

2013 Annual Report



CHINA BANKING
REGULATORY COMMISSION



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CHINA BANKING REGULATORY COMMISSION 2013 Annual Report

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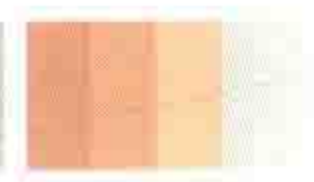
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Chairman's Statement

In 2013, facing the complex and changing international and domestic situation, the Chinese bank sector endeavored to deliver quality financial service for the economic and social development. Under the principle of seeking progress amidst stability and with emphasis on both sound development and risk prevention, the banking sector gained notable progress in many aspects, maintaining a steady and sound development momentum.

In 2013, we leveraged our policy guidance to underpin the financial support for economic restructuring, transformation and upgrading. As the economy was faced with downward pressure and transformation challenges, we guided the banking sector to tap their idle funds and make good use of incremental funds to extend financial support in line with macro-economic adjustment and industrial policies. The objective is to contribute to quality and balanced development of the real economy. Specifically, we called on banks to provide credit support for the capital projects and emerging industries encouraged by macro-economic and industrial policies, and to help boost consumption and social welfare undertakings. We promoted the green credit and loans to industrial upgrading, adjusted the credit



policies pertaining to mergers and acquisitions, and curbed the credit supply to high-polluting, energy intensive sectors and sectors with redundant capacity. As an approach to tapping the idle funds, we encouraged credit securitization and improved policies for the write-off of non-performing loans. We also continued to explore the ways to facilitate efficient and quality financial support for rural and agriculture activities as well as micro and small enterprises (MSEs), including, for instance, adopting differentiated regulatory policies and performance appraisal practices, and encouraging banks to innovate the related service mechanism, channels and product. As a result, the credit growth for rural and agriculture activities as well as MSEs achieved the set target of “no lower than the average total loan growth rate and no lower than that of previous year”. In order to balance the coverage of financial services, we encouraged banks to extend their service outlets in the underdeveloped western areas and rural communities. Overall, the year 2013 witnessed a reasonable growth of credit supply, with credit structure continuously optimized and priority projects and weak areas properly financed.

In 2013, we persistently centered our supervisory efforts on preventing and controlling systemic and regional risks. In the face of the complex situation, we called on both supervisors and banks to step up early risk identification, risk assessment and risk control accountability, with an aim at timely and effectively mitigating risks. To prevent and mitigate risks arising from credit concentration, we maintained consistent policies to handle the loans to local government funding platforms (LGFP), real estate, overcapacity industries, and certain enterprise groups or regions. To prevent and mitigate risks arising from the rapid growth of off-balance sheet and other newly emerged businesses of banks, we timely promulgated new rules and policies to ensure appropriate business conduct. Specifically, we issued a set of regulatory guidance and adjusted our supervisory approaches pertaining to wealth management businesses and inter-bank market activities, aiming at both correcting the improper business conduct and addressing the root causes of such conduct. To prevent and mitigate risks associated with shadow banking, we set up dedicated taskforce to careful study the forms and potential risks of the shadow banking activities in China, and thereby specifying the definition, scale and regulatory mandates. In addition, we worked with other government agencies to combat the illegal fund-raising and regulate the business activities of credit guarantee companies. Consequently, despite the pressure of non-performing loans (NPL) rebounding, the asset quality of the banking sector remained largely stable, while the provisioning capacity and capital adequacy of commercial banks all maintained at satisfactory levels by international standards.

In 2013, we continued to carry on reform and innovation with a view to boost the inherent dynamism of banking industry. In light of the profound changes taking place in internal and external conditions of banking industry, we strived to both grasp the emerging opportunities and overcome the arising challenges, launching a comprehensive reform agenda covering banking institutions, services, management, supervision and market. The purpose of such comprehensive reform was to further release the productivity of banking industry. Specifically, we promoted the improvement of corporate



governance of banking institutions, ensuring the effective functioning of checks and balances, the appropriate decision-making on development strategy and the proper set-up of performance appraisal system. We reviewed and clarified the nature of business activities of banking institutions, calling on banks to set up sound development strategy and bottom-line for risk management, and encouraged banking innovation. We launched the pilot program of establishing private banks with limited licenses, and for this purpose promulgated prudential regulatory standards and policies to ensure the originator's eligibility and orderly market exit if necessary. We supported the eligible Chinese banks to develop abroad and qualified foreign banks to either branch in China or invest in Chinese banking institutions, and engaged actively in boosting financial reforms and innovation in Shanghai Pilot Free Trade Zone (SFTZ). Through these measures, we were delighted to witness the further diversification of banking system, further improvement and strengthening of corporate governance, further mind-set changes of banking institutions in balancing risk and return, further optimization of banks' business structures, and further progress in banks' profit-making and innovation capacity.

In 2013, we strived to improve the effectiveness of supervision through adjustment of administration mechanism and innovation of supervisory approaches. In line with the requirements on transforming government functions and decentralization of administrative approval power, we abolished some administrative licensing items and further streamlined the review and approval process. We also made significant changes in our regulatory approaches to reflect the latest outcome of international regulatory reforms, evidenced by the promulgation and implementation of new capital and liquidity rules, enhanced supervision over systemically important banks, and stronger consumer protection. It is worth a special note that our new capital rules passed the regulatory consistency assessment of Basel Committee on Banking Supervision, signifying our accomplishment of benchmarking our regulatory requirements to international standards. Our creditworthiness as regulators was also strengthened through enhanced communication with the public, timely response to public inquiries, and prompt and clear interpretation of hot issues.

The year 2014 marks the first year for the implementation of the key decisions adopted at the Third Plenary Session of the 18th CPC Central Committee. It is also a critical year for China to accomplish the targets set in the 12th Five-year Plan and for Chinese banking sector to meet the daunting tasks of scheduled regulatory reforms. Against the backdrop of gradual economic recovery globally, China



remains persistent in further deepening reforms on various fronts, advancing the urbanization drive, resolving industrial overcapacity, promoting the innovation-driven development, and accelerating the construction of financial markets. All these would help to create a favorable environment for the accelerated transformation of the banking sector. In the meantime, the complex and changing international economic and financial conditions, as well as the changes in China's own economic growth pace, bring us to more challenges, putting our capability for emergency response and risk control to test.

In the face of new opportunities and challenges unfolding in such changing time, we are prepared to identify and solve the problems that may hinder the effective supervision and sound development of banking sector. Keeping the overall reform agenda in mind, the CBRC is set to further reform and open up the banking sector, to improve the coverage and quality of financial services, to upgrade operational efficiency and risk control of banking industry, and enhance its capacity to serve the real economy.

Chairman SHANG Fulin
China Banking Regulatory Commission
May 2014



About the CBRC

I. Our history and development

On March 10, 2003, the *First Session of the Tenth National People's Congress* approved the establishment of the China Banking Regulatory Commission (the CBRC), which officially started functioning on April 28 in that year. ***The Law of the People's Republic of China on Banking Regulation and Supervision***, adopted at the *Sixth Session of the Standing Committee of the Tenth National People's Congress* on December 27, 2003, authorized the CBRC to the rights of supervision and regulation over all the banking institutions in China as well as their business operations. Aiming at protecting the rights and interests of the depositors and other financial consumers, promoting the safety and soundness of the banking sector, and fostering the banking sector to meet the financial needs of the economy and society, the CBRC has been making continuous efforts to highlight reform and innovation, and improve the effectiveness and efficiency of banking supervision and regulation. As repercussions of the global financial crisis and downward pressures of domestic economic growth

beset the past five years, the CBRC proactively participated in the global financial regulatory reform while bearing in mind the unique characteristics of China's economy and financial sector. It endeavored to have in place a supervisory framework integrating both macro- and micro-prudential dimensions, further facilitate banking reform and opening-up and advocate financial innovation in a forward-looking manner. With these efforts, China's banking sector maintained its soundness and safety, witnessing notable enhancements in its operation efficiency and support to the real economy.

In 2009, with the goal of striking three balances, namely, balance between ensuring economic growth and preventing risks, balance between near-term and long-term developments, and balance between addressing symptoms and addressing root causes, the CBRC urged banking institutions to render greater support to the real economy on the foundation of effective risk prevention. To mitigate impacts arising from the global financial crisis, the CBRC issued ten measures for sustained growth of the economy, requiring rational extension of loans to underpin the economic recovery. It also issued measures to further optimize credit structures, launched initiatives to expand financial services to cover unbanked or under-banked rural areas, and established the Credit Guarantee Supervision Department to relieve credit guarantee problems of small enterprises. In terms of risk management, priorities were given to rectify such problems as: 1) excessive credit concentration, 2) rule-breaking activities in credit card and bill businesses, 3) inadequate paid-in capital for project funding, 4) appropriation of loans, including diversion of loans into the stock market, 5) high frequency of illegal banking cases, and 6) potential cross-border risk contagion resulting from the on-going crisis. To fundamentally address the misuse of loan funds and channel loans to effectively serve the real economy, the CBRC accentuated the policy-making and mechanism building by issuing the **Three Measures and One Guideline for Loan Management**. It also endeavored to establish a prudential supervisory toolkit, intensify counter-cyclical supervision, and actively explore such innovative supervisory measures as the adoption of dynamic capital, large exposure supervision, dynamic adjustment of loan-to-value (LTV) ratio, stress testing, and the on-site examination analysis system (EAST). The CBRC also actively participated in the international supervisory reform initiative, marked by its full membership of the Financial Stability Board (FSB) and the Basel Committee on Banking Supervision (BCBS) in that year.

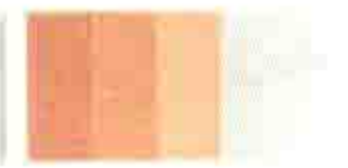
In 2010, the CBRC strengthened forward-looking supervision and timely conducted supervisory intervention to promote sustained growth of the banking sector. Firstly, under the guidance of the CBRC, banking institutions were required to formulate sensible plans for credit extension, reduce the weight of business volume and revenues in performance assessment and develop internal mechanisms to curb irrational credit growth. Overall, the credit supply pace for each quarter recorded a proportion of "3:3:2:2". Secondly, driven by the CBRC, institutional reform in key areas achieved notable progress. For instance, the Agricultural Bank of China (ABC) was successfully listed on both the A-share and H-share markets, marking the final completion of joint stock reform of all the five large commercial banks in China; one rural commercial bank became the first publicly listed rural financial institution in China; China Cinda Asset Management Co., Ltd was officially established and four consumer finance companies were opened for business; the local incorporation drive of foreign banks in China achieved steady progress; policies targeting stable remuneration and enhanced information disclosure in the banking sector were further improved. Thirdly, great efforts were devoted to boosting financial services in weak links, including, among others, supporting economic and social development in Xinjiang and Tibet autonomous regions, and further extending credit support for the affordable and low-rent public housing projects. Fourthly, the CBRC took active measures in early identification and



resolution of significant systemic risks and compensatory risks. For example, when assessing the non-performing loans (NPLs), the CBRC shifted the focus onto banks' risk management capability, the granularity of banks' loan classification and the detection of NPLs at an early stage; the CBRC highlighted accurate classification of loans on the local government funding platforms (LGFPs), as well as risk prevention and disclosure of high-risk real estate lending; supervision on the business cooperation between banks and trust companies was also strengthened; and investigation power was used in an effective way to resolve the supervisory concerns promptly. In addition, the CBRC worked on formulating the medium- to long-term strategies for improving the supervisory effectiveness as well as roadmaps for the implementation of Basel II and Basel III in China, while being an active participant in conducting the Financial Sector Assessment Program (FSAP) in China and the assessment of **Core Principles for Effective Banking Supervision**.

In 2011, in the light of the goals set by the **12th Five-Year Plan**, the CBRC devoted concerted effort to guarding against risks and promoting strategic transformation. In addition, the CBRC urged more credit supply channeled to key sectors, such as the strategic emerging industries, green and low-carbon industries, and welfare-related sectors. Banking institutions were also required to strictly control their credit supply to the high-polluting, energy-intensive, and over-capacity sectors. Faster progress was demanded by the CBRC in fair access to financial service. The CBRC highlighted better win-win outcomes between the banking sector and the real economy, and required waiver of service charges of 34 items under 11 categories. Great efforts were devoted by the CBRC to promoting risk-based supervision and three major work streams were placed with greater importance in this regard, namely the correction of malpractices in the pledge and guarantee of LGFP loans, the proportion of loans extended in strict compliance with the **Three Measures and One Guideline for Loan Management**, as well as correction of mid- to long-term loan payments in line with the prudential regulatory requirements. In 2011, the CBRC also enhanced the infrastructure of risk-based supervision. For example, it established the Senior Steering Committee of Banks' IT Risk Management to improve data quality management of the banking sector. In addition, the CBRC issued rules and policies governing risk-based supervision over derivatives transaction of financial institutions, bank-trust cooperation and credit card business, and regarded it of significant importance to consolidate the firewall between the formal and private banking sector, which reflected the CBRC's endeavor to improve capacity for early identification, early intervention and timely resolution of risks. In the same year, the CBRC accelerated the optimization of its prudential supervisory system by issuing several documents including the **Regulation on Leverage Management of Commercial Banks**, the **Regulation on Loan Loss Provisioning of Commercial Banks**, the **Guidelines on Consolidated Supervision of Banking Asset Management Companies**, and the **Guiding Opinions on the Implementation of New Regulatory Standards in China's Banking Industry**. Furthermore, the first High-Level Cross-Strait Consultation on Banking Supervision was held, and the first Economic and Financial Elite Seminar for senior Hong Kong banking practitioners was successfully launched.

In 2012, continuity and stability of policies constituted the primary focus of the CBRC, and the CBRC worked arduously to improve related supervisory policies in pursuit of higher supervisory effectiveness. With focus on control over major risks in six areas, namely loans to LGFPs, real estate markets, illegal banking cases, liquidity, off-balance sheet activities, and information technology, the CBRC enabled efficient and effective risk identification, putting into place an appropriate accountability system, and addressed the credit risks in some sectors, concentration risks of some enterprises, and the risks



in private financing of some areas and enterprise guarantees. In accomplishing the task of ensuring quality financial service to the national key projects and weak links, the CBRC fine-tuned supervisory policies over these projects and related financing platforms. The CBRC implemented the 'Seven Don'ts and Four Disclosures' rule with a clear-cut attitude, while further strengthened supervision over inappropriate fee-charging practices in the deposits and loans business and fee-based business. In respect of pro-agriculture endeavors, the CBRC clearly specified the focus in agro-related IT innovation, the guarantee of agricultural production supply, with priorities given to expanding access of financial services in the old, minority, remote and poverty-stricken regions. In order to improve the supervisory legal framework, the CBRC issued several documents, including the **Capital Rules for Commercial Banks (Provisional)**, which set up phased-in arrangements for its implementation as well as arrangements for new capital instruments, and the **Implementation Guidelines on Encouraging and Introducing Private Capital into the Banking Sector**, which further optimized the criteria related to performance assessment schemes, performance appraisal of supervisory board, and supervision over specialized business units (SBU). All these efforts accelerated the reform and transformation of the banking sector in its development pattern. In addition, the CBRC set up the Banking Consumer Protection Department and Banking Information Technology Supervision Department, so as to further enhance its supervisory functions and improve relevant work in a well-coordinated manner.

The year of 2013 marked the decennial anniversary of the CBRC. In the past decade, under the guidance of the CPC Central Committee and the State Council, the CBRC steadfastly adhered to the principle of supervision for the people, with relentless efforts made to discharge its mandates of protecting the legal rights and interests of depositors, guide financial institutions to serve the real economy, implement risk-based supervision, localize the international regulatory standards, and strengthen team building. The CBRC also played a leading role in guiding the banking sector to seize the period of strategic opportunities by pacing up reform, better guarding against risks and improving service capacity. As for the regulator itself, the CBRC accumulated abundant experience in the reform, innovation, and risk-based supervision, and with such experience, the CBRC not only ushered in a new epoch for sound and sustainable development of the Chinese banking sector, but also paved way for reform and supervision of the banking sector with Chinese characteristics.

II. Our mandates, objectives & missions

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

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

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



III. Our philosophy, approach & criteria

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

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

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

IV. Management



Chairman SHANG Fulin
Responsible for the overall work of the CBRC



Vice Chairman ZHOU Mubing

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 CBRC accounting activities, the staff service function (including government procurement) and the affairs of the education base in Langfang.



Vice Chairman GUO Ligen

Responsible for the supervision of banking information technology, overseeing the CBRC's banking consumer protection function, human resources management and development, publicity, the CPC Committee of the CBRC Headquarters, the Party School, the activities of the CBRC Staff Union, the CBRC Youth League Committee, the Information Center and China Financial Staff Union.



Vice Chairman WANG Zhaoxing

Responsible for the supervision of foreign-funded banking institutions, and overseeing the activities related to statistical, international and policy research functions.



Disciplinary Commissioner DU Jinfu

Responsible for the supervision of policy banks plus China Development Bank (CDB), postal savings bank, banking asset management companies, the CBRC staff compliance, the supervision and regulation of business and product innovation activities, banking case inspection (banking security & safeguard), and anti-illegal fund raising.



Vice Chairman YAN Qingmin

Responsible for legal & regulations affairs, the supervision of joint-stock commercial banks, city commercial banks, and overseeing the credit guarantee supervision and staff training activities.



Assistant Chairman YANG Jiakai

Responsible for the supervision of non-bank financial institutions, overseeing the administrative affairs and the coordination with the China Banking Association.

Acknowledgement to CAI E'sheng, former Vice Chairman of the CBRC (left in May 2013).

Note: As of the date of 2013 Annual Report publishing.



V. International Advisory Council (IAC)

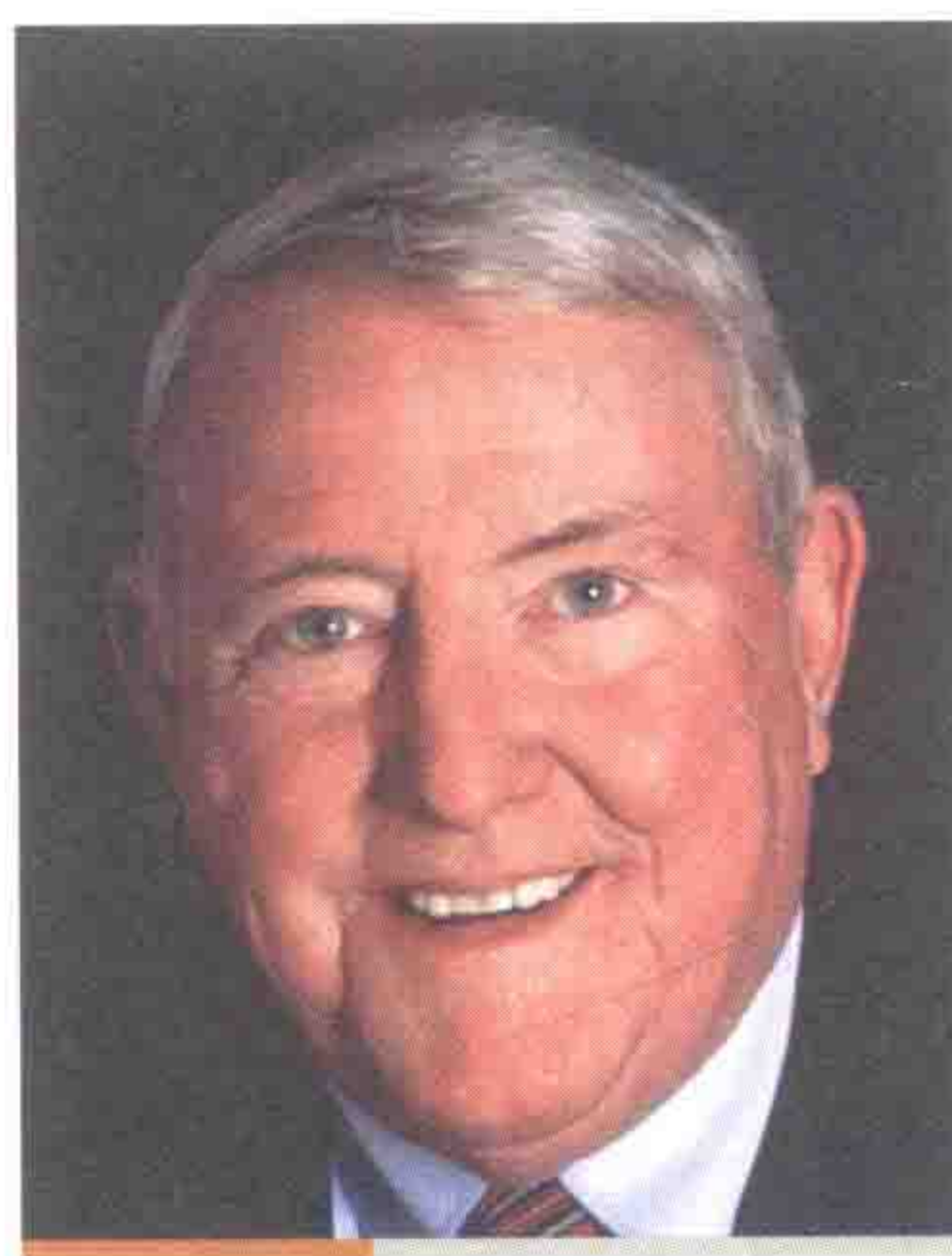
The IAC of the BRC was established with the approval from the State Council, and consists of well-known international financial specialists. The IAC provides consulting services on issues related to long-term development strategies of Chinese banking sector and banking supervision. The IAC members meet on an annual basis.

Foreign IAC members



Mr. Andrew Sheng

Chief Advisor of the CBRC, former Chairman of the Hong Kong Securities and Futures Commission.



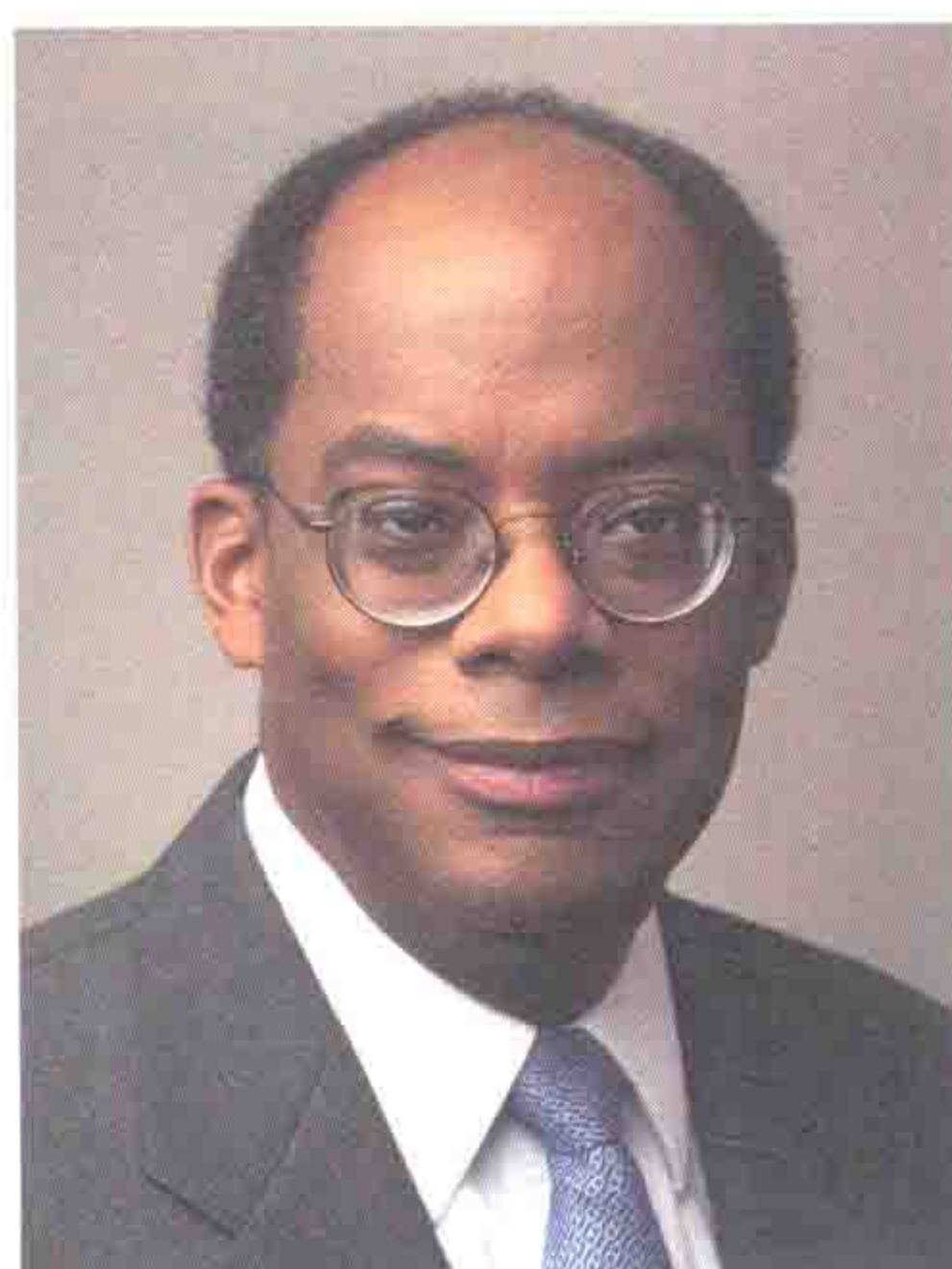
Mr. Gerald Corrigan

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



Sir Howard Davies

Director of Prudential PLC, Director of Morgan Stanley, former Director of London School of Economics and Political Science, former Chairman of the U.K. Financial Services Authority.



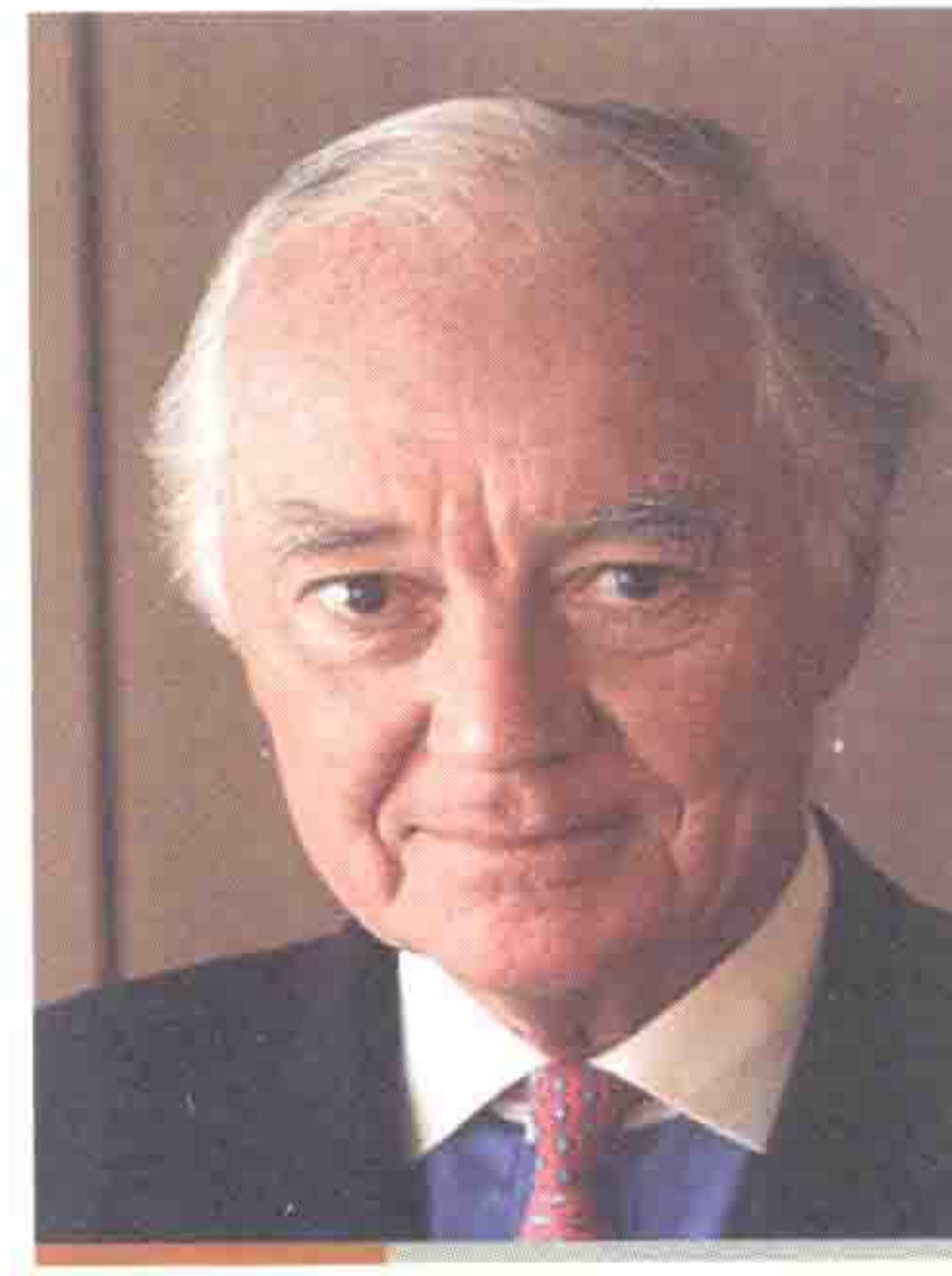
Mr. Roger Ferguson

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



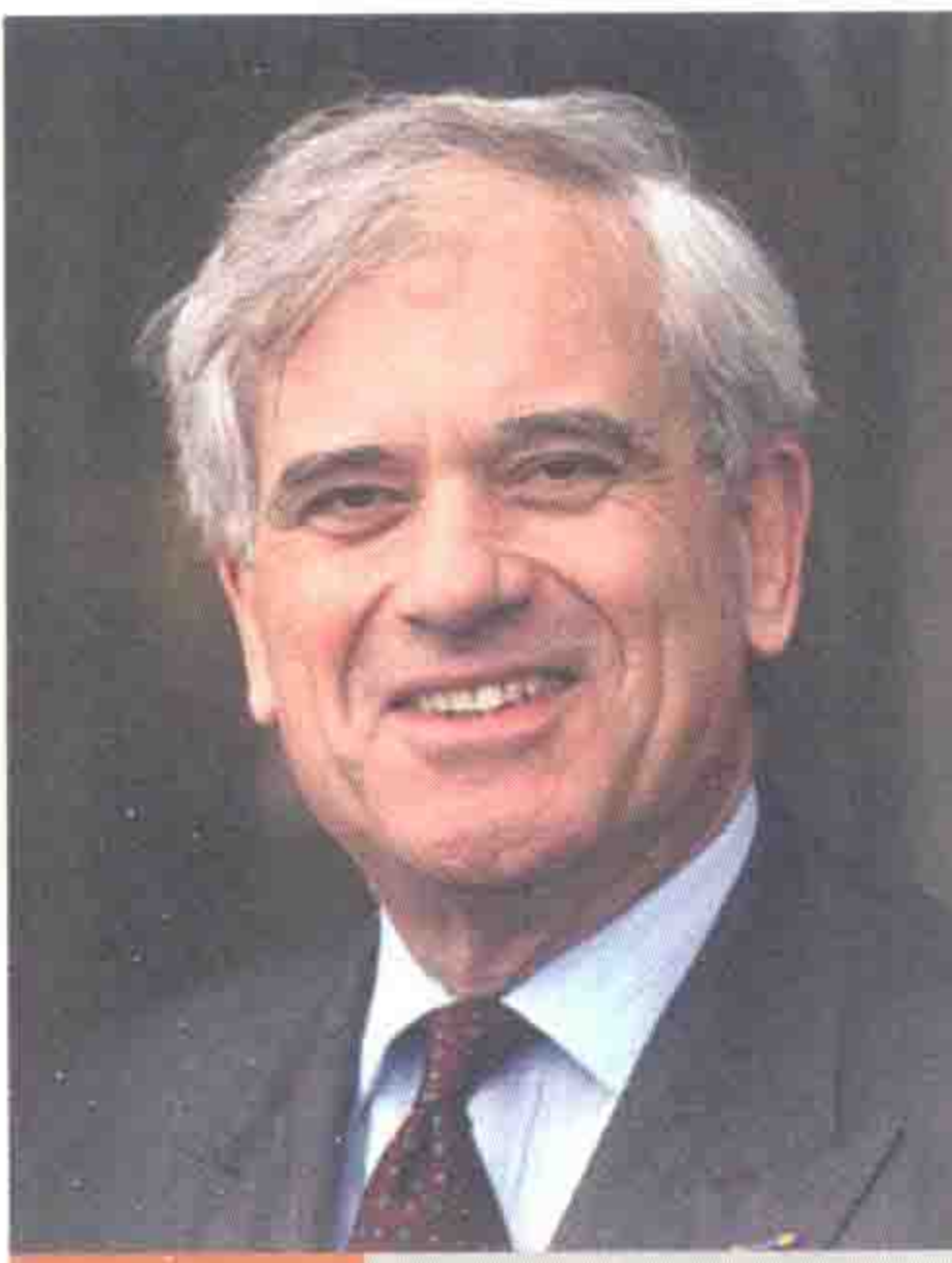
Mr. Ian Macfarlane

Non-executive Director of the ANZ Bank, former Governor of the Reserve Bank of Australia.



Sir John Bond

Chairman of Xstrata PLC, former Chairman of the HSBC Holdings plc, former Chairman of Vodafone Group.



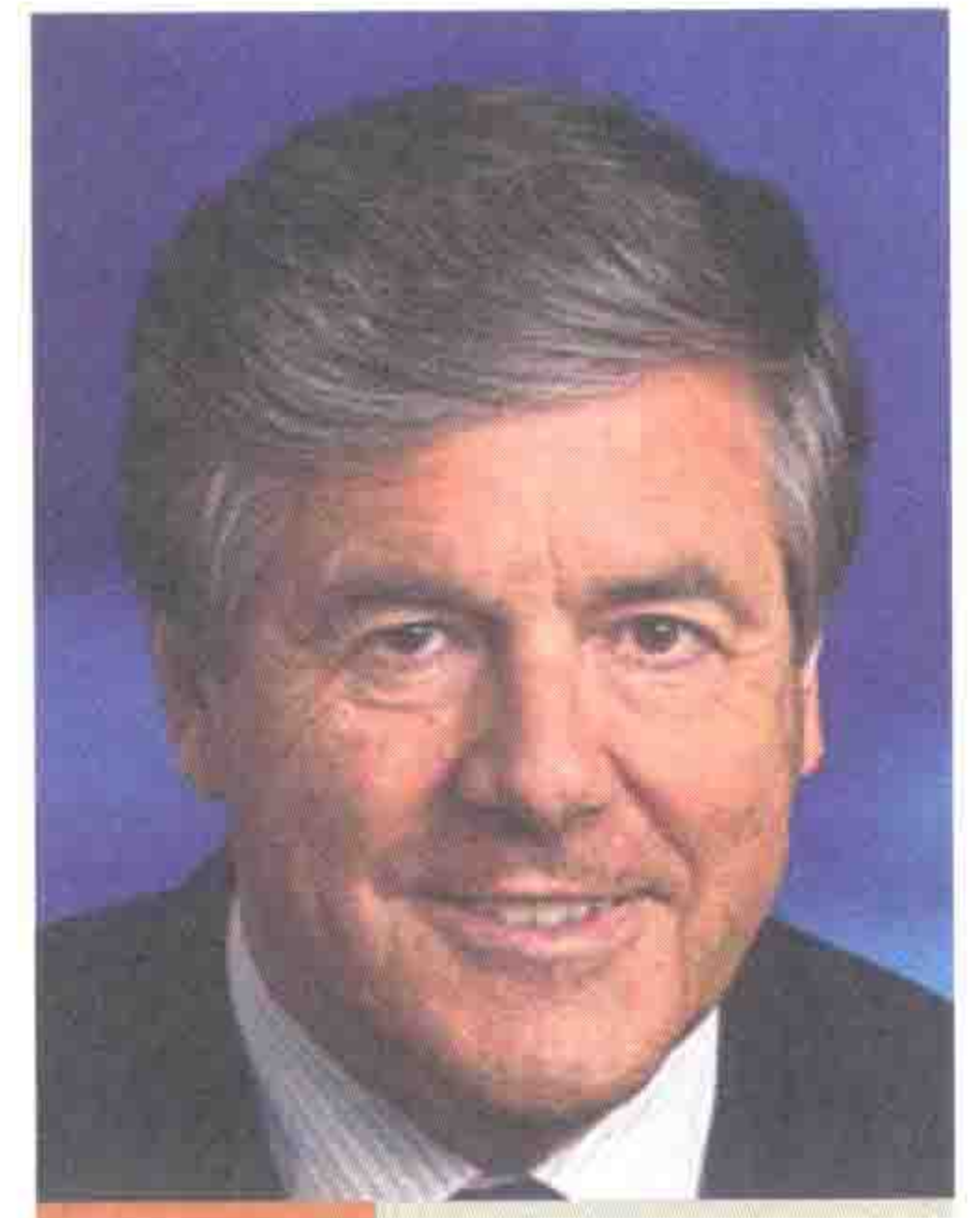
Mr. Tom de Swaan

Chairman of the Audit Committee of GlaxoSmithKline, former Chairman of the Basel Committee on Banking Supervision (BCBS).



Ms. Sheila Bair

Chairman of the Systemic Risk Council, Senior Advisor to the Pew Charitable Trusts, former Chairman of Federal Deposit Insurance Corporation (FDIC).



Mr. Josef Ackermann

President of Zurich Insurance Group, former CEO of Deutsche Bank.



Mr. Stuart Gulliver

Group Chief Executive of HSBC Holdings plc.



Mr. Jean-Claude Trichet

Former Governor of the Bank of France, former President of the European Central Bank.



Ms. Laura Cha

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