Advisory Council (IAC) of the CBRC was held in Beijing on June 10 and 11, 2009. The discussions covered a wide range of topics, including those related to the recent global financial crisis, its impact on the banking industry performance and regulator framework, the CBRC’s latest progress in implementation of the New Capital Accord, the CBRC’s participation in cross-border supervision, and banking mergers and acquisitions against the background of global financial crisis. During the meeting, China’s Vice Premier WANG Qishan met with IAC members and shared views on banking supervisory issues.

In a bid to further improve the effectiveness of banking supervision in China, the CBRC, together with other related financial regulatory authorities in China, participated in the self-assessment under the Financial Sector Assessment Program (FSAP) initiated by the IMF and World Bank.

The objective of the latest assessment is to evaluate the effectiveness of banking supervision in China in a comprehensive and systematic way. The self-assessment conducted by the CBRC was in accordance with the Basel Core Principles for Effective Banking Supervision and Core Principles Methodology published by the BCBS. The assessment covers the regulation and supervision of all banks within China, including large commercial banks, joint stock commercial banks, city commercial banks, rural commercial banks, rural cooperative banks and foreign banks.

For the purpose of self-assessment, the CBRC has set up a FSAP leading group chaired by Chairman LIU Mingkang and a designated core principles assessment taskforce chaired by a CBRC Vice Chairman. During the assessment process, the taskforce sent questionnaires to related departments, the CBRC local offices, and major banks. Feedback obtained through those questionnaires supported the development of assessment conclusions. The assessment report provides an objective and comprehensive account of the CBRC’s supervisory philosophy, instruments and techniques, its practices in supervisory cooperation and collaboration, and the Chinese experiences in withstanding the recent global financial crisis.

IV. Management of supervisory resources

1 Development and allocation of human resources

(1) Team building

In 2009, the CBRC promoted a group of skilled and experienced staff to take up senior positions. In the CBRC headquarters, 33 staff were promoted to serve as directors or in higher positions after they passed written tests, interviews, qualification investigations and notice for public comments. In the CBRC local offices, a number of senior management positions were opened to public recruitment.

(2) Staff rotation

The CBRC further developed its staff exchange mechanism in 2009. 60 staff from local offices were seconded to work at the headquarters for a prescribed term, 6 staff at headquarters were seconded to the CBRC Tibet and Qinghai provincial offices, 5 experienced supervisors seconded to commercial banks, 8 staff to local governments,
and 33 staff from the CBRC local offices in western China seconded to work in the offices in eastern China for a period of time.

(3) Specialist positions further developed

In 2009, the CBRC promulgated the *Provisional Rules Governing the Competitive Selection of Supervisors-in-charge and Chief Examiners*, and completed the competitive selection of 7 supervisors-in-charge and 5 chief examiners. In a related move, the CBRC organized training programs for 29 supervisors-in-charge and chief examiners in a bid to further improve their professional competence.

(4) Talent recruitment

In 2009, the CBRC recruited, through public recruitment procedures, 13 overseas professionals, 597 staff as civil servants and 13 staff to work with the CBRC affiliated entities. Through the competitive recruitment, the professionalism, skills and age structure of CBRC staff have been further improved.

(5) Allocation of human resources

To optimize allocation of supervisory resources, the CBRC reallocated 2,200 staff within the system according to supervisory needs. The reallocation aimed to reinforce human resources for those CBRC departments and local offices with a heavier workload.

2. Staff training

In 2009, the CBRC continued to organize training programs at different levels. 5 topical lectures and 21 training programs including workshops, English language training classes and new staff orientations were provided. 3,830 supervisory staff were covered by these training programs. 150 headpersons of the CBRC local and field offices attended the training program co-sponsored by the CBRC and the HKMA. Together with some foreign central banks, the CBRC also organized 2 international training classes attended by 40 senior executives of banking institutions in the neighboring countries. The CBRC also translated numerous national and international regulatory training materials, and continued to upgrade its ‘3-module’ training system that combines teaching, learning and testing functions. These efforts have provided a platform for staff on-job training and self-study.

3. Cultural Development

In 2009, the CBRC further nurtured a regulatory culture by organizing a series of activities. For instance, in a bid to cultivate a corporate culture of striving for outstanding performance, a total of 85 units and 111 individuals were awarded honorary titles. In a bid to create a pleasant working environment and promote a culture of creativity, efficiency and team-work, the CBRC organized various after-work events, including the 2009 China Financial Youth Forum, the Online Consulting Forum, the Youth BBS and etc. The Second CBRC Sports Games was successfully held to honor the 60th anniversary of the People’s Republic of China.

4. Anti-corruption campaign

In 2009, the CBRC pressed ahead with the anti-corruption campaign with a view to enhancing disciplinary oversight and staff integrity and accountability, as well as standardizing the supervisory behaviors.

(1) Anti-corruption mechanism building

In 2009, the CBRC dispatched 9 inspection teams to examine the anti-corruption activities and performance at 12 CBRC provincial offices, 2
financial institutions and 9 CBRC departments. Such field inspection is a part of the anti-corruption mechanism set up throughout the CBRC system. The mechanism also includes codes of conduct and other documents issued for disciplinary purposes.

(2) Internal oversight strengthened

In 2009, 6 cases were investigated for staff accountability with a total of 12 staff being punished. In addition, 14 disciplinary violation cases were uncovered with 23 individuals being criticized or penalized. Furthermore, the CBRC conducted the assessment on staff’s compliance with the codes of conduct, and set up 35 hotlines throughout the system for public inquiry.

(3) Inspections on the compliance with the Party disciplinary rules

In 2009, the CBRC organized 5 teams to inspect the compliance performance at 12 provincial offices and one banking institution, where 463 cases of disciplinary breach were identified and 301 corrective actions were recommended.

(4) Promotion of professional ethics and integrity

In 2009, the staff compliance functions at all levels held 2,568 talks with the senior management of the CBRC departments and local offices in an effort to promote professional ethics and integrity. Senior officials made 10,344 integrity statements in their performance review, and 2,843 senior officials were investigated for integrity performance before taking office. 437 individuals were interviewed for the possible breach of ethics and integrity rules, 181 were investigated and 16 were punished.

(5) Investigations of rule-breaking cases and complaint handling

In 2009, the CBRC investigated into 19 rule-breaking cases of various kinds, and received 1,199 pieces of complaints, of which 90.58 percent were resolved, including 454 complaints on business conduct of banking institutions.

(6) Rule enforcement inspections and internal audit

In 2009, the CBRC conducted 236 inspections on rule enforcement activities, identified 1,490 problems and made 671 pieces of inspection opinions and corrective recommendations. The inspections also resulted in 88 amendments to the existing rules. In addition, the CBRC conducted internal audits on the headpersons of the 8 CBRC provincial offices and one banking institution before they left their posts.

(7) Anti-bribery work

In 2009, the CBRC handled 10 commercial bribery cases reported by the public and resolved 5. It also received 32 commercial bribery cases reported by banking institutions, involving 39 individuals.
Box 21: The Anti-corruption Exhibition

In order to improve anti-corruption work and build up a culture of integrity in the banking sector, the CBRC held an educational anti-corruption exhibition in 2009. Some central government leaders attended the opening ceremony of the exhibition and complimented the CBRC’s endeavors and achievements in anti-corruption work. The management of the PBC, the CSRC and CIRC as well as executives from 19 financial institutions attended the exhibition as well.

The exhibition consisted of three parts. The first part shows the theories and methodologies on anti-corruption by the Party leaders. The second part displays the achievements made by the banking industry in anti-corruption work. The third part exhibits 100 typical corruption cases in the banking industry. The exhibition made a lively illustration and was thought-provoking.

The exhibition was first held in the office building of the CBRC headquarters and then went on a tour show in the major cities across the country, attracting a total of 368,357 audiences, including 18,922 CBRC staff and the employees from over 840 banking institutions.

Chairman LIU Mingkang accompanied the central government leaders to visit the anti-corruption exhibition on July 21, 2009.

5. Allocation of financial resources
In 2009, the CBRC concentrated its budget on its most urgent and essential undertakings, and optimized its own financial management activities to ensure sound operations. With the routine administration at all levels being adequately funded, the CBRC earmarked a significant portion of funds to ensure the stable financial development in the regions along the border of China, the rebuilding of facilities destroyed by natural disasters, and upgrading of working conditions of the CBRC local offices in remote areas. In the mean time, the CBRC also increased financial input in conducting on-site examinations, crime investigations and information technology, and further standardized procurement processes and procedures.

[Chart 10: 2009 budget funds allocation by project]

6. Staff service
In 2009, the CBRC staff service function further improved in terms of both operations and management, which provided high quality services ranging from housing, dinning, conferencing, fixed assets management, energy saving and staff health care.
Part Five
Major Regulatory Initiatives
1. Implementation of dynamic capital regulation

In the face of declining CAR of some banks as a result of massive credit supply in the first half of 2009, the CBRC reacted promptly by holding supervisory meetings to issue risk alerts, ordering corrective actions, or suspending part of business activities where necessary. Through these measures, commercial banks were urged to replenish their capital by issuing new shares, controlling asset growth, raising provisioning, writing off non-performing loans and prudently paying out dividends.

The CBRC also strengthened the capital regulation on rural cooperative financial institutions by requiring those institutions with a CAR either lower than regulatory requirements or on the trend of declining to reduce their non-agricultural asset growth and scale. Meanwhile, rural cooperative financial institutions were required to adopt various measures to ensure the stability of their CAR levels.

Meanwhile, the CBRC closely monitored the risk-absorbing capacity of foreign-funded banks and constantly urged them to improve loan loss provisioning and capital strength.

Furthermore, the CBRC guided trust companies in setting up risk control indicators with a focus on their net capital level. Based on the assessments of the indicators, trust companies were divided into different categories and subject to different levels of supervisory actions. The overriding principle is that trust companies in the low risk category are permitted to engage in new business areas and participate in industrial consolidation, while companies with higher risks are restricted in business growth and are supervised with heightened intensity.

2. New rules on capital replenishment

In 2009, the CBRC issued the Notice on Improving the Capital Raising Mechanism of Commercial Banks, which signified the CBRC’s intention to emphasize the capital adequacy requirements on the loss absorbent elements of capital. Accordingly, apart from requiring banks to give priority to Tier-1 capital when replenishing their capital base, the Notice also emphasizes the primary responsibility of banks’ shareholders in ensuring the ongoing capital replenishment, particularly in the replenishment of Tier-1 capital. The Notice specifies that a bank’s holdings of long-term subordinated debt issued by other banks should be fully deducted from the bank’s Tier-2 capital when its CAR is being calculated, and that banks intending to raise Tier-2 capital by issuing long-term subordinated debt are subject to stringent requirements, including those on their minimum Tier-1 capital adequacy ratio. Nevertheless, the Notice contains the grandfathering arrangement to allow the application of deduction to be effective after July 1, 2009.

3. Progress in Basel II implementation

The CBRC continued to promote implementation of the New Capital Accord in 2009. Firstly, the CBRC formulated and issued seven implementation documents to form the basic framework for Basel II implementation. Secondly, the CBRC conducted a series of surveys on banks’ preparation for Basel
II implementation, completed the second round of quantitative impact study (QIS), launched the pre-evaluation program for the selected banks that are in the preparation for implementation (Known as Basel II banks), and engaged in the FSAP assessment (see Box 20). Thirdly, the CBRC required banks to accelerate the development of their capital replenishment plans, including one-year plan and three- to five-year plan, both of which shall be submitted to the CBRC and the CSRC for approval.

During 2009, continued efforts were made in rule-making and other preparatory work to pave the way for smooth Basel II implementation.

By the end of 2009, the CBRC has revised and issued seven regulatory documents, including the Guidelines on Supervisory Review of Capital Adequacy of Commercial Banks, and launched the public comment seeking process for two other regulatory documents, namely the Guidelines on the Application and Approval of Commercial Banks to Implement the New Capital Accord and the Guidelines on Filing Supervisory Returns on Capital Adequacy by Commercial Banks. This round of rule-making has extensively absorbed the latest recommendations of the BCBS on the relevant international regulatory standards.

To fully understand the potential impact of Basel II implementation on the capital levels of commercial banks, the CBRC conducted two rounds of QIS. From March to April 2009, the CBRC also completed a series of surveys on the preparatory work of the seven banks, the first batch of commercial banks selected for Basel II implementation. In October 2009, pre-evaluation for the preparatory work of the seven banks kicked off, which is expected to be completed by April 2010.

International cooperation and exchanges have also been highlighted during the preparatory work so that supervisors and specialists at commercial banks are kept updated with the latest international developments. Apart from sending staff to participate in international seminars, the CBRC invited experts from international supervisory institutions, overseas supervisory authorities and international commercial banks to visit China to exchange views on specific topics. For example, the CBRC has successfully co-organized a seminar on credit risk with the Financial Stability Institution (FSI).

Overall, the preparation for the Basel II implementation has been steadily pressing forward, which has led to substantially improved risk management culture and practices in China’s banking sector.

II. Supervision on corporate governance

Corporate governance is regarded as one of the essential elements in prudential supervision and dynamic counter-cyclical supervision, and is considered the cornerstone of systemic risk prevention.

1. Continued progress in rule-making

In 2009, the CBRC issued the Guidelines on Further Improving Corporate Governance of Small- and Medium-Sized Commercial Banks, the Guidelines...
on Strengthening Corporate Governance of Locally Incorporated Foreign Commercial Banks and the Guidelines on Establishing and Improving Incentives and Disciplinary Mechanism of Rural Cooperative Financial Institutions. These rules have functioned to enrich the regulatory framework pertaining to corporate governance. In addition, the CBRC also made efforts to ensure the banks of various types are in full compliance with the regulatory requirements on corporate governance.

2. Duty performance of directors and senior management

The CBRC requires the board and senior management of commercial banks to perform fiduciary duty and duty of care, so as to fully understand and oversee the banks’ business activities and properly handle the relationship of business development, risk management and incentive scheme. The CBRC also provides guidance for commercial banks in ensuring the sound performance of directors and senior management under the principles that ‘responsibilities are clarified, duties are fulfilled, performance is subject to on-going evaluation and accountability is pursued where necessary’. The CBRC conducts its own supervisory assessment of the performance of directors and senior management, the results of which are used as important reference for taking supervisory actions.

3. Supervision on compensation practices

In 2009, the CBRC issued the Supervisory Guidelines on Compensation Practices, which intended both to bring the banks’ compensation practices under supervision and to provide supervisory guidance on banks’ activities in designing and managing compensation. The Guidelines specifies supervisory requirements and recommendations with regard to compensation structure, governance and supervisory oversight. In pursuant to the Guidelines, compensation of a commercial bank, especially variable compensation, shall be aligned with the risk profile and risk management capability, and shall be considered by taking into account the long-term profitability and risk outcome. The Guidelines also requires the commercial banks to adopt deferred payment and clawback arrangements, i.e. paying out variable compensation in installments based on different risk exposures and taking back compensation if major losses occur.

4. Relationship with stakeholders

The CBRC urges commercial banks to strengthen communication and coordination with stakeholders, including shareholders, investors and clients. When formulating capital replenishment plans commensurate with the size and complexity of their businesses, commercial banks are expected to enhance communication with shareholders and investors to explore the channels of increasing capital adequacy and quality. Banks are also expected to improve management of client relationship. Through market surveys, client categorization and tailored services, commercial banks are expected to upgrade services by understanding customers’ needs and handling complaints properly.

III. Supervision on internal controls

1. Infrastructure

Commercial banks are required to improve infrastructure of internal controls, including governance structure, management information system, SBU-based restructuring, enriched compliance culture, optimized organizational framework and business procedures, and reinforced checks and balances.

2. Mechanism

A dynamic control mechanism covering risk
monitoring, measuring, prevention and mitigation should be established. In this process, priority should be given to accounting, risk management, operations and compliance. Equally important is to ensure mechanism building and implementation in the aspects of control environment, risk identification and assessment, control measures, oversight and corrections, information exchange and feedback.

3. Supervisory enforcement

Through various supervisory approaches, such as on-site examinations, off-site surveillance and assignment of supervisory ratings, the CBRC urges commercial banks to strengthen internal controls. Supervisory assessment of internal controls is a critical element in the overall risk assessment and licensing decisions.

IV. Credit risk supervision

1. Risk monitoring

Based on its on-going monitoring and assessment of macroeconomic developments and market changes, the CBRC holds quarterly briefings on economic developments, organizes risk analysis workshops, and summons thematic supervisory meetings to alert banks of potential risks, so as to effectively guide the pace and structure of credit extension. In particular, banking institutions are expected to stay vigilant against risks associated with newly disbursed loans, and are required to enhance their capital quality, increase provisioning, avoid irrational credit growth, and ensure proper balance among assets, capital and core capital.

2. Supervision of credit risks in key industries and areas

Supervision of credit risks associated with the LGFPs. Extensive surveys have been conducted by the CBRC, which have resulted in a number of recommendations presented to relevant authorities, including the recommendation to issue applicable guidelines in order to mitigate associated risks. Risk analysis workshops were held, among other window guidance measures, to require banks to conduct thorough review of credit risks associated with the LGFPs and enhance risk management via risk mitigation tools, assets maintenance measures, and better arrangements for mortgages, collaterals and loan payments.

Supervision on credit risk of fixed asset loans. Efforts were made to carry out on-going monitoring and analysis of credit risks that may arise from fixed asset loans, with risk alerts being issued where necessary. The Provisional Rules Governing the Management of Fixed Assets Loans and the Guidelines on Project Financing were issued to guide banks to improve their loan management practices so as to avoid misappropriation of loans. Particular attention has been given to the requirement for self-raised capital of project financing, namely, to ensure sufficient self-raised capital and prevent risks associated with debt-financed capital. In the process of loan disbursement, due diligence is emphasized in credit review, approval and monitoring.

Supervision on credit risk of real estate loans and personal loans. Continuous monitoring and analysis were undertaken and early warnings were timely issued on credit risks arising from the real estate sector. Banks were required to better monitor developers’ loans and were forbidden to lend to projects in violation of relevant registration or approval procedures. Banks were also urged to reinforce risk management of mortgage loans in terms of lending policies and criteria, and apply stringent loan disbursement criteria for personal loans by requiring loan application and contract signing in person.
3. Credit to business groups
To guard against concentration risks, the CBRC has encouraged commercial banks to strengthen management of credit extended to business groups. To be specific, the CBRC has required small- and medium-sized banks and rural financial institutions to intensify management of large exposures and loan concentrations. For large commercial banks, the CBRC has carried out targeted examinations on NPLs to major corporate clients and urged banks to take remedial measures such as loan workout, bad loan write-offs and assets maintenance. The platform for information sharing of large exposures among banks has been extended to cover more than 190 banks. The existing regulatory limits on large exposures, namely, no more than 10 percent of a bank’s net worth to a single client and no more than 15 percent to a business group, has been strictly followed and monitored. For large-valued loans that may result in the breach of those limits, banks are encouraged to explore various lending means such as syndicated lending arrangements.

4. Asset quality and risk resilience
Tremendous progress in upgrading assets quality and risk resilience has been achieved by the banking sector under the guidance of the CBRC. Dynamic monitoring over credit defaults has been intensified. Meanwhile, intensified supervision on impaired assets has led to further reductions of both the ratio and stock of NPL. At the end of 2009, the NPL ratio of commercial banks was 1.58 percent and the stock was RMB497.3 billion, down by RMB63 billion or 0.84 percentage point compared with the beginning of 2009. The provisioning coverage ratio reached 155 percent, up by 38.6 percentage points than the year beginning.

V. Market risk supervision

1. Risk measurement criteria
The CBRC has conducted a survey on the market risk measurement criteria adopted by 105 banking institutions actively trading in the bond market. Based on the survey results, the CBRC has categorized the measurement criteria and proposed supervisory criteria to assist banking institutions in improving their market risk management.

2. Risk management of bond investment
The CBRC has issued the *Notice on Strengthening of Bond Investment by Commercial Banks*, which provides clear supervisory requirements for the bond investment business, urging banks to build suitable risk management mechanisms to cope with changes in domestic and overseas markets.

3. Risk management of derivatives transactions
The CBRC has issued the *Guidelines on Further Strengthening Risk Management of Derivatives*.

*Transactions between Banks and Corporate Clients*, which standardizes derivatives transactions in terms of client evaluation, information disclosure, sales management, follow-up services and internal governance. The Guidelines is also aimed to prevent excessive leverage build-up, over-complexity of derivatives products and low transparency of transactions.

4. Risk management of personal wealth management
The CBRC has issued the *Notice on Further Regulating the Investment Activities in Relation to the Personal Wealth Management Businesses of Commercial Banks*, requiring banks to incorporate their wealth management activities into the overall risk management system, and thus to establish corresponding internal control and risk management policies and procedures. The front desk and back office are required to be separated, while on-going risk monitoring be intensified.
VI. Operational risk supervision

1. Mechanism building
Commercial banks have been required to have in place sound systems and procedures for operational risk management, define the responsibilities of respective departments, and ensure the fulfillment of assigned responsibilities. In addition, banks are expected to comply with the Guidelines on Regulatory Capital Requirement for Operational Risk in their preparation for Basel II implementation.

2. Fraud prevention and control
A long-term mechanism for fraud prevention and control has been established with the issuance of the Notice on Promoting Banks to Strengthen Fraud Prevention and Control, which links regulatory licensing and capital requirements with banks’ performance in fraud prevention and control. Besides, the 2009 to 2011 Working Plan of Fraud Prevention and Control of Small- and Medium-sized Rural Banking Institutions was released to supplement the mechanism. On top of that, the CBRC has intensified efforts in preventing and controlling material fraud cases by urging banks to take effective measures, heightening on-site examinations, enforcement and punishment intensities. As a result, the occurrence of fraud in 2009 was effectively curbed.

There should also be effective management of the wealth investment profile with proper allocation of resources, appropriate risk diversification and sufficient provisioning.

Box 23: The CBRC’s endeavours in fraud prevention and control

In 2009, the CBRC adopted effective measures to offer differentiated guidance to different regions and institutions, give special emphasis to the investigation of material fraud cases, and impose punishments against violations. These endeavours have been proven effective in preventing and controlling fraud.

1. Eliminating hidden risks to curb the occurrence of material frauds. The CBRC has, firstly, conducted inspections on loans guaranteed by or offered to credit guarantee companies. The inspections discovered a total of 12,400 problem guaranteed loans with an aggregate value of RMB18.66 billion, including 417 loans with a value of RMB187 million from banks to credit guarantee companies. Secondly, intensified investigations on deposits and commercial paper business with the help of an established daily reporting system. 15 cases with a total cash value of RMB740 million were investigated. Thirdly, the CBRC issued the Notice on Follow-up Evaluation of Progress in Risk Investigation and Elimination to guide follow-up evaluation of corrective actions in addressing the cases previously identified.

2. Enhancing coordination to prevent and control frauds. In 2009, the CBRC and its local offices held respective meetings on fraud prevention and banking security in an effort to coordinate supervisory actions based on the reality of each jurisdiction.

3. Improving banks’ security and self-defence capability. In 2009, the banking institutions conducted self-inspections on their business venues, ATMs, self-service banks, cash pools and safety boxes. To address problems identified in the self-inspections, banks made material changes of various kinds and developed numerous corrective plans. Efforts were also made to enhance the security protection of banks in sensitive regions, and to standardize the relevant procedures.
3. IT risk supervision

(1) Mechanism building

The CBRC has published the *Guidelines on IT Risk Management of Commercial Banks*, requiring banks to strengthen IT risk management and establish a comprehensive management framework, policies and procedures. The CBRC also issued the *Rules on Commercial Banks’ Development and Modification of Key IT Systems*, which clearly outlines the governance, management, risk-assessment and reporting requirements that banks should follow as they change their key IT systems.

(2) Progress made in IT risk supervision

The CBRC has formulated the *Supervisory Returns on the IT Systems of Commercial Banks for Off-Site Surveillance*, which signifies the set-up of a comprehensive IT risk-assessment framework and a user-friendly off-site surveillance system. In order to better guide on-site examinations on IT systems of commercial banks, the CBRC has also issued the *Manual for IT Risk On-site Examinations*.

### Box 24: The CBRC issued the *Guidelines on the IT Risk Management of Commercial Banks*

Nowadays, information technology has become evermore important for the stability and development of banks. To intensify the supervision on banks’ IT risks, the CBRC issued the *Guidelines on Information Technology Risk Management of Commercial Banks* on March 3, 2009. Specified in eleven chapters or seventy-six provisions, the guidelines highlight the following:

1. Specifying the definition of information technology risks to cover operational, legal and reputational risks caused by the application of modern information technologies in handling business operations, management, internal controls, etc.;
2. Being applicable to both commercial banks and other types of banking institutions;
3. Specifying the content of IT governance and the detailed requirements for corporate governance;
4. Clarifying requirements on IT risk management and the relevant internal and external auditing;
5. Benchmarking against international practices in stipulating the standards on IT security, business continuity and outsourcing, etc.;
6. Improving customer privacy protection.

VII. Liquidity risk supervision

In 2009, the CBRC guided commercial banks in reinforcing liquidity risk management through the following measures. Firstly, the CBRC issued the *Guidelines on Liquidity Risk Management of Commercial Banks*, which is applicable to various types of banking institutions. Secondly, the CBRC continued monitoring and inspections of liquidity risks. In addition to imposing supervisory requirements such as the loan-to-deposit ratio and concentration ratio, the CBRC heightened inspections on banks under liquidity stress, underpinned by prompt risk identification and on-site examinations, close monitoring of suspicious capital flows and prevention of short-term liquidity fluctuations. Thirdly, the CBRC repeatedly required banks to implement stress testing and take preemptive measures. Building upon the results of stress testing, banks were required to improve contingency plans for liquidity risk management. Banks under significant liquidity stress were asked to adjust balance sheet structure or replenish capital in a timely manner. Lastly, the CBRC required foreign-
VIII. Reputational risk supervision

As one of the CBRC’s fundamental objectives is to protect the interests of consumers and safeguard financial stability, the CBRC requires commercial banks to maintain a comprehensive risk management system that entails reputational risk. The Provisional Guidelines on Off-Site Surveillance issued in 2006 incorporated the supervisory requirements and assessment approaches regarding reputational risk, making reputational risk part of the supervisory focuses. In August 2009, the CBRC specifically issued the Guidelines on Reputational Risk Management of Commercial Banks, which requires banks to establish reputational risk management framework, and develop methodology and approaches to deal with reputational risk.

Apart from rule-making, the CBRC organized an industry-wide training workshop on reputational risk management in December 2009, where discussions were focused on the definition and scope of reputational risk and the recommended international practices. Last but not least, the CBRC has published the measures to categorize reputational risk into different levels and issued the implementation requirements for the Guidelines on Reputational Risk Management of Commercial Banks. By the end of 2009, around 20 commercial banks had established respective implementation policies and procedures as well as contingency plans for reporting and handling significant reputational risks.

Box 25: The CBRC issued the Guidelines on Reputational Risk Management of Commercial Banks

With a view to assisting commercial banks in effectively managing reputational risk, improving the overall risk management framework, and thereby protecting bank consumers’ rights, the CBRC published the Guidelines on Reputational Risk Management of Commercial Banks on August 25, 2009. The Guidelines contains 13 Articles, and bears the following features.

1. The Guidelines provide a clear definition to reputational risk;
2. The Guidelines set out clear requirements for commercial banks to integrate reputational risk management with corporate governance and overall risk management framework, and take proactive and effective measures to prevent and cope with reputational risk;
3. The Guidelines highlight duties and responsibilities of the board of directors and senior management in reputational risk management;
4. The Guidelines provide regulatory requirements for establishing reputational risk management system by commercial banks;
5. The Guidelines clarify principles and approaches of addressing significant reputational risk and require commercial banks to formulate contingency plans;
6. The Guidelines bring reputational risk supervision under the on-going supervisory framework, where reputational risk management will also be taken into account during the process of licensing, and supervisory actions may be taken against commercial banks with material deficiencies in managing major reputational risks or incidents.
IX. Anti-illegal fund-raising

As the leading agency in the inter-agency taskforce to battle illegal fund-raising, the CBRC has proactively coordinated with the related government agencies in this endeavour in 2009. Substantial progress was achieved in combating illegal fund-raising. A sound coordination mechanism for combating illegal activities and violation investigation has been set up. Regulations pertaining to illegal fund-raising have been promulgated. Monitoring and review of illegal activities have been enhanced. Achievement has been made in the handling of significant cases because of the synergy formed through the establishment of the inter-agency taskforce. Awareness campaigns to educate the general public have been carried out and mass petitions have been properly handled.

X. Credit guarantee activities

On February 5, 2009, the State Council promulgated the Notice on Further Clarifying the Supervisory Responsibilities Pertaining to Credit Guarantee Activities, announcing the decision to set up an inter-agency taskforce on credit guarantee activities and to appoint the CBRC as the leading agency of the taskforce. Also included in the taskforce are the NDRC, Ministry of Industry and Information Technology (MIIT), the MOF, the MOFCOM, the PBC, the SAIC, and the Legislative Affairs Office of the State Council.

The inter-agency taskforce is responsible for drafting and issuing business development policies and supervisory guidelines, coordinating with related government agencies in addressing major business concerns, and guiding local governments in the supervision of credit guarantee activities and resolution of associated risks. According to the Notice, the local governments at various levels should be responsible for the administration of credit guarantee institutions within their jurisdictions, and the government departments issuing licenses to credit guarantee institutions should be responsible for the supervision of the licensed institutions and for the resolution of the problem institutions. Local government departments associated with administering and supervising the credit guarantee institutions are obliged to report to the inter-agency taskforce.

On September 23, 2009, the CBRC established the Credit Guarantee Supervision Department to undertake the work for leading and coordinating the supervisory endeavors pertaining to credit guarantee activities. The department has since made substantial efforts in the rule-making and risk-focused supervision of the credit guarantee activities, and thus has greatly improved the overall supervisory framework of such activities.
XI. Implementation of new accounting rules

In 2009, new accounting standards were applied to rural financial institutions and banking asset management companies, marking the introduction of the accounting standards to China’s entire banking industry and a milestone in benchmarking the accounting activities of China’s banking system to international standards. The CBRC closely monitored and assessed the impact of the implementation of the new standards. The assessment showed that the implementation process went on smoothly as banking institutions upgraded accounting reports according to the new standards and established respective business and risk management systems to address the changes. As a result, significant changes were witnessed in accounting principles and practices.

After becoming a member of the FSB and the BCBS in 2009, the CBRC has participated actively in the international efforts of formulating consistent standards of accounting and reporting, and has made due contributions during the process. Apart from establishing an internal cross-department taskforce on the research of new accounting rules, the CBRC has established an external taskforce with the participation of 9 major commercial banks to add strength in the research of related topics. These efforts have increased the CBRC’s voice in formulating international rules and standards pertaining to accounting practices.
Part Six
Information Disclosure and Market Discipline

Lijiang, Yunnan
I. Information disclosure and regulatory transparency

1. Promotion of regulatory transparency
In 2009, the CBRC continued to improve the working mechanism and organizational structure underpinning regulatory transparency.

The CBRC has released to the banking institutions 1,668 pieces of information about requirements on standardized practices, 2,105 pieces of information about regulatory policies, 459 pieces of information about licensing, supervisory and sanction procedures, and 13,594 pieces of information about the administrative approvals and sanctions. In addition, the CBRC has released to the public 5,555 pieces of statistical and regulatory information, and 360 self-disciplinary policies issued by the CBRC and its local offices.

To promote regulatory transparency, the CBRC held 10 press conferences or briefings, more than 30 media interviews, and 4 times of online dialogues. On top of that, a large number of CBRC’s information, rules and documents were released online, and public opinions were consulted for over 10 rules, including the Rules Governing Pilot Consumer Finance Companies, the Provisional Rules Governing the Management of Fixed Assets Loans, the Provisional Rules Governing the Management of Working Capital Loans, etc.

To advance disclosure upon request, the CBRC has accepted 37 applications from 29 individuals and one institution since its implementation of the Regulation on the Disclosure of Government Information. All of the information requested were provided in a timely manner, which was enabled by the cooperative efforts of various departments of the CBRC. The prompt responses to disclosure requests reflect the CBRC’s endeavours to improve the regulatory transparency, and have empowered the public oversight on the work of the CBRC.

In addition, the CBRC has timely and accurately disclosed contents and directory of government information by compiling and releasing online the Contents on Public Information Disclosure of the CBRC.

2. Proper handling of consumer complaints
In 2009, the CBRC continued its endeavour in protecting financial consumers’ rights and interests by handling their appeals and complaints in a careful manner.

The CBRC has urged banking institutions to improve the relevant policies and procedures and properly manage the risks associated with their bank card businesses. Specific requirements have been issued to better protect consumers’ interests by requiring banking institutions to enhance information disclosure, protect the confidentiality of customer accounts, and standardize the procedures of bank card issuing, servicing, fee-charging and risk prevention. The CBRC has drafted the Rules on Credit Card Business of Commercial Banks, which aims to regulate the credit card business and management of banks.

The CBRC has also paid attention to the consumer protection issues arising from banks’ personal wealth management activities. When offering the business of personal wealth management, commercial banks are required to follow prudent principle, fulfill the obligation of information disclosure, provide tailored services to customers, and better control investment risk by refraining from investing wealth management funds in financial products with high risks or overcomplicated structures.
To enhance the risk management of derivatives trading for institutional clients, the CBRC has issued the *Guidelines on Further Strengthening the Risk Management of the Derivatives Transactions between Banks and Corporate Clients*, which set forth standards for derivative transactions involving banking institutions in the aspects of corporate client evaluation, review of real demands, information disclosure, sales management, follow-up services, internal governance development and risk management and prevention.

To regulate and standardize banks’ agency service for insurance, the CBRC has set clear rules that banks should establish client evaluation systems and determine sales threshold in tandem with associated risk levels.

### Box 26: Improving management of credit card business and preventing credit card crimes

In 2009, to cope with the increasing complaints on card business, the CBRC continued endeavours to strengthen banks’ credit card management.

1. Standardizing the security management of credit cards. In April 2009, the CBRC, together with the PBC, the MPS and the SAIC, issued a joint *Notice on Strengthening the Security of Bank Cards and Combating Bank Card Crime*, which provides clear rules on card issuance, transaction, information security of card holders, and security management of cash machines.

2. Standardization of credit card business and management. To this end, the CBRC issued the *Notice on Further Standardizing Credit Card Business* and the *Notice on Further Strengthening Risk Management of the Credit Card Business*.

3. Enhancing credit card business supervision. The CBRC promptly issued the risk alerts based on the on-going assessments of the credit card businesses. Targeted on-site examinations were also conducted on the credit card businesses. Corrective actions were ordered to address the deficiencies identified during both assessments and examinations.

### 3. Market interaction platform

In 2009, the market interaction platform established by the CBRC launched 4 forums to discuss such topics as the definition, management and supervision of reputational risk; challenges to the banking industry amid the global financial crisis and regulatory responses; issues related to enhance the supervision of credit rating agencies; and the impact of human mentality on economic recovery.

In another move to nurture market interaction, the CBRC held workshops with well-known law firms, accounting firms, credit rating agencies to help these intermediary institutions better understand the CBRC’s efforts and progress in banking supervision as well as the supervisory philosophy and practices.
II. Self-discipline in the banking sector

In 2009, the China Banking Association (CBA) took a proactive approach to promote the implementation by member institutions of a wide range of national macroeconomic adjustment policies issued for the purposes of maintaining economic growth, boosting domestic demand, adjusting economic structure and improving people’s livelihood. During the process, commercial banks played their role in providing the needed funding support to economic activities, a role underpinned by effective risk management and enhanced industry self-discipline.

To further improve industry-wide self-discipline, the CBA has drafted a series of rules and standards for its members. Besides, the CBA compiled and circulated the Emergent Notice on Better Services to Disadvantaged Customers, the Notice on Mortgage Rate Adjustments, the Self-disciplinary Agreement on Standardizing Retail Mortgages to Ensure Sound Market Order, and the 2008 Report on Service Improvement in China’s Banking Sector. The CBA has also established the Special Committee on Financial Leasing. Other activities run by the CBA included conducting the 2008 Assessment of Service Improvement of China’s Banking Institutions, organizing the awarding ceremonies for the 2009 Top Hundred Banking Institutions for Quality Services, Excellent Essays on Bank Loan Disbursement Activities, and conducting a series of activities to ensure quality financial services to the World Expo. A series of seminars were also held by the CBA, including the seminar on the hot issues relating to financial services, the lecture on banking frontier issues, the high-level forum on financial leasing policies, and the workshop on financial leasing business.

In 2009, the China Trustee Association (CTA) drafted the Self-disciplinary Agreement on Securities Investment Trust Business for Trust Companies and the Guidelines on Improving Trust Companies’ Self Management Abilities in Bank-Trust Cooperation, actively motivated member companies to sign the self-disciplinary agreement and to improve self-management skills. The China National Association of Finance Companies (CNAFC) conducted self-discipline examinations on its member companies to promote compliance and integrity.
Part Seven
Social Responsibility

Jiayu Pass
I. Supporting post-earthquake reconstruction

In 2009, in accordance with the overall relief package endorsed by the central government, and under the guidance of the CBRC Steering Committee on Post-earthquake Reconstruction, banking institutions provided proactive supports to the recovery and reconstruction in the earthquake-stricken areas. Supportive lending policies were promptly issued to increase bank lending to the rebuilding of infrastructure, manufacturing facilities in cities and towns. All these relief efforts made by the banking sector produced the desired results.

1. Increased bank lending
By the end of 2009, banking institutions in Sichuan, Gansu and Shaanxi, the three earthquake-stricken provinces, offered RMB545.67 billion of credit facilities to support the recovery and reconstruction efforts, of which RMB390.56 billion of loans were granted, including RMB212.53 billion of loans advanced in 2009 alone. Large commercial banks were the driving force behind the financing support for infrastructure and manufacturing facilities reconstruction. Meanwhile, all banking institutions increased their financing to agricultural production, urban and rural home building, and the SMEs, in an effort to help restore living conditions for the earthquake victims, assist in rebuilding of farmers’ houses and resumption of SMEs production.

2. Standardization of loan write-offs
The CBRC has made further adjustments to the regulatory policies governing bad loan write-offs in relation to the post-earthquake reconstruction. Banking institutions were required to exercise due care in writing off their bad loans, and strictly follow the principle of ‘removing bad loans off the book with credit documents retained and recovery rights reserved’. While making strong efforts on bad debt recovery and assets maintenance, banking institutions were required to balance the interests of all stakeholders and to ensure loan write-offs is conducted in a fairly and smoothly manner.

3. Adoption of new supervisory measures
In an effort to urge banking institutions to step up support for the post-earthquake recovery and reconstruction, the CBRC has required the implementation of ‘Four-No Credit Policies’, namely, no collection call, no interest penalty, no bad credit record, and no negative impact on other credit support for disaster relief. In 2009, a total of 321,000 borrowers benefited from the ‘Four-No Credit Policies’ involving loans with an aggregate value of RMB54.4 billion.

4. Support to reconstruction of the stricken rural areas
To facilitate post-earthquake recovery and reconstruction, the CBRC has required banking institutions to submit plans of credit support

Staff from CBRC Yunnan Honghe field office actively participated in charity activities.
The CBRC has continued its efforts in disseminating financial knowledge and promoting consumer education through various means, including the operations of the CBRC Public Education Service Centre. In 2009, the Center received approximately 3,100 phone inquiries/visits, up by 35 percent year-on-year; organized a variety of exhibitions and seminars on wealth management, bank card businesses and internet banking; distributed for free a dozen kinds of pamphlets and offered over 30 kinds of professional booklets for public reference on a variety of subjects, including bank card security, wealth management, internet banking, illegal financial institutions and illegal fund-raising cases. Generally, the role and influence of the Center in educating the public by the responsible head-persons of the local CBRC offices and rural credit unions in the three affected provinces. Meanwhile, the CBRC has also heightened its communications with local governments for speeding up the establishment of guarantee funds or guarantee companies to secure home reconstruction loans granted to the farmers in need. As of end-2009, a total of 837,000 eligible rural households received RMB18 billion for home rebuilding. Home reconstruction loans to needy households were granted by small- and medium-sized rural financial institutions, with a total of value of loans reaching RMB4.46 billion and benefiting 232,000 needy households in 2009.

II. Facilitating the Shanghai World Expo and the Guangzhou Asian Games

Endeavors were made by the CBRC to guarantee sound financial services during the Shanghai World Expo in 2010. For example, banks were required to improve currency exchange related services, provide accessible financial services and safeguard the normal operation of the banking system. To ensure sound bank card services, banks were asked to enhance the examination, upgrading, maintenance and management of automatic banking facilities in Shanghai and its surrounding areas, set up automatic banking machines that accept overseas bank cards, offer training to shop-owners, regulate card payment procedures and take effective measures to prevent bank card frauds. To ensure business continuity, banks were ordered to maintain a secure, stable and efficient IT system, and intensify the monitoring of their internet banking and bank card system. Effective customer complaint handling procedures and emergency response mechanism have been given emphasis as well. Banks were expected to optimize the resources devoted to dealing with customer complaints and establish effective mechanisms governing media communication and coordination, press briefing and mass sentiment monitoring. Last but not least, banks were urged to take effective measures to ensure the safety and security of the important facilities.

The CBRC also encouraged banks to provide first-class financial services for the 16th Asian Games in Guangzhou. Banks are required to set up steering groups for IT security, strengthen safety assessment and examination on core businesses, internet banking, telephone banking, cash machines and bank cards, etc., and ensure the continuity of financial services. The banks are also required to provide convenient and accessible financial services during the Games.
financial knowledge have been rising year on year. The CBRC also leveraged on the public education and service website to publicize important notifications so as to raise public awareness of specific risks, including the notification of risks related to residential mortgages, credit card users, and card uses during public holidays. Additionally, with the strong encouragement and support of the CBRC, the CBA and local banking associations in Beijing, Shanghai, Guangdong and Shenzhen, together with local banking institutions, launched a week-long program on credit card security to spread knowledge on bank card use and risk prevention. In November 2009, the CBRC, the CBA and some commercial banks co-hosted an exhibition on public wealth management in a bid to foster public awareness of wealth management.

The banking institutions in China responded to the proactive supervisory education activities with equal enthusiasm. In 2009, a series of public education programs on financial knowledge of various forms were carried out by the banking institutions and were well received by the public.

IV. Advancing the ‘financial knowledge to the countryside’ campaign

In 2009, the CBRC Youth League Committee continued to advance the campaign of ‘financial knowledge to the countryside’, calling on young people of the banking sector across the nation to join the campaign to assist in promoting rural financial literacy and improving rural credit environment. It worked with the Central Committee of the Communist Youth League of China to design and promote innovative financial products, such as micro-credit, and to help with the business start-ups by young people in rural areas. According to preliminary statistics, over 1,000 workshops of various scale were held, 7 million inquiries from farmers answered, over 10 million copies of financial pamphlets and 1.5 million copies of CDs and books were distributed under this campaign. Youth volunteers of the banking sector visited more than 1 million rural households, and banking institutions granted RMB14.2 billion to 45,000 young people in rural areas under the micro-credit program. The campaign covered 31 provincial-level jurisdictions and was widely welcomed by rural residents.

In April 2009, youth volunteers from the banking industry promoted rural financial literacy in the countryside of Wenshui, Shaoxin. The campaign of ‘financial knowledge to the countryside’ was warmly welcomed by the local people in Shouxian county, Anhui.
V. Assisting in poverty relief and employment of young people

In 2009, the CBRC proactively supported poverty relief efforts through the following activities. Firstly, the CBRC financed the establishment of two Hope Schools in Sichuan and Gansu provinces funded by a donation of RMB3.1 million. Secondly, the CBRC established a Hope Foundation for schools in poverty-stricken areas and granted assistance fund worth of RMB348,800. Thirdly, the CBRC organized or joined donation programs for poor mothers. Besides, the CBA donated funds to set up a training centre for ophthalmic operations in Zhengzhou city.

The CBRC also assisted in the nation-wide efforts of helping the young people to find a job or start their own business. The agency worked closely with the Central Committee of the Communist Youth League of China to issue the Guidelines on Implementing the Micro-Credit Program for Business Start-ups by Young People in Rural Areas, which outlines favorable credit policies offered to young people in rural areas for business startups. In addition, with the CBRC’s encouragement, banking institutions and local CBRC offices have jointly set up over 100 internship centers to offer internship opportunities for unemployed young people.

VI. Urging banking institutions to fulfill social responsibility


With the support of the CBRC, the CBA published the first Social Responsibility Report of China’s Banking Sector, which was highly acclaimed by the public.

2. Promotion of green credit for low carbon economy

Over recent years, the CBRC has introduced series of regulatory measures to encourage credit support for resolving funding shortage in developing low carbon economy, which include issuing the Guiding Opinions on Reinforcing Credit Support for Energy Conservation and Emission Reduction. By the end of 2009, the balance of loans granted by the ICBC to major environmental protection projects reached RMB114.9 billion, and that to alternative energy development projects RMB102.9 billion. The balance of green credit extended by the ABC reached RMB209 billion, up by RMB53.4 billion from the year beginning, of which loans to clean energy projects (hydropower, wind power and nuclear power) reached RMB134.5 billion, and loans to water conservancy and environmental management RMB40.6 billion. The balance of green credit and low carbon credit extended by the BOC totaled RMB166.1 billion, up by RMB48.3 billion from the year beginning, including loans to clean energy of RMB115.6 billion. The balance of green credit of the CCB amounted to RMB227 billion, up by RMB36 billion from the year beginning, including RMB113 billion loans to clean energy projects which supported over 1,000 projects with a total installed capacity of 120 million kilowatts. Besides, the Industrial Bank established the first special unit to provide financial services for sustainable growth, focusing on facilitating...
the projects of energy efficiency, environmental protection and low carbon economy.

3. Promotion of ‘one-to-one support’ among rural financial cooperative institutions
The CBRC organized a special meeting to promote the approach of ‘one-to-one support’ among rural cooperative financial institutions in order to help boost the funding strength of the institutions located in earthquake-stricken regions. Under the call, Beijing Rural Commercial Bank and other banking institutions donated RMB24 million to Sichuan Rural Credit Union. In 2009, rural cooperative financial institutions nationwide donated a total of RMB330 million to their counterparts in the three earthquake-stricken provinces, RMB180 million of which was raised through the one-to-one support program.

4. Promotion of student loans
To implement the national strategy of ‘rejuvenating the nation through science and education’, the CBRC has always given priority to promoting student loans to support the economically disadvantaged students of universities. Significant progress was achieved in 2009 with substantial increase of loan balance and beneficiaries.

Chairman LIU Mingkang visited an economically disadvantaged student’s family in Kezhou, Xinjiang, on November 1, 2009.
Part Eight
Outlook
I. Macroeconomic environment and primary banking risks

Into 2010 and beyond, the world economy is expected to grow at a mild pace and international trade pick up gradually. However, economic fundamentals are not yet in firm ground to support an all-around recovery, and the repercussions of the global financial crisis yet to unfold completely. It is widely believed that global economic recovery will be slow and bumpy, as unemployment pressure remains unabated, international trade frictions are rising, fiscal deficits continue to climb, manufacturing overcapacity becomes more pronounced, and fluctuations in U.S. dollar exchange rate, commodity prices and capital flows may worsen. Furthermore, the timing and approach of exit strategies of different countries may vary, posing greater challenges for the concerted efforts to shore up economic recovery.

Domestically, China’s economic upturn is underpinned by the increasing restoration of market confidence. However, the endogenous forces driving a sustained growth remain weak, structural imbalances stay acute, external trade is threatened by rising protectionism, unemployment pressures remain severe. All these pose further constraint for a substantial and meaningful rebound.

As far as the banking sector is concerned, the macroeconomic environment in 2010 is expected to be more accommodative than 2009. Nevertheless, while the potential risks to economic growth and market development both in and outside China remain substantial, the banking sector is facing numerous uncertainties. Given that, to maintain safe and sound development of the banking institutions is by no means an easy task.

1. Potential NPL pressure

In 2009, new RMB loans increased by 31.7 percent year-on-year to RMB9.59 trillion, setting a record high in the past decade. The majority of the loans were medium- to long-term and concentrated in several industries/sectors. As the macroeconomic environment changes and economic restructuring speeds up, the possibility of the rebound of credit risks or losses remains high.

2. Rising credit risks in the real estate sector

Along with the real estate market rebound in 2009, more property loans were advanced, with the balance up by 38.1 percent year-on-year to RMB7.33 trillion at the end of 2009. However, as uncertainties in the real estate sector ratchet up, the risks associated with home mortgages are building, and the risk of chain effect might reappear in real estate development loans as well. All these may lead to the possible increase of credit risks in this sector.

3. Emerging credit risks in other sectors

The latest round of burgeoning investments has exacerbated the problem of excessive capacity and over-development. Problems associated with the relatively large proportion of the ‘high carbon’ industries in the economy and heavy dependence of the medium- and low-end industries on the international market remained to be resolved. As restructuring efforts further intensify, credit risks in relevant sectors may emerge soon. Another concern weighs high on the supervisory agenda is the LGFPs, since some banks have accumulated large exposures and high concentration to these platforms, but remain weak in loan review procedures and risk control capabilities.

4. Challenging task of fraud prevention and control

Due to inadequate awareness of fraud risks, some banks fail to put in place a solid mechanism for fraud prevention and control. Generally, the root
causes of fraudulent banking activities lie in the ineffective enforcement of rules and policies. On top of that, other factors resulting in banking frauds include the lack of fundamental internal control functions, insensitivity to fraudulent signs, failure to properly align incentive schemes and staff training with business development, improperly designed business strategies and performance evaluation criteria. In order to root out these fraud-triggering factors, substantial reforming efforts are required.

5. Off-balance-sheet risk exposures
In an effort to circumvent regulatory requirements on capital and loan loss provisioning, etc., some banks have transferred existing and new loans off their balance sheets by issuing wealth management products backed by credit assets. These banks still assume the risks related to loan management and recovery even though the loans are not booked on their balance sheets. Hence, the rising risks associated with banks’ activities in transferring their on-balance-sheet exposures to off-balance-sheet warrant close supervisory attention.

6. Dealing with risk contagion
At present, it is still unknown whether the global financial crisis has hit the bottom, while uncertainties of the global financial system are likely to cause further shocks to China’s financial system. Close attention needs to be paid to the potential sovereign risks of some countries and regions as their sovereign debt ratings have been or will be downgraded. The Chinese operations of some foreign financial institutions facing high risks should be closely monitored and managed as well. In addition, exceptionally active global carry trade funded by record low interest rates in some countries might lead to unpredictable and volatile capital flows, posing significant risks to the world economy. If relevant countries exit the current lax monetary policy and hike the funding cost, the borrowed funds will be quickly withdrawn from the emerging markets, resulting in the chain reaction of asset bubble burst and ultimately damaging the stability of the global financial system.

7. Increasing liquidity risk
Although currently there is ample liquidity in China’s banking system, liquidity risks of individual banks should not be neglected. Given the rapid credit buildup in 2009, risk factors that may affect liquidity need to be monitored and dealt with, including excessive cross-border capital flows, large withdrawal of guarantee deposits due to simultaneous expiry of bank acceptance bills, rising asset-liability mismatch due to the increasing proportion of medium- to long-term loans, unstable cash position as a result of higher loan-to-deposit ratio, and possibly rising default rate under higher credit risk pressures.
II. Supervisory outlook

The international and domestic economic and financial conditions remain complicated and challenged by numerous uncertainties in 2010. Against the background, the CBRC is determined to face up to the difficulties and challenges, ensure the continuity and consistency of supervisory policies, and further improve supervisory effectiveness. Meanwhile, the CBRC will continue its efforts in informing the banking institutions of its assessments of macroeconomic and financial situations, guiding the banking industry to implement macroeconomic adjustment policies, further optimize credit supply and improve asset quality, and enhance their consolidated risk management capacity. As one of our mandates, the CBRC endeavors to promote the safety and soundness of the banking sector so as to underpin the sustained development of the Chinese economy.

1. Firmly enforcing the differentiated credit policy

Continued efforts will be made by the CBRC to ensure effective support to the real economy, in particular to the SMEs and agricultural development. The policy remains the same to require banks to refrain from lending the high polluting, energy-intensive and over-capacity sector on the one hand, and on the other hand, provide the needed credit to boost consumer spending, support rural development and qualified SMEs, improve healthcare and social insurance system, and facilitate pollution reduction and energy saving.

2. Further strengthening the supervision of key banking risks

As one of the key supervisory focuses, the LGFPs will be given full supervisory assessment with each loan being examined, reviewed, evaluated, and where necessary, rescheduled. Distressed loans to the LGFPs will be classified accurately and backed up by adequate provisioning. Bad loans will be removed off the book but with the credit documents retained and recovery right reserved. As for real estate loans, loans to land reserve are subject to enhanced management and loans to property development will be strictly controlled. Differentiated credit policies should be adopted for residential mortgages to stem speculative investment. Besides, large- and medium-sized banks are urged to continue quarterly stress tests on their real estate loans.

3. Enhancing macro and micro prudential supervision

On the front of micro-prudential supervision, the CBRC will continue to improve the efficiency and effectiveness of off-site surveillance and on-site examinations. While on the macro front, dynamic provisioning and dynamic capital requirements will be further implemented based on quantitative impact study, and the banking system will be urged to improve capital quality, prevent regulatory arbitrage and systemic risks. Consolidated supervision and cross-border supervisory cooperation will also be reinforced. Overall, the forward-looking prudential supervisory approaches and tools will be developed.

4. Implementing new rules on loan disbursement and management

The implementation of the ‘Three Rules and One Guidelines’ will be further promoted with the aim to fundamentally improving the loan disbursement and management practices. The loan contract template needs to be revised to specify the loan management procedures, including outlining the key elements of contract terms, dedicated account, entrusted account, disbursement review and loan monitoring, etc. The concept of lending to serve real economic needs should be fostered through improved governance and training. The advantages of the new rules should be broadly publicized and communicated to both banks and their clients. The implementation of these new
rules will ensure the proper use of the loans and prevent loan misappropriation. Inspections will also be conducted on the loans extended before the implementation of the new rules in order to detect and address potential risks.

5. Improving corporate governance
The CBRC encourages banking institutions to further improve their corporate governance, in particular, to clarify the responsibilities of the board and management, improve the strategy setting and implementation, and optimize business and management models. Banks are also required to establish sound compensation practices, standardize the practice of related-party transactions and enhance information disclosure. Meanwhile, to better prevent banking frauds, the CBRC urges banks to set up long-term prevention mechanism, sound incentive and disciplinary mechanism, and staff training and education programs.

6. Supporting sound banking innovations
The CBRC will continue to support banking innovations to better serve the real economy and continuously improve financial services in accordance with the principles of ‘cost accountable, risk controllable and information sufficiently disclosed’. Meanwhile, the CBRC is also committed to the protection of depositors and bank customers through the promotion of public education and social responsibility fulfillment.

7. Guarding against cross-border risk contagion
Continued focus will be given on improving response mechanism of cross-border risk contagion, developing crisis management toolkit, enhancing cross-border supervisory coordination and cooperation, and stepping up the communication and information sharing with host supervisors. Banks will be urged to reinforce the cross-border and cross-sector risk management capability. Apart from that, banks will be guided to improve the liquidity risk management framework as well. Particular attention will be paid on the cross-border capital flow, macroeconomic situations and policy adjustments so as to better analyze liquidity profile, make liquidity arrangement by different currencies, align loan maturities and improve the contingency plan for liquidity risk.
Appendix 1: Responsibility Description of the CBRC Departments and Local Offices

I. Departments at the CBRC Head Office

1. General Office
Coordinate daily work of the CBRC head office; draft related documents; organize and coordinate important meetings and events of the CBRC; receive and distribute confidential documents; keep documents/records; deal with complaints; provide information for the press and public; be responsible for the security of the office building.

2. Supervisory Rules and Regulations Department
Develop supervisory rules and policies pertaining to banking industry; draft the related administrative regulations, and provide proposals on new legislation or amendments to existing legislation; be responsible for administrative appeals and lawsuits relating to CBRC regulatory decisions; oversee and coordinate the enforcement of rules and regulations; provide advisory services or interpretation to related laws and regulations; organize educational programs on laws and regulations; prepare and publish regulation-related information and newsletters.

3. Policy Research Department
Conduct research on key issues in relation to banking supervision; monitor and analyze the overall risk profile of the banking industry, and provide policy recommendations thereto; develop prudential rules and policies on risk management of the banking industry; follow and study the trend of the international banking supervision; provide policy recommendations on the framework, systems and working procedures of the banking supervision.

4. Banking Supervision Department I
Regulate and supervise the large commercial banks, e.g., review and approve applications for new establishments or businesses, closures, and major changes such as in the equity or corporate structure or business scope; draft related supervisory policies and procedures; conduct on-site examination and off-site surveillance; monitor the changes in the asset/liability ratio, asset quality, business activity, financial conditions, internal controls and risk management; take supervisory actions against non-compliance; review and approval the qualifications of related senior management.

5. Banking Supervision Department II
Regulate and supervise the joint-stock commercial banks, city commercial banks and urban credit cooperatives, e.g., review and approve applications for new establishments or businesses, closures, and major changes such as in the equity or corporate structure or business scope; draft related supervisory policies and procedures; conduct on-site examination and off-site surveillance; monitor the changes in the asset/liability ratio, asset quality, business activity, financial conditions, internal controls and risk management; take supervisory actions against non-compliance; review and approval the qualifications of related senior management.
activity, financial conditions, internal controls and risk management; take supervisory actions against non-compliance; review and approval the qualifications of related senior management.

6. Banking Supervision Department III
Regulate and supervise the foreign-funded banks, e.g., review and approve applications for new establishments or businesses, closures, and major changes such as in the equity or corporate structure or business scope; draft related supervisory policies and procedures; conduct on-site examination and off-site surveillance; monitor the changes in the asset/liability ratio, asset quality, business activity, financial conditions, internal controls and risk management; take supervisory actions against non-compliance; review and approval the qualifications of related senior management.

7. Banking Supervision Department IV
Regulate and supervise policy banks and CDB, postal savings bank, and banking asset management companies, e.g., review and approve applications for new establishments or businesses, closures, and major changes such as in the equity or corporate structure or business scope; draft related supervisory policies and procedures; conduct on-site examination and off-site surveillance; monitor the changes in the asset/liability ratio, asset quality, business activity, financial conditions, internal controls and risk management; take supervisory actions against non-compliance; review and approval the qualifications of related senior management.

8. Non-bank Financial Institutions Supervision Department
Regulate and supervise non-bank financial institutions under the CBRC jurisdiction (excluding securities, futures and insurance firms), e.g., review and approve applications for new establishments or businesses, closures, and major changes such as in the equity or corporate structure or business scope; draft related supervisory policies and procedures; conduct on-site examination and off-site surveillance; monitor the changes in the asset/liability ratio, asset quality, business activity, financial conditions, internal controls and risk management; take supervisory actions against non-compliance; review and approval the qualifications of related senior management.

9. Cooperative Finance Supervision Department
Regulate and supervise rural deposit-taking cooperative financial institutions and new-type rural financial institutions, e.g., standardize and manage the reforms of related institutions; draft policies on the balance sheet management, asset quality management, risk management and interest rate supervision of related institutions; monitor the risk profile of the related institutions and guide the improvement of their internal controls; develop administrative rules governing the establishment, business scope, and the legal representative’s qualifications of the related institutions; take supervisory actions against non-compliance.

10. Supervisory Cooperation Department for Banking Innovation
Coordinate the activities of related supervisory departments in formulating consistent and prudential policies and rules for business and product innovation; develop manuals for the supervision of financial innovations; provide advice and support for the supervisory departments in the on-going supervision of financial innovations; collaborate with People’s Bank of China, China Securities Regulatory Commission, China Insurance Regulatory Commission.
Commission etc. to conduct research on financial innovations and the status of related supervision; develop risk-based supervision strategies; cooperate and communicate with the related government agencies in dealing with issues related to financial innovation.

11. Credit Guarantee Supervision Department
Undertake the routine work of the inter-agency taskforce on credit guarantee activities; coordinate with related departments to formulate policy recommendations to enable sound development of credit guarantee activities; draft relevant supervisory policies and procedures; cooperate and communicate with related government agencies in addressing material supervisory concerns with regard to credit guarantee activities; work with the local governments to conduct the supervision and risk management of credit guarantee activities and resolution of problem institutions.

12. Banking Irregularity Inspection Department (Banking Security & Safeguard Department)
Develop rules and procedures for the investigations of rule-breaking activities by banking institutions; organize, coordinate and guide the investigations of rule-breaking activities; provide guidance to the CBRC local offices and banking institutions in banking irregularity inspections; guide and inspect the safety and security of banking institutions.

13. Anti-illegal Fund Raising Office (Office of Inter-agency Anti-illegal Fund Raising Taskforce)
Formulate and improve the policies and rules governing anti-illegal fund raising activities; guide the identification and investigation of and crackdown on illegal fund raising; transfer the serious illegal fund raising cases to relevant judicial departments; coordinate with related government agencies to promote the public education on financial investment; provide policy interpretation and guidance on anti-illegal fund raising activities; undertake the routine work of the inter-agency taskforce on anti-illegal fund raising.

14. Statistics Department
Formulate and improve the supervisory measures governing supervisory statistical work; develop plan for the statistical work of the CBRC; establish and improve the supervisory information system of the banking sector; collect and compile various comprehensive supervisory returns; follow and analyze macro-economic and financial situations; monitor the macro- and systemic risks of the banking sector and issue risk warnings as necessary; promote the disclosure and sharing of banking statistical information.

15. Accounting Department
Develop rules for the implementation of the accounting standards pertaining to banking industry, review and approve the accounting policies and procedures of banking institutions; oversee, guide and coordinate the accounting activities of banking institutions; manage internal financial work of the CBRC; manage work related to infrastructure development, government procurement and fixed assets; coordinate the collection of supervision fee from banking institutions.

16. International Department (Office of Hong Kong, Macao SARs and Taiwan Affairs)
Maintain day-to-day communication and exchanges with overseas national and regional supervisory authorities; represent the CBRC.
to participate in international supervisory cooperation and coordination; coordinate the activities in the implementation of Basel II; be responsible for international affairs of the CBRC; be responsible for affairs in relation to Hong Kong, Macao SARs and Taiwan.

17. Staff Compliance Department
Supervise and review the implementation of rules and policies governing staff compliance; decide on the punishment against staff’s violations of relevant rules and policies; deal with the impeachment, accusation and appeal of staff; be responsible for reviewing the staff compliance throughout the CBRC network.

18. Human Resources Department
Develop rules and policies on the human resources management of the CBRC; undertake the human resources management work for the CBRC head office and local offices, undertake the management of senior management of selected banking institutions; assist in the staff training.

19. Publicity Department
Provide news and information on the CBRC.

20. The CPC Committee of the CBRC Headquarters
Be responsible for the CPC affairs at the CBRC headquarters.

21. Party School
Be responsible for the activities of party school of the CBRC.

22. China Banking Staff Union
Be responsible for union affairs of the CBRC.

23. Youth League Committee
Be responsible for the affairs of youth league committee of the CBRC.

24. Information Technology Center
Be responsible for providing IT services, managing IT systems of the CBRC and overseeing IT risks of banking institutions.

25. Training Center
Develop and implement policies and procedures for the staff training, develop medium- and long-term staff training plans, and undertake training activities.

26. Staff Service Center
Provide logistics services at the CBRC head office.
II. CBRC Provincial Offices, Field Offices & Supervisory Agencies

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

2. Field Offices
With the delegation from the CBRC head office, conduct regulation over the establishment, change, termination and business activities of the banking institutions and their branches within their jurisdiction; issue penalties against illegal and rule-breaking banking activities; review the qualifications of senior executives of banking institutions within their jurisdiction; conduct supervision over local UCCs and RCCs; provide relevant statistical data and information within their jurisdiction; be responsible for human resources management of their offices.

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

With the delegation from the provincial offices or supervisory agencies, local supervisory agencies in counties are responsible for supervising local banking institutions, UCCs, RCCs and credit unions; collect information about local financial risks and report to upper-level CBRC offices.
According to the relevant rules and policies issued by the MOF, the CBRC collects supervision fees from the 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 2009, 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 account the risk performance. Specifically, the business supervision fee = (total assets – paid-up capital) × rate for corresponding tranche × 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 treasury. The MOF designates its local officers to oversee the collection of supervision fees by the CBRC.

Starting from 2004, the CBRC has budgeted its expenses in the same way as other central government agencies. The annual expenditure usually consists of a basic expenditure budget and project expenditure budget. Basic expenditure budget is mainly used to fund the routine operations and supervisory activities of the CBRC and its local offices. Project expenditure budget is mainly used to fund specific projects such as office renovation, purchase of office supplies and vehicles, purchase of IT equipment and the special audit taskforce. Since the adoption of such budgeting practices, the CBRC has developed and strictly enforced relevant financial management rules to secure strong financial support for supervisory activities. The underlying objectives for its financial management activities are to properly allocate its financial budget funds, utilize supervisory resources in a cost-efficient manner, and proactively improve the supervisory infrastructure and employees’ benefits in a cost effective, people-oriented and thrifty manner. In order to further improve the efficiency of its financial management activities, the CBRC has conducted careful research and developed a standardized system for internal financial management in 2009, which is put into trial operation in 2010.
Appendix 3: Rules and regulatory documents issued in 2009

Rules

*Amendments to Rules on Trust Schemes of Collective Funds by Trust Companies*, issued on February 4, 2009

*Provisional Rules Governing the Management of Fixed Assets Loans*, issued on July 23, 2009

*Rules Governing Pilot Consumer Finance Companies*, issued on July 22, 2009

Regulatory Documents

*Notice on NPLs Resolution of Banking Institutions in Earthquake-stricken Regions*, issued on January 6, 2009

*Supplementary Notice on the Regulatory Policies and Procedures Pertaining to the Domestic Gold Futures Trading of Commercial Banks*, issued on January 9, 2009

*Notice on Adjusting Supervisory Policies on Credit Activities for Promoting Sustained Economic Development*, issued on January 10, 2009

*Notice on Debt-exemption List of Financial Institutions in Natural Forest Protection Project*, issued on January 15, 2009

*Guidelines on Further Improving Corporate Governance of Small- and Medium-Sized Commercial Banks*, issued on January 19, 2009

*Notice on Implementing the Banking Frauds Information System*, issued on January 21, 2009

*Notice on Issuing Guidelines on Securities Investment Trust Businesses of Trust Companies*, issued on January 23, 2009

*Notice on Risk Warning for Online Banking Systems*, issued on February 1, 2009

*Notice on Issuing the Provisional Rules Governing the Agencies of the PSBC*, issued on February 3, 2009
Notice on Issuing the Guidelines on the Professional Ethics of Banking Practitioners, issued on February 4, 2009

Opinions on Promoting Financial Services to Farmers’ Specialized Cooperatives, issued on February 5, 2009

Opinions on the Supervisory Plan of Large Banks in 2009, issued on February 13, 2009

Notice on Further Regulating Banks’ Activities in Selling Insurance Products as Commissioned Agencies, issued on February 18, 2009

Notice on Debt-service Arrangements for Working Capital Loans to Innovative Small Firms, issued on February 19, 2009

Notice on Relevant Issues Concerning Cooperation between Banking Institutions and Guarantee Companies, issued on February 26, 2009

Notice on Further Strengthening Bankcard Service and Management, issued on February 27, 2009

Notice on Issuing the Guidelines on Information Technology Risk Management of Commercial Banks, issued on March 3, 2009

Notice on Risk Warning for Possible Failure of the Integrated Services System of Banks, issued on March 5, 2009

Notice on improving financial services to Support the Spring Farm-work, issued on March 11, 2009

Briefing on Fraudulent Cases of Rural Credit Cooperatives from 2006 to 2008, issued on March 13, 2009

The PBC and the CBRC Guidance on Further Improving Credit Restructuring to Promote Stable and Rapid Economic Development, issued on March 18, 2009

Notice on Issues concerning Supporting the Innovation and Development of Trust Companies, issued on March 25, 2009

Notice on Strengthening Risk Management of Bond Investment by Commercial Banks, issued on March 26, 2009

Opinions on the Supervision of Small- and Medium-Sized Commercial Banks in 2009, issued on March 30, 2009

Notice on Requiring the Scrutinization of Banking Frauds, issued on April 9, 2009

Notice on Issuing the 2009-2011 Working Schedule of Irregularity Prevention of Rural Small- and Medium-Sized Financial Institutions, issued on April 10, 2009

Notice on the Relevant Issues Concerning the Implementation of ‘the Rules for the Implementation of Regulations of the People’s Republic of China Governing Foreign-funded Banks’, issued on April 13, 2009

Notice on Risk Warning Pertaining to Government-related Activities of Trust Companies, issued on April 14, 2009

Notice on Adjusting the Licensing Policies for the Branching by Small and Medium-Sized Commercial Banks, issued on April 16, 2009

Notice on Disposing of the NPLs Arising from the SMEs and Agricultural Financing by Banking Institutions, issued on April 23, 2009
Notice on Issuing the Guidelines on Reform and Supervision of Agricultural Related SBU of the Agricultural Bank of China, issued on April 23, 2009

Notice on Risk Warning Pertaining to the Management of Seals of Rural Credit Cooperatives, issued on April 24, 2009

Joint Notice of the PBC, the CBRC, the MPS, and SAIC on Strengthening the Security of Bank Cards and Combating Bank Card-related Crime, issued on April 27, 2009

Notice on Risk Warning Pertaining to Mortgage Loans, issued on April 27, 2009

Notice on Risk Warning Pertaining to Possible Frauds in Account Opening Management, issued on April 27, 2009

Notice on Further Strengthening Risk Management of the Credit Card Business, issued on April 28, 2009

Notice on Issuing the Guidance on Accountability of Fraudulent Activities of Small and Medium-Sized Rural Financial Institutions, issued on May 4, 2009

Guidance of the CBRC and the Ministry of Science and Technology on Extending Credit Support to High-tech SMEs, issued on May 5, 2009

Notice on Relevant Issues Concerning the Sample Accounting Items and Accounting Statements Prepared by Rural Cooperative Financial Institutions, issued on May 8, 2009

Joint Guidance of the PBC, the MOF, the CBRC, the CIRC, the State Forestry Administration on Adjusting Policies Pertaining to the Collective Forestry Rights and Improving Financial Services to Forestry Industry, issued on May 25, 2009

Joint Notice of the MOF and the CBRC on Coping with the Global Financial Crisis to Strengthen the Financial and Risk Management of the Banking Industry, issued on May 26, 2009

Notice on Further Strengthening Credit Management, issued on June 8, 2009

Notice on Issuing the Provisional Rules Governing Transformation of Lending Companies into Village and Township Banks, issued on June 9, 2009

Notice on Risk Warning Pertaining to Credit Card Cashing by Illegally Using ATMs, issued on June 11, 2009

Notice on Risk Warning Pertaining to Using False Names to Obtain Loans from Rural Small- and Medium-Sized Financial Institutions, issued on June 15, 2009

Notice on Improving Preparations for the Implementation of the New Capital Accord, issued on June 16, 2009

Notice on Further Strengthening the Risk Management of Mortgage Loans, issued on June 19, 2009

Notice on Further Standardizing Credit Card Business, issued on June 23, 2009
Notice on Issuing Guidance on Inviting High-Tech Experts to Participate in the High-Tech SMEs’ Credit Review and Approval, issued on June 28, 2009

Notice on Underwriting Financial Bonds in Inter-Bank Bond Market by Foreign-funded Banks and Sino-foreign Joint-venture Banks, issued on July 1, 2009

Joint Notice of the PBC, the MOF, the MOFCOM, the General Administration of Customs, the SAT and the CBRC on Issuing the Provisional Rules Governing the Pilot Implementation of Cross-border Trade Settlement in Renminbi, issued on July 1, 2009

Notice on Risk Warning Pertaining to the Usage of Bank Documents in Illegal Activities, issued on July 2, 2009

Notice on Further Regulating the Investment Activities in Relation to the Personal Wealth Management Business of Commercial Banks, issued on July 6, 2009

Notice on Further Strengthening Liquidity Supervision of Foreign Banks, issued on July 14, 2009

Joint Notice of the MOFCOM, the PBC, the CBRC, the CSRC and the CIRC on Issuing the Measures for Collective Declaration of Turnovers by Financial Companies, issued on July 15, 2009

Notice on Issuing the Guidelines on Project Financing, issued on July 18, 2009

Notice on Issuing the Guidelines on Establishing and Improving the Incentives and Disciplinary Mechanism of Rural Cooperative Financial Institutions, issued on July 22, 2009


Notice on Issuing the Guidelines on Further Strengthening Risk Management of Derivatives Transactions between Banks and Corporate Clients, issued on July 31, 2009

Report on the Extension of Poverty Relief Loans by Banking Institutions, issued on July 31, 2009

Notice on Issuing the Guidelines on Strengthening Corporate Governance of Locally Incorporated Foreign Commercial Banks, issued on August 11, 2009

Notice on Risk Warning Pertaining to Large Exposures and Loan Concentration of Rural Cooperative Financial Institutions, issued on August 13, 2009

Notice on Further Strengthening the Fraud Prevention and Control and Follow-up Evaluation of Progress in Scrutinization of Banking Frauds, issued on August 15, 2009

Joint Notice of the PBC and the CBRC on Issues Concerning the Financial Bond Issuance by Financial Leasing Companies and Auto Financing Companies, issued on August 18, 2009
| Notice on Risk Warning Pertaining to the Real Estate Loans and Residential Mortgages Extended by Rural Financial Institutions, issued on August 19, 2009 |
| Notice on Issuing the Guidelines on Liquidity Risk Management of Commercial Banks, issued on September 28, 2009 |
| Notice on Issuing the Provisional Rules Governing Lending Companies, issued on August 20, 2009 |
| Notice on Initiating the Pilot Program of Micro Loans for Business Start-ups via Trade Unions, issued on October 10, 2009 |
| Notice on Risk Warning Pertaining to Shifting Losses to Banks by Enterprises Using Online Banking System, issued on August 24, 2009 |
| Notice on Strengthening the Supervision of Off-station Departments of Large Banks, issued on October 13, 2009 |
| Notice on Issuing the Guidelines on Reputational Risk Management of Commercial Banks, issued on August 25, 2009 |
| Notice on Risk Warning Pertaining to Project Loans and Industry Loans of the Rural Cooperative Financial Institutions, issued on October 14, 2009 |
| Notice on Further Strengthening Fraud Prevention and Control of Banking Institutions, issued on August 26, 2009 |
| Notice on Risk Warning Pertaining to Real Estate Trust Business of Trust Companies, issued on October 15, 2009 |
| Notice on Issuing Manual for IT Risks On-site Examinations, issued on August 31, 2009 |
| Notice on Improving the Capital Raising Mechanism of Commercial Banks, issued on October 18, 2009 |
| Notice on Issues Concerning the Project Equity in the Project Financing Business of Trust Companies, issued on September 1, 2009 |
| Notice on Prohibiting Retail Loans from Being Invested in the Stock Markets, issued on October 21, 2009 |
| Notice on Establishing Policies and Procedures for the Rotating Inspections of Deposit Risks by Banking Institutions, issued on September 3, 2009 |
| Notice on Further Strengthening Supervision on City Commercial Banks, issued on October 26, 2009 |
| Notice on Strengthening Settlement Account Management of Rural Cooperative Financial Institutions, issued on September 4, 2009 |
| Notice on Standardizing the Schedule-Filling Criteria of Client Risk Indicators, issued on October 29, 2009 |
| Notice on Launching the Financial Sector Assessment Program (FSAP), issued on September 10, 2009 |
| Notice on the Business Scope of Pilot Bond Investment by Listed Commercial Banks in Stock Exchanges, issued on November 5, 2009 |
Notice on Issuing the Rules on Pilot Equity Investment by Commercial Banks in Insurance Companies, issued on November 5, 2009

Notice on Issuing the Guidelines on Information Disclosure of Commercial Banks’ Capital Adequacy, issued on November 7, 2009


Notice on Launching the Pre-evaluation for the Preparatory Work of Basel II Banks, issued on November 19, 2009

Notice on Issuing the Guidelines on Validation of Advanced Approach of Commercial Banks for Regulatory Capital Purpose, issued on November 23, 2009

Notice on Issuing the Guidelines on Commercial Banks’ Management of Interest Rate Risk in Banking Book, issued on November 25, 2009

Notice on Issuing the Guidelines on Promotion of Banking Services in Under-banked and Unbanked Regions, issued on November 28, 2009

Notice on Issuing Risk Warning Pertaining to Accounting Opening Frauds by Overseas Clients in Domestic Chinese Banks, issued on November 30, 2009

Notice on Issuing the Guidelines on Developing Risk Management Mechanism by Small- and Medium-Sized Rural Financial Institutions, issued on December 1, 2009

Notice on Issuing the Guidelines on Supervisory Review of Capital Adequacy of Commercial Banks, issued on December 4, 2009

Notice on Issuing the Supervisory Returns on the IT systems of Commercial Banks for Off-site Surveillance, issued on December 7, 2009

Notice on Issuing the Rules on Commercial Banks’ Development and Modification of Key IT Systems, issued on December 29, 2009
## Appendix 4: MOUs and EOLs with overseas regulators

<table>
<thead>
<tr>
<th>Overseas regulators</th>
<th>Country / Region</th>
<th>Effective date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Monetary Authority of Macao</td>
<td>Macao SAR</td>
<td>August 22, 2003</td>
</tr>
<tr>
<td>2. Hong Kong Monetary Authority</td>
<td>Hong Kong SAR</td>
<td>August 25, 2003</td>
</tr>
<tr>
<td>4. Financial Supervisory Commission</td>
<td>Korea</td>
<td>February 3, 2004</td>
</tr>
<tr>
<td>5. Monetary Authority of Singapore</td>
<td>Singapore</td>
<td>May 14, 2004</td>
</tr>
<tr>
<td>6-1. Board of Governors of the Federal Reserve System (FED)</td>
<td>U.S.</td>
<td>June 17, 2004</td>
</tr>
<tr>
<td>Office of the Comptroller of the Currency (OCC)</td>
<td>U.S.</td>
<td>June 17, 2004</td>
</tr>
<tr>
<td>Federal Deposit Insurance Corporation (FDIC)</td>
<td>U.S.</td>
<td>June 17, 2004</td>
</tr>
<tr>
<td>Office of Thrift Supervision (OTS)</td>
<td>U.S.</td>
<td>March 20, 2007</td>
</tr>
<tr>
<td>6-2. California Department of Financial Institutions</td>
<td>U.S.</td>
<td>November 6, 2007</td>
</tr>
<tr>
<td>6-3. New York State Banking Department, U.S.</td>
<td>U.S.</td>
<td>May 7, 2009</td>
</tr>
<tr>
<td>8. National Bank of the Kyrgyz Republic</td>
<td>Kyrgyzstan</td>
<td>September 21, 2004</td>
</tr>
<tr>
<td>9. State Bank of Pakistan</td>
<td>Pakistan</td>
<td>October 15, 2004</td>
</tr>
<tr>
<td>10. Federal Financial Supervisory Authority (BaFin)</td>
<td>Germany</td>
<td>December 6, 2004</td>
</tr>
<tr>
<td>11. Commission for Banking Supervision of the Republic of Poland</td>
<td>Poland</td>
<td>February 27, 2005</td>
</tr>
<tr>
<td>12. Commission Bancaire</td>
<td>France</td>
<td>March 24, 2005</td>
</tr>
<tr>
<td>13. Australian Prudential Regulation Authority</td>
<td>Australia</td>
<td>May 23, 2005</td>
</tr>
<tr>
<td>14. Banca d’Italia</td>
<td>Italy</td>
<td>October 19, 2005</td>
</tr>
<tr>
<td>15. Bangko Sentral ng Pilipinas</td>
<td>The Philippines</td>
<td>October 18, 2005</td>
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(As of end-2009)
<table>
<thead>
<tr>
<th>Overseas regulators</th>
<th>Country / Region</th>
<th>Effective date</th>
</tr>
</thead>
<tbody>
<tr>
<td>17. Hungarian Financial Supervisory Authority</td>
<td>Hungary</td>
<td>November 21, 2005</td>
</tr>
<tr>
<td>21. Banking Regulation and Supervision Agency of Turkey</td>
<td>Turkey</td>
<td>July 11, 2006</td>
</tr>
<tr>
<td>22. Bank of Thailand</td>
<td>Thailand</td>
<td>September 18, 2006</td>
</tr>
<tr>
<td>25. Qatar Financial Center Regulatory Authority</td>
<td>Qatar</td>
<td>May 11, 2007</td>
</tr>
<tr>
<td>27. Dubai Financial Services Authority</td>
<td>Dubai</td>
<td>September 24, 2007</td>
</tr>
<tr>
<td>32. Banking, Finance and Insurance Commission of Belgium</td>
<td>Belgium</td>
<td>September 25, 2008</td>
</tr>
<tr>
<td>33. Irish Financial Services Regulatory Authority</td>
<td>Ireland</td>
<td>December 10, 2008</td>
</tr>
<tr>
<td>34. Central Bank of Nigeria</td>
<td>Nigeria</td>
<td>February 6, 2009</td>
</tr>
<tr>
<td>35. Bank Negara Malaysia</td>
<td>Malaysia</td>
<td>November 11, 2009</td>
</tr>
<tr>
<td>36. Taiwan Financial Regulatory Agency</td>
<td>Taiwan</td>
<td>November 16, 2009</td>
</tr>
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</table>
Appendix 5: Significant regulatory and supervisory events in 2009

On January 4  
Chairman LIU Mingkang chaired a workshop on major banking risks analysis, where the impact of the latest global financial crisis on banking industry was assessed, the supervisory policy stance of 2009 was communicated and discussed.

On January 10  
The CBRC issued the Notice on Adjusting Supervisory Policies on Credit Activities for Promoting Sustained Economic Development. Based on the policy package adopted by the central government in response to global financial crisis, the Notice adjusted relevant supervisory policies to encourage stronger banking credit support to enable sustained economic development.

On January 12-13  
The CBRC held the 2009 Annual Work Conference, which analyzed the latest economic and financial situation, proposed the annual goals of conducting forward-looking, targeted and flexible supervision, and required banks to prevent risks while strengthening credit support to the real economy.

On January 16  
The CBRC held the First Quarterly Briefing on Economic Developments in 2009. Bearing in mind that the latest financial crisis was yet to bottom up, the meeting required banks to strictly control their NPL stock and ratio, stick to the bottom line of risk management, prevent concentration risk and risks related to real estate sector and wealth management products, and implement differentiated credit policies.

On January 16  
Agriculture Bank of China Limited was established, symbolizing that the joint stock reform of the large commercial banks has entered its final stage.

On January 23  
The CBRC issued the Guidelines on Securities Investment Trust Business of Trust Companies, aiming to standardize the securities investment practices of trust companies and protect the legitimate rights and interests of associated parties.

On February 4  
The CBRC issued the revised Rules on Collective Fund Trust Schemes of Trust Companies, which adjusted the requirements on the number of investors and loan proportions etc., and further guided the trust companies to support the real economy.

On February 4  
The CBRC issued the Guidelines on the Professional Ethics of Banking Practitioners, which clarified the professional ethic requirements on banking practitioners, established benchmark for talent-recruitment and professional team building of banking institutions.

On February 5  
The General Office of the State Council issued the Notice on Further Specifying the Supervision Responsibility on Financial Guarantee Business, which decided to set up an inter-agency taskforce for improving the supervision of credit guarantee institutions, and appointed the CBRC as the leading agency. In May, the inter-agency taskforce started operation. On September 23, the CBRC established the Credit Guarantee Supervision Department.
On February 5, the CBRC issued the *Opinions on Promoting Financial Service to Farmers’ Specialized Cooperatives*, which clearly put forward five measures to support the development of farmers’ specialized cooperatives.

On February 6, the CBRC and the Central Bank of Nigeria signed the Memorandum of Understanding (MOU) on bilateral supervisory cooperation.

On February 12, the CBRC held its 2009 IT Work Conference, formulated the working plan of IT risk supervision and made specific supervisory requirements on internet banking and other IT-related banking practices.

On February 17-18, the CBRC held the 2009 Supervisory Work Conference on Large Commercial Banks, which studied the development strategies of large commercial banks under new economic situation, and made relevant requirements on six aspects including supporting economic development, holding fast to the bottom line of risk management and improving supervisory efficiency, etc.

On February 18-23, the CBRC held the 2009 Supervisory Work Conference on Rural Small- and Medium-Sized Financial Institutions, urging these banking institutions to stick to the bottom line of risk management, reasonably adjust the pace of credit extension, promote the pilot program of developing new-type rural financial institutions to improve financial services in rural areas.

On February 18, the CBRC issued the *Notice on Further Regulating Banks’ Activities in Selling Insurance Products as Commissioned Agencies*, requiring banks to prevent risks arising from insurance agency businesses.

On February 19, the CBRC issued the *Notice on Debt-service Arrangements for Working Capital Loans to Innovative Small Firms*, encouraging banks to innovate debt services in order to alleviate the funding difficulties of the SMEs.

On February 23, the Land Information Inquiry System for Banking Institutions was put into trial operation, aiming to prevent frauds on land mortgages.

On February 25-27, the CBRC held the 2009 Supervisory Work Conference on Foreign Banks, which communicated the plan for foreign banks’ risk supervision, in particular the supervision of liquidity risk and cross-border risk contagion.

On February 26, Chairman LIU Mingkang attended the State Council’s press conference, where he introduced the measures taken by the CBRC in response to the global financial crisis and answered the questions raised by domestic and overseas journalists.

On March 3, the CBRC issued the *Guidelines on Information Technology Risk Management of Commercial Banks*, requiring banks to incorporate IT risk management into their overall risk management framework and specifying the correspondent responsibilities of the board of directors and the senior management concerning IT risks.

On March 6, the CBRC held the 2009 Supervisory Work Conference on Small- and Medium-Sized Commercial Banks, requiring banks to optimize credit structure and strengthen credit support to SMEs on the precondition of effective risk prevention.
On March 9 Chairman LIU Mingkang presided over a meeting with the NPC and CPPCC representatives from the banking industry on banking supervisory practices. Vice Chairman JIANG Dingzhi, CAI Esheng, GUO Ligen, WANG Huaqing and WANG Zhaoxing also attended the meeting.

On March 11 The CBRC issued the Notice on Improving Financial Services to Support the Spring Farm-work in 2009, which gave specific instructions on supporting spring farm-work.

On March 12 The CBRC formally became a member of the Basel Committee of Banking Supervision (BCBS).

On March 16 The CBRC launched the EAST system training program, and put the EAST system into trial operation, which significantly enhanced the CBRC’s on-site examination capability.

On March 18 The CBRC convened the Teleconference on Improving Financial Services for SMEs, calling for different types of financial institutions to share experiences and further improve the financial services to the SMEs.

On March 18 The CBRC issued the Guidelines on Further Improving Credit Restructuring to Promote Stable and Rapid Economic Development, aiming to facilitate credit structure adjustment and promote sustained economic development.

On March 23 The CBRC held the 2009 Supervisory Work Conference on Policy Banks and the CDB, Postal Savings Banks and Banking Asset Management Companies, which carefully reviewed the reform developments and supervisory work of these institutions.

On March 25 The CBRC issued the Notice on Issues Concerning Supporting the Innovation and Development of Trust Companies, guiding trust companies to carry out service innovation under the precondition of firm risk controls.

On March 26 The CBRC formally became a member of the FSB.

On March 26 The CBRC issued the Notice on Strengthening Risk Management of Bond Investment by Commercial Banks, which further clarified the risk control requirements on commercial banks’ bond investment.

On March 26 The CBRC convened the Meeting on Frauds and Irregularities Inspection, making up concrete working plans and priorities for fraudulent risks prevention.

On April 3 The CBRC convened the Meeting on Fraudulent Cases Analysis, where an agreement was reached to carry out targeted inspections on guaranteed loans, notes and other debt business, scrutinize banking irregularities and review previous fraudulent cases. On April 9, the CBRC issued the Notice on Requiring the Scrutinization of Banking Frauds.

On April 14 The CBRC issued the Notice on Risk Warning Pertaining to Government-related Activities of Trust Companies, forbidding trust companies to provide financing or investment services to state restricted sectors, enterprises and projects, and strengthening the cooperation on risk management between trust companies and local governments.
On April 15  The CBRC held the Second Quarterly Briefing on the Economic Developments, requiring banks to increase awareness of the long-term impact brought by the global financial crisis, watch closely the accumulated risks caused by banks’ irrational credit extension, properly adjust the pace of credit supply, and make the financial support sustainable.

On April 16  The CBRC published the Notice on Adjusting the Licensing Policies for the Branching by Small- and Medium- Sized Commercial Banks, aiming to adjust market entry policies so as to encourage small- and medium- sized commercial banks to provide more convenient services to agriculture, farmers, rural areas and SMEs.

On April 17-20  Chairman LIU Mingkang attended the Boao Forum for Asia, and had an interview with the CCTV.

On April 21  The CBRC convened its Chairman’s Meeting, calling for banks to pay attention to the weakness and imprudent practices occurred during the fast credit expansion, adjust credit structure, strengthen risk prevention, prevent loan embezzlements, packaged loans and rule-breaking bridge loans, and ensure the effective support to the real economy.

On April 22  The senior management team of the Monetary Authority of Singapore visited the CBRC on an exchange tour.

On April 23  The CBRC issued the Guidelines on Reform and Supervision of Agriculture Related Strategic Business Unit of Agricultural Bank of China, urging the ABC to adopt the SBU management system, serve the needs of agriculture, farmers and rural areas, and improve its financial services and market competitiveness.

On April 27  The CBRC issued the Notice on Risk Warning Pertaining to Mortgages, asking financial institutions to strictly implement the requirements with respect to credit review, origination and management in making mortgages.

On May 5  The CBRC and the MOST jointed issued the Guidance on Extending Credit Support to High-tech SMEs, aiming to promote bank lending to alleviate the financing difficulties of high-tech SMEs.

On May 6-8  The CBRC held the Mid-year Briefing on Economic Developments, urging banks to closely watch risk accumulation during fast credit expansion, strengthen risk control on project capital adequacy, notes financing, LGFP loans, credit assets concentration and inter-city loans, and ensure the injection of fund into the real economy.

On May 11  Chairman LIU Mingkang attended 2009 Asian Banker Summit, where he delivered a keynote speech to share the CBRC’s experience in coping with the global financial crisis.

On May 24-25  The CBRC and the HKMA conducted the 11th Bilateral Consultation Meeting in Hong Kong SAR, and signed the Cooperation Arrangements for the Supervision of Cross-border Data Centers of Mainland- and Hong Kong-registered Banking Institutions.
On May 25  The CBRC and four other ministries jointly issued the *Guidance on Adjusting Policies Pertaining to the Collective Forestry Rights and Improving Financial Services to Forestry Industry*, further expanding the range of collaterals in rural areas and promoting the win-win situation of finance and forestry.

On May 26  The CBRC and the MOF jointly issued the *Notice on Coping with the Global Financial Crisis to Strengthen the Financial and Risk Management of the Banking Industry*, requiring banks to intensify their support to the real economy, strengthen finance and risk management, and promote the stable development of national economy.

On June 1  Chairman LIU Mingkang met with Timothy Geithner, the U.S. Treasury Secretary, and exchanged views on issues related to Sino-U.S. financial cooperation.

On June 3  The CBRC assigned representatives to attend the international forum on overcoming financing difficulty of SMEs organized by the CCTV.

On June 8  The CBRC issued the *Notice on Further Strengthening Credit Management*, emphasizing that loan supply must serve the effective credit demand of the real economy, requiring banks to prevent bank loans from being mis-channeled into capital market and real estate market.

On June 9  The CBRC issued the *Provisional Rules Governing Transformation of Lending Companies into Village and Township Banks*, specifying the relevant requirements on the related restructuring activities.

On June 10-11  The CBRC held the 7th Annual Meeting of the International Advisory Council (IAC) in Beijing, during which Vice Premier WANG Qishan met with the foreign members of the IAC.

On June 17  Chairman LIU Mingkang accompanied Vice Premier WANG Qishan in meeting with Adair Turner, Chairman of the U.K. Financial Services Authority.

On June 19  The CBRC issued the *Notice on Further Strengthening the Risk Management of Mortgage Loans*, reaffirming the second home mortgage policy and banning mortgages to borrowers involved in providing false information in mortgages application.

On June 23  The CBRC issued the *Notice on Further Standardizing Credit Card Business*, urging banks to intensify risk management and tighten operational standards of credit cards business.

On June 25-29  Chairman LIU Mingkang attended the 1st Plenary Meeting of the FSB where he proposed on a series of issues relating to international financial regulatory reform.

On July 1  The CBRC, the PBC and other four government ministries jointly issued the *Rules Governing the Pilot Implementation of Cross-border Trade Settlement in Renminbi*.

On July 9-10  Chairman LIU Mingkang attended the 1st Meeting of the Expanded BCBS and the 130th Working Conference of the BCBS. The meeting approved the amended version of the three pillars of Basel II.
On July 17, the CBRC held the Third Quarterly Briefing on Economic Developments in 2009, stressing that banks must issue loans at a reasonable pace, optimize credit structure, strengthen risk management, ensure project capital adequacy, and prevent notes financing risk, loan concentration risk and real estate market risk, etc.

On July 18, 23, the CBRC issued the *Provisional Rules Governing the Management of Fixed Asset Loans* and the *Guidelines on Project Financing*, highlighting stringent reviews of loan disbursements by banks as well as the implementation of entrusted payment of loans. The implementation of the Rules represented a revolutionary change of credit management system, and symbolized that the risk management of China’s banking sector had entered into a new era.

On July 19, the CBRC approved the application of the BoCOM to invest in China CMG Life Insurance Company Ltd., and the BoCOM became the first commercial bank to make equity investment in insurance companies.

On July 21, the CBRC held the workshop on financial reform and development in rural areas, at which the *Opinions of the State Council on Deepening the Reform of Rural Credit Cooperatives (Draft)* was communicated and discussed.

On July 22, the CBRC issued the *Rules Governing Pilot Consumer Finance Companies*, marking the supervisory permission to the trial operations of consumer finance companies.

On July 22, the CBRC issued the *Guidelines on Establishing and Improving the Incentives and Disciplinary Mechanism of Rural Cooperative Financial Institutions*, aiming to promote rural financial institutions to improve business operational models, risk management capability and enhance market competitiveness.

On July 23, the CBRC issued the *Notice on the Implementation of the General Working Plan for New-type Rural Financial Institutions (2009 - 2011)*, which proposed to establish 1,300 new-type rural financial institutions within three years.

On July 25-30, Chairman LIU Mingkang accompanied Vice Premier WANG Qishan to participate in the first round of Sino-U.S. Strategic and Economic Dialogue in the U.S.

On August 18, the CBRC and the PBC jointly issued the *Notice on Financial Bond Issuance by Financial Leasing Companies and Auto Financing Companies*, expanding funding channels for financial leasing companies and auto financing companies.

On August 20, the CBRC issued the *Rules Governing Lending Companies*, targeting at regulating the practices of lending companies, protecting legitimate rights and interests of lending companies and their clients, and promoting the healthy development of lending companies.
On August 25  The CBRC issued the *Guidelines on Reputational Risk Management of Commercial Banks* requiring commercial banks to integrate reputational risk management into corporate governance and overall risk management framework.

On September 2  Chairman LIU Mingkang met with Robert Zoellick, Chief Executive of the World Bank.

On September 3  The CBRC issued the *Notice on Establishing Policies and Procedures for the Rotating Inspection of Deposit Risks by Banking Institutions*, urging banks to improve internal control system, strengthen deposit risks management, and prevent deposit embezzlement and fraudulent cases.

On September 10  The CBRC issued the *Notice on Launching the Financial Sector Assessment Program*, marking the formal commencement of the FASP.

On September 22-25  The CBRC participated in the 6th China International SME Fair and convened the first four-party dialogue on SME financing among banks, enterprises, credit guarantee institutions and regulatory authorities.

On September 28  The CBRC issued the *Guidelines on Liquidity Risk Management of Commercial Banks*, urging banks to establish and consolidate risk management systems, effectively identify, measure, monitor and control liquidity risk, and improve liquidity risk management capability on an on-going basis.

On October 10  The CBRC issued the *Notice on Initiating the Pilot Program of Micro Loans for Business Start-ups via Trade Unions*, encouraging banking institutions to innovate micro finance activities and help laid-off workers and farmers to start up their own businesses.

On October 16  The CBRC convened a meeting on promoting financial services in un-banked towns and villages. Chairman LIU Mingkang and Vice Chairman JIANG Dingzhi attended and spoke at the meeting.

On October 18  The CBRC issued the *Notice on Improving the Capital Raising Mechanism of Commercial Banks*, urging banks to strengthen capital management, establish capital replenishment mechanism, and improve capital quality so as to promote the sustainable development of commercial banks.

On October 19  The CBRC held the Fourth Quarterly Briefing on Economic Developments, laying emphasis on the establishment of long-term capital replenishment mechanism, the improvement of sound compensation practices, the implementation of ‘Three Rules and One Guidelines’, and the prevention of risks arising from lending to the LGFPs, real estate sector and certain industrial sectors, as well as systemic liquidity risk and risks of mis-channeling personal loans into the stock market.

On October 21  The CBRC issued the *Notice on Prohibiting Retail Loans from Being Invested in the Stock Markets*, so as to prevent cross-market risk contagion.

On October 29  The CBRC held the meeting on the verification and amendment of ‘the six key risks’ in relation to the banking industry, urging the scrutinization of loans to the LGFPs.
On November 5, the CBRC issued the *Rules on Pilot Equity Investment by Commercial Banks in Insurance Companies*, in a bid to regulate the equity investment of commercial banks in insurance companies.

On November 7, the CBRC issued the *Notice on Issuing the Guidelines on Information Disclosure of Commercial Banks’ Capital Adequacy* in order to standardize the information disclosure of capital adequacy, promote the quality of the disclosed information and accelerate the prudential operation of commercial banks.

On November 11, the CBRC and Bank Negara Malaysia (Central Bank of Malaysia) signed the Memorandum of Understanding (MOU) on bilateral supervisory cooperation.

On November 12-13, the 1st Supervisory College of the ICBC was held in Beijing. 19 representatives for 11 supervisory authorities from 10 countries and regions attended the college.

On November 16, the CBRC signed the Memorandum of Understanding (MOU) on Cross-Straits Banking Supervision Cooperation with Taiwan financial regulatory agency, which served as a milestone in promoting the banking supervision cooperation across straits.

On November 19, the CBRC issued the *Notice on Launching the Pre-evaluation for the Preparatory Work of Basel II Banks*, serving as a milestone on the implementation of Basel II.

On November 25, the CBRC issued the *Notice on Issuing the Guidelines on Commercial Banks’ Management of Interest Rate Risk in Banking Book* so as to promote the establishment of commercial banks’ comprehensive risk management system and the implementation of Basel II.

On November 28, the CBRC issued the *Notice on Issuing the Guidelines on Promotion of Banking Services in Under-banked and Un-banked Regions*, requiring financial institution to promote the full coverage of rural financial services within three years.

On December 8, the CBRC held the meeting to convey the resolutions of the Central Economic Work Conference, work out the implementation plan, and stress on the importance of implementing ‘Three Rules and One Guidelines’.

On December 14-15, the CBRC sent representatives to attend the 4th Sino-U.S. Banking Supervisory Consultation Conference in Washington D.C.

At the end of December, the CAR of all domestic commercial banks were well above the required minimum.

The CBRC and Chairman LIU Mingkang jointly received the 2009 Risk Manager of the Year Award by Global Association of Risk Professionals (GARP).

The CBRC was granted the Asian Banker Achievement Awards for Regulation in the Financial Services Industry.
## Appendix 6: Terminology

<table>
<thead>
<tr>
<th>Terms</th>
<th>Coverage of institutions</th>
<th>Statistical coverage of institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banking Institutions</td>
<td>policy banks and China Development Bank, large commercial banks, joint-stock commercial banks, city commercial banks, urban credit cooperatives, small- and medium-sized rural financial institutions, postal savings bank, banking asset management companies, foreign banks, non-bank financial institutions under the CBRC’s jurisdiction</td>
<td>policy banks and China Development Bank, large commercial banks, joint-stock commercial banks, city commercial banks, urban credit cooperatives, rural commercial banks, rural cooperative banks, rural credit cooperatives, postal savings bank, foreign banks and non-bank financial institutions</td>
</tr>
<tr>
<td>Policy Banks &amp; China Development Bank</td>
<td>China Development Bank, the Export-Import Bank of China, Agricultural Development Bank of China</td>
<td>Same as institution coverage</td>
</tr>
<tr>
<td>Commercial Banks</td>
<td>large commercial banks, joint-stock commercial banks, city commercial bank, rural commercial banks and foreign banks</td>
<td>Same as institution coverage</td>
</tr>
<tr>
<td>Major Commercial Banks</td>
<td>large commercial banks and joint-stock commercial banks</td>
<td>Same as institution coverage</td>
</tr>
<tr>
<td>Large Commercial Banks</td>
<td>Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, China Construction Bank, and Bank of Communications</td>
<td>Same as institution coverage</td>
</tr>
<tr>
<td>Joint-stock Commercial Banks</td>
<td>China Citic Bank, China Everbright Bank, Huaxia Bank, Guangdong Development Bank, Shenzhen Development 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>Banking Asset Management Companies</td>
<td>China Huarong Asset Management Corporation, China Great Wall Asset Management Corporation, China Orient Asset Management Corporation, and China Cinda Asset Management Corporation</td>
<td>Same as institution coverage</td>
</tr>
<tr>
<td>Non-bank Financial Institutions</td>
<td>trust companies, finance companies affiliated to corporate enterprises, financial leasing companies, money brokerage firms and auto financing companies</td>
<td>Same as institution coverage</td>
</tr>
<tr>
<td>Small- and Medium-Sized Rural Financial Institutions</td>
<td>rural cooperative financial institutions, new-type rural financial institutions</td>
<td>rural credit cooperatives, rural cooperative banks, rural commercial banks</td>
</tr>
<tr>
<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>
<tr>
<td>Abbreviation</td>
<td>Full Form</td>
<td></td>
</tr>
<tr>
<td>--------------</td>
<td>-----------</td>
<td></td>
</tr>
<tr>
<td>ABC:</td>
<td>Agricultural Bank of China</td>
<td></td>
</tr>
<tr>
<td>ADBC:</td>
<td>Agricultural Development Bank of China</td>
<td></td>
</tr>
<tr>
<td>Basel II:</td>
<td>New Capital Accord issued by Basel Committee on Banking Supervision</td>
<td></td>
</tr>
<tr>
<td>BOC:</td>
<td>Bank of China</td>
<td></td>
</tr>
<tr>
<td>BoCOM:</td>
<td>Bank of Communications</td>
<td></td>
</tr>
<tr>
<td>BCBS:</td>
<td>Basel Committee on Banking Supervision</td>
<td></td>
</tr>
<tr>
<td>CAR:</td>
<td>Capital Adequacy Ratio</td>
<td></td>
</tr>
<tr>
<td>CBA:</td>
<td>China Banking Association</td>
<td></td>
</tr>
<tr>
<td>CBRC:</td>
<td>China Banking Regulatory Commission</td>
<td></td>
</tr>
<tr>
<td>CCAMC:</td>
<td>China Cinda Asset Management Corporation</td>
<td></td>
</tr>
<tr>
<td>CCB:</td>
<td>China Construction Bank</td>
<td></td>
</tr>
<tr>
<td>CDB:</td>
<td>China Development Bank</td>
<td></td>
</tr>
<tr>
<td>CEB:</td>
<td>China Everbright Bank</td>
<td></td>
</tr>
<tr>
<td>CEPA:</td>
<td>Closer Economic Partnership Arrangement</td>
<td></td>
</tr>
<tr>
<td>CHAMC:</td>
<td>China Huarong Asset Management Corporation</td>
<td></td>
</tr>
<tr>
<td>CGWAMC:</td>
<td>China Great Wall Asset Management Corporation</td>
<td></td>
</tr>
<tr>
<td>CIRC:</td>
<td>China Insurance Regulatory Commission</td>
<td></td>
</tr>
<tr>
<td>CITIC:</td>
<td>China CITIC Bank</td>
<td></td>
</tr>
<tr>
<td>CMB:</td>
<td>China Merchants Bank</td>
<td></td>
</tr>
<tr>
<td>CMBC:</td>
<td>China Minsheng Banking Corp., Ltd.</td>
<td></td>
</tr>
<tr>
<td>CNAFC:</td>
<td>China National Association of Corporate Finance Companies</td>
<td></td>
</tr>
<tr>
<td>CPC:</td>
<td>Communist Party of China</td>
<td></td>
</tr>
<tr>
<td>CSRC:</td>
<td>China Securities Regulatory Commission</td>
<td></td>
</tr>
<tr>
<td>CTA:</td>
<td>China Trust Association</td>
<td></td>
</tr>
<tr>
<td>EAST:</td>
<td>Examination &amp; Analysis System Technology</td>
<td></td>
</tr>
<tr>
<td>EIBC:</td>
<td>The Export-Import Bank of China</td>
<td></td>
</tr>
<tr>
<td>EMEAP:</td>
<td>Executives' Meeting of East Asia Pacific Central Banks</td>
<td></td>
</tr>
<tr>
<td>FDIC:</td>
<td>Federal Deposit Insurance Corporation</td>
<td></td>
</tr>
<tr>
<td>FED:</td>
<td>Federal Reserve Board</td>
<td></td>
</tr>
<tr>
<td>FSA:</td>
<td>Financial Service Authority</td>
<td></td>
</tr>
<tr>
<td>FSB:</td>
<td>Financial Stability Board</td>
<td></td>
</tr>
<tr>
<td>GAC:</td>
<td>General Administration of Customs</td>
<td></td>
</tr>
<tr>
<td>HKMA:</td>
<td>Hong Kong Monetary Authority</td>
<td></td>
</tr>
<tr>
<td>IAC:</td>
<td>International Advisory Council (of the CBRC)</td>
<td></td>
</tr>
<tr>
<td>IB:</td>
<td>Industrial Bank</td>
<td></td>
</tr>
<tr>
<td>ICBC:</td>
<td>Industrial and Commercial Bank of China</td>
<td></td>
</tr>
<tr>
<td>IMF:</td>
<td>International Monetary Fund</td>
<td></td>
</tr>
<tr>
<td>IPO:</td>
<td>Initial Public Offering</td>
<td></td>
</tr>
<tr>
<td>LGFPs:</td>
<td>Local Government Funding Platforms</td>
<td></td>
</tr>
<tr>
<td>LTV:</td>
<td>Loan-to-value</td>
<td></td>
</tr>
<tr>
<td>M&amp;A:</td>
<td>Merger and Acquisition</td>
<td></td>
</tr>
<tr>
<td>MOFCOM:</td>
<td>Ministry of Commerce</td>
<td></td>
</tr>
<tr>
<td>MIIT:</td>
<td>Ministry of Industry and Information Technology</td>
<td></td>
</tr>
<tr>
<td>MOF:</td>
<td>Ministry of Finance</td>
<td></td>
</tr>
<tr>
<td>MOHURD:</td>
<td>Ministry of Housing and Urban-Rural Development</td>
<td></td>
</tr>
<tr>
<td>MOLR:</td>
<td>Ministry of Land and Resources</td>
<td></td>
</tr>
<tr>
<td>MOST:</td>
<td>Ministry of Science and Technology</td>
<td></td>
</tr>
<tr>
<td>MOU:</td>
<td>Memorandum of Understanding</td>
<td></td>
</tr>
<tr>
<td>NDRC:</td>
<td>National Development and Reform Commission</td>
<td></td>
</tr>
<tr>
<td>NPC:</td>
<td>National People's Congress</td>
<td></td>
</tr>
<tr>
<td>NPL:</td>
<td>Non-performing Loan</td>
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</tr>
<tr>
<td>OCC:</td>
<td>Office of Comptroller of the Currency</td>
<td></td>
</tr>
<tr>
<td>OTS:</td>
<td>Office of Thrift Supervision</td>
<td></td>
</tr>
<tr>
<td>OSS:</td>
<td>Off-site Surveillance System</td>
<td></td>
</tr>
<tr>
<td>PBC:</td>
<td>People's Bank of China</td>
<td></td>
</tr>
<tr>
<td>PSBC:</td>
<td>Postal Savings Bank of China</td>
<td></td>
</tr>
<tr>
<td>ROA:</td>
<td>Return on Assets</td>
<td></td>
</tr>
<tr>
<td>ROE:</td>
<td>Return on Equity</td>
<td></td>
</tr>
<tr>
<td>RCCs:</td>
<td>Rural Credit Cooperatives</td>
<td></td>
</tr>
<tr>
<td>SASAC:</td>
<td>State-owned Assets Supervision and Administration Commission</td>
<td></td>
</tr>
<tr>
<td>SAT:</td>
<td>State Administration of Taxation</td>
<td></td>
</tr>
<tr>
<td>SBU:</td>
<td>Strategic Business Units</td>
<td></td>
</tr>
<tr>
<td>SEANZA:</td>
<td>South East Asia, New Zealand, Australia</td>
<td></td>
</tr>
<tr>
<td>SMEs:</td>
<td>Small- and Medium-sized Enterprises</td>
<td></td>
</tr>
<tr>
<td>UCCs:</td>
<td>Urban Credit Cooperatives</td>
<td></td>
</tr>
</tbody>
</table>
### Appendix 7: Statistics

#### Appendix 7-1: Total assets of banking institutions (2003-2009)

<table>
<thead>
<tr>
<th>Institutions / Year</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Banking institutions</strong></td>
<td>276,583.8</td>
<td>315,989.8</td>
<td>374,696.9</td>
<td>439,499.7</td>
<td>525,982.5</td>
<td>623,876.3</td>
<td>787,690.5</td>
</tr>
<tr>
<td>Policy banks &amp; the CDB</td>
<td>21,247.0</td>
<td>24,122.5</td>
<td>29,283.2</td>
<td>34,732.3</td>
<td>42,781.0</td>
<td>56,453.9</td>
<td>69,456.1</td>
</tr>
<tr>
<td>Large commercial banks</td>
<td>160,511.7</td>
<td>179,816.7</td>
<td>210,050.0</td>
<td>242,363.5</td>
<td>280,070.9</td>
<td>318,358.0</td>
<td>400,890.2</td>
</tr>
<tr>
<td>Joint-stock commercial banks</td>
<td>29,598.6</td>
<td>36,476.0</td>
<td>44,654.9</td>
<td>54,445.9</td>
<td>72,494.0</td>
<td>88,091.5</td>
<td>117,849.8</td>
</tr>
<tr>
<td>City commercial banks</td>
<td>14,621.7</td>
<td>17,056.3</td>
<td>20,366.9</td>
<td>25,937.9</td>
<td>33,404.8</td>
<td>41,319.7</td>
<td>56,800.1</td>
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<tr>
<td>Rural commercial banks</td>
<td>384.8</td>
<td>565.4</td>
<td>3,028.9</td>
<td>5,038.1</td>
<td>6,096.7</td>
<td>9,290.5</td>
<td>18,661.2</td>
</tr>
<tr>
<td>Rural cooperative banks</td>
<td>-</td>
<td>-</td>
<td>2,750.4</td>
<td>4,653.6</td>
<td>6,459.8</td>
<td>10,033.3</td>
<td>12,791.2</td>
</tr>
<tr>
<td>Urban credit cooperatives</td>
<td>1,468.3</td>
<td>1,786.8</td>
<td>2,032.7</td>
<td>1,830.7</td>
<td>1,311.7</td>
<td>803.7</td>
<td>271.9</td>
</tr>
<tr>
<td>Rural credit cooperatives</td>
<td>26,509.2</td>
<td>30,767.0</td>
<td>31,426.7</td>
<td>34,502.8</td>
<td>43,434.4</td>
<td>52,112.6</td>
<td>54,925.0</td>
</tr>
<tr>
<td>Non-bank financial institutions</td>
<td>9,100.0</td>
<td>8,726.8</td>
<td>10,161.9</td>
<td>10,594.1</td>
<td>9,717.0</td>
<td>11,802.3</td>
<td>15,507.8</td>
</tr>
<tr>
<td>Postal savings bank</td>
<td>8,984.4</td>
<td>10,849.6</td>
<td>13,786.8</td>
<td>16,122.0</td>
<td>17,687.5</td>
<td>22,162.9</td>
<td>27,045.1</td>
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<tr>
<td>Foreign banks</td>
<td>4,159.7</td>
<td>5,822.9</td>
<td>7,154.5</td>
<td>9,278.7</td>
<td>12,524.7</td>
<td>13,447.8</td>
<td>13,492.3</td>
</tr>
</tbody>
</table>
## Appendix 7-2: Total liabilities of banking institutions (2003-2009)

Unit: RMB100 million

<table>
<thead>
<tr>
<th>Institutions / Year</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banking institutions</td>
<td>265,944.7</td>
<td>303,252.5</td>
<td>358,070.4</td>
<td>417,105.9</td>
<td>495,675.4</td>
<td>586,014.9</td>
<td>743,348.6</td>
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<tr>
<td>Policy banks &amp; the CDB</td>
<td>20,290.5</td>
<td>23,004.5</td>
<td>27,760.1</td>
<td>33,006.2</td>
<td>39,203.3</td>
<td>52,648.4</td>
<td>65,393.1</td>
</tr>
<tr>
<td>Large commercial banks</td>
<td>154,002.3</td>
<td>172,179.8</td>
<td>200,452.9</td>
<td>228,823.7</td>
<td>264,330.0</td>
<td>298,783.6</td>
<td>379,025.6</td>
</tr>
<tr>
<td>Joint-stock commercial banks</td>
<td>28,620.7</td>
<td>35,332.6</td>
<td>43,320.0</td>
<td>52,542.0</td>
<td>69,107.5</td>
<td>83,683.2</td>
<td>112,215.3</td>
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<tr>
<td>City commercial banks</td>
<td>14,122.5</td>
<td>16,472.7</td>
<td>19,540.2</td>
<td>24,722.6</td>
<td>31,521.4</td>
<td>38,650.9</td>
<td>53,213.0</td>
</tr>
<tr>
<td>Rural commercial banks</td>
<td>380.1</td>
<td>538.3</td>
<td>2,873.3</td>
<td>4,789.1</td>
<td>5,767.0</td>
<td>8,756.4</td>
<td>17,545.7</td>
</tr>
<tr>
<td>Rural cooperative banks</td>
<td>-</td>
<td>-</td>
<td>2,573.7</td>
<td>4,358.7</td>
<td>6,049.8</td>
<td>9,380.6</td>
<td>11,940.3</td>
</tr>
<tr>
<td>Urban credit cooperatives</td>
<td>1,464.3</td>
<td>1,766.4</td>
<td>2,001.1</td>
<td>1,780.7</td>
<td>1,247.5</td>
<td>756.8</td>
<td>254.6</td>
</tr>
<tr>
<td>Rural credit cooperatives</td>
<td>26,646.2</td>
<td>30,034.7</td>
<td>30,106.4</td>
<td>33,005.4</td>
<td>41,567.0</td>
<td>49,893.1</td>
<td>52,580.6</td>
</tr>
<tr>
<td>Non-bank financial institutions</td>
<td>7,682.6</td>
<td>7,744.8</td>
<td>9,126.0</td>
<td>9,423.9</td>
<td>7,961.0</td>
<td>9,491.8</td>
<td>12,648.7</td>
</tr>
<tr>
<td>Postal savings bank</td>
<td>8,984.4</td>
<td>10,849.6</td>
<td>13,786.8</td>
<td>16,122.0</td>
<td>17,567.9</td>
<td>21,941.9</td>
<td>26,713.4</td>
</tr>
<tr>
<td>Foreign banks</td>
<td>3,751.4</td>
<td>5,329.1</td>
<td>6,530.1</td>
<td>8,531.6</td>
<td>11,353.0</td>
<td>12,028.1</td>
<td>11,818.5</td>
</tr>
</tbody>
</table>
## Appendix 7-3: Total deposits and loans of banking institutions (2003-2009)

<table>
<thead>
<tr>
<th>Items / Year</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total deposits</strong></td>
<td>220,363.5</td>
<td>253,188.1</td>
<td>300,208.6</td>
<td>348,015.6</td>
<td>401,051.4</td>
<td>478,444.2</td>
<td>612,006.4</td>
</tr>
<tr>
<td>Deposits of enterprises</td>
<td>76,784.9</td>
<td>89,438.1</td>
<td>101,750.6</td>
<td>118,851.7</td>
<td>144,814.1</td>
<td>164,385.8</td>
<td>224,357.0</td>
</tr>
<tr>
<td>Saving deposits</td>
<td>110,695.3</td>
<td>126,196.2</td>
<td>147,053.7</td>
<td>166,616.2</td>
<td>176,213.3</td>
<td>221,503.5</td>
<td>264,761.3</td>
</tr>
<tr>
<td>Trust deposits</td>
<td>2,572.3</td>
<td>2,082.5</td>
<td>3,524.7</td>
<td>3,134.5</td>
<td>3,215.5</td>
<td>3,955.4</td>
<td>6,014.0</td>
</tr>
<tr>
<td>Other deposits</td>
<td>30,311.1</td>
<td>35,471.3</td>
<td>47,879.5</td>
<td>59,413.3</td>
<td>76,808.4</td>
<td>88,599.5</td>
<td>116,874.1</td>
</tr>
<tr>
<td><strong>Total loans</strong></td>
<td>169,771.0</td>
<td>188,565.6</td>
<td>206,838.5</td>
<td>238,279.8</td>
<td>277,746.5</td>
<td>320,128.5</td>
<td>425,596.6</td>
</tr>
<tr>
<td>Short-term loans</td>
<td>87,397.9</td>
<td>90,808.3</td>
<td>91,157.5</td>
<td>101,698.2</td>
<td>118,898.0</td>
<td>128,609.0</td>
<td>151,353.0</td>
</tr>
<tr>
<td>Medium- &amp; long-term loans</td>
<td>67,251.7</td>
<td>81,010.1</td>
<td>92,940.5</td>
<td>113,009.8</td>
<td>138,581.0</td>
<td>164,195.0</td>
<td>235,578.6</td>
</tr>
<tr>
<td>Trust loans</td>
<td>2,473.0</td>
<td>1,926.1</td>
<td>3,208.1</td>
<td>2,581.1</td>
<td>2,397.0</td>
<td>3,035.0</td>
<td>5,337.0</td>
</tr>
<tr>
<td>Bill financing</td>
<td>9,233.6</td>
<td>11,618.4</td>
<td>16,319.2</td>
<td>17,333.4</td>
<td>12,884.4</td>
<td>19,314.2</td>
<td>23,878.7</td>
</tr>
<tr>
<td>Other loans</td>
<td>3,414.8</td>
<td>3,202.8</td>
<td>3,213.3</td>
<td>3,657.3</td>
<td>4,986.1</td>
<td>4,975.4</td>
<td>9,449.3</td>
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</tbody>
</table>

*Note: Data include the PBC*
Appendix 7-4: Total owner's equity of banking institutions (2003-2009)

<table>
<thead>
<tr>
<th>Institutions / Year</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banking institutions</td>
<td>10,639.0</td>
<td>12,737.3</td>
<td>16,626.6</td>
<td>22,393.9</td>
<td>30,307.0</td>
<td>37,861.4</td>
<td>44,341.9</td>
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<tr>
<td>Policy banks &amp; the CDB</td>
<td>956.5</td>
<td>1,118.0</td>
<td>1,523.2</td>
<td>1,726.1</td>
<td>3,577.7</td>
<td>3,805.5</td>
<td>4,063.1</td>
</tr>
<tr>
<td>Large commercial banks</td>
<td>6,509.3</td>
<td>7,636.9</td>
<td>9,597.1</td>
<td>13,539.7</td>
<td>15,740.9</td>
<td>19,574.4</td>
<td>21,864.6</td>
</tr>
<tr>
<td>Joint-stock commercial banks</td>
<td>976.6</td>
<td>1,143.4</td>
<td>1,334.9</td>
<td>1,904.0</td>
<td>3,386.5</td>
<td>4,408.3</td>
<td>5,634.5</td>
</tr>
<tr>
<td>City commercial banks</td>
<td>499.1</td>
<td>583.6</td>
<td>826.7</td>
<td>1,215.3</td>
<td>1,883.4</td>
<td>2,668.7</td>
<td>3,587.1</td>
</tr>
<tr>
<td>Rural commercial banks</td>
<td>4.7</td>
<td>27.0</td>
<td>155.6</td>
<td>249.0</td>
<td>329.6</td>
<td>534.1</td>
<td>1,115.5</td>
</tr>
<tr>
<td>Rural cooperative banks</td>
<td>-</td>
<td>-</td>
<td>176.7</td>
<td>294.9</td>
<td>410.0</td>
<td>652.7</td>
<td>850.9</td>
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<tr>
<td>Urban credit cooperatives</td>
<td>4.0</td>
<td>20.4</td>
<td>31.6</td>
<td>50.1</td>
<td>64.2</td>
<td>46.9</td>
<td>17.3</td>
</tr>
<tr>
<td>Rural credit cooperatives</td>
<td>-137.1</td>
<td>732.3</td>
<td>1,320.4</td>
<td>1,497.4</td>
<td>1,867.4</td>
<td>2,219.5</td>
<td>2,344.4</td>
</tr>
<tr>
<td>Non-bank financial institutions</td>
<td>1,417.4</td>
<td>981.9</td>
<td>1,035.9</td>
<td>1,170.2</td>
<td>1,756.0</td>
<td>2,310.5</td>
<td>2,859.1</td>
</tr>
<tr>
<td>Postal savings bank</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>119.6</td>
<td>221.0</td>
<td>331.7</td>
</tr>
<tr>
<td>Foreign banks</td>
<td>408.3</td>
<td>493.8</td>
<td>624.5</td>
<td>747.1</td>
<td>1,171.7</td>
<td>1,419.7</td>
<td>1,673.8</td>
</tr>
</tbody>
</table>
### Appendix 7-5: Profit after tax of banking institutions (2007-2009)

<table>
<thead>
<tr>
<th>Institutions / Year</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Banking institutions</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Policy banks &amp; the CDB</td>
<td>489.3</td>
<td>229.8</td>
<td>352.5</td>
</tr>
<tr>
<td>Large commercial banks</td>
<td>2,466.0</td>
<td>3,542.2</td>
<td>4,001.2</td>
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<tr>
<td>Joint-stock commercial banks</td>
<td>564.4</td>
<td>841.4</td>
<td>925.0</td>
</tr>
<tr>
<td>City commercial banks</td>
<td>248.1</td>
<td>407.9</td>
<td>496.5</td>
</tr>
<tr>
<td>Rural commercial banks</td>
<td>42.8</td>
<td>73.2</td>
<td>149.0</td>
</tr>
<tr>
<td>Rural cooperative banks</td>
<td>54.5</td>
<td>103.6</td>
<td>134.9</td>
</tr>
<tr>
<td>Urban credit cooperatives</td>
<td>7.7</td>
<td>6.2</td>
<td>1.9</td>
</tr>
<tr>
<td>Rural credit cooperatives</td>
<td>193.4</td>
<td>219.1</td>
<td>227.9</td>
</tr>
<tr>
<td>Non-bank financial institutions</td>
<td>333.8</td>
<td>284.5</td>
<td>298.7</td>
</tr>
<tr>
<td>Postal savings bank</td>
<td>6.5</td>
<td>6.5</td>
<td>32.2</td>
</tr>
<tr>
<td>Foreign banks</td>
<td>60.8</td>
<td>119.2</td>
<td>64.5</td>
</tr>
</tbody>
</table>

Unit: RMB100 million
Appendix 7-6: NPLs of major commercial banks (2003-2009)

<table>
<thead>
<tr>
<th>Items / Year</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding balance of NPLs</td>
<td>21,044.6</td>
<td>17,175.6</td>
<td>12,196.9</td>
<td>11,703.0</td>
<td>12,009.9</td>
<td>4,865.3</td>
<td>4,264.5</td>
</tr>
<tr>
<td>Substandard</td>
<td>3,201.1</td>
<td>3,074.7</td>
<td>2,949.6</td>
<td>2,270.7</td>
<td>1,844.3</td>
<td>2,248.9</td>
<td>1,691.0</td>
</tr>
<tr>
<td>Doubtful</td>
<td>11,130.7</td>
<td>8,899.3</td>
<td>4,609.0</td>
<td>4,850.3</td>
<td>4,357.5</td>
<td>2,121.5</td>
<td>2,015.7</td>
</tr>
<tr>
<td>Loss</td>
<td>6,712.8</td>
<td>5,201.6</td>
<td>4,638.4</td>
<td>4,581.9</td>
<td>5,808.1</td>
<td>494.9</td>
<td>557.8</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Share in total loans</th>
<th>17.9</th>
<th>13.2</th>
<th>8.9</th>
<th>7.5</th>
<th>6.7</th>
<th>2.4</th>
<th>1.6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Substandard</td>
<td>2.7</td>
<td>2.4</td>
<td>2.2</td>
<td>1.5</td>
<td>1.0</td>
<td>1.1</td>
<td>0.6</td>
</tr>
<tr>
<td>Doubtful</td>
<td>9.4</td>
<td>6.8</td>
<td>3.4</td>
<td>3.1</td>
<td>2.4</td>
<td>1.1</td>
<td>0.8</td>
</tr>
<tr>
<td>Loss</td>
<td>5.7</td>
<td>4.0</td>
<td>3.4</td>
<td>2.9</td>
<td>3.3</td>
<td>0.2</td>
<td>0.2</td>
</tr>
</tbody>
</table>

Unit: RMB100 million, percent
## Appendix 7-7: NPLs of commercial banks (2009)

<table>
<thead>
<tr>
<th>Items / Institutions</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><strong>Outstanding balance of NPLs</strong></td>
<td>4,973.3</td>
<td>3,627.3</td>
<td>637.2</td>
<td>376.9</td>
<td>270.1</td>
<td>61.8</td>
</tr>
<tr>
<td>Substandard</td>
<td>2,031.3</td>
<td>1,448.1</td>
<td>242.8</td>
<td>205.8</td>
<td>110.4</td>
<td>24.2</td>
</tr>
<tr>
<td>Doubtful</td>
<td>2,314.2</td>
<td>1,779.1</td>
<td>236.6</td>
<td>123.3</td>
<td>153.9</td>
<td>21.1</td>
</tr>
<tr>
<td>Loss</td>
<td>627.9</td>
<td>400.0</td>
<td>157.8</td>
<td>47.8</td>
<td>5.8</td>
<td>16.5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Share in total loans</th>
<th>1.6</th>
<th>1.8</th>
<th>1.0</th>
<th>1.3</th>
<th>2.8</th>
<th>0.9</th>
</tr>
</thead>
<tbody>
<tr>
<td>Substandard</td>
<td>0.7</td>
<td>0.7</td>
<td>0.4</td>
<td>0.7</td>
<td>1.1</td>
<td>0.3</td>
</tr>
<tr>
<td>Doubtful</td>
<td>0.7</td>
<td>0.9</td>
<td>0.4</td>
<td>0.4</td>
<td>1.6</td>
<td>0.3</td>
</tr>
<tr>
<td>Loss</td>
<td>0.2</td>
<td>0.2</td>
<td>0.2</td>
<td>0.2</td>
<td>0.1</td>
<td>0.2</td>
</tr>
</tbody>
</table>

Unit: RMB100 million, percent
## Appendix 7-8: Distribution of NPLs of commercial banks by industry (2009)

<table>
<thead>
<tr>
<th>Industries / Items</th>
<th>Outstanding balance</th>
<th>Share in total loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>A  Farming, forestry, animal husbandry and fishing</td>
<td>83.2</td>
<td>4.52</td>
</tr>
<tr>
<td>B  Mining</td>
<td>26.8</td>
<td>0.38</td>
</tr>
<tr>
<td>C  Manufacturing</td>
<td>1,716.7</td>
<td>2.58</td>
</tr>
<tr>
<td>D  Production and supply of electricity, gas and water</td>
<td>336.9</td>
<td>1.41</td>
</tr>
<tr>
<td>E  Construction</td>
<td>117.4</td>
<td>1.32</td>
</tr>
<tr>
<td>F  Transport, storage and post</td>
<td>374.6</td>
<td>1.29</td>
</tr>
<tr>
<td>G  Information transmission, computer services and software</td>
<td>53.0</td>
<td>2.62</td>
</tr>
<tr>
<td>H  Wholesale and retail trades</td>
<td>644.2</td>
<td>2.71</td>
</tr>
<tr>
<td>I  Hotels and catering services</td>
<td>96.2</td>
<td>4.82</td>
</tr>
<tr>
<td>J  Financial services(sector)</td>
<td>6.6</td>
<td>0.08</td>
</tr>
<tr>
<td>K  Real estate</td>
<td>504.1</td>
<td>1.93</td>
</tr>
<tr>
<td>L  Leasing and business services</td>
<td>154.9</td>
<td>0.90</td>
</tr>
<tr>
<td>M  Scientific research, technical services and geologic prospecting</td>
<td>16.0</td>
<td>2.98</td>
</tr>
<tr>
<td>N  Management of water conservancy, environment and public facilities</td>
<td>80.8</td>
<td>0.37</td>
</tr>
<tr>
<td>O  Services to households and other services</td>
<td>38.9</td>
<td>1.68</td>
</tr>
<tr>
<td>P  Education</td>
<td>76.0</td>
<td>2.29</td>
</tr>
<tr>
<td>Q  Health, social security and social welfare</td>
<td>20.2</td>
<td>1.61</td>
</tr>
<tr>
<td>R  Culture, sports and entertainment</td>
<td>24.1</td>
<td>3.24</td>
</tr>
<tr>
<td>S  Public management and social organizations</td>
<td>16.6</td>
<td>0.44</td>
</tr>
<tr>
<td>T  International organizations</td>
<td>0.0</td>
<td>0.00</td>
</tr>
<tr>
<td>Personal loans</td>
<td>584.6</td>
<td>0.92</td>
</tr>
<tr>
<td>Credit card</td>
<td>77.0</td>
<td>2.83</td>
</tr>
<tr>
<td>Automobiles</td>
<td>38.1</td>
<td>2.92</td>
</tr>
<tr>
<td>Home mortgage loans</td>
<td>264.4</td>
<td>0.59</td>
</tr>
<tr>
<td>Other personal loans</td>
<td>205.0</td>
<td>1.41</td>
</tr>
</tbody>
</table>
# Appendix 7-9: Distribution of NPLs of commercial banks by region (2009)

<table>
<thead>
<tr>
<th>Districts / Items</th>
<th>Outstanding balance</th>
<th>Share in total loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Headquarters</td>
<td>210.9</td>
<td>3.54</td>
</tr>
<tr>
<td>Eastern region</td>
<td>2,428.6</td>
<td>1.36</td>
</tr>
<tr>
<td>Beijing</td>
<td>190.4</td>
<td>1.03</td>
</tr>
<tr>
<td>Tianjin</td>
<td>108.6</td>
<td>1.43</td>
</tr>
<tr>
<td>Hebei</td>
<td>149.3</td>
<td>1.85</td>
</tr>
<tr>
<td>Liaoning</td>
<td>197.7</td>
<td>2.15</td>
</tr>
<tr>
<td>Shanghai</td>
<td>230.5</td>
<td>1.23</td>
</tr>
<tr>
<td>Jiangsu</td>
<td>293.8</td>
<td>1.10</td>
</tr>
<tr>
<td>Zhejiang</td>
<td>334.2</td>
<td>1.16</td>
</tr>
<tr>
<td>Fujian</td>
<td>105.5</td>
<td>1.06</td>
</tr>
<tr>
<td>Shandong</td>
<td>262.9</td>
<td>1.49</td>
</tr>
<tr>
<td>Guangdong</td>
<td>540.8</td>
<td>1.68</td>
</tr>
<tr>
<td>Hainan</td>
<td>15.1</td>
<td>1.58</td>
</tr>
<tr>
<td>Central region</td>
<td>773.5</td>
<td>1.93</td>
</tr>
<tr>
<td>Shanxi</td>
<td>138.7</td>
<td>2.86</td>
</tr>
<tr>
<td>Jilin</td>
<td>76.8</td>
<td>2.75</td>
</tr>
<tr>
<td>Heilongjiang</td>
<td>75.5</td>
<td>2.52</td>
</tr>
<tr>
<td>Anhui</td>
<td>74.8</td>
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<tr>
<td>Jiangxi</td>
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<td>1.80</td>
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<td>127.2</td>
<td>1.73</td>
</tr>
<tr>
<td>Hubei</td>
<td>106.6</td>
<td>1.48</td>
</tr>
<tr>
<td>Hunan</td>
<td>105.7</td>
<td>1.86</td>
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<td>Western region</td>
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<td>Sichuan</td>
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<td>3.13</td>
</tr>
<tr>
<td>Guizhou</td>
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<td>1.93</td>
</tr>
<tr>
<td>Yunnan</td>
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<td>1.50</td>
</tr>
<tr>
<td>Tibet</td>
<td>7.5</td>
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</tr>
<tr>
<td>Shaanxi</td>
<td>111.6</td>
<td>2.23</td>
</tr>
<tr>
<td>Gansu</td>
<td>46.4</td>
<td>2.39</td>
</tr>
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<td>Qinghai</td>
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</tr>
<tr>
<td>Ningxia</td>
<td>6.2</td>
<td>0.62</td>
</tr>
<tr>
<td>Xinjiang</td>
<td>51.6</td>
<td>2.52</td>
</tr>
<tr>
<td>Guangxi</td>
<td>67.1</td>
<td>1.43</td>
</tr>
<tr>
<td>Inner Mongolia</td>
<td>44.7</td>
<td>1.16</td>
</tr>
<tr>
<td>Total(domestic)</td>
<td>4,264.5</td>
<td>1.59</td>
</tr>
<tr>
<td>Total(foreign)</td>
<td>93.5</td>
<td>1.77</td>
</tr>
</tbody>
</table>
### Appendix 7-10: Loan provisions of major commercial banks (2003-2009)

<table>
<thead>
<tr>
<th>Items / Year</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan loss Provision</td>
<td>4,152.7</td>
<td>2,430.6</td>
<td>3,030.8</td>
<td>4,009.9</td>
<td>4,706.7</td>
<td>5,736.2</td>
<td>6,625.1</td>
</tr>
<tr>
<td>Outstanding balance of NPLs</td>
<td>21,044.6</td>
<td>17,175.6</td>
<td>12,196.6</td>
<td>11,703.0</td>
<td>12,009.9</td>
<td>4,865.3</td>
<td>4,264.5</td>
</tr>
<tr>
<td>Provision coverage ratio</td>
<td>19.7</td>
<td>14.2</td>
<td>24.8</td>
<td>34.3</td>
<td>39.2</td>
<td>117.9</td>
<td>155.4</td>
</tr>
</tbody>
</table>

### Appendix 7-11: CAR of commercial banks (2003-2009)

<table>
<thead>
<tr>
<th>Items / Year</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of banks meeting CAR requirements</td>
<td>8</td>
<td>30</td>
<td>53</td>
<td>100</td>
<td>161</td>
<td>204</td>
<td>239</td>
</tr>
<tr>
<td>Share in total banking assets</td>
<td>0.6</td>
<td>47.5</td>
<td>75.1</td>
<td>77.4</td>
<td>79.0</td>
<td>99.9</td>
<td>100</td>
</tr>
</tbody>
</table>
**Appendix 7-12: CBRC on-site examinations (2003-2009)**

Unit: Number of banks, RMB100 million, person, percent

<table>
<thead>
<tr>
<th>Items / Year</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of banking institutions examined</td>
<td>61,702</td>
<td>74,911</td>
<td>68,360</td>
<td>69,179</td>
<td>79,168</td>
<td>46,100</td>
<td>58,831</td>
</tr>
<tr>
<td>Amount of penalties on 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>
</tr>
<tr>
<td>Number of banking entities 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>
</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>
</tr>
<tr>
<td>Average institutional coverage ratio of on-site Examinations</td>
<td>28</td>
<td>36</td>
<td>34</td>
<td>35</td>
<td>42</td>
<td>24</td>
<td>31</td>
</tr>
</tbody>
</table>

*Note: Data include branches and subsidiaries*


Unit: Number of banks, USD100 million

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of commercial banks with foreign capital</td>
<td>5</td>
<td>6</td>
<td>7</td>
<td>6</td>
<td>5</td>
<td>6</td>
<td>0</td>
<td>31</td>
</tr>
<tr>
<td>Total amount of investment</td>
<td>2.6</td>
<td>23.5</td>
<td>116.9</td>
<td>52.2</td>
<td>17.6</td>
<td>115.2</td>
<td>2.1</td>
<td>329.9</td>
</tr>
<tr>
<td>Total amount of capital raised in the listed overseas markets</td>
<td>-</td>
<td>-</td>
<td>113.9</td>
<td>299.0</td>
<td>42.2</td>
<td>0.0</td>
<td>39.3</td>
<td>494.3</td>
</tr>
<tr>
<td>Total amount</td>
<td>2.6</td>
<td>23.5</td>
<td>230.8</td>
<td>351.2</td>
<td>59.8</td>
<td>115.2</td>
<td>41.4</td>
<td>824.2</td>
</tr>
</tbody>
</table>
Appendix 7-14: Number of legal entities and staff of the banking institutions (As of end-2009)

<table>
<thead>
<tr>
<th>Institutions / Items</th>
<th>Number of staff</th>
<th>Number of banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policy banks &amp; the CDB</td>
<td>57,673</td>
<td>3</td>
</tr>
<tr>
<td>Large commercial banks</td>
<td>1,506,424</td>
<td>5</td>
</tr>
<tr>
<td>Joint-stock commercial banks</td>
<td>197,657</td>
<td>12</td>
</tr>
<tr>
<td>City commercial banks</td>
<td>177,765</td>
<td>143</td>
</tr>
<tr>
<td>Urban credit cooperatives</td>
<td>2,956</td>
<td>11</td>
</tr>
<tr>
<td>Rural credit cooperatives</td>
<td>570,366</td>
<td>3,056</td>
</tr>
<tr>
<td>Rural commercial banks</td>
<td>66,317</td>
<td>43</td>
</tr>
<tr>
<td>Rural cooperative banks</td>
<td>74,776</td>
<td>196</td>
</tr>
<tr>
<td>Village and township banks</td>
<td>3586</td>
<td>148</td>
</tr>
<tr>
<td>Lending companies</td>
<td>75</td>
<td>8</td>
</tr>
<tr>
<td>Rural mutual cooperatives</td>
<td>96</td>
<td>16</td>
</tr>
<tr>
<td>Finance cooperatives of enterprise groups</td>
<td>5,276</td>
<td>91</td>
</tr>
<tr>
<td>Trust companies</td>
<td>5,464</td>
<td>58</td>
</tr>
<tr>
<td>Financial leasing companies</td>
<td>852</td>
<td>12</td>
</tr>
<tr>
<td>Auto finance companies</td>
<td>1,620</td>
<td>10</td>
</tr>
<tr>
<td>Money brokerage firms</td>
<td>173</td>
<td>3</td>
</tr>
<tr>
<td>Postal savings bank</td>
<td>132,536</td>
<td>1</td>
</tr>
<tr>
<td>Financial asset management companies</td>
<td>8,589</td>
<td>4</td>
</tr>
<tr>
<td>Foreign banks</td>
<td>32,502</td>
<td>37</td>
</tr>
<tr>
<td>Banking institutions in total</td>
<td>2,844,703</td>
<td>3,857</td>
</tr>
</tbody>
</table>

Unit: Person, number of banks
The scenic photos in this report are presented by photographer, Mr. Steve ZHAO.