

中国银行业
监督管理委员会

2012

CHINA BANKING REGULATORY COMMISSION **Annual Report**

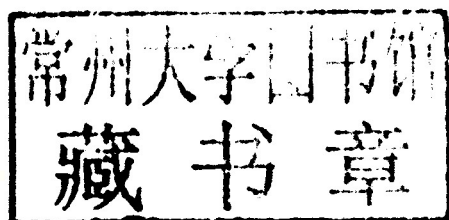


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2012 Annual Report



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Chairman's Statement

In 2012, facing the complicated and severe international economic and financial environment as well as the mounting pressure from the domestic economic slow-down, the Chinese banking sector endeavored to make proper assessment and forecast of market situation, staying vigilant and prudent in both banking and regulatory conduct. Both banks and regulators have centered their efforts on mitigating the risks, ensuring quality financial service to the real economy, and optimizing the banking development pattern. Overall, the banking industry has maintained a sound development momentum, with its resilience, financial strength and operational efficiency all witnessing further improvement. In the meantime, the banking sector has continued the undertakings of improving the service capacity and quality for the real economy, with notable progress being made as well.

In accomplishing the task of mitigating the risks, we endeavored to defend the bottom line of guarding against the systemic and regional financial risks. The mitigation of financial risks is forever the main theme of banking operations and management, and it is the primary duty of banking regulators as well. Throughout 2012, the CBRC and the banks focused the risk monitoring and control efforts in six areas,



i.e. the credit risks associated with real estate loans and loans to local government financing platforms, the liquidity risk, the operational risk, the risks arising from banks' off-balance sheet activities, and the information technology risks. In the meantime, the CBRC closely monitored, carefully assessed and promptly reacted to the accumulation of credit risks in certain industries, the concentration of exposures to certain related enterprises, and the surge of private financing and cross-guarantees among business entities in certain geographic locations. While keeping a close watch on the macro-changes and the changes in the overall risk profile of the banking sector, the CBRC continued to strengthen the risk-based supervision of individual banking institutions as well. Measures were taken to improve the supervisory tools and techniques, in order to enable efficient and effective risk identification, measuring, control and mitigation. Efforts were made to ensure that supervisory policies adopted during the year were pragmatic, enforceable and comprehensible, in order to avoid the spread of risks either due to inappropriate supervisory response or inappropriate market anticipation. With the concerted efforts of banks and regulators, we have largely succeeded in monitoring, discovering and identifying risks as early as possible, and taking measures in time to prevent local risks from evolving into systemic or regional ones.

In accomplishing the task of ensuring quality financial service to the real economy, we fine-tuned our policy guidance in time to improve the banking sector's capacity to serve the real economy. Providing the needed financial services for real economic activities is the essential requirement on the banking industry, and in many occasions it calls for proper supervisory guidance. In the face of the complicated and volatile economic and market situation during the year, the CBRC acted with caution in providing such supervisory guidance, with every policy adjustment being made on the basis of careful analysis and evaluation of all pros and cons. During the year, we adjusted our supervisory policies concerning the lending to certain key projects and to local government financing platforms. In order to facilitate balanced development, we fine-tuned the supervisory guidance to promote the credit support for small and micro businesses, as well as for agriculture-related and environmental friendly economic activities. In line with the central government's resolve to improve the overall welfare and promote domestic consumption, we also guided the lending in favor of the construction of affordable houses and the purchase of consumer durables. Meanwhile, we resorted to our policy-making power to correct the irrational service charging behaviors of certain banking institutions. All these policy measures were intended to underpin the quality and cost-efficient banking support for real economic activities. By the year end, the banking sector achieved, for three consecutive years, the target of "having a growth rate of loans to small and micro firms no lower than the average growth rate of all loans and a growth volume of such loans no lower than that of the previous year", and achieved for four years in a row the target of "having a growth rate of agriculture-



related loans no lower than the average growth rate of all loans and a growth volume of such loans no lower than that of the previous year". Furthermore, the efforts to improve banking services for the real economy also resulted in notable increase of credit support for strategic emerging industries, low-carbon and energy-saving industries, which played an important role in contributing to industrial restructuring and sustainable economic development.

In accomplishing the task of optimizing the banking development pattern, we strived to promote the transformation of banking business models through regulatory changes on many fronts. By carefully analyzing the domestic situation and referring to international financial regulatory reform outcome, we revised or issued a variety of rules and regulations during the year to incentivize the improvement of business models and development strategies of the banking sector. For instance, we issued new capital rules for commercial banks, which were inclusive of the Basel II and Basel III updates in all material respects and reflective of the Chinese banking and supervisory practices. The implementation of new capital rules would be conducive to both enhancing the resilience of the banking system and transforming the banking development pattern from scale-driven to quality- and risk-control-oriented. Regulatory changes were also introduced with respect to the corporate governance practices of banking institutions, especially in the areas of performance evaluation and incentive schemes. These regulatory changes were intended to emphasize the board responsibility, management accountability and effective functioning of internal controls, and at the same time motivate banks to embed such benchmarks as economic value-added and risk-adjusted return on capital (RAROC) in their strategy-setting, daily operations and management. Furthermore, regulatory changes were made to encourage the introduction of private capital into the banking sector. By the end of 2012, private capital accounted for about 48.52 percent of the equity shares in small- and medium-sized commercial banks and over 90 percent of equity shares in rural cooperative banking institutions. The diversification of ownership with the participation of private capital would surely play a positive role in boosting the corporate governance as well as financial strength of the Chinese banking industry. Last but not the least, progress was made in the institutional set-up and rule-making with respect to the protection of banking customers and consumers.

Currently, China's banking sector still enjoys a relatively sound domestic environment, with the fundamentals remaining solid for long-term economic and social development, and the market possessing

strong potential along with the still evolving process of industrialization, urbanization, agricultural modernization and IT-advancement in China. Although such favorable economic and social environment presents opportunities for banking development, the sector is nevertheless facing a mounting pressure of risks and difficulties, which stem from both the uncertain international development and the domestic economic and industrial restructuring. This inevitably calls for our swift and resolute actions in risk management and supervision. The 18th Communist Party of China (CPC) National Congress and the annual Central Economic Working Conference in 2012 set out the policy directions for economic and social undertakings in 2013 and beyond. As banking regulators, we therefore plan to leverage our regulatory and supervisory endeavors on guiding the banking industry through the profound market and business adjustments during the process of economic structural transformation, and at the same time continuing to improve the role of the banking sector in enabling sound and sustainable economic development. To this end, we need to strike a proper balance between encouraging innovation and controlling risks, strengthen both macro- and micro-prudential supervisory approaches and techniques, and make sure that the supervisory policies and measures are both responsive and forward-looking. All in all, as we endeavor to accomplish the short-term goals one after another through on-going reforms, we would never lose the sight of the broader vision of building a sound and robust banking system, and thereby contributing to the construction of the moderately prosperous society.



Chairman SHANG Fulin
China Banking Regulatory Commission
April 2013