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BANKING

Mainland China Banking Survey 2014

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Preface

KPMG is delighted to release its eighth annual *Mainland China Banking Survey* to share some important insights into the issues affecting the PRC banking sector. Our report presents a focused assessment of current issues in China's banking industry and the financial data of domestic commercial banks.

This report provides an in-depth analysis of the key topics for the period, including interest rate liberalisation, interbank business, liquidity risk management and internet finance.

Through this publication, we seek to share our experience, and inspire ideas and insights that can serve as a reference for the banks and other market players as they take on risks and challenges in a rapidly evolving environment.

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INTRODUCTION

Total sector assets increased by 13.6 percent, total liabilities grew by 13.4 percent and overall profits continued to grow, albeit at a slower pace.

On the whole, China's banking sector grew at a modest pace in 2013. Total sector assets increased by 13.6 percent, total liabilities grew by 13.4 percent and overall profits continued to grow, albeit at a slower pace. China's central bank lowered the interest rate twice in 2012, which resulted in a narrowing of the net interest spreads in the banking sector. With continuing interest rate liberalisation and the rapid rise of internet finance, the gaps between the net interest margin (NIM) of different Chinese banks were poised to widen. The level of non-performing loans (NPLs) and overdue loans increased slightly due to a slowdown in economic development.

Scale of assets and liabilities expands and profit grows at a slower pace

The scale of assets and liabilities in the banking sector continued to expand, with its balance remaining stable. At the end of 2013, banking financial institutions' total assets reached RMB 118.8 trillion, representing an increase of RMB 14.2 trillion and a year-on-year (YOY) increase of 13.6 percent compared to the 2012 year end; total liabilities were RMB 110.8 trillion, representing an increase of RMB 13.1 trillion and a YOY increase of 13.4 percent. There was a slowdown in the growth of assets and liabilities between 2011 and 2013 from 19.2 percent and 18.9 percent to 13.6 percent and 13.4 percent respectively.

Table 1.1: Scale of assets and liabilities of China's banking financial institutions

RMB 1 trillion	2011		2012		2013	
	Amount	Increase	Amount	Increase	Amount	Increase
Assets	88.4	19.2%	104.6	18.3%	118.8	13.6%
Liabilities	82.7	18.9%	97.7	18.1%	110.8	13.4%

Source: Banking Operation Report (CBRC)

Commercial banks'[1] overall income and profit had lower growth, as profitability growth continued to be challenged. In 2013, interbank net interest income was RMB 2.8 trillion, representing a YOY increase of 11.3 percent; non-interest income was RMB 0.76 trillion, up 20.7 percent YOY; and net profit was RMB 1.42 trillion, an increase of 14.5 percent. Despite the slower growth compared to 2012, the rate of decline in non-interest income was moderate.

Table 1.2: Income and profit of China's banking financial institutions

RMB 1 trillion	2011		2012		2013	
	Amount	Increase	Amount	Increase	Amount	Increase
Net profit income	2.15	29.3%	2.54	17.9%	2.80	11.3%
Non-interest income	0.51	46.3%	0.63	21.8%	0.76	20.7%
Net profit	1.04	36.3%	1.24	18.9%	1.42	14.5%

Source: Banking Operation Report (CBRC)

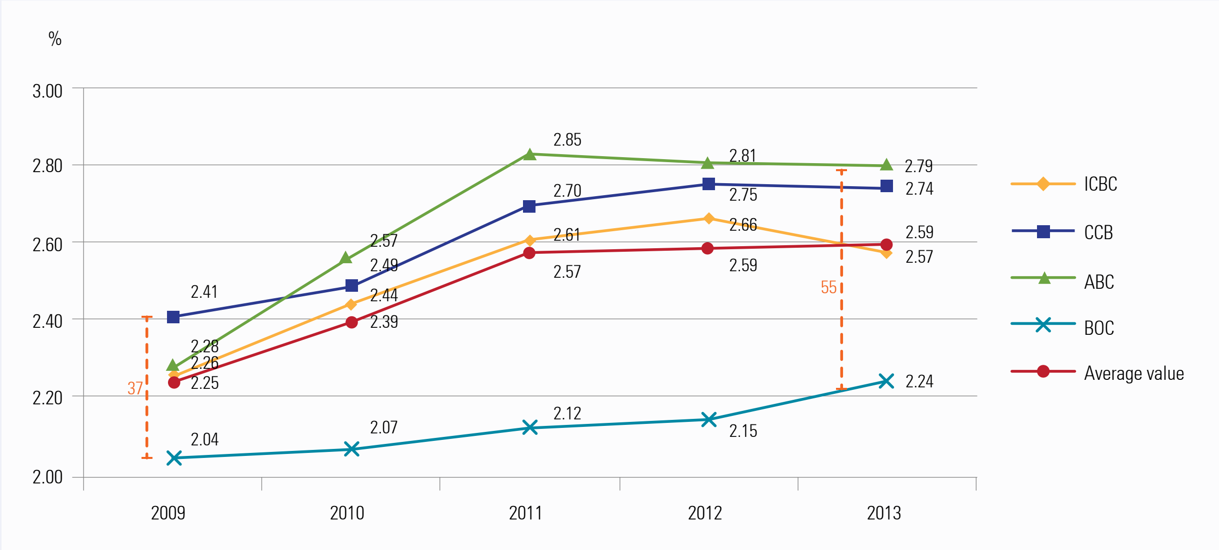
Interest rate liberalisation speeds up and net interest margins widen

Substantial progress was made in the reform of interest rate liberalisation in 2013 – lending interest rates were liberalised on all fronts despite cap rates still being in place.

Substantial progress was made in the reform of interest rate liberalisation in 2013 – lending interest rates were liberalised on all fronts despite cap rates still being in place. However, the advent of internet finance and the profusion of wealth management products (WMPs) have intensified the deposit market competition and increased deposit costs. NIM widened due to different interest rates offered by different banks. The four state-run commercial banks can be taken as an example: the difference between the maximum and minimum values of interbank net interest rate margins widened from 37 basis points (BPS) in 2009 to 55BPS in 2013. This widening trend was especially evident for deposit business, with the difference between the maximum and minimum values of the cost of interest-bearing deposits from customers increasing from 16BPS in 2009 to 24BPS in 2013, a growth of 8BPS.

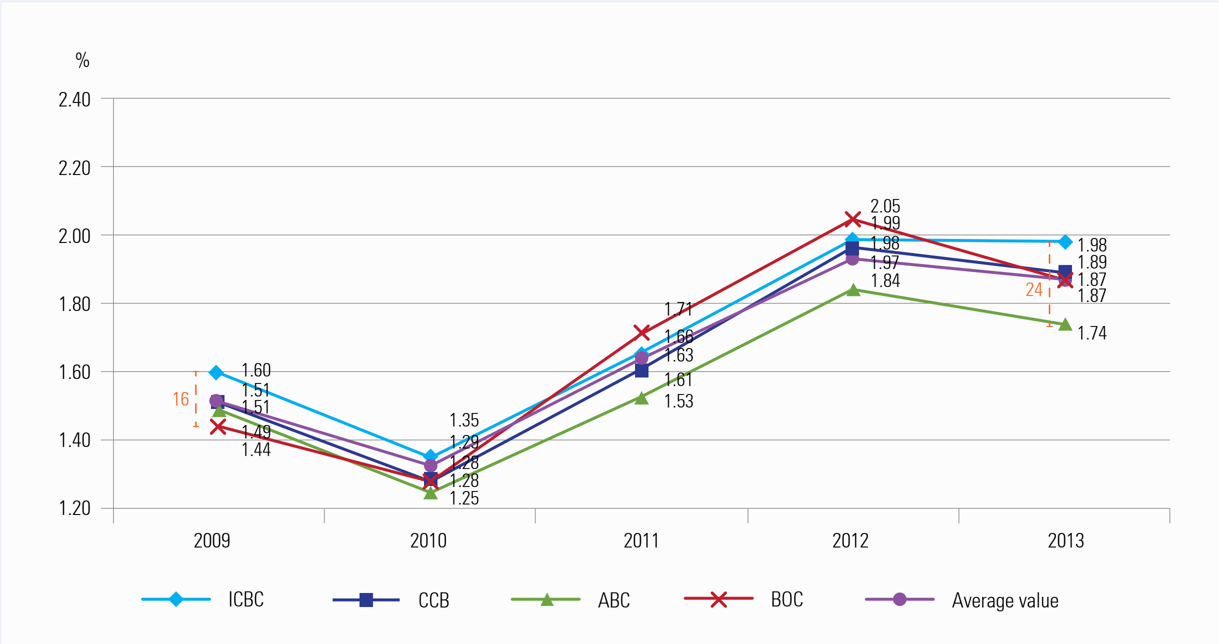
[1] Commercial banks comprise large commercial banks, joint stock commercial banks, city commercial banks, rural commercial banks and foreign banks.

Figure 1.1: Net interest rate margin of the four state-owned commercial banks from 2009 to 2013



Source: Annual reports of four state-run commercial banks

Figure 1.2: Cost of interest-bearing deposits from customers of the four state-owned commercial banks from 2009 to 2013



Source: Annual reports of four state-run commercial banks

Capital efficiency and cost control continue to improve under better management models

In the face of rapid business expansion and cost growth, Chinese banks continued to update their management models to better control their costs and enhance operational efficiency.

In the face of rapid business expansion and cost growth, Chinese banks continued to update their management models to better control their costs and enhance operational efficiency. With the implementation of the *Capital Management of Commercial Banks (For Trial Implementation)*, an increasing number of banks applied risk measurement results to their daily activities, such as the approval, pricing and performance appraisal of assets and liabilities, with a view to refining management models, optimising asset structures and improving capital efficiency. In 2013, Chinese banks' accumulated operating expenses were RMB 1.4 trillion, representing a YOY increase of RMB 154.3 billion or 12.3 percent, while the cost-to-income ratio further decreased from 33.4 percent in 2011 and 33.1 percent in 2012 to 32.9 percent. The average cost-to-income ratio of the 16 listed commercial banks was 31.4 percent, representing a decline of 5BPS compared to 2012.

Credit quality remains robust and control risk in certain credit sections increases

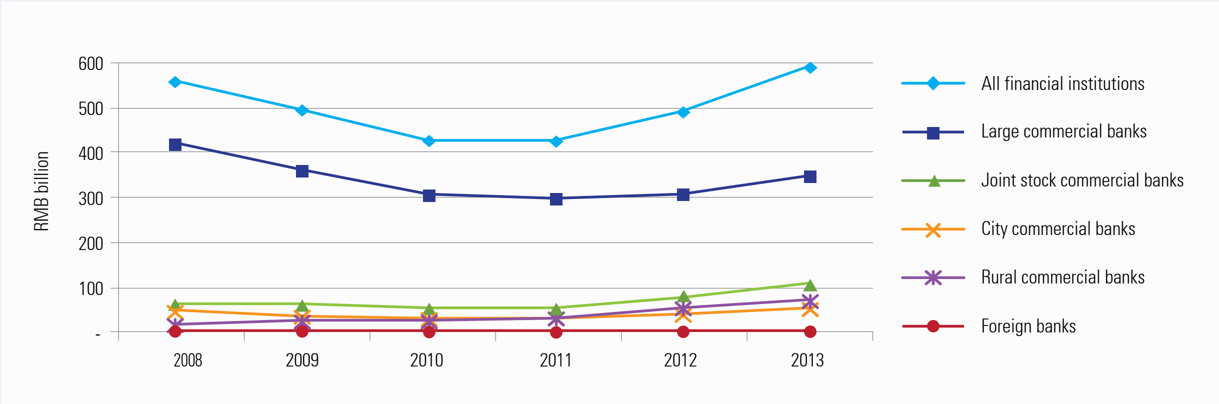
Although the NPL ratio of large commercial banks and rural commercial banks declined, that of joint stock commercial banks, city commercial banks and foreign banks continued to increase.

Commercial banks' loan balances were RMB 59.23 trillion at the end of 2013, representing an increase of RMB 7.55 trillion and a YOY increase of 14.6 percent, which was lower than the 16.1 percent in 2012. Credit quality remained stable as a whole, and the NPL ratio was 1 percent at the end of 2013, up 0.05 percent from the 2012 year end; the NPL balance increased by RMB 99.3 billion from the 2012 year end and the provision coverage ratio declined by 12.8 percent YOY.[2]

The economy had an impact on businesses' profitability and debt repaying capacity, which in turn increased commercial banks' NPLs. As shown in the figures on the following page, there was a rise in the banks' NPL balance. Although the NPL ratio of large commercial banks and rural commercial banks declined, that of joint stock commercial banks, city commercial banks and foreign banks continued to increase.

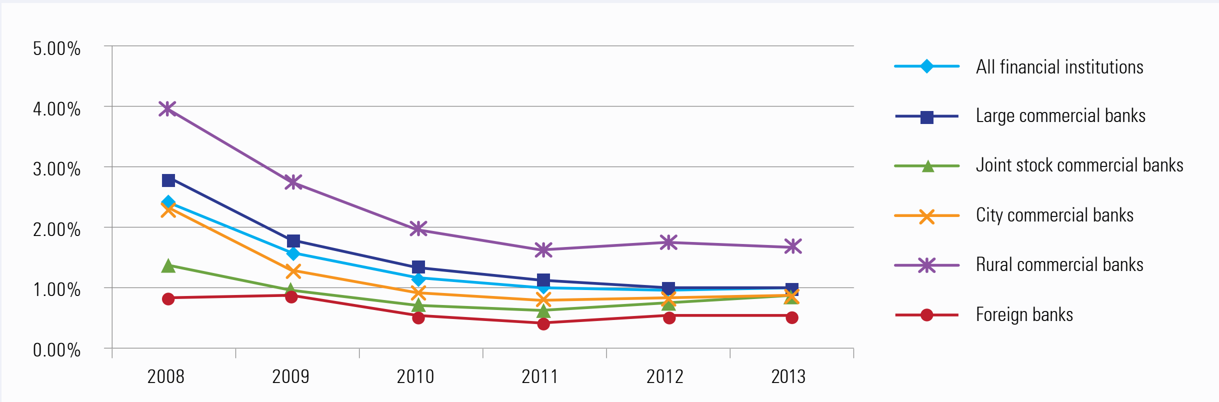
2 Banking Operation Report (CBRC)

Figure 1.3: NPL balance of commercial banks (RMB billion)



Source: Regulatory Indicator of Commercial Banks (CBRC website)

Figure 1.4: NPL ratio of commercial banks (%)



Source: Regulatory Indicator of Commercial Banks (CBRC website)

Market liquidity tightens and liquidity management becomes routine work

Online banking is another catalyst for changes in saving behaviour.

Traditional banks need to improve market access and products in response to internet finance, and they will have to act quickly.

In June 2013, the overnight lending rate of the interbank market rose sharply to 13.44, resulting in an increase in financing costs and affecting the cash convertibility of high-quality current assets. Consequently, the banks were forced to face up to liquidity risk. As part of the extensive and continuous supervisory reform of Basel III, the China Banking Regulatory Commission (CBRC) released the *Administrative Measures on Liquidity Risk Management of Commercial Banks (For Trial Implementation*) in January 2014 in order to further push the banks to establish liquidity risk management systems in line with their increasing business complexity.

As banks start to adopt Basel III's Liquidity Coverage Ratio (LCR), they are increasingly seeking retail deposits that are more reliable than wholesale deposits. The current competition in the area of WMPs is making retail deposits increasingly less reliable. On the other hand, frequent transfers between WMPs and deposits is making it hard for banks to evaluate customers' saving patterns. Online banking is another catalyst for changes in saving behaviour. The issuance of bonds, certificates of deposit (CDs) and other financing instruments is not widespread among domestic banks. After the financial crisis, bank-issued mid- to long-term financing instruments were deemed to be reliable funding sources. This is one of the options available for building a healthy banking system in China.

Business environment continues to change with a focus on business innovation

In 2013, with the acceleration of interest rate liberalisation and the development of internet finance, as well as the changes to customer demands and lifestyle, we have seen the emergence of new products and services in the financial market, e.g. peer-to-peer (P2P) loans and the Yuebao fund, an internet wealth management product issued by Tianhong Asset Management Co., Ltd and Alipay. Traditional banks need to improve market access and products in response to internet finance, and they will have to act quickly. With regard to establishing channels, China Construction Bank (CCB), Industrial and Commercial Bank of China (ICBC), Bank of Communications (BOCOM) and other traditional banks have tapped into various e-commerce platforms; some banks have also considered opening a 'store' on the e-commerce site Taobao.com. On the other hand, Chinese banks are accelerating their development of all kinds of products that are convenient to operate. For example, Bank of China (BOC), BOCOM, Ping An Bank, ICBC and China Minsheng Bank (CMBC) have launched various low-barrier, highly liquid WMPs similar to Yuebao, and are expected to develop more innovative products to meet customers' diversified needs.

Reviewing the market in 2014, we should pay special attention to the following aspects of China's banking sector:

First of all, with the issuance of new regulatory policies, regulations will focus more on the nature of business, as well as the improvement of information disclosure and risk alert mechanisms, which may lead to improvements in operations and internal control in the banking sector. These policies include:

- *Further Standardise Securitisation of Credit Assets*
- *Administrative Measures on Liquidity Risks of Commercial Banks (For Trial Implementation)*
- *Guiding Opinions of the China Banking Regulatory Commission and the China Securities Regulatory Commission on the Issuance of Preferred Shares by Commercial Banks to Replenish Tier 1 Capital*
- *Notice on Regulating the Interbank Business of Financial Institutions*
- *Notice on Regulating the Wealth Management Products of Commercial Banks.*

Secondly, the reform programme of replacing business tax with value-added tax (VAT) is gradually being expanded to other pilot areas and progressing towards covering all industries, with the financial services sector to be included in 2015. However, as the financial services industry has broad involvement and complicated business types, it will be a critical and challenging part of the tax reform. If the policy remains uncertain, commercial banks will have to start thinking about which existing business processes need to change in order to meet the requirements of the information system treatment after tax reform. Which modules need restructuring to separate income and tax duty? How will banks realise the differentiation of various types of income, as well as the separation of tax duty for different taxes in the system, if the general taxation method is adopted? How will the input tax of VAT be restructured in the system? Considering that the time for expanding the tax reform pilot programme is tight, the banking sector needs to be fully prepared for all of these questions.

Regulations will focus more on the nature of business, as well as the improvement of information disclosure and risk alert mechanisms, which may lead to improvements in operations and internal control in the banking sector.

In addition, the development and popularisation of information technology has brought about the rise of internet finance. Over 50 types of internet WMPs have been developed, including: Yuebao, Caitong and Baizhuan (Baidu); and Ping An Ying (Ping An Bank), Ru Yi Bao (CMBC) and Manager's Wallet (Industrial Bank (CIB)). Internet finance brings new challenges to the banking sector in terms of channel development and product innovation.

Over 50 types of internet WMPs have been developed, including: Yuebao, Caitong and Baizhuan (Baidu); and Ping An Ying (Ping An Bank), Ru Yi Bao (CMBC) and Manager's Wallet (CIB).

Lastly, 2014 saw the first case of default in the corporate bond market, sending investors a wake-up call that fixed income products are not risk-free, and making it difficult for banks to meet their demand for investment profit and risk management simply by relying on rating agencies to price credit bonds. Furthermore, commercial banks might find it worthwhile to try setting up credit bond pricing models based on their business, the quality of their assets and their risk preferences, and in conformity with the internal credit risk rating system laid out in *Guidance for the Capital Management of Commercial Banks*.

In 2014, China's banking sector is expected to unleash more innovations and improve operating efficiency. We will also continue to monitor the general development of the banking sector and share our insights with you.

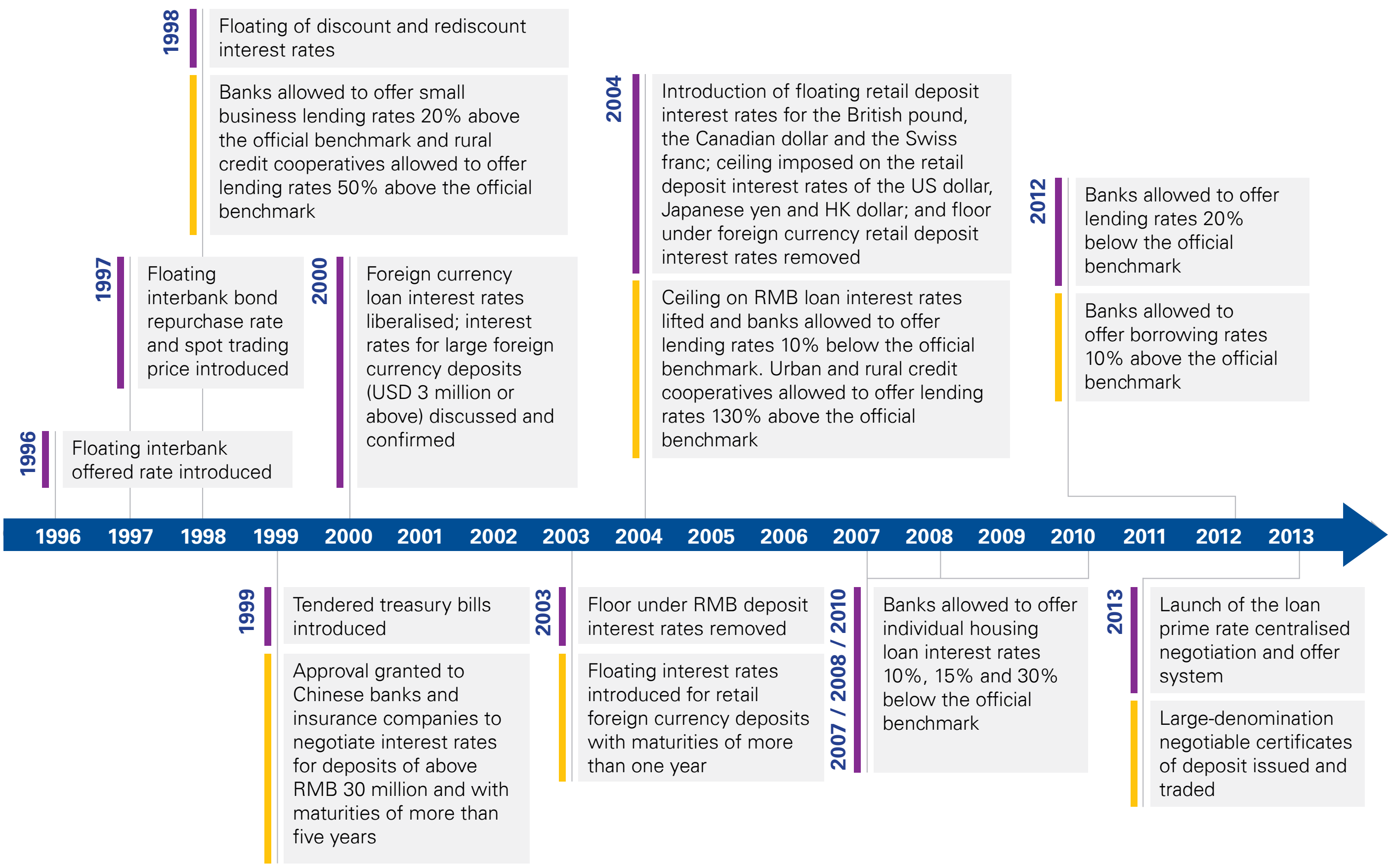
02

INTEREST RATE LIBERALISATION

The process of interest rate liberalisation

After the liberalisation of interest rates, banks may no longer be able to monopolise access to low-cost deposits, and competition across the entire market may push up the deposit interest rate to a new market level.

Looking at past international experience, the liberalisation of interest rates usually leads to intensified competition among financial institutions, increased market volatility, a rise in deposit rates, and a narrower interest margin for the overall banking sector. After the liberalisation of interest rates, banks may no longer be able to monopolise access to low-cost deposits, and competition across the entire market may push up the deposit interest rate to a new market level. As the banks are relatively slow at adjusting their asset structures, the interest spread in the banking sector will tend to shrink in the short term. However, the long-term interest margin is still determined by the national economic environment, monetary policies and the business strategies of commercial banks. From a long-term perspective, personal consumption loans, credit cards, and credit to small and medium enterprises (SMEs), which have higher interest rates, will probably contribute to an overall increase in the interest margin. For banks, reallocating the majority of credit assets to personal loans and credit to SMEs may eventually drive up the interest margin in the long run, perhaps limited to a new risk/reward dynamic.



The market will need to set higher standards regarding the financial innovation, pricing capability and risk management skill set of banks.

Commercial banks were given more freedom in fixing the interest rates they offered.

A narrowing interest margin after the liberalisation of interest rates may lead to further intensification of competition in loans and deposits. Therefore, the market will need to set higher standards regarding the financial innovation, pricing capability and risk management skill set of banks. We have observed that China's commercial banks are already taking the following action to deal with market challenges:

- Strengthen product pricing capability and develop a robust internal pricing model for deposits and loans
- Expand intermediary services, enhance financial innovation and cross-selling, and increase fee-based income
- Improve customer segmentation and enhance the customer relationship management system to analyse customer behaviour more systematically for differentiated customer management
- Expand RMB financial derivative business and enter into interest rate risk hedge arrangements
- Introduce innovative services for SMEs as an important tool for stabilising the NIM of commercial banks
- Build strong market research and trading teams, and develop interbank market trading business as qualified market makers.

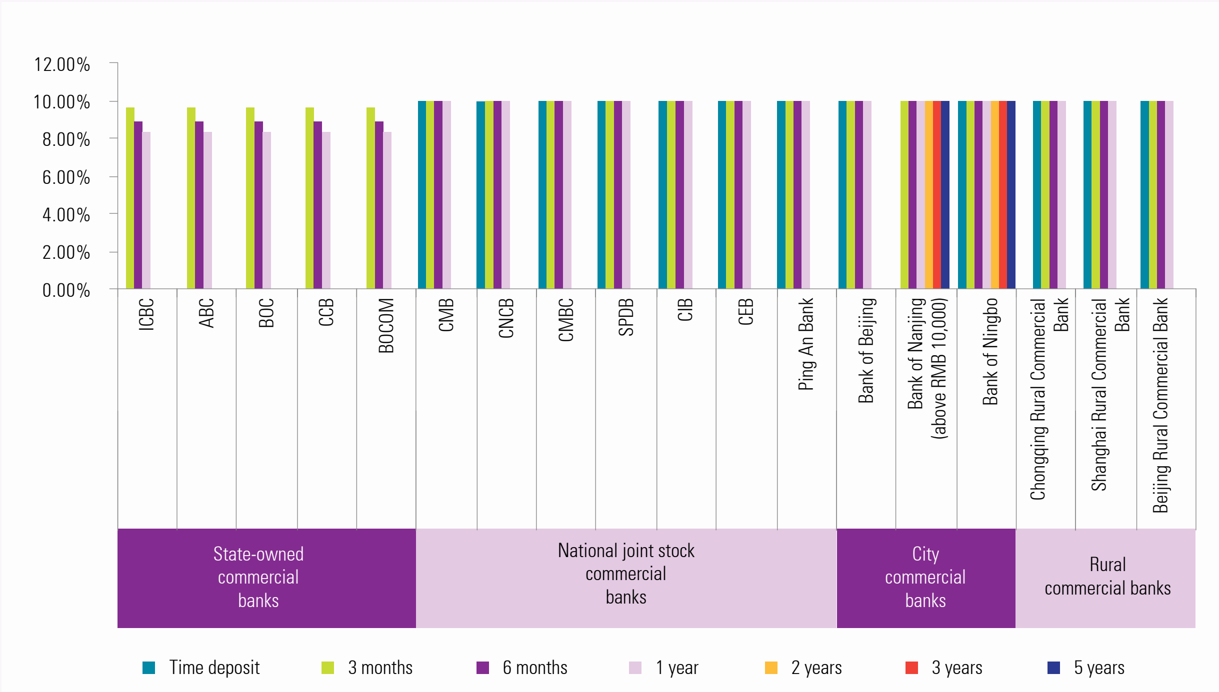
Interest rate liberalisation in China

Adjustment of RMB benchmark deposit interest rates

In June 2012, the People's Bank of China (PBOC) cut the RMB benchmark deposit and lending interest rates of financial institutions and allowed them to offer deposit interest rates 10 percent above the official benchmark. Commercial banks were given more freedom in fixing the interest rates they offered. After this, the banks followed each other in adjusting deposit interest rates, resulting in differentiated deposit interest rates in China's banking industry for the first time.

From 2013, the practice of offering the highest interest rates authorised by the PBOC for medium and long-term deposits – that is, 10 percent above the official benchmark interest rates – was adopted by city commercial banks and then by joint stock commercial banks. For instance, China Guangfa Bank's (CGB) Beijing branch increased the interest rates for time deposits with maturities of two and three years from 3.75 percent and 4.25 percent to 4.125 percent and 4.675 percent respectively. Before this, Ping An Bank had already begun offering the highest authorised interest rates for time deposits, while BOCOM offered deposit interest rates above the official benchmark to key clients in Guangzhou.

Figure 2.1: The floating ratios of deposit interest rates



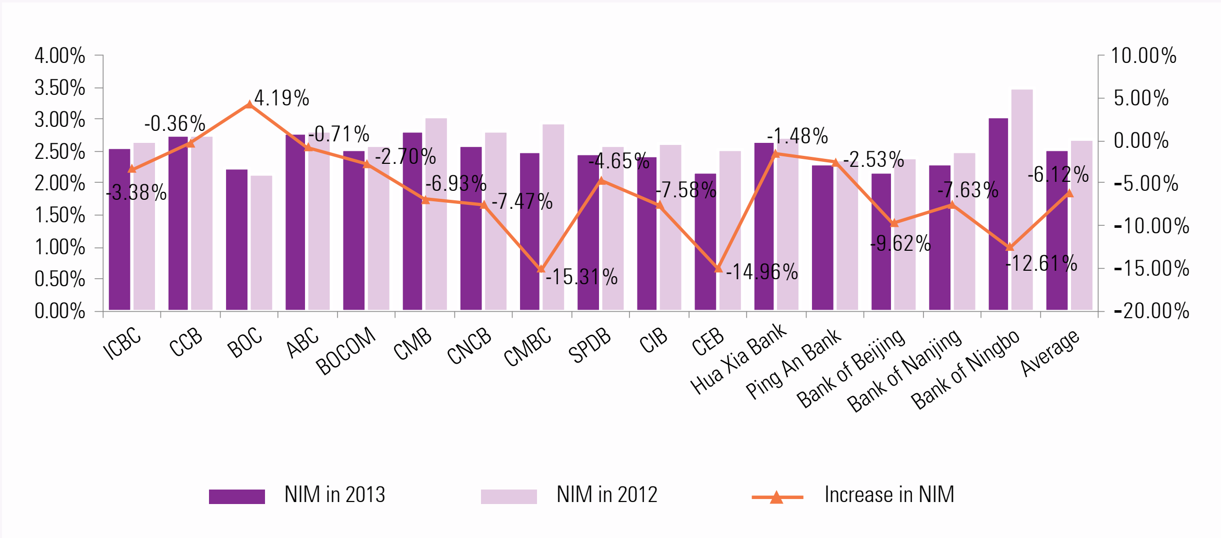
Source: The banks' official websites

Ceiling on the floating range of deposit interest rates partly lifted by the PBOC

After the ceiling on the floating range of deposit interest rates was partly lifted by the PBOC, commercial banks enjoyed more freedom in competing for deposits through price, leading to differentiated deposit interest rates being offered.

Deposits are able to satisfy both the investment and liquidity needs of depositors. There are obvious gaps between different groups as a result of commercial banks' advantages and disadvantages. Big banks take advantage of their greater presence to negotiate prices, which added to their competitiveness in cost control.

Figure 2.2: Changes in NIM in the last two years



Source: Banks' 2012 and 2013 annual reports

Interest rate liberalisation resulted in reduced interest margins in the short term

Data in the 2013 annual reports shows that the NIM of the 16 listed banks declined by 6.12 percent compared to the 2012 year end. Except for BOC, the NIM of other listed banks declined to different degrees. CMBC and China Everbright Bank (CEB) saw decreases of 15.31 percent and 14.96 percent respectively. Of the big five banks, ICBC reported the biggest decrease of 3.38 percent.

In the process of interest rate liberalisation, commercial banks may be impacted in terms of both business and income structure. Borrowing costs will rise, while lending rates may rise and fall. However, in general, interest rate liberalisation will lead to reduced interest margins.

Loan prime rate

On 25 October 2013, the PBOC launched the loan prime rate (LPR) centralised negotiation and offer system. Introducing the LPR is an important complementary measure in loan interest rate liberalisation and another important step in interest rate liberalisation.

Moreover, LPR is an important step for allowing banks to price loans independently and has laid a foundation for banks to set up their own lending rate pricing mechanisms.

Reduced interest margins may lead to competition in taking deposits and making loans, which in turn will impose relatively high requirements on banks in terms of pricing and risk management abilities.

The LPR is the loan interest rate that commercial banks offer to their prestigious customers and is based on the offer rates of several commercial banks. Nine banks were included in the first wave: ICBC, Agricultural Bank of China (ABC), BOC, CCB, BOCOM, China CITIC Bank (CNCB), Shanghai Pudong Development Bank (SPDB), CIB and China Merchants Bank (CMB). The LPR is arrived at by weighting the benchmark lending rates offered by these banks on every working day after discarding the highest and lowest offers.

Other loan interest rates can be decided by lowering or raising the LPR after taking into consideration such factors as the borrower's mortgaged assets, the term of the loan or the floating of interest rates.

Like prime lending rate mechanisms in other countries, LPR will be the benchmark interest rate in the whole credit market and the foundation for the lending rate pricing mechanism for banks after interest rate liberalisation. It will act as an effective guide for banks in adopting a rational approach to pricing loans and will ensure that the credit market runs steadily after the floor under loan interest rates is removed. Moreover, LPR is an important step for allowing banks to price loans independently and has laid a foundation for banks to set up their own lending rate pricing mechanisms. It also helps enhance banks' independent pricing abilities. Under the current circumstances, in which there is an overall short supply of credit, loan interest rates will be driven high and some banks will increase their lending to high-risk sectors if the ceiling on deposit interest rates is lifted. Introducing LPR will provide important guidance in order to avoid mispricing in the credit market and create a stable environment for further lifting the ceiling on deposit interest rates.

The impact of interest rate liberalisation

The impact of reduced interest margins on banks

Interest rate liberalisation will have a great impact on banks and poses challenges to the reform of China's banking sector. Reduced interest margins may lead to competition in taking deposits and making loans, which in turn will impose relatively high requirements on banks in terms of pricing and risk management abilities. It will also force banks to undertake intermediary business to generate profits.

Firstly, it will test the banks' risk pricing abilities. Consider corporate business, for instance. Banks will have to combine borrowing and lending business with intermediate business. They will also need to take into consideration indirect income from corporate business and the calculation of overall income in order to make profits when interest margins are reduced. Secondly, it will force banks to undertake more intermediary business and strengthen their innovation abilities in order to derive more profits from intermediate business. Thirdly, interest rate liberalisation will lead to higher requirements with regard to banks' comprehensive risk management abilities and will force them to improve their management capabilities.

Bond yields are expected to rise continuously and thereby reduce the demand for bonds.

Increasing the variety of innovative products in the market and improving the trading mechanism will help restore missing market functions.

The impact of reduced interest margins on the bond market

A. Reduced interest margins will have a negative impact on bond prices and reduce the demand for bond investment in the short term.

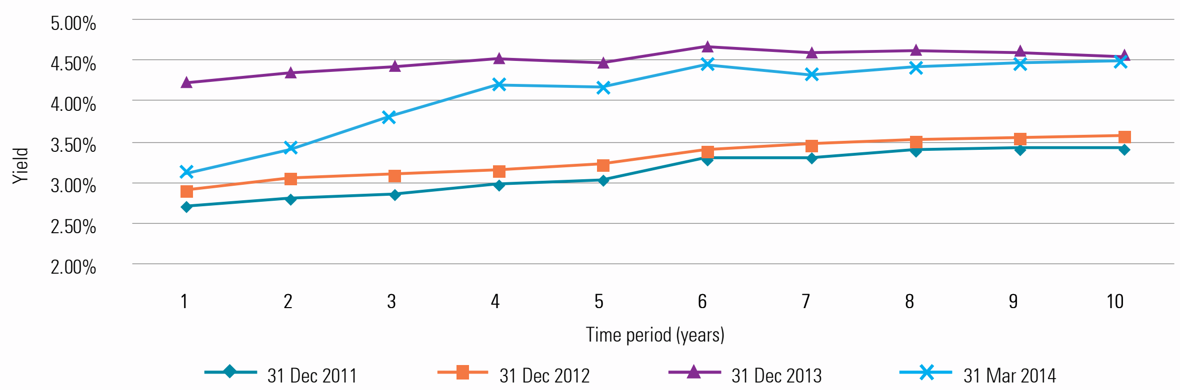
The launching of the LPR centralised negotiation and offer system and the issuing and trading of certificates of interbank deposit mean that the process of interest rate liberalisation is accelerating. As the central bank maintains a tight monetary policy, the yields of bonds issued in RMB have been rising since Q3 2013 and China's treasury bond yields reached a nine-year high in November 2013. Bond yields are expected to rise continuously and thereby reduce the demand for bonds. Furthermore, interest rate liberalisation will increase interest rate fluctuations during its early stages and therefore increase the risks of investing in bonds, which may result in reduced demand for bond products.

B. The reduction in margins will increase the difference between the interest rates of short-term and long-term bonds.

Interest rate liberalisation will lead to structural adjustments in the bond yield curve by reflecting market factors, such as market expectations and risk assessment, due to the following reasons:

- Interest rate liberalisation will increase the issuance of short-term bonds and enhance their price discovery function.
- Increasing the variety of innovative products in the market and improving the trading mechanism will help restore missing market functions, such as risk hedging and asset portfolios, and will help the market form reasonable expectations and risk assessments. This will be reflected in long-term bond yield rates, which will experience a relative increase.
- Interest rate liberalisation will lead to greater fluctuations in short-term bond interest rates and will influence the slope and curvature of the curve, exerting a greater influence on the latter than the former. The yield curve will become more concave.

Figure 2.3: Treasury bond yield curve



Source: Wind Info

C. Interest rate liberalisation will also improve the structure and functions of the bond market and increase its size in the long term.

In addition, it will enable the bond market to play a greater role in price discovery, asset portfolios and hedging functions, and improve its breadth and depth. The impact will be seen in the following three areas:

- Growth of a uniform bond market: Currently, exchanges, the interbank market and counters coexist. Though there has been a gradual convergence in these markets in terms of investors and yield level, they are still divided in terms of fundamental market conditions such as clearing and settlement systems. The advance of interest rate liberalisation will promote the growth of a uniform bond market and lay a good foundation for a market-based interest rate.

- Improvement of the functions of the bond market and its trading mechanism: As the interest rate becomes more market-based, investors will be more sensitive to it, and its function in price leveraging will become more obvious. Investors will look for trading tools to hedge interest rate risks and make gains through interest rate fluctuations. All this will improve the trading mechanism and help restore some of the missing market functions.

- Improvement of the bond market's pricing function, as well as the creation of a more proper, diversified and stratified market structure with regard to its main body, products and yield: The size of the bond market will expand and the supply of bond products will increase when the structure and functions of the market are improved. The liquidity and investment value of the market will also increase, resulting in greater demand for bond products. The bond market will therefore grow larger in the long run. However, changes in bond interest rate are subject to the influence of various uncertain factors, such as future economic conditions, inflation, liquidity premiums and returns on investment. Long-term interest rate trends will depend on how these factors interact with each other.

The advance of interest rate liberalisation will promote the growth of a uniform bond market and lay a good foundation for a market-based interest rate.

Strategies for banks to cope with the impact of interest rate liberalisation

Coping with interest rate risk

On 19 July 2013, the PBOC announced that with the approval of the State Council, control over financial institutions' loan interest rates would be removed from 20 July 2013. It was another significant measure in the process of interest rate liberalisation after the central bank authorised financial institutions to offer lending rates 30 percent below the official benchmark interest rate for loans with maturities of one year on 6 July 2012. This signal was more than the market expected and has given rise to the expectation that deposit interest rates will be further liberalised. However, if the floating range of deposit interest rates is enlarged, banks should be prepared for the changes that will occur in their cost of capital and business strategies.

This signal was more than the market expected and has given rise to the expectation that deposit interest rates will be further liberalised.

When interest rates are liberalised, it will not be enough to depend on existing interest rate risk measurement methods alone to meet future interest rate risk management requirements.

After interest rate liberalisation, it will be necessary for banks to set up risk measurement models which reflect the dynamic changes in assets and liabilities, and which take obvious options risk and yield curve risk into account.

A. Setting up an internal deposit and loan pricing model

In recent years, with Basel II coming into effect, some leading commercial banks have set up an internal credit risk rating model. However, due to the overall environment in the financial market, such a model has not been applied to loan pricing. With the advance of interest rate liberalisation in the future, conducting continuous tests on the internal rating method and improving it in order to optimise loan pricing will pose a major challenge for commercial banks exercising pricing power for the first time. With regard to deposit pricing, it will also be necessary for banks to monitor capital market interest rates and dynamic changes in their own deposits, and to set up models to analyse the sensitivity of deposits to different pricing as follows:

- Banks should consider creating a loan pricing model team responsible for updating the internal rating model and developing test processes in order to evaluate the appropriateness of loan pricing at regular intervals.

- As deposit interest rates will be closely linked to the money market and will therefore fluctuate more frequently, banks should pay attention to the accuracy and promptness of the calculation and updating of deposit interest rate data. Banks can develop a corresponding monitoring index system to dynamically monitor changes in deposit interest rates and business volume, and analyse the impact of changing pricing policies on business volume and profitability.

Interest rate risk measurement models also need to be improved. When interest rates are liberalised, it will not be enough to depend on existing interest rate risk measurement methods alone to meet future interest rate risk management requirements. Currently, the interest rate risk measurement methods adopted by banks include sensitivity gap analysis, duration gap analysis and the value at risk (VAR) model. However, all these methods have their inherent limitations. Sensitivity gap and duration gap analysis methods measure the impact of the changes in interest rates at one point in time on banks' interest rate-sensitive assets and liabilities on- and off-balance sheet and then on the amount of net interest income. However, there is no dynamic and continuous monitoring and management, and only repricing risk is taken into consideration.

The impact of the other three kinds of risks on banks' net interest income – namely baseline risk, option risk and yield curve risk – is not accounted for. After interest rate liberalisation, it will be necessary for banks to set up risk measurement models which reflect the dynamic changes in assets and liabilities, and which take obvious options risk and yield curve risk into account. The VAR model can produce only highly general risk measurement results and is incapable of reflecting the composition of specific assets and liabilities and their sensitivity to changes in interest rates, which limits their usefulness in providing guidance for specific risk management. Furthermore, the VAR model is more often used in the market (interest rate) risk management of trading accounts and cannot measure the interest rate risk of bank accounts.

Chinese banks are redoubling their efforts to expedite such fundamental IT work such as setting up a customer information data mart.

Complex interest rate risk measurement models require banks to make appropriate model assumptions in order to reduce risk.

As interest rate risk management becomes more refined, most of the large banks will adopt the simulation analysis method to measure interest rate risk. The simulation analysis method refers to the method of segmenting banks' assets and liabilities on- and off-balance sheet and predicting the trends of interest rates for specific categories, possibly taking into consideration non-interest rate changes such as strategic adjustments in banks' business structure and structural changes in customer deposits, in the simulation model. In addition, banks can use this method to conduct pressure tests of interest rate risk and analyse potential losses in extremely adverse circumstances.

B. Improving customer segmentation management capabilities to apply differentiated management

In order to cope with the challenges posed by interest rate liberalisation, banks should segment their customers and provide differentiated guidance in order to control the cost of capital and improve operational efficiency. In addition, commercial banks should comprehensively improve their ability to provide services, enhance cross-selling and manage their customers with more care. To make this possible, banks should adopt a comprehensive customer segmentation strategy, complemented by customer management organisation and processes, and lay down integrated IT foundations. Currently, Chinese banks are redoubling their efforts to expedite such fundamental IT work such as setting up a customer information data mart. However, in the future, they should attach more importance to formulating customer segmentation and data collection strategies based on the market and their customers. They should make continuous improvements to the segmentation strategy and monitor whether it has been successfully carried out in specific businesses. Moreover, they need to enhance the skills of customer relationship management (CRMs) and properly allocate tasks when promoting business with segmented customers.

C. Addressing challenges to information system brought by interest rate risk management

The provision of complete and accurate business data by banks is a precondition for the effectiveness of complex interest rate risk measurement models. It imposes higher requirements on banks' asset and liability management systems with regard to the quality of business data. Banks can consider placing the data sources in different business systems and integrating appropriate fields in the asset and liability management system, as well as establishing a comprehensive data source checking mechanism, in order to provide complete and accurate data support for interest rate risk management. In addition, complex interest rate risk measurement models require banks to make appropriate model assumptions in order to reduce risk. Banks may consider introducing professionals familiar with different businesses to the interest rate risk management team. They can be assigned the task of analysing and predicting the appropriateness of model assumptions in order to increase the reliability of assumptions in interest rate simulation analysis. A mechanism may also be set up for conducting post hoc tests of simulation analysis. The accuracy of predictions can be included as a factor in staff performance assessment.

Compared to deposit liabilities, banks have more freedom to determine the interest rates, maturities and amounts of non-deposit liabilities, which are also more direct in terms of marketing.

One advantage of non-deposit liabilities is matching the maturities of assets and liabilities to control interest rate risk.

Change from deposit liabilities to non-deposit liabilities

Compared to deposit liabilities, banks have more freedom to determine the interest rates, maturities and amounts of non-deposit liabilities, which are also more direct in terms of marketing. With the advance of interest rate liberalisation, non-deposit liabilities have become important sources of capital and effective financial management methods for commercial banks.

A. Regulatory policy evolution

- In June 2004, the PBOC and CBRC jointly formulated *Regulations for the Issuance of Subordinated Debts by Commercial Banks*.
- In April 2005, the PBOC formulated *Regulations for the Issuance of Financial Bonds in the Nationwide Interbank Bond Market*.
- In November 2006, the PBOC formulated *Interim Provisions on the Management of Securities Lending Business in the Nationwide Interbank Bond Market*.
- In July 2007, the PBOC formulated *Regulations for Interbank Borrowing*.
- In November 2013, the State Council issued the *Guidelines of the State Council on Initiating Preferred Stock Pilot Projects*. In order to deepen the reform of the financial system and support the development of the real economy, the State Council decided to initiate preferred stock pilot projects and provided guidelines.
- In December 2013, the PBOC formulated *Interim Provisions on the Management of Interbank Certificates of Deposit*.
- In March 2014, the Ministry of Finance (MOF) issued *Provisions on Distinguishing Financial Liabilities and Equity Instruments and Relevant Accounting Treatments*, which standardises the accounting treatment for financial instruments, such as preferred stock and perpetual bonds.

B. The advantages of non-deposit liabilities include:

- Ensuring commercial banks' liquidity
- Reducing banks' cost of liabilities
- Matching the maturities of assets and liabilities to control interest rate risk

C. Types of non-deposit liabilities of commercial banks

- Issuance of bonds, which is a significant source of capital for commercial banks
- The PBOC's liabilities, including further loans, repurchases and the PBOC's reverse repurchases in the open market
- The PBOC's gradual reduction in its market participation and policy-based intervention in recent years

- Banks' and non-bank financial institutions' liabilities, including placements from banks and non-bank financial institutions and loans, the transfer of notes, the transfer and repurchase of credit assets, and the repurchase of bonds

- The Shanghai Interbank Offered Rate's (SHIBOR) persistently high level in recent years, which has deprived this type of non-deposit liability of its price advantages

- New capital instruments, including agreement deposits, preferred stock and perpetual bonds

- Interbank certificates of deposit

  The interbank CD is a money market instrument with relatively short maturity and is used to pay for fixed interest rates at a specific, fixed date of maturity. According to *Interim Provisions on the Management of Interbank Certificates of Deposit*, the maturities of CDs with fixed interest rates issued by deposit-taking financial institutions are agreed to be one month, three months, six months, nine months and one year, which matches the major maturities of SHIBOR. The interest rate reset periods of one-year, two-year and three-year interbank CDs with floating interest rates are agreed to be set to one month, three months, six months, nine months or one year, which also match the major maturities of SHIBOR. As the interest rates of the interbank CDs of each bank are set with reference to the market-based SHIBOR when they are issued, they can be verified by comparison with each other.

- Preferred stock

  Preferred stock gets its name because of its higher claim on assets and earnings compared to common shares. It is preferred to common shares with regard to rights in profit sharing and the distribution of residual assets. In November 2013, the State Council decided to initiate preferred stock pilot projects and issued the *Guidelines of the State Council on Initiating Preferred Stock Pilot Projects*. In accordance with *Provisions on Distinguishing Financial Liabilities and Equity Instruments and Relevant Accounting Treatments*, the recognition of preferred stock should be based on contract clauses. For example, in cases where an arrangement for converting preferred stock into common shares under certain conditions is included in the clauses of the contract on preferred stock, it is recognised as an equity instrument if it is settled through exchanging fixed amounts of own equity instruments for fixed amounts of cash or other financial assets.

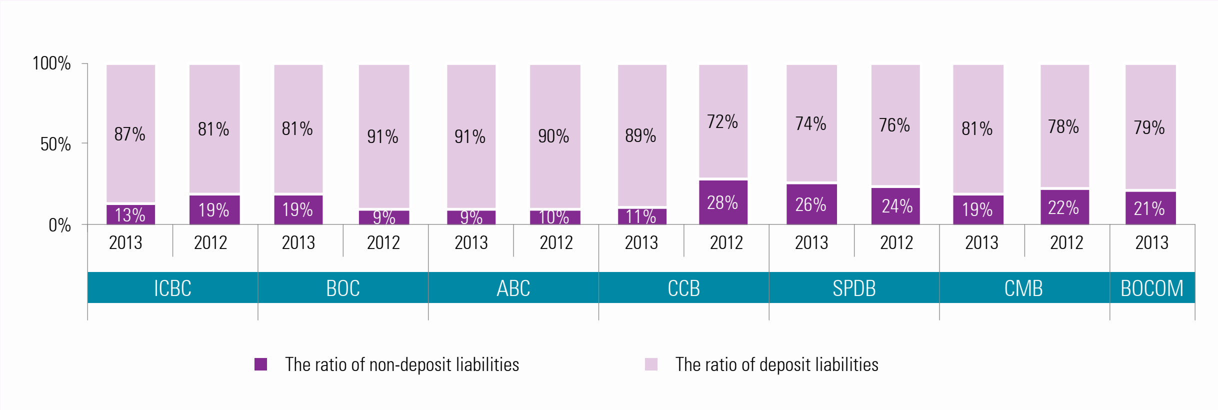
- Perpetual bonds

  A perpetual bond is a bond without maturity and is a type of long-term financing instrument. Holders of perpetual bonds are not granted the right to demand the repayment of principal and can only get interest at a regular time. Perpetual bonds are now issued by large state-owned enterprises as part of a pilot programme. In accordance with *Provisions on Distinguishing Financial Liabilities and Equity Instruments and Relevant Accounting Treatments*, perpetual bonds should be recognised as financial liabilities rather than equity instruments if issuers are obligated to pay in cash.

In November 2013, the State Council decided to initiate preferred stock pilot projects.

Perpetual bonds are now issued by large state-owned enterprises as part of a pilot programme.

Figure 2.4: The ratios of deposit liabilities and non-deposit liabilities

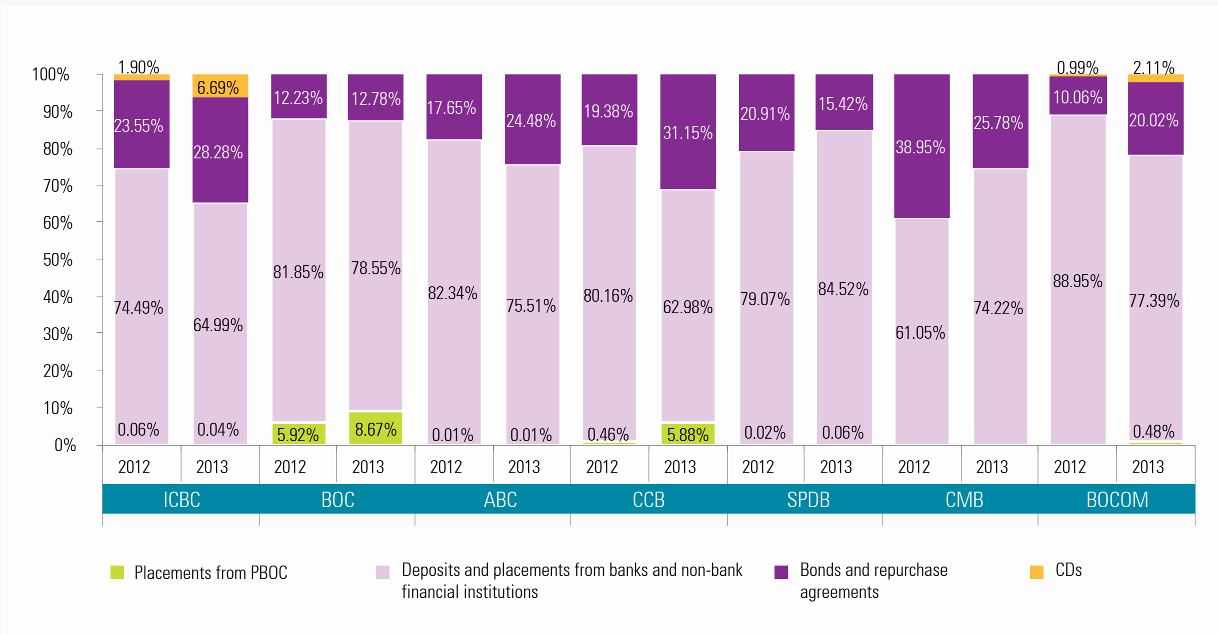


Source: 2012 and 2013 annual reports of the banks and KPMG China research

As shown in the chart above, the banks currently have a relatively low ratio of non-deposit liabilities. Of the big four state-owned banks, BOC has the highest ratio of non-deposit liabilities. SPDB has the highest ratio of non-deposit liabilities among the three joint stock commercial banks.

The chart below also shows that deposits and placements from banks and non-bank financial institutions occupy the largest share in non-deposit liabilities. The second largest is from the issuance of bonds and repurchase agreements. Placements from the central bank occupy a small share. Only ICBC and BOCOM have issued CDs.

Figure 2.5: Structural analysis of non-deposit liabilities



Source: 2012 and 2013 annual reports of the banks and KPMG China research

The management and hedging of financial risks by financial innovation has given rise to new financial risks.

When the public loses confidence in the security and robustness of a bank, there will be a temporary increase in the withdrawal of deposits, and its liquid assets will provide the source of capital for this.

The asset securitisation market maintained its strong development momentum in 2013.

D. Avoiding new risks that might arise from the innovation of non-deposit debt instruments

The management and hedging of financial risks by financial innovation has given rise to new financial risks. Based on traditional divisions of business, commercial banks can generate demand deposits, which other institutions cannot. However, in the process of introducing innovations in the liability business, such as innovative debt instruments, the boundary between the business of commercial banks and that of other financial institutions has disappeared, which has added to the central bank's difficulty in regulating banks' business.

There are risks inherent in liability management. When interest rates suddenly rise, the cost of capital will also rise sharply as the capital purchased can only be extended at higher interest rates when it matures. If banks' assets become less sensitive to interest rates compared to their liabilities, profit margins will be reduced and capital may become inadequate. With reduced capital profit margins, banks might be forced to sell assets in order to reduce the demand for purchased capital and improve the capital ratio. However, the capital losses resulting from selling assets will further reduce profit margins. As liquid assets have the minimum possibility of capital losses, large banks must hold a large number of money market instruments to offset interest rate risk. In addition, when the public loses confidence in the security and robustness of a bank, there will be a temporary increase in the withdrawal of deposits, and its liquid assets will provide the source of capital for this.

Liability management may increase banks' financial risk. It refers to an increase in the volatility of earnings per share and is related to debt-to-total-assets ratio – that is, financial leverage. When controlling liquidity demand by using liability management, the banks' management should take shareholders' risk preferences into consideration.

Capital market risk is another factor in liability management. It arises when, due to low interest rates, investors transfer their deposits to the capital market in order to gain higher returns. For example, in the US, for most of the 1990s, interest rates remained low and the interest rates of CDs fell to 3 percent. As a result, banks lost billions of dollars in 'idle capital', which was the source of interest rate-sensitive capital. During this period, banks were obliged to use other means to retain deposits and important clients.

Asset securitisation

A. Introduction of the asset securitisation market in China

The asset securitisation market maintained its strong development momentum in 2013. Pilot projects were expanded and rules and regulations, as well as management capabilities, were improved.

B. Market size further expanded and securitisation projects expedited

In 2013, 10 banks and enterprises issued asset securitisation products amounting to RMB 23,171 million, an increase of RMB 729 million or 3.25 percent compared to the amount in 2012. RMB 15,773 million of the total amount was issued in the interbank market and occupied 81.89 percent of the total amount of credit-backed securities in 2013. RMB 7,398 million of the total amount was issued through broker special asset management plans and occupied 232.64 percent of the total amount of asset-backed securities in 2013.

From the time that securitisation was first piloted in 2005, regulatory authorities have issued more than 10 sets of guidance and rules.

C. Improvement of rules and regulations for securitisation and management capabilities

From the time that securitisation was first piloted in 2005, regulatory authorities have issued more than 10 sets of guidance and rules. The supervisory system for asset securitisation has been gradually established and improved.

D. Important dates and events for asset securitisation policies

- On 15 March 2013, the China Securities Regulatory Commission (CSRC) issued *Provisions on the Management of the Asset Securitisation Business of Securities Companies*. From then on, asset securitisation has become routine business. In accordance with these provisions, the assets on which securitisation can be based include enterprises' property rights, for example accounts receivable, credit assets, the beneficiary right of the trust, infrastructure usufruct, and real estate, such as commercial properties.

- On 5 July 2013, the General Office of the State Council issued *Guidelines for Providing Financial Support for Economic Structural Adjustment, Transformation and Upgrading*.

- On 5 August 2013, the General Office of the State Council issued the *Implementation Opinions on Providing Financial Support for the Development of Small and Micro Businesses*, in which the State Council made clear its intention to actively promote the regular development of credit asset securitisation and pushed financial institutions to lend revitalised capital to small and micro businesses.

- On 27 August 2013, the China Insurance Regulatory Commission (CIRC) issued *Guidelines for the Insurance Industry to Support Economic Structural Adjustment, Transformation and Upgrading*, in which it supported the participation of insurance funds in credit asset securitisation.

- On 28 August 2013, Premier Li Keqiang presided over an executive meeting of the State Council that passed a resolution to further expand credit asset securitisation pilot projects.

- On 30 September 2013, the PBOC and CBRC held a meeting on credit asset securitisation, which was attended by representatives of major commercial banks and some intermediary agencies. During the meeting, it was decided that the amount for this round of credit asset securitisation pilot projects would be RMB 300 billion.

- On 21 December 2013, the PBOC and CBRC jointly issued *Announcement of the People's Bank of China and the Banking Regulatory Commission on Further Standardising the Securitisation of Credit Assets* ("Article No. 21") regarding the share of risks that should be retained within the sponsoring organisations of credit asset securitisation. It adjusted the ratio of the sub-prime asset-backed securities (lowest class) that should be held by commercial banks to no less than 5 percent of the asset-backed securities of this class. If commercial banks hold other asset-backed securities besides those of the lowest class, the securities of all classes should be held in proportion to the size of securities of each class.

When a member institution faces a business crisis or is in danger of going bankrupt, the insurance organisation will provide financial aid or directly repay part or all of its depositors' deposits, thus protecting depositors' interests and banks' reputations, and ensuring the stability of financial systems.

- On 7 January 2014, the PBOC, Ministry of Science and Technology and CBRC issued *Opinions on Vigorously Promoting the Innovation of Systems and Mechanisms and Enhancing Financial Services to Science and Technology Enterprises*. Qualified microcredit companies and finance leasing companies were encouraged to raise funds through asset securitisation and the issuance of bonds.

Deposit insurance system

Deposit insurance has been established internationally to help ensure the stability of financial systems. Qualified deposit-taking financial institutions work together to create an insurance organisation and pay insurance fees as insurers in proportion to the deposits they have taken to set up a deposit insurance reserve fund. When a member institution faces a business crisis or is in danger of going bankrupt, the insurance organisation will provide financial aid or directly repay part or all of its depositors' deposits, thus protecting depositors' interests and banks' reputations, and ensuring the stability of financial systems.

A. The development of the international deposit insurance system

- The Glass-Steagall Act was passed by the US Congress in 1933. From 1934, the Federal Deposit Insurance Corporation (FDIC) began to undertake deposit insurance business to avoid bank runs and ensure the stability of financial systems.

- In September 1997, the Basel Committee on Banking Supervision ("the Basel Committee") issued the *Core Principles for Effective Banking Supervision*, in which general conceptions regarding the deposit insurance system were set out. The merits of the deposit insurance system include providing a safety net that is capable of inspiring confidence in the public and reducing the possibility of risks spreading to the whole banking system. It also helps regulatory authorities carry out the exit decisions of financial institutions.

- In September 2001, the Financial Stability Forum issued *Guidelines for Deposit Insurance*, which included seven sections covering preliminary analysis before implementing the deposit insurance system, the evaluation of its effects after implementation, the governance structure of deposit insurance companies, specific aid to failing banks, and other content. It offers a blueprint which is capable of providing practical guidance for policymakers in designing the deposit insurance system.

- In October 2006, the Basel Committee pointed out in its revised version of the *Core Principles for Effective Banking Supervision* that a carefully designed deposit insurance system contributes to reducing moral hazard, raising the confidence of the public in the banking system and preventing risks in troubled banks from spreading further. However, the Basel Committee did not provide any guidance for the deposit insurance system.

- In February 2008, the International Association of Deposit Insurers (IADI) formulated a set of core principles for the deposit insurance system based on the experience of its member countries.

- In April 2008, in its report on *Promoting the Recovery of the Market and Institutions*, the Financial Stability Forum suggested that the regulatory authorities of all countries should jointly coordinate the formulation of a set of international principles that would take into account the heterogeneity of deposit insurance arrangements and apply such principles to the circumstances of different countries.

- In July 2008, the Basel Committee and IADI formed a joint working group that was assigned the task of creating a set of international deposit insurance standards based on the principles of the IADI. The *Core Principles for Effective Deposit Insurance Systems* was issued in March 2009. The principles reflect the development trends of international standards and guiding principles for the deposit insurance system, and are an important reference for all countries in the task of establishing or reforming their deposit insurance systems.

B. The development of the deposit insurance system in China

- At the end of 2006, the PBOC issued the *2006 Financial Stability Report* in which the functions of deposit insurance institutions, the qualifications of the members of deposit insurance institutions, the sources of deposit insurance funds, the maximum amount of compensation and the institutional arrangements for the rate of fees were singled out as points in particular need of research.

- Article 134 of the new Enterprise Bankruptcy Law issued in 2007 laid out the legal framework for the bankruptcy of financial institutions, including commercial banks, and made provisions regarding such basic issues as the reasons and standards for the bankruptcy of financial institutions, bankruptcy procedures and the role of the regulatory authorities in bankruptcy procedures. It is stated in Section 2 of Article 134 of the Enterprise Bankruptcy Law that when a financial institution goes bankrupt, the State Council has the right to formulate measures for the implementation of bankruptcy in accordance with this law and other relevant laws. Section 2 takes into account the need for deposit insurance legislation, the existence of special cases and sensitivity regarding the issue of banks going bankrupt.

- In September 2008, the CIRC, MOF and PBOC jointly formulated *Provisions on the Management of the Insurance Guaranty Fund*. This fund is a rescue fund used to aid the holders of insurance policies, as well as policy transferee companies, and to deal with non-governmental industry risks.

- In July 2012, the PBOC said in its *2012 Financial Stability Report* that the time was ripe for establishing a deposit insurance system in China. In the same month, a report entitled *No Time Should be Lost in Establishing a Deposit Insurance System* was submitted to policymakers.

- In May 2013, the PBOC said in its *2013 Financial Stability Report* that the conditions were in place for establishing a deposit insurance system. The government had reached an agreement and would introduce and implement a deposit insurance system at the right time.

In May 2013, the PBOC said in its *2013 Financial Stability Report* that the conditions were in place for establishing a deposit insurance system.

A deposit insurance system will improve the common financial safety net.

- In July 2013, the PBOC said that all of its controls over the lending rates of financial institutions had been removed, including the restriction that financial institutions should not offer lending rates more than 30 percent below the official benchmark. This was an important step in the process of advancing interest rate liberalisation.

- In November 2013, it was pointed out in the *Resolutions of the Third Plenary Session of the 18th Central Committee of the Communist Party of China* that a deposit insurance system should be established to improve the market exit mechanism for financial institutions.

- In January 2014, the PBOC said during its working conference that preparations for the deposit insurance system were almost complete and it was quite possible that it would be introduced in 2014. On 11 March 2014, Mr Zhou Xiaochuan, the governor of the PBOC, said that deposit interest rates were likely to be liberalised in 2014 or 2015.

C. The importance of establishing a deposit insurance system

- It will improve the common financial safety net: The deposit insurance system will provide direct protection to depositors, and its legal status and predictability will raise depositors' confidence in banks, thus effectively preventing bank runs.

- It will improve the market exit mechanism for banks: It favours the rule of the survival of the fittest in the market. It will prevent the bankruptcy of banks from causing shocks in society, and as a result, bank runs, which pose a threat to financial stability.

- It will promote fair competition among banks: The deposit insurance system will reduce the special advantages of certain financial institutions and help improve the competitiveness of small and medium-sized banks and non-state-owned banks, thus promoting fair competition and improving the efficiency of the banking industry.

D. Demerits

- It might lead to the problem of moral hazard and adverse selection. The result might be that there will be more banks going bankrupt and more frequent systemic crises.

E. Impact

- Financially speaking, statistical estimates show that the banks' profits will be reduced by 1 percent every year and that the impact on small and medium-sized banks will be relatively great within the first five years of implementing the deposit insurance system. After that, it will have less of an impact on banks' profits.

- With regard to its impact on the competition among banks, the implementation of the deposit insurance system might cause some depositors to change the banks where they choose to deposit their money. However, its impact in this respect is estimated to be moderate.

It is very important for commercial banks to make use of their own professional expertise and resource advantages to set up uniform and comprehensive internal credit rating systems based on their credit assets.

With the advance of interest rate liberalisation, financial institutions will face increasing interest rate risks.

Strategies for commercial banks to cope with the impact of interest rate liberalisation on the bond market

A. Set up credit bond pricing models

On the one hand, interest rate liberalisation will intensify financial disintermediation. On the other, rising returns on deposits will increase commercial banks' demand for high-yield bonds. As a result, increased issuance of credit bonds will be seen in the future, especially corporate bonds. Setting up credit bond pricing models will lay down an important foundation for commercial banks to ensure safety and steady growth in the bond investment business.

Currently, China's credit rating system is still at the development stage and less reliance is placed on its rating agencies than in international markets. It is difficult to meet commercial banks' demand for investment profit and risk management by depending on foreign rating agencies to price bonds. It is therefore very important for commercial banks to make use of their own professional expertise and resource advantages to set up uniform and comprehensive internal credit rating systems based on their credit assets, which will enable them to assess risk-adjusted returns on investment in bonds in order to ensure the safety of investing in bonds.

Furthermore, commercial banks might find it worthwhile to try setting up credit bond pricing models based on their business, the quality of their assets and their risk preferences, and in conformity with the internal credit risk rating system laid out in *Guidance for the Capital Management of Commercial Banks*. However, the fact that there is not enough historical data about the bond market and almost no data about bond market defaults will result in challenges with regard to the accuracy of the models.

B. Introduce innovative interest rate hedging instruments

With the advance of interest rate liberalisation, financial institutions will face increasing interest rate risks. They are bound to implement proactive interest rate risk management strategies, adopt interest rate risk hedging instruments and develop interest rate swaps, interest rate forwards, total return swaps, credit default swaps and other hedging instruments in order to maximise earnings while ensuring that risks are kept under control.

03

INTERBANK BUSINESS

Summary of interbank business supervision

Thanks to active innovation and rapid development, the interbank business of financial institutions in China has been playing an important role in facilitating liquidity management, optimising financial resources allocation and supporting the development of the real economy in recent years.

Thanks to active innovation and rapid development, the interbank business of financial institutions in China has been playing an important role in facilitating liquidity management, optimising financial resources allocation and supporting the development of the real economy in recent years. However, some business lines are seeing non-standard development, inadequate transparency, and evasion of financial supervision and macro-control regulations. In order to further regulate the operation of interbank business of financial institutions and effectively prevent and control risks, guide more flow of funds to the real economy, reduce financing costs of corporations, promote the development of a multilevel capital market, and better support economic structure adjustment, transformation and upgrading, several policies were issued:

- In November 2002, the PBOC issued the *Provisional Measures for Administration of Interbank RMB Loans (Exposure Draft)*.
- In July 2007, the PBOC issued the *Administrative Measures for Interbank Lending*.
- In December 2009, the CBRC issued the *Notice of the China Banking Regulatory Commission on Issues Related to Further Regulating Cooperation between Banks and Trust Companies*.
- In June 2011, the CBRC issued the *Notice of Non-Bank Financial Institutions Supervision Department of the China Banking Regulatory Commission on Effective Regulation of Net Capital of Trust Companies, Conversion of Off-Balance Sheet Assets into On-Balance Sheet Assets in Cooperation between Banks and Trust Companies and Marketing of Trust Products*.
- In September 2011, the China Banking Association issued the *Standards for Bill Business of the Banking Industry in China*.
- In May 2012, the MOF issued the *Reply on Accounting Treatment of Interbank Refinancing Business of Banking Financial Institutions*.
- In August 2012, the CBRC issued the *Notice of General Office of the China Banking Regulatory Commission on Regulating Management of Interbank Refinancing Business*.
- A credit crunch in June 2013 was the major trigger for interbank business regulation. Mismatch of maturities in interbank business led to liquidity risk.
- A second meeting for financial regulatory coordination was held in November 2013. The regulatory authorities reached a consensus on "separate supervision and coordinated action" in this regard.

- In December 2013, the PBOC issued the *Provisional Administrative Measures for Interbank Deposits*.
- In April 2014, the PBOC issued the *Report on Financial Stability in China* which points out the following:
  - Given the distinctive features of interbank business, namely that it is not subject to requirements on deposit reserve and deposit-loan ratio, its ability to save on capital and decrease provisioning, and the mutual benefits to trading parties, interbank business can help banks evade macro-control and regulatory requirements.
  - Interbank business is a way to borrow short-term interbank funds at lower costs to invest in longer-term assets offering higher returns for profits. However, increasing mismatch of maturities may lead to liquidity risk.
  - Inadequate disclosure of information in some interbank businesses and non-standard accounting treatment make it harder to monitor and control risks.
  - Funds among financial institutions are highly interlinked and leveraged. Some interbank activities are transacted via multi-channels with complex structures, and their high frequency causes the asset size of the financial institutions to inflate. Any risk occurring in one link can easily expose other parts to risks.
- On 16 May 2014, five regulatory authorities jointly issued *The Notice on Regulating the Interbank Business of Financial Institutions* (Yin Fa [2014] No. 127, hereinafter referred to as "Notice No. 127"). The CBRC issued *Notice of the General Office of the China Banking Regulatory Commission on Regulating the Governance of Interbank Business of Commercial Banks* (Yin Jian Ban Fa [2014] No. 140, hereinafter referred to as "Notice No. 140"), requiring banks to set up designated departments to carry out interbank activities, establishing a preliminary framework for interbank activities between financial institutions in China.

A specialisation system for interbank business has been proposed for the first time for banks to set up designated departments to centrally operate interbank business and perform credit and authorisation management.

The main components of the interbank business supervision frame

Business management

The scope of interbank business has been defined by clarifying the boundaries of various interbank businesses and specifying classified management requirements on the basis of business nature. A specialisation system for interbank business has been proposed for the first time for banks to set up designated departments to centrally operate interbank business and perform credit and authorisation management.

Regulating accounting treatment helps standardise risk measurement and capital charge, and helps prevent banks from circumventing account titles to go around capital use requirements.

Commercial banks need to bolster their second and third lines of defence through quality liquid assets, contingency plans and stress tests to really address potential risks.

Accounting treatment

The use of account titles, accounting treatment and provisioning requirements for various interbank activities has been clarified. On top of regulating the scope and definition of interbank business and its activities, Notice No. 127 specifies the use of account titles and accounting requirements, weakening the impetus for developing innovative businesses such as purchase under resale agreements involving three or more parties. Provisioning is required to be made based on the 'substance over form' principle; investments in non-standard debt assets may face greater pressure to make provisions for impairment.

Risk management

The importance of liquidity risk management on an established risk management system appropriate to the business complexity is highlighted, and risk measurement and capital charge of interbank business under the 'substance over form' principle have been regulated. Regulating accounting treatment helps standardise risk measurement and capital charge, and helps prevent banks from circumventing account titles to go around capital use requirements. Under the principle of 'substance over form', some banks will feel greater pressure from increased risk capital and capital need.

Internal controls

The establishment of an internal control system that aligns with business development is required, and the internal control mechanism for the front, middle and back offices to strengthen internal supervision and accountability has been refined. Reforming the internal processes and control mechanism for interbank business by developing specialisation is crucial to the success of the specialised operation of interbank business.

Regulatory indicators

Two regulatory limits on the amount of lending to and borrowing from a single financial institution legal entity have been proposed. To tackle maturity mismatch, increased liquidity risk and related problems, Notice No. 127 proposes two regulatory requirements to strengthen banks' first line of defence in liquidity management by ensuring a stable and diversified funding source. Banks overly dependent on interbank financing will face greater pressure in adjusting their liability structure. In addition, commercial banks need to bolster their second and third lines of defence through quality liquid assets, contingency plans and stress tests to really address potential risks.

Business development

Asset securitisation and interbank deposit businesses to promote active, standard and transparent asset and liability management are encouraged. The new policy encourages asset securitisation and interbank deposits, while promoting better management and plugging loopholes. Under interest rate marketisation, banks will face long-term problems such as increasing transparency and the ability to actively borrow.

With this interbank regulatory framework, banks need to adopt compliance procedures.

With this interbank regulatory framework, banks need to adopt the following compliance procedures: accurately interpret each regulatory requirement; comprehensively sort their existing unsettled business, conduct gap analyses and formulate better plans for the mode of existing unsettled business, contract versioning, accounting treatment, risk measurement, capital charge, provisioning, maturity mismatches, credit risk and mitigation measures; assess the operation and management of existing interbank activities to determine whether adjustments are necessary, and improve on authorisation and credit management to enhance the systematisation level of business management and risk control; and formulate development strategies for interbank business from the perspective of bank-wide asset and liability management to promote synergy between interbank business and other treasury business lines.

Interbank business – innovative models

Products, a large number of participants and flexible structures: This involves underlying assets of beneficiary rights (or income rights, same hereinafter) or asset management plans of securities firms. Probable business models include but are not limited to:

Direct investment in beneficiary rights or asset management plans of securities firms

Commercial banks directly invest in beneficiary rights or asset management plans of securities firms.

Purchase of beneficiary rights or asset management plans of securities firms under resale agreement involving three parties

Party A (the bank providing the channel) and a trust company set up a trust plan with entrusted loans as the underlying assets. Party A is the holder of the trust plan. Party A and Party B (the bank providing the funds) enter into a transfer agreement whereby the beneficiary right is transferred to Party B. Party B becomes the beneficiary of the trust plan. Meanwhile, Party B and Party C enter into a repurchase agreement whereby Party B agrees to transfer the trust plan to Party C before the due date of the entrusted loans. When any credit issues related to the underlying entrusted loans occur as specified, Party B has the right to require Party C to unconditionally and irrevocably repurchase the beneficiary rights of the trust plan at an earlier date.

Provision of guarantee or commitment to other financial institutions' investment in beneficiary rights or securities firms' asset management plans

Party B directly invests in beneficiary rights or asset management plans of securities firms. Party A provides a guarantee or commitment to Party B for its investment to mitigate its credit risk.

Conclusion of forward purchase agreements with other institutions to commit to purchasing beneficiary rights or securities firms' asset management plans in the future

Party B invests directly in beneficiary rights or asset management plans of securities firms. Party A and Party B enter into a forward repurchase agreement whereby Party A commits to purchasing the beneficiary rights or securities firms' asset management plans from Party B in the future.

The content and interpretation of interbank business policy

A. Interbank business herein refers to the various types of investment- and financing-focused business carried out between financial institutions established in accordance with the laws and within the territory of the People's Republic of China. The main types of business include: interbank financing business such as interbank lending, interbank deposits and interbank loans; interbank refinancing and holding (selling) financial assets under resale (repurchase) agreements; and interbank investment business. Investment- and financing-focused interbank business carried out by financial institutions shall, in accordance with the business nature of the transactions, be classified into the aforementioned basic types and administered accordingly. Notice No. 127 clarifies the scope of interbank business in terms of counterparty, nature of business and basic categories.

   The notice requires banks to classify transactions according to the nature of business and to manage interbank activities by category. It seeks to improve management through better accounting treatment and risk management, while preventing regulatory evasion activities by manipulating entries on the balance sheets.

B. Interbank lending business refers to the unsecured financing activities between financial institutions which have been approved by the PBOC to enter the national interbank lending market through a national centralised interbank lending network. Interbank lending activities shall comply with the *Measures for the Administration of Interbank Lending* (PBOC Decree [2007] No. 3) and relevant measures. The funds related to interbank lending shall be entered under the account titles 'placement to' and 'placement from', under which detail accounts shall be set up for the purpose of management and accounting.

The definition of interbank lending is consistent with that detailed in the *Measures for the Administration of Interbank Lending* (PBOC Decree [2007] No. 3). On this basis, Notice No. 127 specifies the account titles used for recording interbank lending. According to the requirements of the *Application Guide for the Accounting Standards for Business Enterprises – Appendix: Accounting Subjects and Major Accounting Treatment*, lending to other domestic or foreign financial institutions shall be accounted for based on the lending financial institutions; and borrowing from other domestic or foreign financial institutions shall be accounted for based on the borrowing financial institutions. In practice, banks and other financial institutions primarily create account titles according to the business category (such as lending, interbank loans and refinancing), maturity, counterparty, etc. In this connection, financial institutions need to assess whether detail accounts are sufficient to meet the requirement of separately accounting for interbank lending business.

Interbank lending business refers to the unsecured financing activities between financial institutions which have been approved by the PBOC to enter the national interbank lending market through a national centralised interbank lending network.

C. Interbank deposit business refers to the depositing into and receiving of deposits from other financial institutions, and the depositing party shall be limited to financial institutions which are qualified to absorb deposits. Interbank deposits can be classified into settlement interbank deposits and non-settlement interbank deposits according to the maturity, business relationship and purpose of the deposit. The funds related to interbank deposits shall be entered under the account titles 'due to banks' and 'due from banks'.

Interbank loans refer to the lending and borrowing of interbank capital carried out by the financial institutions authorised to conduct these activities under the current laws and regulations. The funds related to interbank loans shall be entered under the account titles 'loans to other banks' and 'loans from other banks'.

Notice No. 127 specifies that only financial institutions qualified to absorb deposits can make interbank deposits.

Notice No. 127 specifies that only financial institutions qualified to absorb deposits can make interbank deposits. Interbank deposits are divided into settlement and non-settlement interbank deposits.

The division of interbank lending and interbank loans is clearer when considered together with Article II in the *Administrative Measures for Interbank Lending and the Provisional Measures for Administration of Interbank RMB Loans (Exposure Draft).* The differences between the two lie chiefly in the trading venue and maturity, among others.

D. Interbank refinancing refers to the financing arrangement whereby a commercial bank (the entrusted party) accepts the entrustment of a financial institution (the entrusting party) to make payments to corporate clients, and the entrusting party repays the principal and interest on an agreed date of repayment. The interbank refinancing funds of the entrusted party shall be entered under the account title 'loans to other banks', and that of the entrusting party shall be entered under the account title 'loans'. Interbank refinancing shall, in principle, only be applied to the handling of cross-border trade settlements by banking financial institutions. Trade settlements such as domestic letters of credit and factoring shall, in principle, remit or pay the funds through the payment system or pay through the branches of the bank, and the entrusting party shall not entrust other financial institutions to make payment if there are branches in the same country or city, and shall not carry out disguised financing through interbank refinancing.

   Further requirements on interbank refinancing have been laid down subsequent to the release of the *Notice on Regulating Management of Interbank Refinancing Business* (Yin Jian Ban Fa [2012] No. 237), which defines interbank refinancing as the domestic or international trade settlement through a bank's overseas branches or through other domestic or foreign financial institutions. Such trade settlement can be divided into domestic and overseas interbank refinancing and is provided to customers on application to offer them short-term financing convenience. Notice No. 127 narrows down the scope of interbank refinancing business which, in principle, is only applicable to the handling of cross-border trade settlement by banking financial institutions.

E. The business of holding (selling) financial assets under resale (repurchase) agreements refers to the financing arrangement whereby two financial institutions, in accordance with the agreement between them, first agree to buy (sell) financial assets, and then sell (purchase) the assets at an agreed price at the maturity date. The funds related to the business of holding (selling) financial assets under resale (repurchase) agreements shall be entered under the accounting title 'financial assets held (sold) under resale (repurchase) agreements'. Similar transactions between three or more parties shall not be included in the administration and accounting of activities involving holding (selling) financial assets under resale (repurchase) agreements. The financial assets held (sold) under resale (repurchase) agreements shall have reasonable fair values and high liquidity in the interbank and security exchange markets, such as bank acceptance drafts, bonds, central bank bills, etc. The repurchasing party shall not remove the financial assets under the business item from the balance sheets.

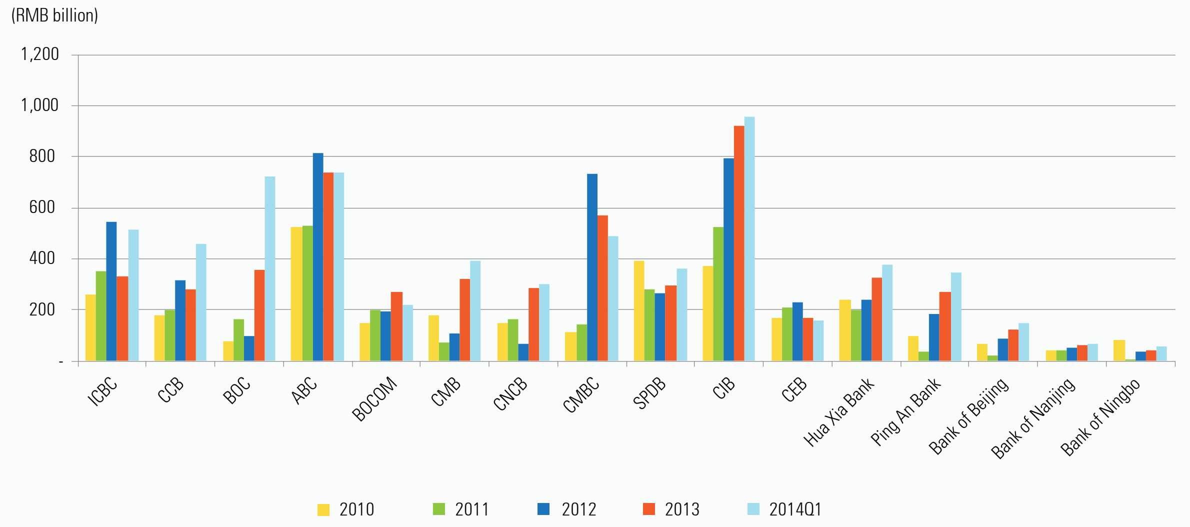
The provision specifies the scope of repurchase business in terms of business models and underlying assets.

   The provision specifies the scope of repurchase business in terms of business models and underlying assets. First, the repurchase business refers to the financing arrangement between two contracting parties, excluding similar transactions between three or more counterparties. Second, the underlying assets shall be financial assets that have a reasonable fair value and higher liquidity in the interbank and stock exchange markets, such as bank acceptance drafts, bonds and central bank bills, excluding non-standard assets such as beneficial rights of trusts. That the repurchasing party shall not transfer financial assets under business items out from balance sheets conforms to the principle of transfer of risks and rewards under accounting standards. That is to say, sold assets to be bought back later at an agreed future date shall not be derecognised. However, this requirement, which is seemingly self-explanatory, practically serves to prevent an unregulated business in which three or more contracting parties hold assets under resale agreements. This unregulated business may cause a large number of credit assets to be removed from balance sheets without grounds.

This unregulated business may cause a large number of credit assets to be removed from balance sheets without grounds.

Figure 3.1: Amounts of financial assets held by 16 A-share listed banks under resale agreements

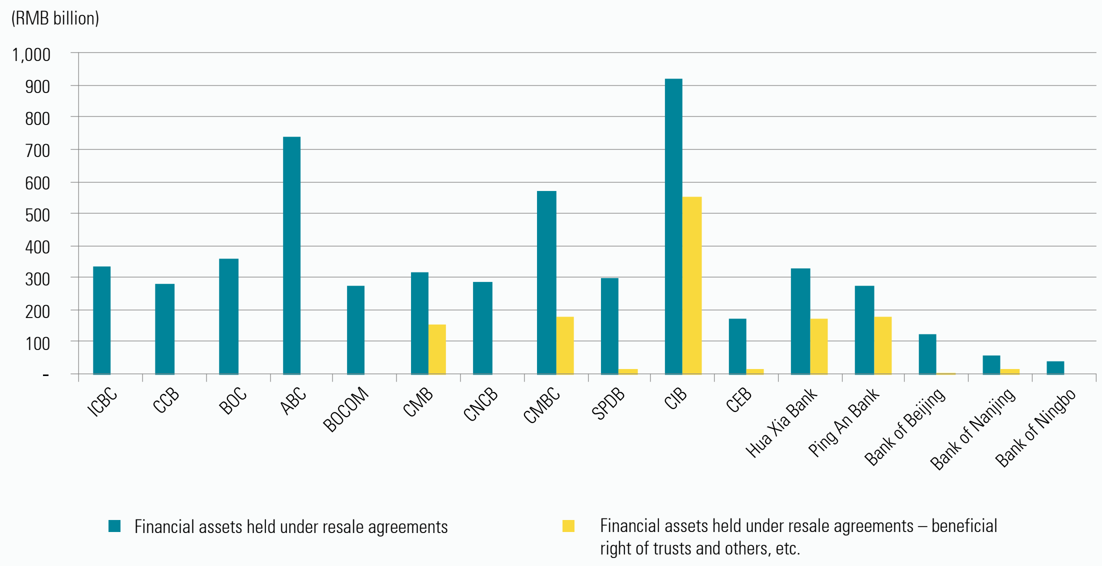
Overall, the market saw an upward trend in the amount of financial assets held under resale agreements.



Source: Wind Info

Figure 3.2: Amounts of financial assets and non-standard financial assets held by 16 A-share listed banks under resale agreements as at 31 December 2013

As at the end of 2013, banks holding larger amounts of financial assets under resale agreements included CIB, ABC and CMBC, while those holding larger amounts of non-standard financial assets under resale agreements included CIB, CMBC, CMB, Hua Xia Bank and Ping An Bank.

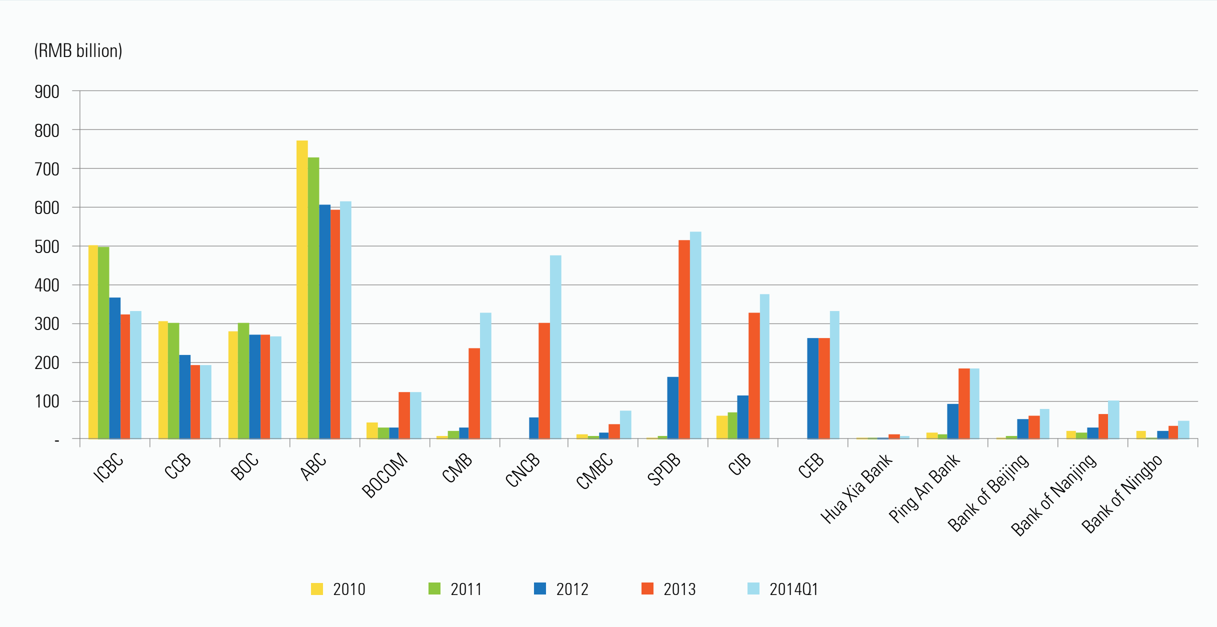


Source: Wind Info

F. Interbank investment refers to the investment activities when financial institutions purchase (or entrust other financial institutions to purchase) interbank financial assets (including but not limited to, the interbank financial assets in the interbank markets or stock exchange markets such as financial bonds, subordinated debts, etc.) or specific purpose carriers (including, but not limited to, commercial bank financial products, trust investment plans, securities investment funds, asset management plans of the securities companies, asset management plans of the fund management companies and their subsidiaries, as well as asset management products of insurance asset management institutions). The provision sets virtually no restrictive requirements. It offers a means to account for non-standard assets or carry out non-standard business removed from the business of holding assets under resale agreements.

Figure 3.3: Amounts of receivable investments of 16 A-share listed banks over the years

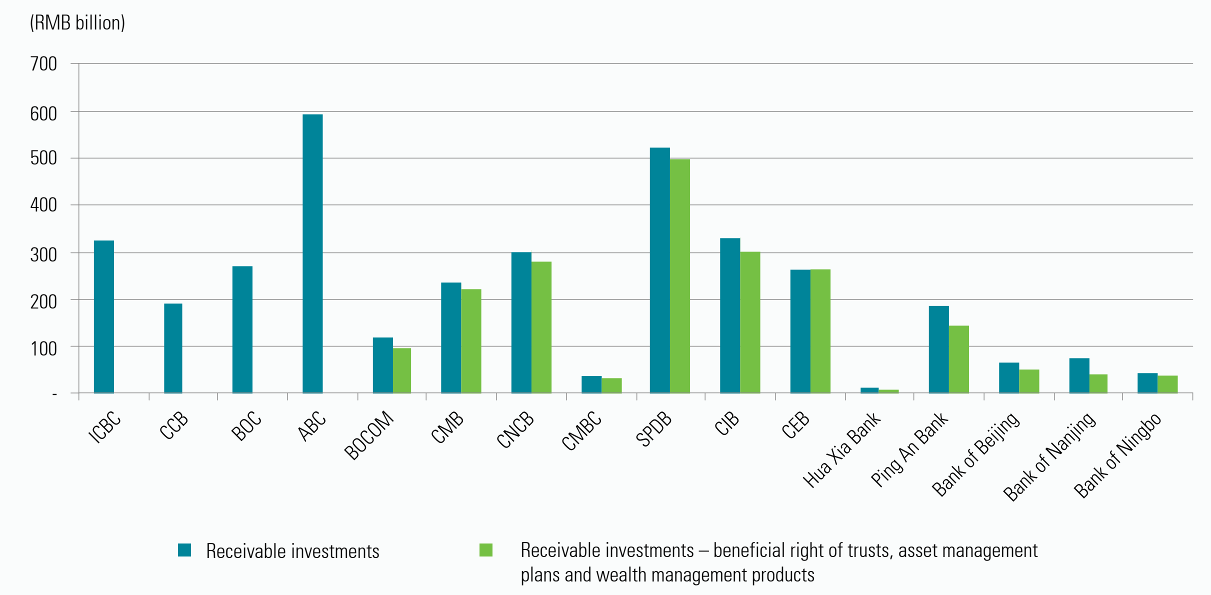
The four big state-owned banks saw a downward trend in the amount of receivable investments, which might be attributable to the gradual redemption of bonds under restructuring. However, joint stock banks saw a general significant upward trend in the amount of receivable investments due to the growth of non-standard receivable investments.



Source: Wind Info

Figure 3.4: Amounts of receivable investments and non-standard receivable investments made by 16 A-share listed banks as at 31 December 2013

As at the end of 2013, banks with larger non-standard receivable investments included SPDB, CIB, CEB, CNCB, CMB and Ping An Bank.



Source: Wind Info

G. When carrying out the business of holding (selling) financial assets under resale (repurchase) agreements and interbank investment business, financial institutions shall not accept or provide any direct or indirect, explicit or implicit credit guarantees from/to third-party financial institutions, unless otherwise specified by the state.

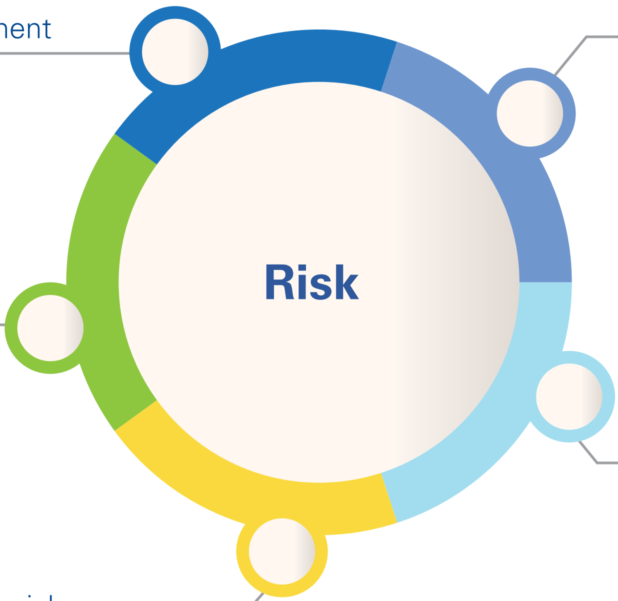
In reality, financial institutions conducting the business of holding (selling) assets under resale (repurchase) agreements and interbank investment are willing to accept credit guarantees from third-party financial institutions, mainly for the purpose of capital saving. That is to say, a financier (or an asset bookkeeper) transfers credit risk specific to the underlying assets to a third-party financial institution and bears only the risk specific to a credit guarantor, thus lowering the risk weighting from 100 percent to 20-25 percent. Moreover, third-party financial institutions such as commercial banks are willing to provide credit guarantees, possibly because they may earn guarantee fees from this. They do not perform bookkeeping of certain indirect and implicit credit guarantees, nor do they make capital provisions as required.

H. When carrying out interbank business, financial institutions shall comply with the provisions of national laws, regulations and policies, and establish and improve corresponding risk management and internal control systems. They shall also follow the principles of negotiation and voluntariness, integrity and self-discipline; assume full responsibility for the risks; and strengthen internal supervision and inspection as well as accountability investigation in order to ensure that all types of risks are effectively controlled.

When carrying out interbank business, financial institutions shall comply with the provisions of national laws, regulations and policies, and establish and improve corresponding risk management and internal control systems.

Under Notice No. 140, commercial banks shall subject interbank business to comprehensive risk management, introduce sound internal control mechanisms at front-, middle- and back-office levels, as well as step up internal supervision and inspection, and accountability investigation. Under the comprehensive risk management regime, financial institutions shall focus on credit risk management, particularly that specific to non-standard investments. In this respect, they may implement pre-investment due diligence, risk review, post-investment risk management and provisioning, by reference to the loan management process.

In developing their internal control regime, financial institutions shall enhance incremental business management covering business entry, authorisation management, transaction pricing, and contract version management; and shall also strengthen business and risk management systematisation and centralisation.



Market risk management

- VAR
- Limit management
- Hedging and trading portfolios

Credit risk management

- Credit policies and loan mix management
- Anticipated and unanticipated risks
- Internal ratings-based approach for credit risk
- Counter-party risk exposure
- Risk-weighted asset measurements under asset securitisation
- External ratings
- Credit collateral

Capital adequacy

- Capital adequacy rate calculation and regulatory requirements
- Definition of 'capital'
- Qualifying standards for capital tools
- Risk-weighted assets

Operational risk

- Operational risk management
- Business continuity supervision
- Basic indicator approach, standardised approach and advanced measurement approach

Liquidity risk

- Capital sources
- Capital costs
- Cash flow forecasts and stress tests
- Liquidity reserves

Financial institutions shall, in accordance with the requirements of relevant national laws, regulations and accounting standards, adopt correct accounting treatment methods to ensure that all types of interbank business and the transaction sections are recorded and reflected on- or off-balance sheet in a prompt, complete and accurate manner.

The provision specifies the need to reinforce maturity mismatch management.

I. Financial institutions shall, in accordance with the requirements of relevant national laws, regulations and accounting standards, adopt correct accounting treatment methods to ensure that all types of interbank business and the transaction sections are recorded and reflected on- or off-balance sheet in a prompt, complete and accurate manner.

The provision sets out the requirements for accounting treatment based on the aforesaid business scope and accounting item definitions. However, given the complicated and changing nature of interbank business models, it does not provide an across-the-board accounting treatment method. In light of this, financial institutions are required to perform concrete analyses based on the business nature without breaching the accounting standards. Areas of analysis centre around the following questions, among others: whether interbank business should be accounted for as part of financial assets held under resale agreements; whether derivative instruments (e.g. forward contracts) or guarantees should be recognised off-balance sheet; and how derivative instruments should be valued.

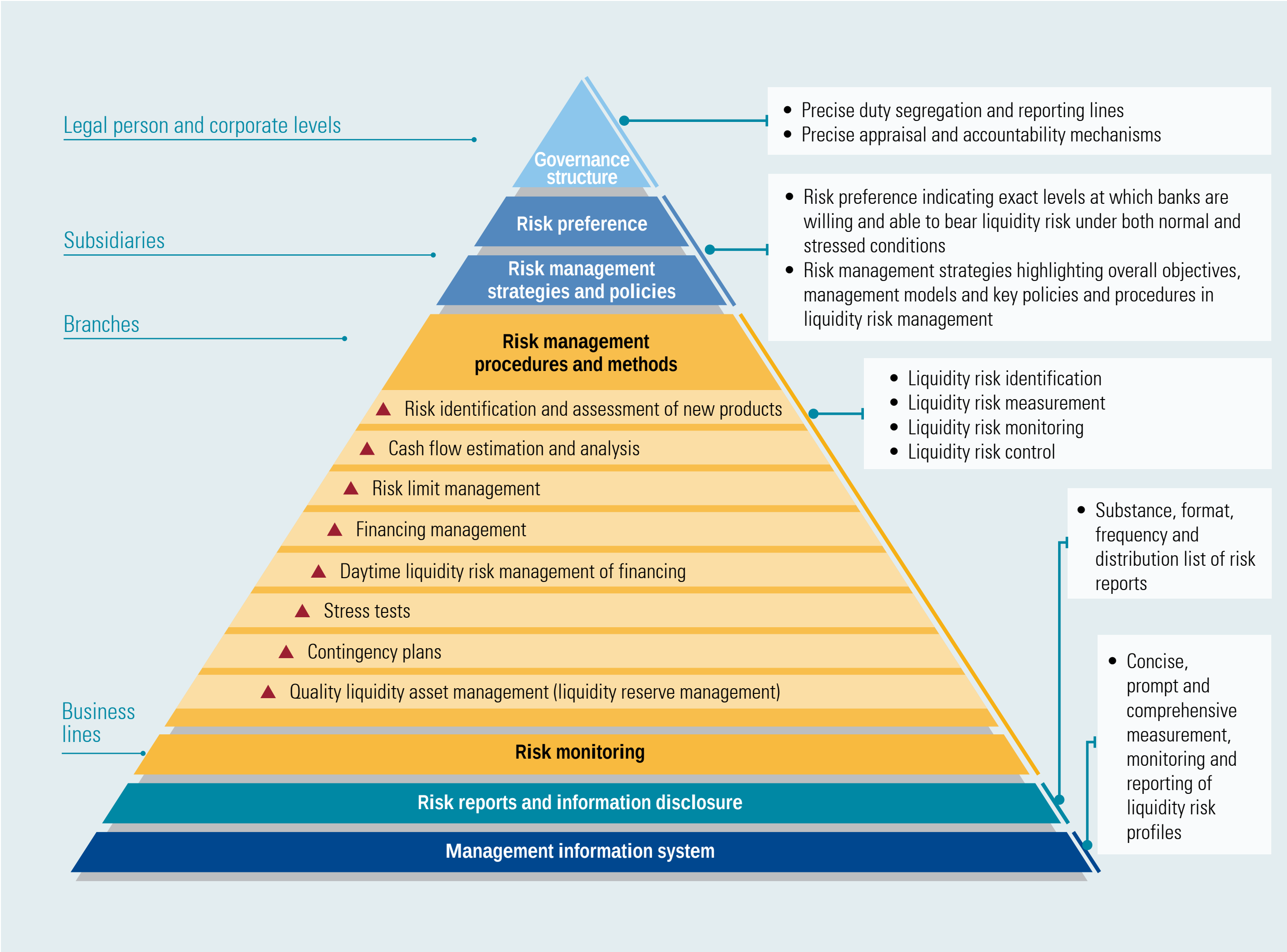
In accounting practice, areas of concern include: i) a lack of support from an integrated business system due to the pace of innovation and degree of personalisation, resulting in interbank business mainly conducting back-office operations manually without system support; and ii) off-balance sheet information being inaccurate through lack of records or omissions, thus undermining the accuracy of capital provision.

J. Financial institutions shall reasonably apportion the source and use of interbank funds and place the interbank business under the framework of liquidity management, strengthen maturity mismatch management and control liquidity risk.

In accordance with the *Trial Measures for Liquidity Risk Management of Commercial Banks* (CBRC Order [2014] No. 2), commercial banks' cash flow estimation and analysis framework shall cover future cash flows of assets and liabilities, and potential cash flows of contingent assets and contingent liabilities, with full consideration of the impact of payment, settlement, agency and custody business on cash flows. In view of this, interbank business shall be dealt with under the liquidity management framework.

The provision specifies the need to reinforce maturity mismatch management. In addition, banks may take the following administrative measures: 1) They shall fully consider the liquidity risk factor under the internal pricing, appraisal and incentive regimes; incorporate liquidity risk cost when appraising the risk-adjusted gain from interbank business lines; and prevent liquidity risk management from slackening in undue pursuit of business expansion and short-term profit; 2) they shall set concentration limits (covering varieties, maturities, counterparties, currency denominations, mortgaged and pledged products, and market distributions) and liquidity gap limits for interbank liabilities; and 3) they shall implement liquidity management mechanisms such as separate stress tests and contingency plans for interbank business lines.

Figure 3.5: Interbank liquidity management pyramid chart



K. When carrying out interbank business, financial institutions shall comply with the regulatory requirements of the financial regulatory departments that have oversight over them. The financial institutions whose branches carry out interbank business shall implement institution-wide credit management policies for the interbank business within the institution, incorporate interbank business into the institution-wide credit system and implement top-down authorisation management from the headquarters. They shall not be allowed to deal with any interbank business that has limitless credit or that exceeds credit limits.

Financial institutions shall carry out differentiated authorisation based on the type, category, pricing and amount of interbank activity, as well as the type of underlying financial assets and the risk control capacity of the branches. Financial institutions shall re-evaluate and re-approve the authorisation at least once a year.

A centralised and integrated credit management system means that the counterparty access mechanism will be strengthened (e.g. name list management), the credit line regularly adjusted to reflect the status of counterparties, and the usage of the credit line monitored. These refined requirements for interbank credit management are in line with industry practice, such as establishing an interbank credit mechanism and automatic credit line monitoring system. A centralised and integrated credit management system can face the following challenges: how to establish a systematic tool for determining access (e.g. scorecard), and gain more effective credit line extensions and updates; and how to ensure dynamic allocations of credit lines between institutions or functions. Differentiated authorisation management shall be based on the type, category, pricing and amount of interbank activity, as well as the type of underlying financial assets and the risk control capacity of the branches. Financial institutions shall re-evaluate and re-approve the authorisation regularly. Notice No. 140 further requires that the headquarters of the legal entity shall centrally manage interbank activities and designate a specialised department to carry out the business.

Transaction management

- Interbank activities that can be conducted electronically via the financial trading market must not be processed by other departments or branches.
- For interbank activities that cannot be conducted electronically via the financial trading market, the specialised department shall examine and approve the trading counterparty, amount, term, pricing and contract on a case by case basis, and shall conduct accounting treatment centrally and assume all risks and responsibilities.

Authorisation management

- The designated department for interbank business shall not delegate the right of authorisation.

Credit management

- The headquarters of a legal entity shall centrally extend credits for on- and off-balance sheet interbank business. It shall not extend multi-end credits.

Counterparty access management

- The headquarters of a legal entity shall centrally maintain a list of trading counterparties, assess the credit risks of its trading counterparties on a regular basis, and make dynamic adjustments to the list.

Specialised business

- The headquarters of a legal entity shall establish or designate a specialised department to take charge of the interbank business. Departments and branches other than the designated department may not engage in the interbank business, and they may not open a separate account to trade on the financial trading markets.

L. With regard to interbank investment, financial institutions shall rigorously conduct risk inspection and compliance inspection on the capital flow of investments, and shall, following the 'substance over form' principle, calculate the risk and accrue the corresponding capital and provision accurately based on the nature of the underlying assets.

   One of the motivations for interbank business innovation is to avoid the use of capital. Under the 'substance over form' principle, risks of interbank investment shall be accurately measured so that corresponding capital can be accrued and provision made based on the nature of the underlying assets invested. Doing so may raise the capital required for certain interbank activities, for example the risk weight of non-standard assets purchased under resale agreements will rise from 20 percent to 100 percent, which means more capital will be used. Provision should be made based on the nature of the underlying assets invested. In fact, non-standard assets under receivables are similar to credit assets, but in many instances, no individual or collective provision is made for them.

M. Financial institutions carrying out interbank business shall reasonably and prudently determine the financing maturity – the maximum for interbank loans shall not exceed three years and for other interbank financing shall not exceed one year. The maturity shall not be extended.

   To a certain extent, the restriction on financing maturity can limit the size of interbank liabilities, but the impact may not be very significant as the maturity requirement is quite similar to the existing practice commonly observed in the industry.

To a certain extent, the restriction on financing maturity can limit the size of interbank liabilities, but the impact may not be very significant as the maturity requirement is quite similar to the existing practice commonly observed in the industry.

The limit on the interbank financing balance may have a greater impact on banks which rely heavily on interbank financing.

Notice No. 127 deals with existing business separately from new business.

N. The net amount of interbank lending of a commercial bank to a single financial institution as a legal person (excluding settlement interbank deposits), after deducting assets of zero risk weight, shall not exceed 50 percent of its Tier 1 capital. Tier 1 capital and assets of zero risk weight shall be calculated in accordance with relevant requirements of the *Administrative Measures on the Capital of Commercial Banks (for Trial implementation* (Decree of the China Banking Regulatory Commission [2012] No. 1). The balance of interbank financing of a commercial bank shall not exceed one-third of its total liabilities. This requirement is not presently applicable to provincial rural credit cooperatives, secondary corporate cooperatives in the provinces and rural banks.

A cap is set for the amount of interbank financing to a single legal entity financial institution, which requires commercial banks to strengthen the limit management of counterparties. To identify capital lent to a single legal entity financial institution, standard management of counterparty information has to be enhanced, and a warning mechanism has to be embedded in the interbank business management system. In addition, existing data in the system or log should be sorted out as early as possible to standardise the names and codes used. The limit on the interbank financing balance may have a greater impact on banks which rely heavily on interbank financing, including CIB and Bank of Ningbo.

O. Interbank business transactions carried out prior to the promulgation of Notice No. 127 should be reported to the PBOC and relevant regulatory departments during the continuity period and settled upon maturity. Notice No. 127 deals with existing business separately from new business. For the interbank business transactions carried out before the promulgation of the notice, the financial institutions shall report the administration situation during the business continuity period to the PBOC and relevant regulatory departments. They can consider tidying up existing business by: 1) reviewing the position of on- and off-balance sheet interbank business, including the acceptance or provision of any direct or indirect, explicit or implicit credit guarantee from/to the third-party financial institutions; 2) analysing the compliance situation of existing products or business and making recommendations; 3) learning about the financier and guarantor of the underlying assets of holding under resale agreements and non-standard investments to enhance the management of existing businesses during the continuity period; and 4) learning about the guarantee of the third-party financial institutions that provide any direct or indirect, explicit or implicit credit guarantee, assessing the underestimation of risks and improving risk transfer.

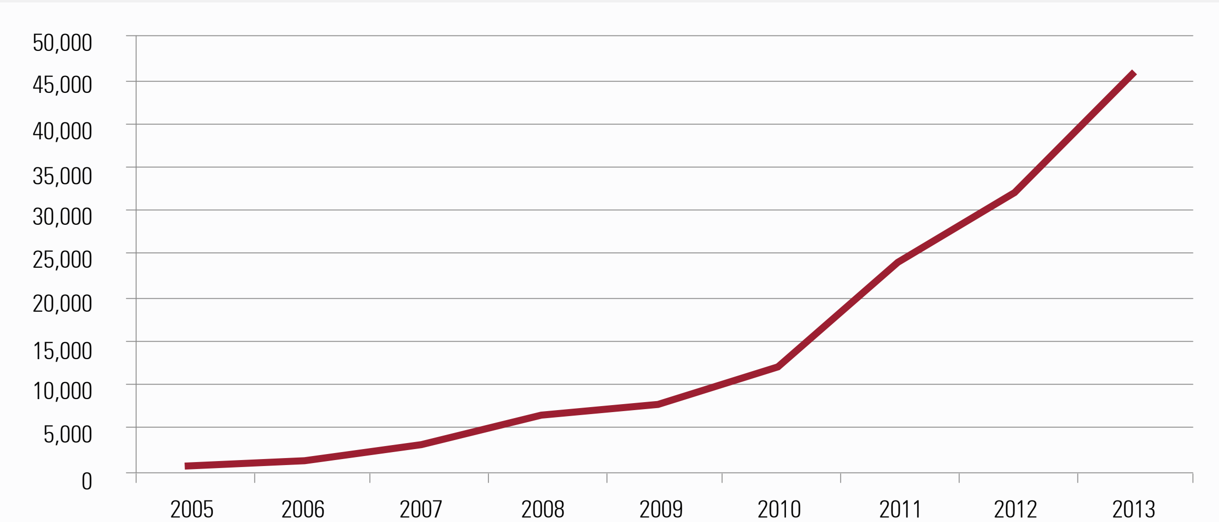
04

WEALTH MANAGEMENT PRODUCTS

The introduction of WMPs has diversified market access to financing and increased the percentage of direct financing.

As of 2004, commercial banks have been permitted to conduct RMB wealth management business in China. Since then, bank WMPs have maintained rapid growth. They have dominated China's wealth management market, and their emergence, progress and expansion are closely linked to the unique financial landscape in China. On the one hand, economic growth has increased the income of entities and the general public, and they are therefore eager to seek ways to preserve and expand their wealth. Due to low interest rates for bank deposits and a lack of investment opportunities, WMPs have become a medium for China's interest rate liberalisation and act as a key investment tool for wealth management. At the same time, the market demand for financing has continued to grow, whereas total bank credit is under stringent regulatory monitoring within a bank-dominated indirect financing framework. Given this background, the introduction of WMPs has diversified market access to financing and increased the percentage of direct financing.

Figure 4.1: Number of WMPs issued by banks



Source: Wind Info

As commercial banks increasingly make direct or indirect investments in non-standardised credit assets through non-bank financial institutions and asset trading platforms, some banks are facing problems, including poor management and failure to prevent investment risks. In order to prevent and control risk effectively, as well as facilitate the regulated development of relevant business, the CBRC issued a circular entitled *Issues Related to Regulating Investment Activities of the Wealth Management Segment of Commercial Banks* ("Circular No. 8") on 25 March 2013.

Regulatory requirements

Definition of non-standardised credit assets

Non-standardised credit assets represent credit assets not traded in the interbank market or stock exchanges, including, but not limited to, credit assets, trust loans, entrusted debts, acceptance bills, letters of credit, trade receivables, various kinds of beneficiary rights and equity financing with buy-back clauses.

Specific accounting for wealth management products

Commercial banks should match each WMP with invested assets (underlying assets), so that there is separate management, setting up of accounts and accounting for each product. The separate management means separate investment management for each WMP, while the separate setting up of accounts means the setting up of an investment subsidiary ledger for each WMP to ensure a concise statement of individual investment asset items. Separate accounting refers to having separate accounting for each WMP to ensure the separate preparation of balance sheets, income statements and cash flow statements for these products.

Enhanced investment management for non-standardised credit assets

Commercial banks must perform pre-investment due diligence, risk reviews and post-investment risk management of non-standardised credit asset investment based on their proprietary loan management processes.

Requirements for measurement and capital provision of risk-weighted assets

As required under the CBRC's new *Administrative Measures for Capital of Commercial Banks (for Trial Implementation)*, for non-standardised credit assets invested prior to the release of Circular No. 8 but which fail to meet the requirements of separate management and the setting up of separate accounts and accounting for each product, commercial banks must, based on their proprietary loans, complete the measurement and capital provision of risk-weighted assets by the end of 2013.

Requirements for quantifying aggregate controls over non-standardised credit assets

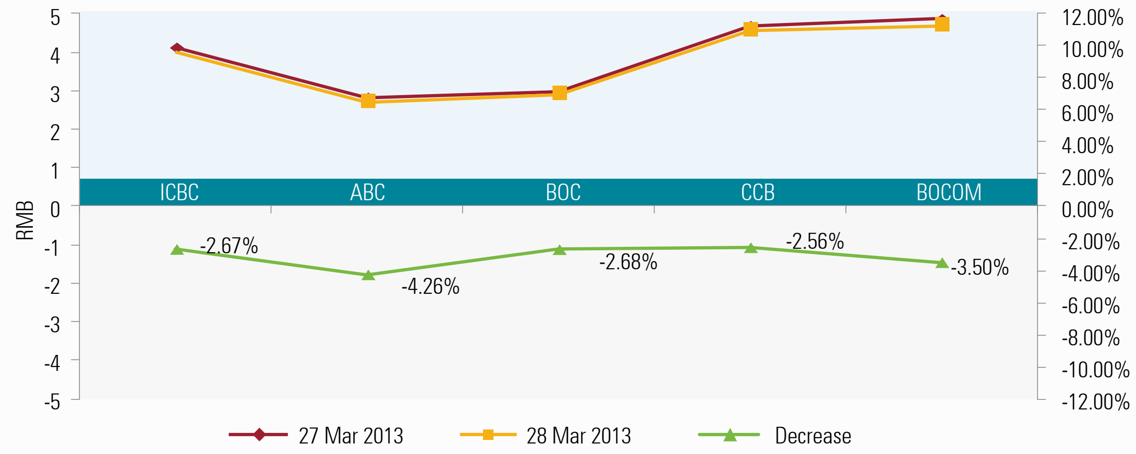
Commercial banks should keep the total wealth management funds invested in non-standardised credit assets at a reasonable level, not exceeding 35 percent of the outstanding balance of WMPs or 4 percent of total bank assets as disclosed in the previous audited report (whichever is lower).

Banking stock experienced an overall fall the day after the CBRC released Circular No. 8, with an average decline of 6 percent in the closing price. This indicates that the introduction of Circular No. 8 was expected to have a negative impact on the overall income of the banks' wealth management business. Compared with the five state-owned banks, the joint stock banks are facing greater pressure due to higher volatility in their stock prices. Circular No. 8 is expected to have a small impact on overall assets in the capital market but a big impact on joint stock banks that have a relatively high portion of non-standardised credit assets.

Commercial banks should match each WMP with invested assets (underlying assets), so that there is separate management, setting up of accounts and accounting for each product.

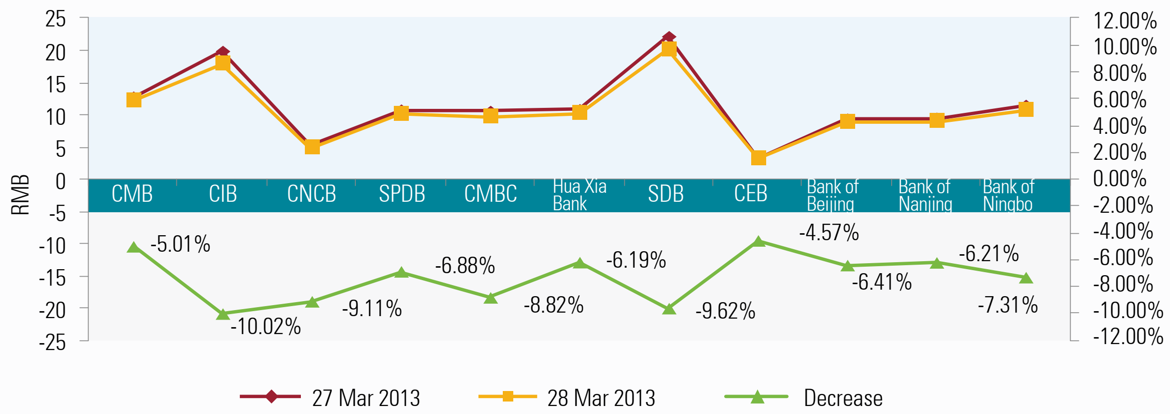
Circular No. 8 is expected to have a small impact on overall assets in the capital market but a big impact on joint stock banks that have a relatively high portion of non-standardised credit assets.

Figure 4.2: Difference in the share prices of the five state-owned banks prior to and after the release of Circular No. 8



Source: Wind Info

Figure 4.3: Difference in the share prices of joint stock banks prior to and after the release of Circular No. 8



Source: Wind Info

Opportunities and challenges

Refined accounting for wealth management products

Circular No. 8 requires that commercial banks match each WMP with invested assets (underlying assets), so that they have separate management, accounts and accounting for each product. In light of this, banks still operating wealth management business under the capital pool model must have performed sub-ledger operations, category management and separate settlements by the end of 2013. Otherwise, they must have completed the measurement and capital provision of risk-weighted assets of non-standardised credit assets by the end of 2013.

Prior to the release of Circular No. 8, the accounting of WMPs largely focused on judging whether they had to be included in banks' balance sheets for accounting purposes and how to conduct initial recognition and subsequent measurement of those products being accounted for in banks' balance sheets. However, no comprehensive accounting system has been established for off-balance sheet WMPs. Circular No. 8 requires that commercial banks conduct separate accounting for each WMP, including their off-balance sheet accounting, and that they ensure the separate preparation of balance sheets, income statements and cash flow statements for these products. Therefore, commercial banks should impose respective accounting rules for off-balance sheet WMPs and establish mapping relations between financial statements.

Circular No. 8 requires that commercial banks conduct separate accounting for each WMP, including their off-balance sheet accounting, and that they ensure the separate preparation of balance sheets, income statements and cash flow statements for these products.

Reinforced risk management and controls for wealth management business

Before the publication of Circular No. 8, commercial banks normally performed pre-investment due diligence, risk reviews and post-investment risk management of non-standardised credit asset investment based on their loan management processes, which tended to be inefficient and less refined. Now that Circular No. 8 specifically requires commercial banks to perform more comprehensive management of non-standardised credit asset investment based on their proprietary loan management processes (covering pre-investment due diligence, risk reviews and post-investment risk management), commercial banks are obliged to enhance risk management and controls of their wealth management business in strict accordance with Circular No. 8.

Circular No. 8 also stipulates that commercial banks should keep the total wealth management funds invested in non-standardised credit assets at a reasonable level in order to ensure regulatory compliance at any time. Otherwise, they have to immediately cease such operations until this requirement is met. In this regard, commercial banks need to consider how to carry out real-time dynamic monitoring of non-standardised credit assets.

To establish sound information systems for wealth management business, commercial banks need to implement data sharing, direct data connection, automatic accounting, report generation, limit monitoring and automatic reconciliation.

Establishment of supporting information systems for wealth management business

To comply with the requirements for accounting, risk management and limit controls under Circular No. 8, commercial banks must put in place supporting information systems for wealth management business. These information systems largely comprise a sales system, a business management system, an accounting system and a custody system. To establish sound information systems for wealth management business, commercial banks need to implement data sharing, direct data connection, automatic accounting, report generation, limit monitoring and automatic reconciliation.

> **In the long run, Circular No. 8 will inevitably force banks to transform their wealth management business, prompting another round of product innovation.**

Transformation of banks' wealth management business

The release of Circular No. 8 implies that the CBRC will not only strengthen the regulation of bank-trust type WMPs, but also expand the scope of the regulations to cover non-standardised credit assets. These regulatory measures will further restrict the use of wealth management funds. In the short run, commercial banks will increase investment in standardised credit assets such as bonds to adjust asset structures in compliance with the quantitative requirements under Circular No. 8. In the long run, Circular No. 8 will inevitably force banks to transform their wealth management business, prompting another round of product innovation, and then mitigate the risk of a sharp decline in income from their intermediary business.

As a pilot bank, ICBC launched a wealth management plan on 14 October 2013. The direct debt financing instruments (DDFI) designed for the bank's wealth management plan have been available for trading on the comprehensive service platforms operated by China Government Securities Depository Trust & Clearing Co., Ltd. (CSDCC) since 22 October. Eleven banks have been approved by the CBRC for inclusion in the asset management business pilot scheme: ICBC, CCB, BOCOM, CNCB, CIB, Ping An Bank, CEB, CMBC, SPDB, CMB and China Bohai Bank (CBHB). Furthermore, BOC, ABC and the Bank of Beijing are expected to get involved soon. These banks will carry out the pilot work of the DDFI and the bank's asset management plan.

The background of the pilot scheme

The CBRC released Circular No. 8 to strengthen regulations on investment activities of the banks' wealth management segment and set out the requirements for quantifying aggregate controls over non-standardised credit assets

The CBRC released *Issues Related to Regulating Investment Activities of the Wealth Management Segment of Commercial Banks* on 25 March 2013. The regulation sets out the requirements for the use of wealth management funds and the internal management of WMPs, including requiring commercial banks to match each WMP with invested assets (underlying assets), so that there is separate management, setting up of accounts and accounting for each product. It requires commercial banks to keep the total wealth management funds invested in non-standardised credit assets at a reasonable level, not exceeding 35 percent of the outstanding balance of the WMPs, or 4 percent of commercial banks' total assets disclosed in the previous audited report at any point in time (whichever is lower).

The regulatory authority specifies the development direction for wealth management business

At the 13th General Assembly of the China Banking Association on 16 September 2013, CBRC Chairman Fulin Shang said that the banks' wealth management business was, in essence, debt direct financing business entrusted by investors. According to Shang, a franchising mechanism should be established to implement the stringent management of fundraising, investment and risks based on relevant standards. Banks will be able to earn income from management fees. However, he stated that profit sharing and risk sharing should not be allowed. Shang added that the banks should also implement centralised business management, special account management and specific accounting to ensure that the source of WMP capital corresponds with its use and maturity. In addition, he recommended that the banks facilitate business innovation based on the principle of directly matching capital demand with supply.

Definition of banks' financial management plans

Wealth management plans are established by commercial banks to invest, operate and manage clients' funds in the manner and scope agreed by the clients. The clients' property is independent of the fixed assets of the managing and custodian banks.

An asset management plan is an open-ended WMP which has a net value disclosure and no expected rate of return. Compared with other WMPs, it is operated as a special purpose vehicle (SPV) and invested in standardised financial investment instruments, including bonds, currency instruments, stocks, funds and DDFI.

Definition of direct debt financing instruments

DDFI refers to standardised investment instruments that are established by commercial banks and invested mainly in the debt financing of a single enterprise. They are registered and managed in the trading market built by the CSDCC and disclosed to the public through designated channels.

Wealth management plans are established by commercial banks to invest, operate and manage clients' funds in the manner and scope agreed by the clients.

Many investors consider the banks' WMPs to be an alternative to deposits.

In order to break the normal practice of rigid payments and achieve a transformation from wealth management to asset management, banks must ensure that their wealth management plans are transparent and fairly evaluated.

The first DDFI was issued and had its book building completed on 21 October 2013. It was officially launched on the comprehensive service platform for DDFI on 22 October. Its size was RMB 12 billion, with a maturity ranging from six months to three years. The price was approximately the same as the benchmark interest rate for loans, i.e. 6 percent, and the maximum coupon rate was less than 6.6 percent.

The purpose of DDFI is mainly to establish a financial instrument with liquidity, market evaluation and transparent information disclosure, and to gradually replace non-standardised credit assets invested in WMPs in order to increase the degree of standardisation of financial investments. Investors can only invest in qualified wealth management plans. As a standardised credit asset, a DDFI is not subject to the requirement in Circular No. 8 that non-standardised credit assets should not exceed 35 percent of the outstanding balance of WMPs. It is a positive attempt at introducing an asset securitisation model, which will help transform non-standard assets to standard assets.

Banks used to invest their wealth management capital through trust corporations, brokerages and fund subsidiaries. These channels cannot help diversify the risks as the capital flows directly from banks to enterprises through different channels. The DDFI enables wealth management plans to meet the demand of enterprises directly without other channels, which will reduce the agency fee and financing costs of the enterprises, and increase the client's income, thus achieving a win-win situation for the banks, clients and enterprises.

Wealth management plans will break the practice of rigid payments, but it remains to be seen whether they will be attractive to investors

Many investors consider the banks' WMPs to be an alternative to deposits. Banks provide loans by raising capital from issuing WMPs and investing in restricted industries, such as real estate, energy-intensive or pollution-intensive industries, or industries affected by overcapacity, which leads to difficulties controlling credit risks. The banks' asset management breaks the practice of rigid payments by not providing any guarantees or expected rate of return. Thus it remains to be seen whether this will be attractive to investors. Though similar to net-value funds, asset management plans enjoy the advantage of the banks' good reputation levels and convenient services. However, it is not yet certain whether they will develop the same competitive advantage as WMPs.

Given the restricted scale of the pilot scheme, it is not yet certain whether DDFI can develop a yield curve that can guide debt financing

The yield of the banks' WMPs (which refers to non-standardised credit products) is mainly determined based on negotiation between the banks and the capital demander, with the earnings of similar products prior to and after the issuance date used as a reference in order to avoid issuance difficulties due to underbidding. For this period, there is a disadvantage in the form of information asymmetry between the investors and the demanders. The publicly traded DDFI provide a yield curve as a reference for other debt financing, which helps reduce financing costs. In order to break the normal practice of rigid payments and achieve a transformation from wealth management to asset management, banks must ensure that their wealth management plans are transparent and fairly evaluated, which requires that DDFI have a certain amount of trading volume and can be evaluated.

> Large joint stock banks with rich experience in asset management will benefit from the expansion of the wealth management and asset management business, while banks with little experience will face challenges.

According to current regulations, the percentage of DDFI held by a single bank should not exceed 80 percent. However, only 28 DDFI have been issued as pilot products and they were quite small. Given that there is difficulty with continuous offers and valuations, DDFI offers include a liquidity premium due to the instruments' limited liquidity.

Higher requirements for the financial investment capacities of commercial banks

DDFI investment must comply with the national policy, which will inevitably exclude real estate, financing platforms and industries affected by overcapacity from the investment scope. Thus, commercial banks can release off-balance sheet financing demand through these instruments.

There is no big difference between DDFI and other traditional WMPs. The capital in an asset management plan is invested in highly liquid assets, including bonds, bond funds, interbank deposits, monetary funds and short-term financial bills. Furthermore, as a debt asset, the capital in an asset management plan is only invested in DDFI within the range of 0-8 percent. The DDFI is mainly based on the quality credit assets held by banks and is not very different from the credit assets under the operation of the cash pool. Therefore, it is quite difficult to increase the yield in an asset management plan beyond that of the banks' WMPs.

After breaking the practice of rigid payments, the operational results of the wealth management plan will be determined by the product's net value, which imposes higher requirements on the investment ability of the commercial banks. Large joint stock banks with rich experience in asset management will benefit from the expansion of the wealth management and asset management business, while banks with little experience will face challenges.

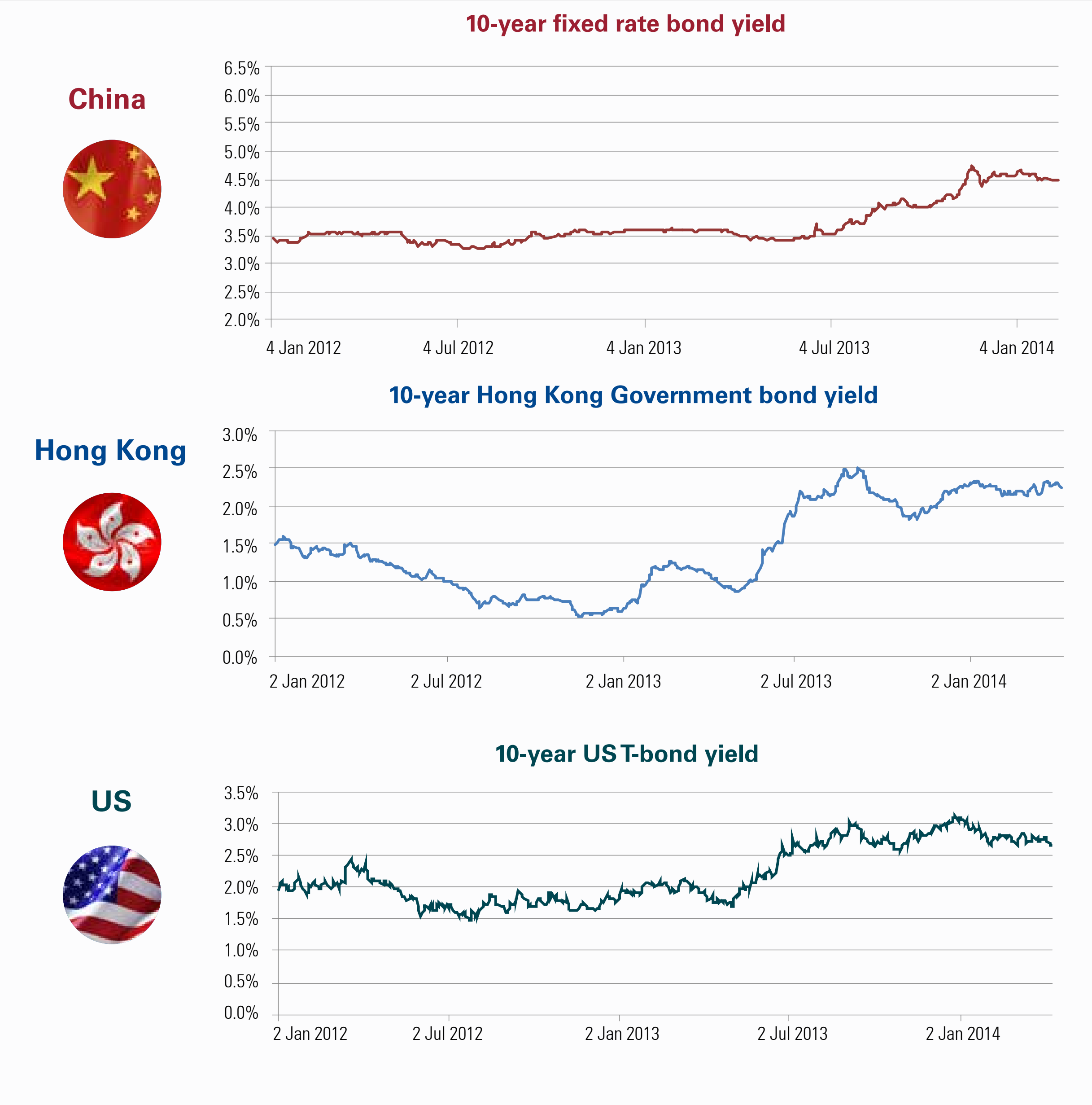
05

IMPACT OF RISING LONG-TERM BOND YIELD

Overall trend of long-term bond yield

From 2012, long-term bond yields experienced an overall upward trend. China's 10-year bond yield began to rise in the second half of 2013, going down slightly in the first quarter of 2014. Hong Kong's 10-year government bonds and the 10-year US Treasury bonds ("US T-bonds") both recorded a rising trend in a volatile market.

Figure 5.1



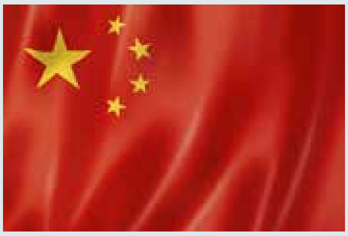
Source: Wind Info, Bloomberg

US

The Federal Reserve System's ("the Fed") scaling back of quantitative easing (QE) and reduction in bond purchases was expected to elevate the mid- to long-term T-bond yield.

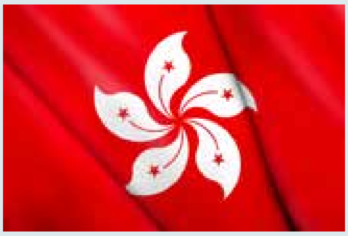
China

Amid interest rate liberalisation and deleveraging initiatives, market funding grew tighter in 2013. The ripple effects of slower money supply growth passed from the short-term monetary market to the long-term bond market, pushing up the bond yield.



Hong Kong

Hong Kong's economy is closely linked to the mainland and is highly open. The effects from China and the US drove up the long-term bond yield.



Long-term bond yield set to remain high

The long-term bond yield level is expected to rise as a result of the QE exit or reduction in bond purchases by the Fed.

Implications of the Fed's QE exit

The long-term bond yield level is expected to rise as a result of the QE exit or reduction in bond purchases by the Fed.

The PBOC's commitment to interest rate liberalisation and deleveraging

In 2013, the PBOC repeatedly announced its commitment to moving forward with interest rate liberalisation. The frequency and nature of policy initiatives showed signs of acceleration. On the other hand, the PBOC's determination to deleverage is evidenced by its robust monetary policy in the face of several 'money shortages' in 2013.

Yield trend exerts pressure on economic growth

Increase in domestic financing cost

China will have to tackle the issue of increased costs for companies raising funds, which could end in a much more serious loan issue – specifically, the bursting of the property bubble. Also, a rise in the long-term bond yield means heightened inflationary pressure. China will face major challenges in maintaining growth, carrying out restructuring and curbing inflation.

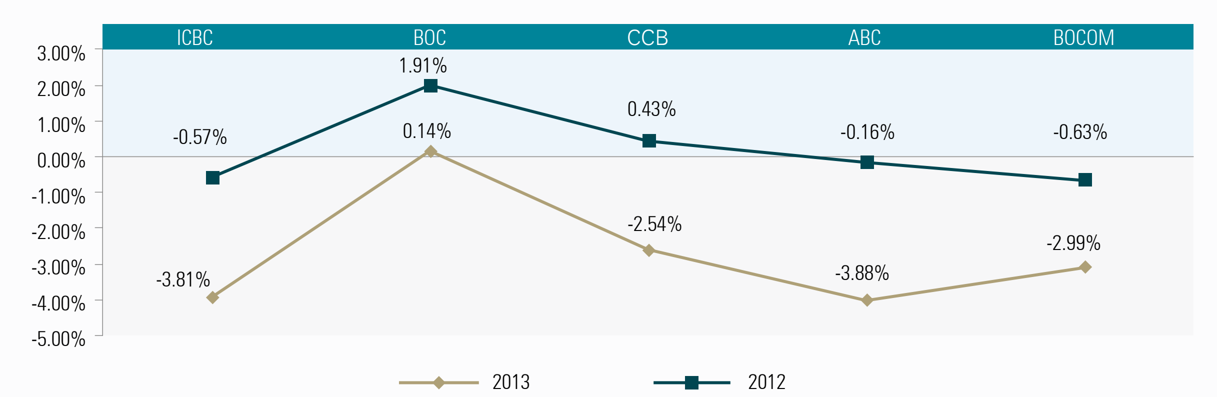
Added debt pressure on emerging markets

Emerging economies were left with substantial debt in the wake of the financial crisis. Debts became unsustainable due to the rising financing costs driven by the increase in the long-term bond yield; against this backdrop, commodities prices also went down, piling further pressure and risks on export-oriented emerging economies.

A rise in the long-term bond yield means heightened inflationary pressure.

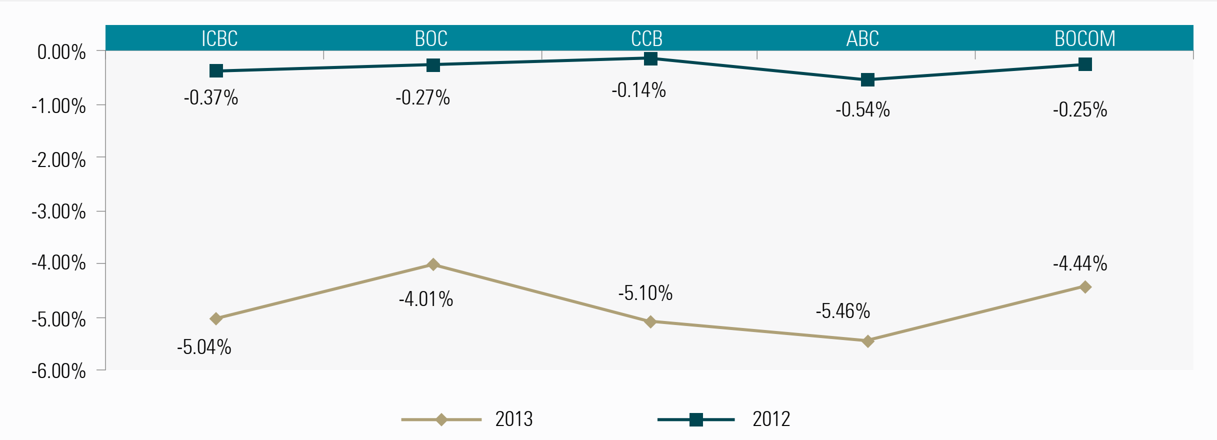
The upward trend of the long-term bond yield, triggered by the scaling back of QE by the Fed, signals the onset of an appreciation cycle for the US dollar. Expectations of currency depreciation in emerging markets have begun to soar, increasing the likelihood of volatility.

Figure 5.2: Available-for-sale floating profit/loss ratios



Source: Banks' 2012 and 2013 annual reports

Figure 5.3: Held-to-maturity floating profit/loss ratios

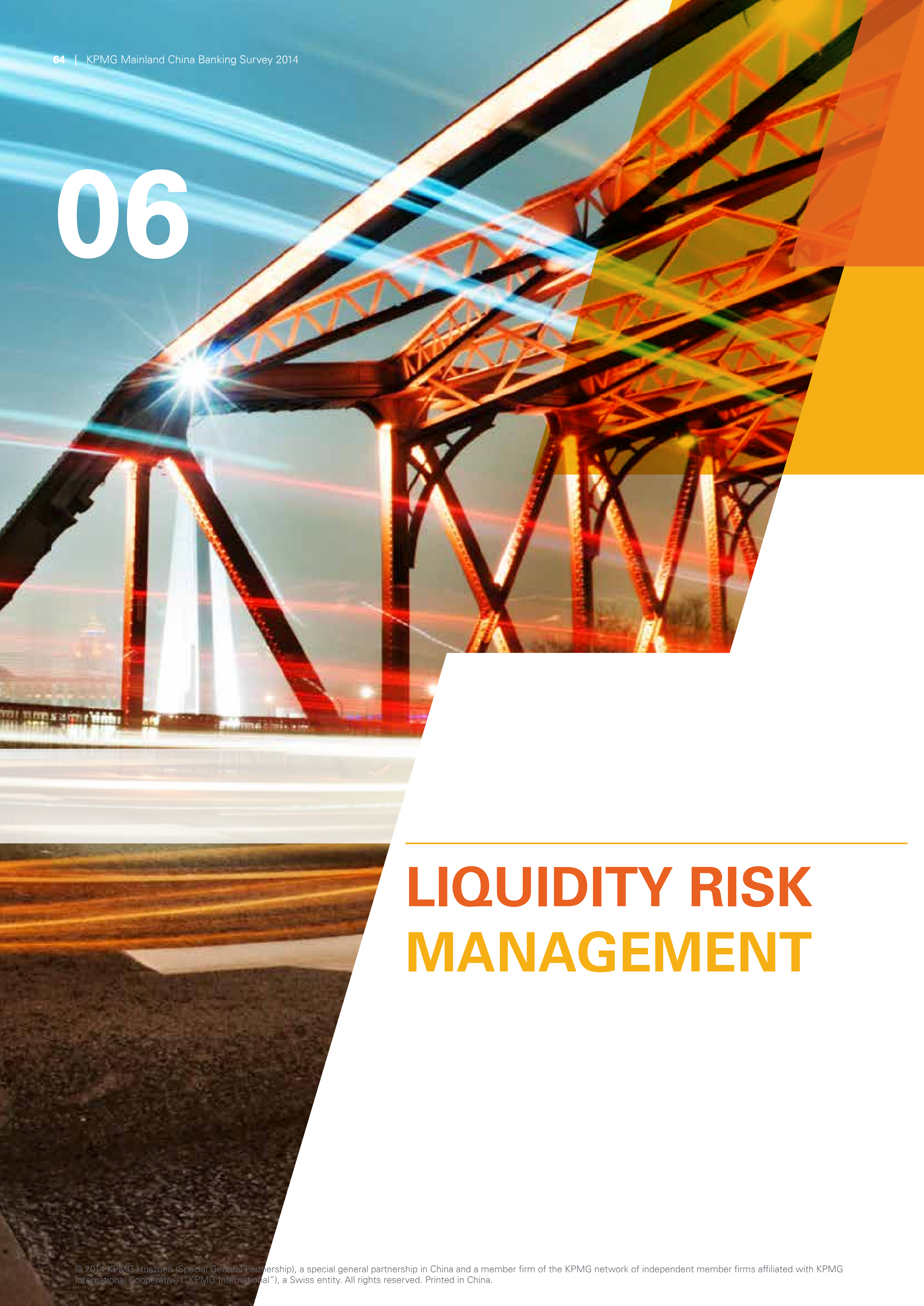


Source: Banks' 2012 and 2013 annual reports

Floating profit/loss ratios in the big five banks:

- Compared with the end of 2012, the floating profit/loss ratio curves of the financial investments of the big five banks showed a downward trend.
- Except for those of BOC, available-for-sale financial assets exhibited significant loss ratios, mainly affected by the bond yield rise. The slight profit ratio for BOC may be attributable to its relatively smaller RMB debt portfolio.
- The banks' held-to-maturity investments generated significant loss ratios, as this type of investment is relatively long term and sensitive to market interest rate hikes.

Note: The floating profit/loss ratio is the ratio of profit or loss to the fair value amount of the investment.



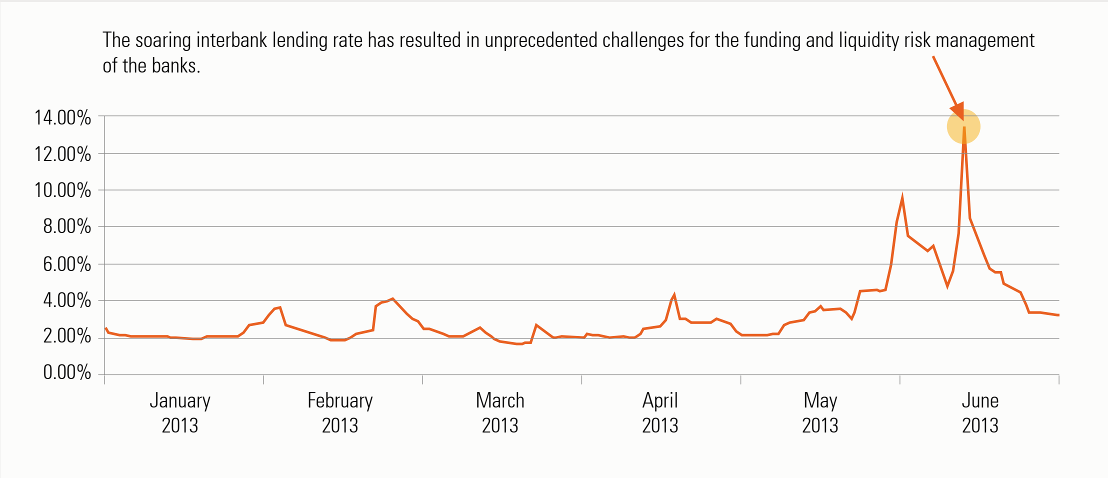
06

LIQUIDITY RISK MANAGEMENT

With the implementation of Basel III *International Framework for Liquidity Risk Measurement* and the CBRC'S *Administrative Measures on the Liquidity Risk Management of Commercial Banks*, the banks began to reflect on how to reinforce liquidity risk management. Considering the background of interest rate liberalisation, fierce interbank competition, variables in the macroeconomic environment and a recent liquidity squeeze for certain banks, this year's banking agenda will be dominated by the re-inspecting and adjustment of funding strategies and structure, the realisation of greater business integration, and the development of robust risk and funding strategies.

In June 2013, the overnight lending rate of the interbank market rose sharply to 13.44 percent (see the figure below), resulting in an increase in financing costs and affecting the cash convertibility of high-quality current assets. Consequently, the banks were forced to face up to liquidity risk. As part of the extensive and continuous supervisory reform of Basel III, the CBRC released the second exposure draft of *Administrative Measures on the Liquidity Risk Management of Commercial Banks* in October 2013 in order to further push the banks to establish liquidity risk management systems in line with their business complexity.

Figure 6.1: SHIBOR O/N



Source: Wind Info, Bloomburg

Liquidity risk can also be dangerous. The global financial crisis and individual banking crises have demonstrated that compared to capital adequacy ratio issues, liquidity problems are more likely to lead to serious consequences. Liquidity is therefore just as significant as capital adequacy ratio.

Regulatory developments

In October 2009, the CBRC released *Administrative Guidelines on the Liquidity Risk Management of Commercial Banks*. The guidelines define liquidity risk and offer guidance on the identification, measurement, monitoring and control of banking liquidity risk management. In addition, it further clarifies and builds up the liquidity risk management monitoring system.

In October 2011, the CBRC announced the first exposure draft of *Administrative Measures on the Liquidity Risk Management of Commercial Banks (Trial)*, which amended the definition of liquidity risk and the liquidity risk management system; added some quantitative control indicators; highlighted the construction of multidimensional, poly-scenario liquidity risk control indicators and monitoring systems; and introduced the liquidity coverage ratio and net stable funding ratio.

In October 2013, in response to the exposure draft of the Basel Committee, the CBRC also issued the second exposure draft of *Administrative Measures on the Liquidity Risk Management of Commercial Banks (Trial)*, introducing the following amendments to the liquidity coverage ratio and calculation method: 1) enlarge the extent of high-quality current assets and newly added 2B level assets to cover corporate bonds with credit ratings of BBB- to A+; 2) decrease the cash flow conversion rate of some liabilities to extensively reflect the actual cash flow of liabilities in tightening liquidity; and 3) change from one-step accomplishment to gradual realisation of the minimum liquidity coverage ratio, which is expected to reach 60 percent in 2015, with an annual minimum increase of 10 percent, until it hits 100 percent in 2019 and beyond.

Due to constantly changing market circumstances and continuously accelerating financial reform, banks are faced with external and internal challenges, particularly the tightening liquidity of the interbank market.

Due to constantly changing market circumstances and continuously accelerating financial reform, banks are faced with external and internal challenges, particularly the tightening liquidity of the interbank market. Banks have to proactively establish a comprehensive liquidity risk management system, instead of simply ensuring compliance in response to supervisory requirements. In the process of transforming from passively satisfying regulations to actively uplifting business management demands, banks need to reinforce the liquidity risk management system framework based on cash flow predictions and the integration of their operating models and liquidity risk preferences, as well as their business funding and liquidity strategies, in order to support their sound operation. Liquidity risk management will likely become a major challenge for banks (both small and large) in the near future.

Liquidity risk management will likely become a major challenge for banks (both small and large) in the near future.

Banks' response plan

With the guidance of risk strategy, liquidity strategy should be included in an integrated risk, business and funding strategy to support the sound operation of the bank. Risk strategy should consider the bearable net cash gap during the bank's minimum survival period as established under stress scenarios; business strategy should ensure that liquidity utilisation and requirements may be adjusted according to risk strategy in a beneficial manner; and funding strategy should be used together with business strategy, in accordance with the bank's risk strategy requirements, to acquire stable and appropriate funds.

It can be seen from the analysis of past financial crises that credit risk might be the most significant risk for banks, but liquidity risk has become the most difficult one to contain in the event of a crisis.

With financing costs increasing and supervisory compliance requirements getting tighter, banks need to improve liquidity risk management by optimising various factors in their credit portfolios.

Liquidity risk governance and policies should further enhance liquidity-based risk preference indicators, and the liquidity risk preferences of the bank must clearly define its bearable liquidity risk level under both normal and stress scenarios. Liquidity risk governance and policies should also reflect specific segregation of duties in the liquidity risk management framework on the basis of cash flow management. Furthermore, they should include predicted risk limits, cash flow monitoring indicators and a complete set of effective early warning reporting system and contingency funding plans.

Liquidity risk identification, measurement, monitoring and stress testing should reinforce the liquidity risk management framework based on cash flow classifications, assumptions and predictions.

The basis of the liquidity risk management and measurement framework is that the bank can identify the key operating models of funding items and classify cash flows accordingly. The bank must develop assumptions and predictions for each type of cash flow in accordance with its cash flow classification, and then prepare cash flow projections.

The bank should construct multidimensional and multi-layered stress scenarios that can be applied to the stress testing of various substantial risks. Moreover, it should establish reasonable and feasible contingency funding plans accordingly, the results of which can be used as important materials for reviewing its strategic plans and integrating its risk, business and funding strategies when appropriate.

A complete management information system is the cornerstone of liquidity risk management. The above important information must be turned into a liquidity risk management report before bank management can make use of it.

It can be seen from the analysis of past financial crises that credit risk might be the most significant risk for banks, but liquidity risk has become the most difficult one to contain in the event of a crisis. Recently, with the gradual rise of capital scarcity and financing costs, market liquidity has been squeezed to some extent by the scramble for limited, high-quality current assets. In such a context, improving liquidity risk management ability and efficiency can boost banks' competitiveness. The cash shortage in June 2013 was a kind of stress test for the domestic banking industry, exposing the operating weaknesses of certain banks and plunging them into a more pressing crisis. Below we discuss how to improve the banks' own liquidity risk management from a micro perspective.

The effects of liquidity on bank credit portfolio management

Traditional credit portfolios mainly focus on measurement, modelling and pricing. With financing costs increasing and supervisory compliance requirements getting tighter, banks need to improve liquidity risk management by optimising various factors in their credit portfolios. Refer to the figure on the following page for the corresponding degrees of management capability improvements, ranging from 0-60 percent. To meet the challenges of liquidity risk, banks should make the following adjustments to their credit portfolio management:

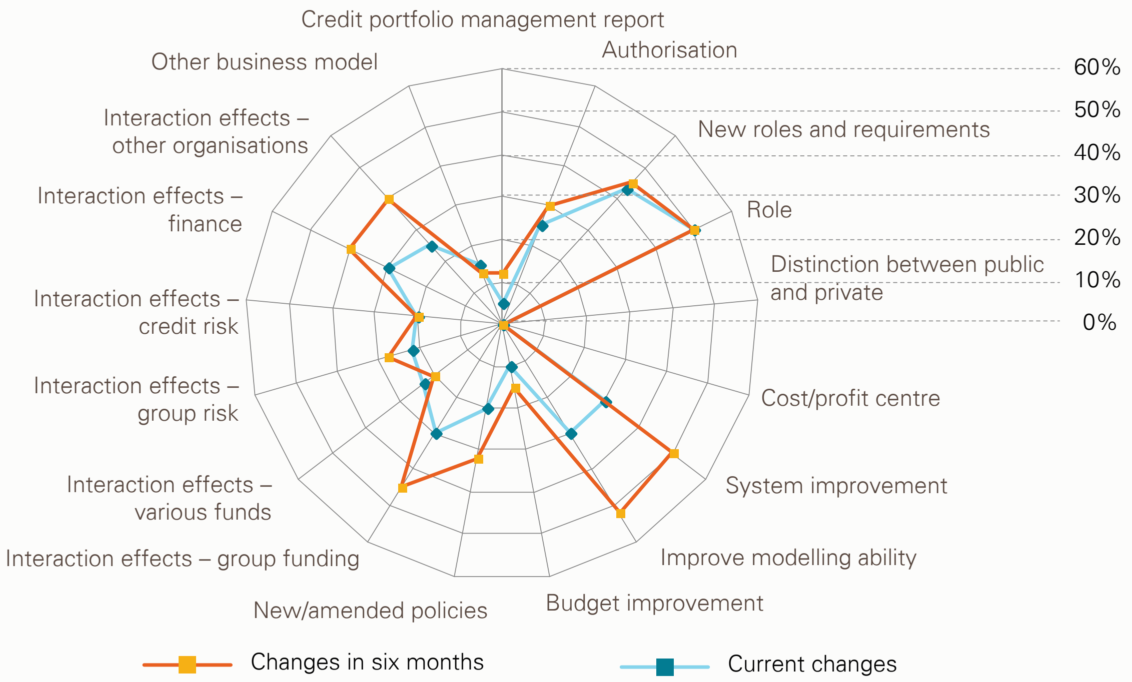
- Enhance the roles and responsibilities for the credit portfolio: The credit portfolio management department holds detailed information on asset portfolios, products and debtors, and is responsible for credit extension strategy and product pricing. However, it should be more involved in fund liquidity risk management. In order to address liquidity challenges, banks must adjust their existing organisational structure and the framework of segregation of duties by moving the liquidity management function from the traditional division of assets and liabilities management to the front desk. This will allow them to achieve positive management of liquidity risk.

- Introduce higher requirements for credit portfolio management pricing capability: Banks need to consider the impact of liquidity spread and include its cost in the assessment of transaction pricing and profitability. However, it should be recognised that the complexity of liquidity risk modelling and the system and primary data requirements are major obstacles to achieving this goal.

- Settle the extensive cost issues through collaboration with other divisions: Banks should utilise the integrating potential of credit portfolio management and coordinate different interested parties, such as the business division, fund division and the assets and liabilities management division, as well as consolidate credit risk and liquidity risk in credit and risk distribution through transfer pricing.

- Act as an information centre for credit market operations, costs and liquidity: New supervisory regulations result in additional requirements for data, reporting and credit operation systems. Banks therefore need substantial data to perform reporting analyses

Figure 6.2: Cost/Profit centre



Source: KPMG China research

Lessons from the global financial crisis

During day-to-day operation, it is vital to place limits on the reliance on funds that could quickly be drained in a crisis. The Committee of European Banking Supervisors (CEBS) identified several types of unreliable funding sources, such as funds that banks take at a higher interest rate, large sum wholesale savings, and unsecured funds provided by banks and other financial institutions. Domestic banks need to reassess their funding sources, as well as the percentage of funds that could be drained during a crisis. Current funding management and stress testing need to fully assess the level of reliance on unreliable funding for both on- and off-balance sheet businesses, together with the potentially devastating impact on banks' liquidity from unreliable funding during a crisis.

During the 2008 financial crisis, the liquidity of the interbank market effectively disappeared overnight. Certain banks were exposed to disruptions in their funding chain, while investors had to withdraw their funds, thereby crippling the market. Current stress testing therefore needs to fully assess risk points in banks' operating models, as well as their impact on liquidity.

Credit risk and liquidity risk are closely linked. High returns and growth in particular lines of business and operating models could be embedded with high liquidity risk. During daily operations, banks need to identify risk points and risky operating models, revise their business strategies, and monitor the impact through cash flow and stress testing. Significant liquidity risk can often be embedded in the most profitable and high-growth banking products and lines of business; during a market downturn, these products and lines of business would be the first to face draining funds or may even trigger a liquidity crisis. At present, the banks' off-balance sheet businesses often involve credit risk (many of the interbank and wealth management assets are high risk and high yield, and are not eligible for a loan), thus the likelihood of liquidity risk triggered by credit risk cannot be ruled out.

China has yet to develop a deposit insurance system. The global financial crisis highlighted the role of a deposit insurance system in helping to maintain customer confidence and savings. Although the deposit reserve with the PBOC can be regarded as a deposit insurance premium, it does not benefit customers directly and cannot preserve public confidence.

Domestic banks need to reassess their funding sources, as well as the percentage of funds that could be drained during a crisis.

Liquidity risk management tools and applications in domestic banks

Major liquidity risk management tools

After the global financial crisis and the resulting implementation of regulatory rules on liquidity risk management, liquidity risk management has leapt to the top of the agenda for bank executives, who have gained deeper insights into liquidity risk management tools. In order to increase the share of reliable funds in daily operations, banks need to both mitigate the risk of term mismatch and strengthen their resilience. The fact that the banks that went broke in the crisis generally showed over-reliance on unsecured wholesale funding is particularly telling.

Liquidity risk management has leapt to the top of the agenda for bank executives.

Liquidity risk affects banks most adversely in a stress scenario, so the focus should be on reducing such an effect. The most effective tools include stress testing and contingency funding plans. The objective of stress testing is to identify and assess the key risk points and weaknesses that exist in the bank's operating model and in both its on- and off-balance sheet businesses, together with the possible impacts in various stress scenarios. Effective stress testing on liquidity needs full endorsement from senior executives. As shown so dramatically during the 2008 financial crisis, reality turns out to be more severe than the stress scenarios used by most banks. In addition, when stress tests indicate that certain high-yield, high-growth businesses are risk points that could have an adverse impact on liquidity, banks would often be unwilling to let go of the profits and market share in return for a reduction of liquidity risk. As a result, understanding and support are needed from senior management. Prime liquid assets held by the bank in daily operations are too limited to support liquidity needs in a crisis. Banks need to develop a sensitive, practical contingency liquidity funding plan. In summary, increases in reliable funds, stress testing and contingency funding plans are the major tools for managing liquidity risk.

Banks need to develop a sensitive, practical contingency liquidity funding plan.

Application in domestic banks

Domestic banks are assessing classes of liabilities in order to distinguish reliable and unreliable funds. As banks start to adopt Basel III's LCR, they are increasingly seeking retail deposits that are more reliable than wholesale deposits. As a deposit insurance system has yet to be put in place, deposit insurance coverage cannot be used as a criterion for distinguishing reliable and unreliable funds.

As banks start to adopt Basel III's LCR, they are increasingly seeking retail deposits that are more reliable than wholesale deposits.

The current competition in the area of WMPs is making retail deposits increasingly less reliable. On the other hand, frequent transfers between WMPs and deposits are making it hard for banks to evaluate customers' saving patterns. Also, online banking is another catalyst for changes in saving behaviour. Issuance of bonds, CDs and other financing instruments is not widespread in domestic banks. After the financial crisis, bank-issued mid- to long-term financing instruments are deemed to be reliable funding sources. This is one of the options available for building a healthy banking system in China.

Limitations exist in liquidity risk stress testing by domestic banks. Domestic banks need to assess whether off-balance sheet items, e.g. WMPs, are covered in the stress tests. Domestic banks also need to assess whether draining rates for reliable and unreliable funds are considered in stress tests, as well as whether other types of risks, such as worsened credit risks, are taken into account. Support is needed from domestic banks' senior management. When the results of stress testing suggest that a slowdown or a change of business model is needed, are executives prepared to sacrifice profits and market share to reduce their liquidity risk profile? This would affect the attitudes held by related departments in the bank towards liquidity risk stress testing.

Funding strategy

Compared to business risk strategy, it is more difficult to carry out a prospective programme for funding strategy. For instance, it is rare for banks to proactively plan the structure of their target funding strategy in detail. The structure should cover the percentages of various funds, including:

- Mortgage funds and unsecured funds: This is in order to make further plans regarding unsecured funds.
- Reliable and unreliable funds and their respective components: This is mainly because the bank has to establish a sound liquidity risk management framework before it can assess and formulate the above-mentioned target funding strategy and the percentages of various funds. However, not many banks are able to accomplish this.

Liquidity risk is a typical second-round effect risk – in the absence of credit, market, operational and reputational risks, liquidity crises would not occur without cause; furthermore, when the credit business expands based on normal business scale, product distribution and speed of development, banks' funding strategies will usually meet the needs of their business strategies. Therefore, liquidity risk management is highly dependent on close coordination between other risk management departments and relevant business departments.

Liquidity risk management is highly dependent on close coordination between other risk management departments and relevant business departments.

Banks need to perform the following five procedures in order to make strategic plans for prospective funding:

- Banks should prepare detailed breakdowns of the cash flows of their key assets and liabilities in order to differentiate various cash flows with varied models and ensure they are separately classified. This is an important prerequisite for assessing their cash flow patterns and attaining accurate, stable cash flows.

- Banks should assess cash flow patterns based on detailed cash flow breakdowns. Specifically, the following cash flows should be assessed:

  - The draining rate of demand deposits

  - The early withdrawal rate of fixed deposits, as well as non-renewal and renewal (when due) rates

  - The on-balance sheet early repayment rate, the refinancing renewal or application rates, the average service rate of recyclable credit extensions, and the highest and lowest service rates

  - The probable service rate of off-balance sheet credit assets

  - The effects of derivative transactions on cash flow

  - The discount rates of investment portfolio assets in different markets.

  Only with in-depth understanding of a variety of key cash flows can banks identify reliable and unreliable funds before turning the balance sheet into a cash flow statement.

Only with in-depth understanding of a variety of key cash flows can banks identify reliable and unreliable funds before turning the balance sheet into a cash flow statement.

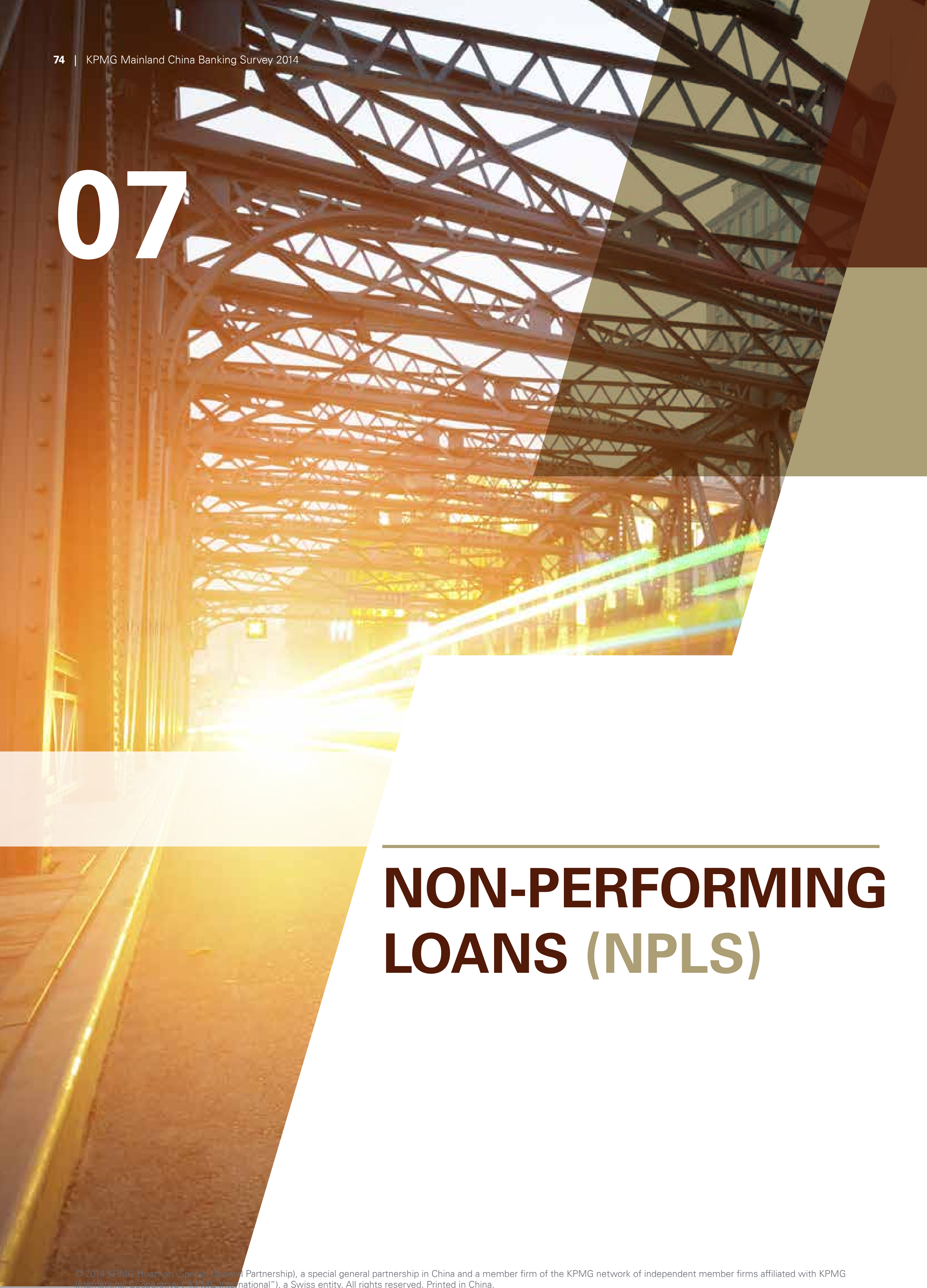
- Banks' annual budget and business planning should not only consider capital capability, but also funding strategy and cash flow. This assessment should be refined and cover major products, including trade financing and financing products, taking into consideration their requirements and influence on liquidity. Therefore, liquidity should be treated as a key consideration in banks' annual budget and business planning.

- Banks should also take into account changes in the above three circumstances in various stress scenarios, including how many high-quality current assets they need to continue as a going concern in the short term, and what contingency funding plans are needed to do so in the long term.

- Lastly, with all the above aspects considered, banks should prepare and analyse cash flow prospects in normal scenarios and various stress scenarios.

By improving all the above-mentioned factors, banks should have sufficient information in place to assess and consider funding strategies and target capital structure.

By improving all the above-mentioned factors, banks should have sufficient information in place to assess and consider funding strategies and target capital structure.



07

NON-PERFORMING LOANS (NPLS)

NPLs increased in 2013

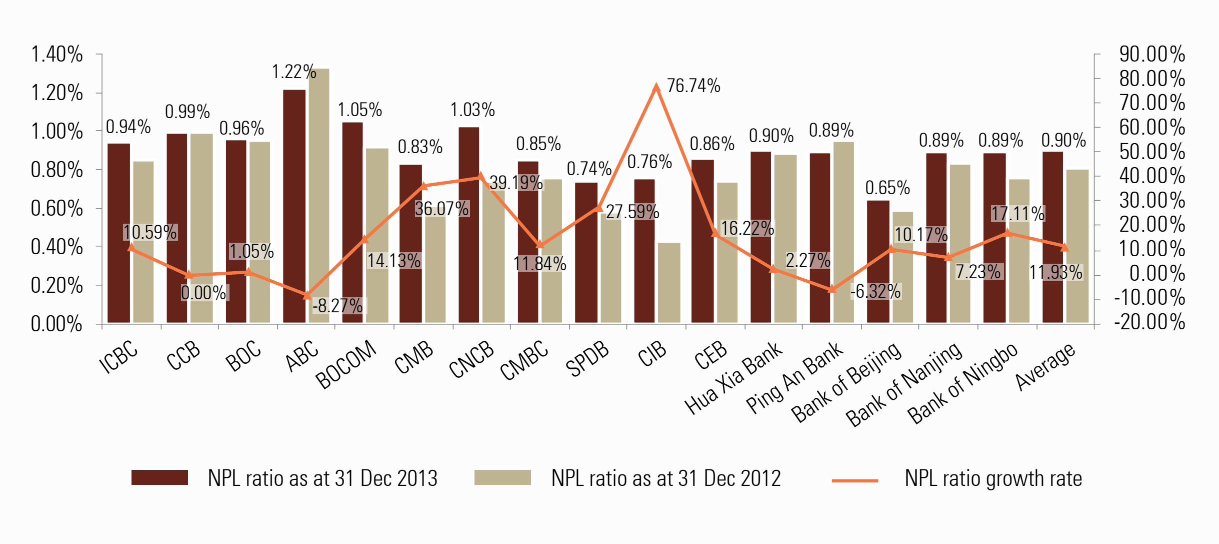
Something that worries investors is the decline in the quality of bank assets, indicated by the increase in NPLs disclosed in the banks' annual reports in 2013. The condition of loans in specific fields, such as real estate, government-backed financing vehicles, and micro and small enterprises, is still the key factor for assessing the quality of commercial banks' assets. The annual reports of the major banks for 2013 reveal their varying levels of performance: ICBC's NPL balance was RMB 93.689 billion, an increase of RMB 19.114 billion compared with the balance as at the end of 2012, and its NPL ratio was 0.94 percent, 0.09 percentage points higher; ABC's NPL balance was RMB 87.781 billion, an increase of RMB 1.933 billion compared to that as at the end of 2012 while its NPL ratio was 1.22 percent, 0.11 percentage points lower; and CCB's NPL balance was RMB 85.264 billion, an increase of RMB 10.646 billion compared to the amount as at the end of 2012 while its NPL ratio remained level at 0.99 percent. After further comparing the annual performance of BOC and BOCOM, we concluded that of these five major banks, only ABC had a decreased NPL ratio. The NPLs and NPL ratios of the listed banks at the end of 2013 increased slightly compared to the ratios at the beginning of 2013, indicating a decline in the quality of bank assets.

As at 31 December 2013, the average NPL ratio of the 16 listed banks in China was 0.90 percent (31 December 2012: 0.81 percent). The NPL ratios of all listed banks have risen except for those of ABC and Ping An Bank, while the NPLs of all listed banks have increased compared to the beginning of the year.

In addition, the banks reinforced the write-off and disposal of NPLs, suggesting that asset quality faced more pressure than could be seen from the accounts. The total write-offs of NPLs in the first half of 2013 by the 16 listed banks was RMB 82.7 billion, a significant increase compared to RMB 33.8 billion for the entire year in 2012. The banks also explored new methods of disposing of NPLs, e.g. having them packaged and sold to asset management companies, securitisation, credit assignment, debt relief and others in order to ease the increase of NPLs.

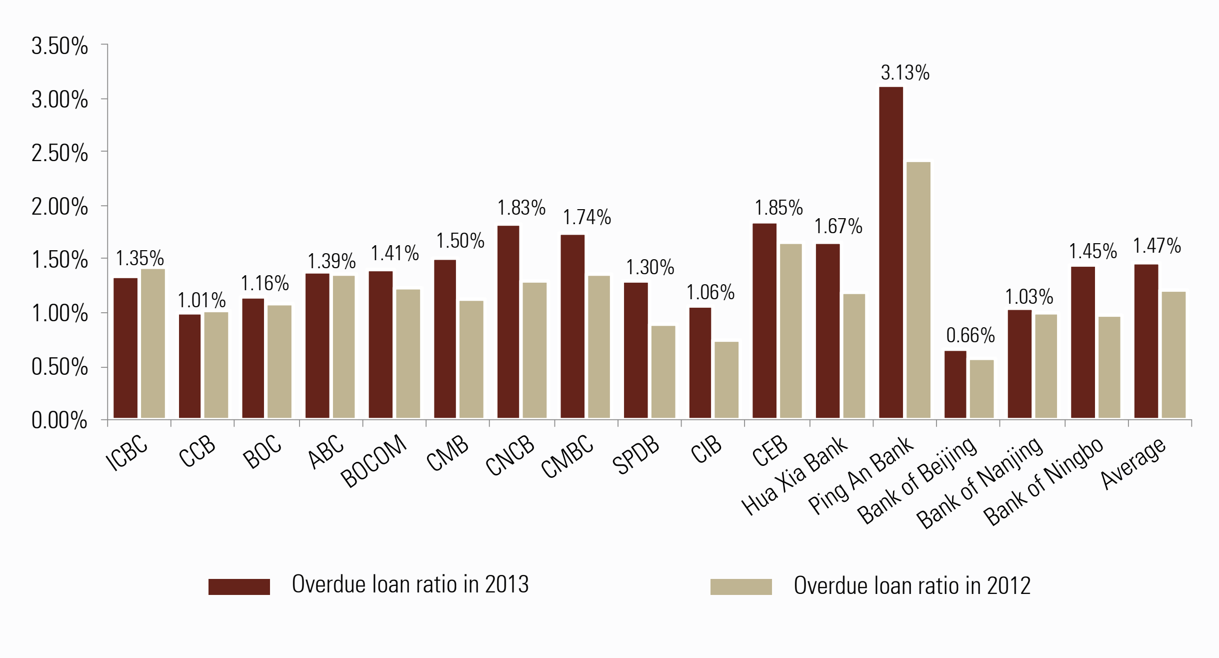
As at 31 December 2013, the average NPL ratio of the 16 listed banks in China was 0.90 percent (31 December 2012: 0.81 percent).

Figure 7.1: NPL ratios and their growth rates



Source: Banks' 2012 and 2013 annual reports

Figure 7.2: Overdue loan ratio in 2012 and 2013



Source: Banks' 2012 and 2013 annual reports

Asset quality still under pressure in 2013

> It is predicted that the asset quality of domestic banks will be subject to further pressure in the near future.

At the end of the first half of 2013, the overdue loan indicators of the listed banks showed that loan quality remained under pressure. As at 31 December 2013, the total overdue loans of the 16 listed banks increased by 24.98 percent compared with the amount at the beginning of the year, while the overdue loan ratio was 1.34 percent, an increase of 13BPS from 1.21 percent at the beginning of the year. Except for ICBC and CCB, the overdue loan ratios of all listed banks have increased to some extent.

It is predicted that the asset quality of domestic banks will be subject to further pressure in the near future, such as overcapacity pressure (particularly in steel trading and the photovoltaic industry) arising from the slowdown of the economy and economic restructuring. In addition, more credit risks will be exposed by multiple impacts, including regional risks and operational risks from non-governmental loans and illegally issued loans, as well as the credit strain on local governments due to ever-expanding local debt.

Since 2012, the 10-year decline in the banks' NPL amount and NPL ratio has been reversed because of multiple factors, such as a slowdown in domestic economic growth, recession in the global economy and tight monetary policy. According to the banks' annual performance in 2013, both the NPL amount and NPL ratio of all A-stock listed banks went up, except those of ABC and Ping An Bank, which succeeded in lowering their NPL ratios despite their rising NPL amounts. The increase of NPLs was mainly reflected in the loans to SMEs in specific regions (e.g. the Yangtze River Delta and Pearl River Delta) and industries (e.g. manufacturing and retail), where the fluctuation of the macro economy inflicted greater damage.

Method to resolve non-performing assets

We predict that as transfer models and mechanisms mature and the number of market participants increases, the number of NPLs being disposed of by these methods will increase exponentially in the future.

Innovation in internal management mechanism

- Building a whole-course accountability mechanism for managing large non-performing assets and devising solution plans for individual accounts
- Establishing a working mechanism for early intervention in order to resolve loan risks that require special attention
- Reinforcing the management of credit and loans, and improving the design and operation of the collateral assessment centre
- Strengthening precautions for risk items through early professional intervention in order to rectify risk-affected loans
- Reinforcing the recovery of mass adverse personal loans and the collection of overdue personal loans in order to refine the management of the watch list and thereby resolve the potential risks
- Enhancing the accountability mechanism for non-performing assets and punishment for illegal credit granting and misconduct

Innovation in external disposal methods

- Reinforcing the write-off of loans and simplifying write-off procedures, which is reflected by the fact that the amount of write-offs in the first half of 2013 was already approaching the yearly amount for 2012
- Packaging and selling NPLs through four major asset management companies, property rights trading platforms and financial asset exchanges; as at November 2013, major banks such as ABC, ICBC, CCB and CNCB had adopted such methods to dispose of NPLs
- Third-party institutions such as trust companies and private equity funds also began the disposal of NPLs

The innovation in the internal management mechanism aims at the recovery and restructuring of NPLs to reduce their volume, while the new external disposal methods focus on the packaging, transfer and sale of NPLs. It is clear that the banks are still exploring new measures to handle NPLs and are yet to launch these measures on a large scale. Furthermore, their primary focus is currently limited to small loans. One of the banks' primary concerns is the amount of information required to be disclosed in public transfers. However, we predict that as transfer models and mechanisms mature and the number of market participants increases, the number of NPLs being disposed of by these methods will increase exponentially in the future.

08

REPLACING BUSINESS TAX WITH VALUE-ADDED TAX IN THE BANKING INDUSTRY

With the rapid development of China's economy and further division of specialisation, the obstructing effects of business tax on specialisation and coordination are clearly felt, as the aggregate revenue amount is regarded as a taxable object under business tax. Furthermore, with the deepening of intermediate links, the tax burden will increase as well. To promote and facilitate the development of specialised production, there needs to be a solution to address the problems of double taxation and unfair taxation.

On 1 January 2012, the reform programme of replacing business tax with VAT was initially launched in the transportation industry and some modern service industries in Shanghai. It was gradually expanded to other pilot areas, spreading out from a single city to eight pilot cities and provinces within two years, and nationwide on 1 August 2013. Structural tax reduction has had a remarkable effect after the replacement of business tax with VAT. According to the statistics published by the State Administration of Taxation, tax reductions amounted to RMB 140.2 billion in 2013 after business tax was replaced with VAT in pilot zones, among which tax reduction for taxpayers in pilot zones amounted to RMB 60 billion, and the original VAT taxpayers enjoyed a tax reduction of RMB 80.2 billion due to an increase in tax offset. At present, the tax reform programme of replacing business tax with VAT is progressing towards full coverage of all industries, with the financial services industry to be included in 2015. However, as the financial services industry has broad involvement and complicated business types, it will be a critical and challenging part of the tax reform. Considering that the time for the expansion of the tax reform pilot programme is tight, and that the preparation time allowed by the financial and taxation authorities is often relatively limited, enterprises, in turn, need to study and understand the policies, adjust tax management, and check management and other systems in order to fully address the challenges in a short space of time. Here, we will discuss the potential impacts on the banking industry and its response to the replacement of business tax with VAT.

To promote and facilitate the development of specialised production, there needs to be a solution to address the problems of double taxation and unfair taxation.

The tax reform programme of replacing business tax with VAT is progressing towards full coverage of all industries, with the financial services industry to be included in 2015.

Impacts of replacing business tax with VAT on the banking industry

The major business provided by the banking industry includes financial services business, direct charge business, indirect profitability financial business, as well as general goods purchase and sales business. The existing business tax is collected based on loan interest income and income from net fee and commission of general loan business. The business tax rate is 5 percent. The policy documents of VAT collection in the banking industry have not yet been unveiled. However, using our international experience and VAT principles, we hereby offer our advice on policies for replacing business tax with VAT, as well as an analysis of its anticipated impact.

Impacts on tax treatment

A. VAT calculation method of the banking industry

According to Cai Shui [2011]110, 'the simplified method' for taxation, which is straightforward and shares similarities with taxation methods for business tax, results in the least impact on banks. However, since the intention is for VAT to replace business tax, and considering the neutral principle of VAT and the integrity of the whole VAT chain, the banking industry will likely prefer 'the general taxation method'. If VAT is collected in all industries, it is feasible for the banking industry to adopt 'the simplified method' during the transition period. However, it will be adverse to the long-term development of the industry. As 'the simplified method' cannot offset input tax, considering the reform principle and objective of the VAT mechanism, it will not be able to address double taxation and other low efficiency problems arsing from the business tax mechanism. Furthermore, 'the simplified method' will have an impact on the integrity of the value-added chain – banks themselves will undertake the VAT cost from the upstream, while it will be hard for downstream enterprises to obtain deductions of input tax for the payment of interest.

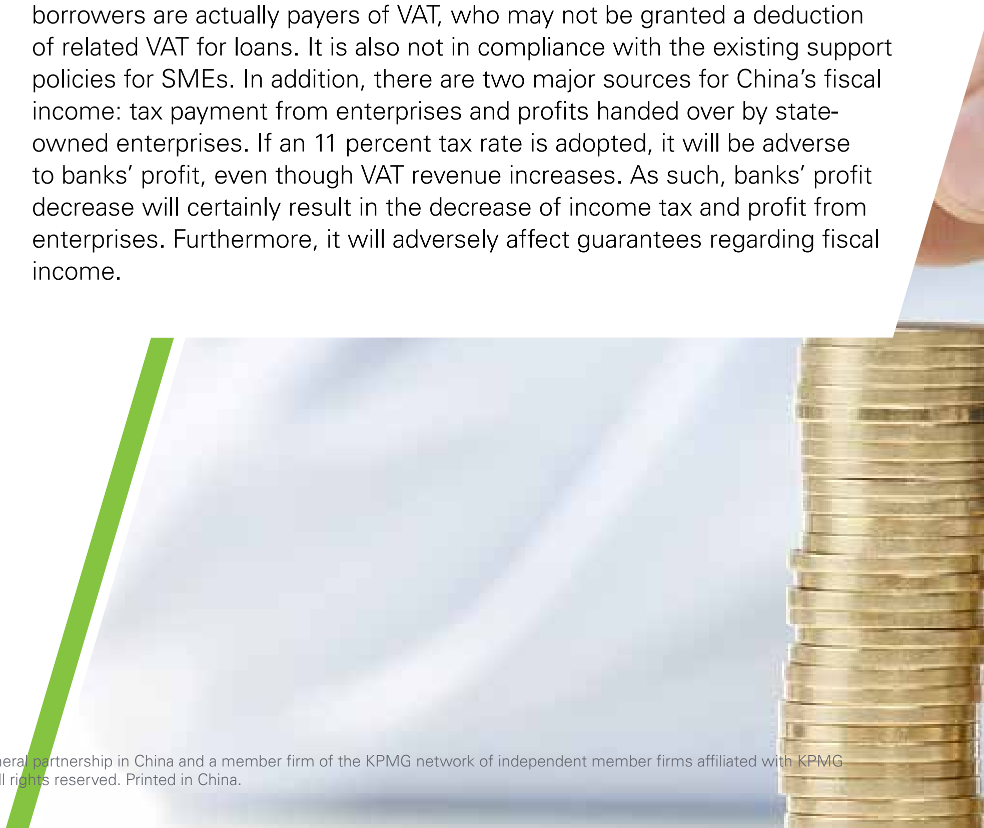
Therefore, if 'the simplified method' cannot be carried out, 'the general taxation method' will need to be adopted. Indeed, a 'general simplified method' could also be introduced. The connotations of this method are: allowing parts of the expense to be regarded as input tax offset (e.g. expense of deposit interest); still adopting 'the simplified method' for certain business; and possibly considering balanced taxing for businesses to which general taxing treatment is applied.

If 'the simplified method' cannot be carried out, 'the general taxation method' will need to be adopted.

If an 11 percent tax rate is adopted, it will be adverse to banks' profit, even though VAT revenue increases.

B. Applicable VAT rate of the banking industry

One of the objectives of replacing business tax with VAT is to maintain the stability of financial income in order to achieve a balance between tax income from the finance industry and that under the business tax mechanism. If an 11 percent tax rate is adopted, the deduction of tax income should be considered, which is a major breakthrough for the VAT mechanism. Adopting an 11 percent tax ratio will have a bigger impact on SMEs. Therefore, some borrowers are actually payers of VAT, who may not be granted a deduction of related VAT for loans. It is also not in compliance with the existing support policies for SMEs. In addition, there are two major sources for China's fiscal income: tax payment from enterprises and profits handed over by state-owned enterprises. If an 11 percent tax rate is adopted, it will be adverse to banks' profit, even though VAT revenue increases. As such, banks' profit decrease will certainly result in the decrease of income tax and profit from enterprises. Furthermore, it will adversely affect guarantees regarding fiscal income.



Impacts on tax management

A. Timing for tax duty

Confirmation of timing for the tax duty of interest income is critical for replacing business tax with VAT in the banking industry. After the tax reform, if the existing regulations of VAT remain, timing for the confirmation of taxable income is basically the same as the payment date stipulated in the contract, the service completion date, or the issuing date of the invoice. If the off-balance sheet overdue interest income is accounted for under the above regulations for the payment of VAT based on the payment date stipulated in the contracts, banks will continue to be exposed to VAT liabilities for non-performing loans with uncertain recoverability. Thus, it is not realistic for the banking industry to adopt such an approach.

The current accounting system has a write-down mechanism for bank interest income. Corporate income tax laws also permit that the 90-day overdue interest income can be offset against the amount of income tax for the period, under the premise that the corporate income tax law allows offsetting on accounting – that is, both the existing accounting and corporate income tax require the establishment of a system for writing down interest income. Furthermore, interest income from banks will be accounted for on the date it is incurred, with a large quantity of income being written down every day. If banks issue red-letter invoices according to the existing VAT regulations, they need to file them with the tax authorities and obtain their approval. However, the process is highly complicated, and will be a heavy blow to banks' invoice management and compliance. In addition, approval for frequent and massive red-letter invoices is also detrimental to tax authorities.

To sum up, it is recommended that the banking industry recognise the timing for tax duty of interest income on a cash basis.

It is recommended that the banking industry recognise the timing for tax duty of interest income on a cash basis.

Most of the banks' input tax is incurred at their headquarters, which are relatively short of output tax.

B. Consolidated taxation

As stipulated in Term 1, Article 42 of *Provisional Regulations of the People's Republic of China on Value-added Tax*, "upon approval by the finance and tax authorities of the State Council or their authorised finance and tax authorities, the parent organisation may file consolidated tax returns with, and make tax payments to, the tax authorities in charge at the location of the parent organisation."

Most of the banks' input tax is incurred at their headquarters, which are relatively short of output tax. As a result, any of the banks' input tax that is retained for a long period will increase the burden on their cash flow. The actual increase of tax cannot truly reflect enterprises' tax distribution. Filing and paying VAT charged by a sub-branch itself will also be an inconvenience in the management of banks and result in a number of problems related to budget and filing management, as well as system support.

The banking industry may use consolidated taxation to gather all the VAT filings of all outlets to their sub-branches. Sub-branches will pay provisional VAT according to the tax rate stipulated by local regulations, while headquarters will consolidate tax filings and deduct the provisional VAT in the local area. The filing period is still on a quarterly basis. After the first filing period each year, the consolidated taxation will be settled for sub-branches and headquarters for the previous year.

The management of VAT-specific invoices is more complicated than the method used for managing business tax.

According to the experience of other industries which have replaced business tax with VAT, preparation for tax reform can be categorised into 'policy sensitive issues' and 'policy insensitive issues'.

Management of value-added invoices

Currently, China's management of value-added invoices mainly relies on the golden tax project. The VAT-specific invoice issued by the golden tax system is highly manually oriented, so the whole process, from the purchase of a tax printer to obtaining invoices from the tax authorities, requires manual involvement. Each VAT taxpayer needs to hold a tax control IC card to purchase invoices from the tax authorities. When issuing an invoice, the specific contents will be input manually and printed accordingly. The taxpayer scans the invoice with the special scanner designated by the tax authorities and then uploads the scanned copy to the tax bureau's website for online verification or takes it directly to the tax authorities. Furthermore, the taxpayer also needs to transcribe tax information to the IC card. If a transaction is cancelled or the price is changed afterwards, the taxpayer should issue a red-letter invoice to promptly correct the VAT treatment.

Thus, the management of VAT-specific invoices is more complicated than the method used for managing business tax. Electronic invoices have not been widely accepted in China, as transaction data in the banking industry is highly sensitive and the absolute amount and scale is large. Furthermore, transaction objects are extensive. Demand for issuing invoices, correct data input in transaction counterparties, as well as reconciliation between enterprises' information systems and the golden tax system are material issues in the course of replacing business tax with VAT in the banking industry.

The banking industry's response to VAT reform

The policy for replacing business tax with VAT is still uncertain, but the authorities are pressing ahead with the process. Moreover, the financial and taxation authorities often allow only one to two months for enterprises to prepare. How will the banking industry begin to address VAT reform?

According to the experience of other industries which have replaced business tax with VAT, preparation for tax reform can be categorised into 'policy sensitive issues' and 'policy insensitive issues', with the latter accounting for the larger proportion. For instance, if the policy remains uncertain, the banking industry needs to start thinking about which existing business processes need to change in order to meet the requirements of the information system treatment after tax reform. Which modules need restructuring to separate income and tax duty? How will banks realise the differentiation of various types of income, as well as separation of tax duty for different taxes in the system, if the general taxation method is adopted? How will the input tax of VAT be restructured in the system?

The banking industry's reform steps

As for policy sensitive issues, accurate system restructuring often relies on the confirmation of tax policies and business restructuring. As the interval between the introduction and implementation of policies is comparatively short, banks may need to consider preparing several alternatives to ensure the success of replacing business tax with VAT. According to international practice and the experience of other industries, the banking industry can adopt the following initial steps to prepare for the replacement of business tax with VAT:

- Identify businesses directly and indirectly affected by the replacement of business tax with VAT. This includes separate descriptions of business flow characteristics and individual revenue and orientation analyses, as well as a specific analysis of fees arising from the purchase of products.

- Review how the process of replacing business tax with VAT affects business models. Currently, some business models can minimise business tax duty. However, after replacing business tax with VAT, will these business models still be effective?

- Analyse the impact of VAT reform on related fees, charges and corporate profit. Is the enterprise empowered with legal and commercial negotiations to ensure any form of rise in price is transferred to clients? To what extent will service fees and charges be affected? And what about profits? How far will cross-border payments reach, and how will they be managed?

- Review the ongoing contracts signed by the enterprise to see whether they potentially cross the promotion period of VAT reform. If so, do the terms of the contracts consider the impact after the new tax laws become effective? If banks are signing contracts to purchase goods and services, will the suppliers have to bear the impacts of tax rate fluctuations resulting from VAT reform? How will the banks cope with existing contracts?

As the interval between the introduction and implementation of policies is comparatively short, banks may need to consider preparing several alternatives to ensure the success of replacing business tax with VAT.

- Review the information system and accounting system to see how they need to be restructured to meet the requirements of the new tax laws. Will these systems be able to identify and file the input tax arising from enterprises' procurement? Will banks use the tax codes applied to VAT with multiple tax rates? Will enterprises' own systems be able to link to and match with the golden tax system?

- Identify invoices, cash teller systems and the requirements of internal control. Will banks need devices or necessary information so that each subsidiary can issue specific invoices? If so, which method will be adopted to manage the issuance of specific invoices?

- Review what kinds of impact will arise on cash flow, especially the rise in the tax rate faced by taxpayers. How can banks ensure that the amounts received from clients contain VAT? How will they minimise the timing between VAT amounts paid and input tax filed?

- Confirm the number of suppliers, including the existing and potential ones. The goods purchased from small taxpayers cannot be filed for offset input tax. After VAT reform, will enterprises consider terminating business relationships with small taxpayers who cannot issue specific invoices (which would result in a failure of filing input tax) in order to conduct procurement from general taxpayers?

- Check how related staff handle tax issues. Do the employees who are responsible for handling taxable accounts have the skills and capabilities to ensure the compliance of invoice issuance? To what extent will the enterprise need to regulate the procedure to meet such demands?

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09

INTERNET FINANCE

Overview

As there is a relatively broad range of internet finance topics, we will continue to discuss them in subsequent reports. Here we will introduce internet WMPs and P2P lending platforms.

Definition of internet finance

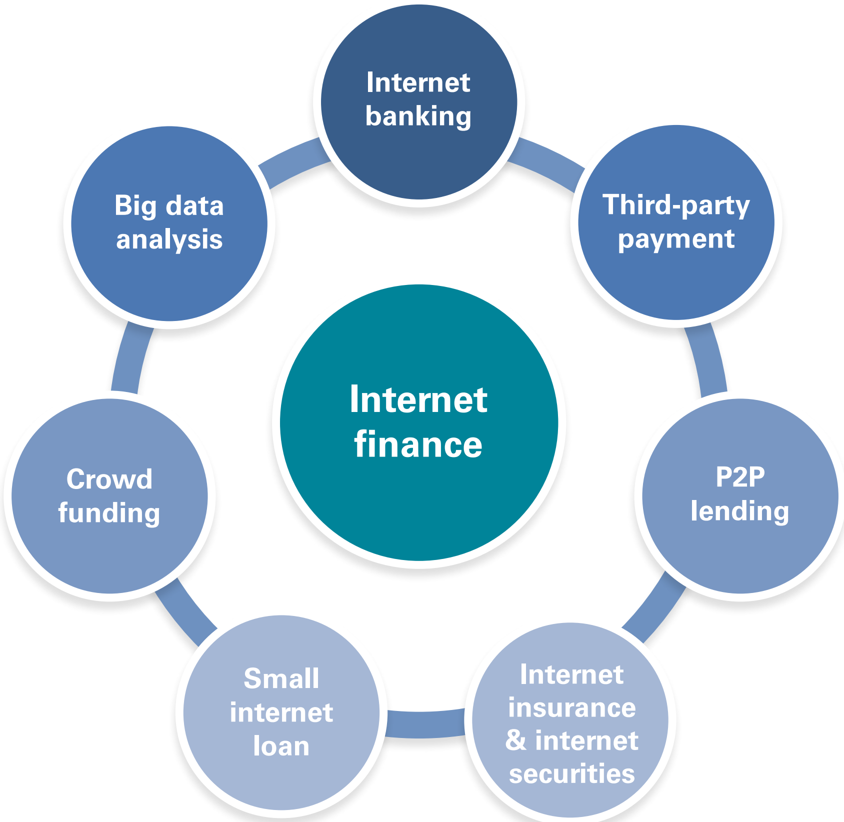
Since there is no single commonly accepted definition of internet finance, we offer the definition proposed by Mr Xie Ping in 2012: “Internet finance is a spectrum concept found under the influence of the technology and spirit of the internet, covering all financial transactions and organisational forms, from a financial intermediary and market condition involving traditional banks, securities, insurance and exchanges to the corresponding non-financial intermediary and market condition proposed in the idealised hypothesis of perfectly competitive market equilibrium. There are three main points in understanding the concept of internet finance: its perspective, its connection and difference with traditional finance, and its three major building blocks.”

Traditional finance

To provide services such as financing, payment and settlement through commercial banks

Internet finance

To provide digital financial services based on internet applications, featuring a decentralised and flat service model and minimised cost of interaction



Three building blocks of internet finance

A. Payment

Based on mobile payment and third-party payment, and active outside the traditional payment and settlement system dominated by banks, internet finance can effectively reduce transaction costs.

B. Information processing

Big data analysis is widely used in internet finance for information processing, which is reflected by an abundance of algorithms, as well as automatic and high-speed network arithmetic, thereby improving the efficiency of risk pricing and risk management, and minimising information asymmetry. This is the fundamental difference that separates internet finance from the indirect financing of commercial banks and the direct financing of the capital market.

Due to the close bond between financial products and the real economy in internet finance, the trade possibility frontier is greatly expanded.

C. Fund allocation

Due to the close bond between financial products and the real economy in internet finance, the trade possibility frontier is greatly expanded. Therefore, the allocation for demand and supply of funds according to time limit and volume can be carried out independent of traditional financial intermediary markets such as banks, securities firms and exchanges.

Yuebao has increased its market size to RMB 541.3 billion since it was established in June 2013.

Features of internet finance

A. Improved resource accessibility

Funds and information are two major market resources. The utilisation of internet technology enriches marketing information and expands transaction channels, resulting in improved resource accessibility. The more popularised financial service entities and flatter service path provide more diversified selection for participants and individuals.

B. Reduced cost

The utilisation of internet technology improves the transparency and extent of information communication, and reduces the costs of information exchange and transactions.

C. Disintermediation

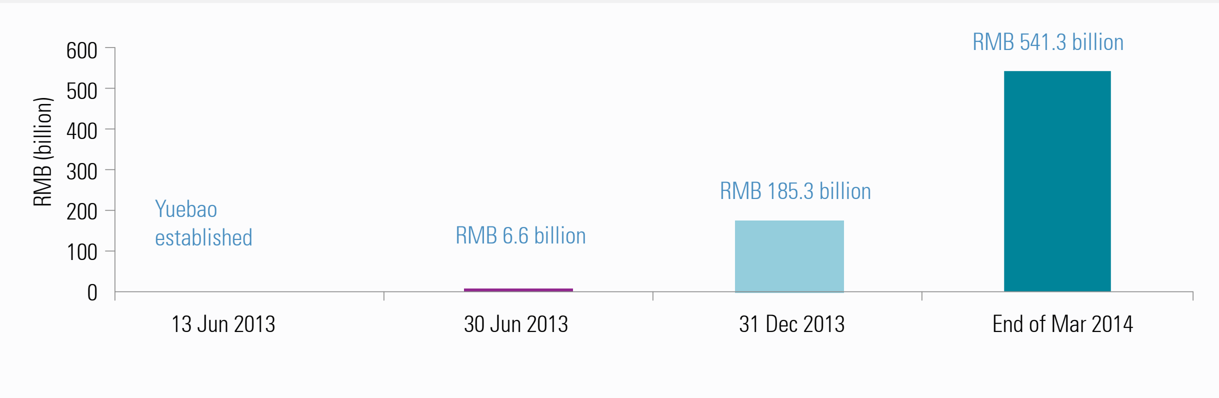
Traditional commercial banks play an important role as financial intermediaries in financial transactions. Through internet finance, both borrow/loan transactions and payments can be conducted on internet platforms. Therefore, the financial intermediary function of commercial banks will be gradually marginalised.

Internet wealth management products

Over 50 types of internet WMPs have been developed, including: Yuebao, Caitong and Baizhuan (Baidu); Ping An Ying (Ping An Bank), Ru Yi Bao (CMBC) and Manager's Wallet (CIB); and Hua Xia's Huo Qi Tong, as well as Yifangda's E-wallet, by fund companies.

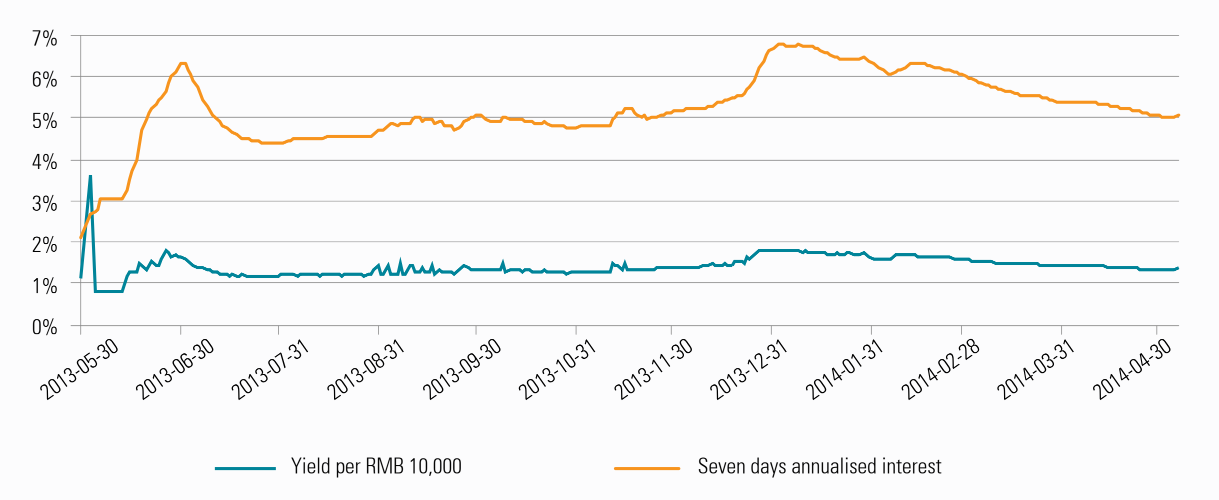
Yuebao has increased its market size to RMB 541.3 billion since it was established in June 2013. Online WMPs similar to Yuebao have broken through bank caps. The current deposit interest rate in the banks is 0.35 percent, while the seven-day annualised interest of Yuebao is 5.23 percent. Most of the money is invested in bank savings agreements.

Figure 9.1: Rapid growth of Yuebao's market size since its establishment



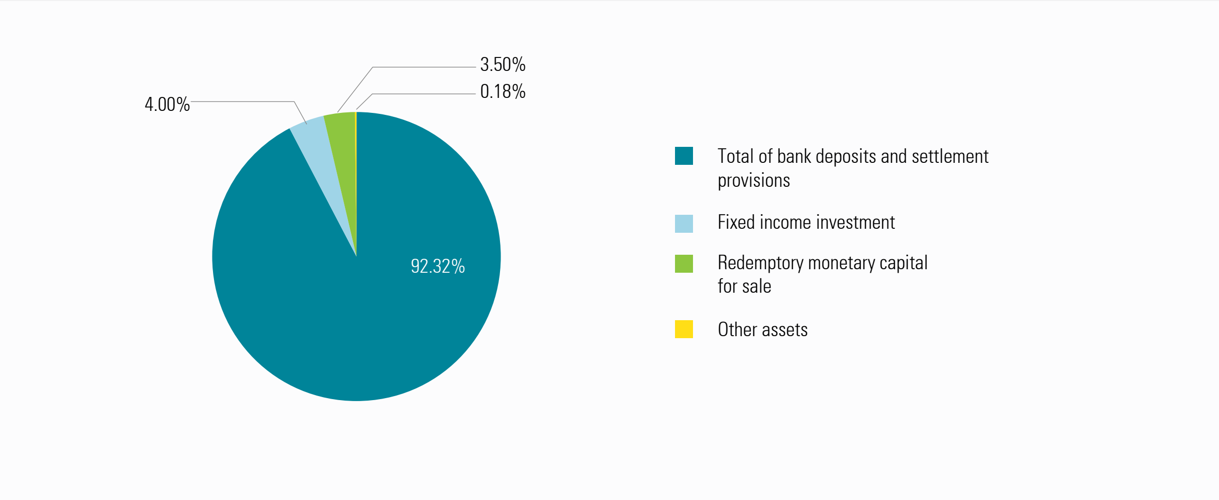
Source: Tianhong Asset Management

Figure 9.2: Yields of Yuebao



Source: Tianhong Fund

Figure 9.3: The assets portfolio of Yuebao-Tianhong Zenglibao monetary fund



Source: Tianhong Asset Management

The sustainability of high-yield internet wealth management products

The main reference index for the yields of agreement savings in monetary fund investments is the SHIBOR, especially the one-month interest rate. The interest rate for interbank deposit agreements exceeded 7 percent at the end of 2013, but the one-month SHIBOR interest rate decreased to 4 percent in April 2014. Since the launch of Yuebao, there have been subtle changes in the supply and demand relationship between monetary funds as capital suppliers and banks as capital demanders. Fund companies could raise the interest rate for high bids as the capital demand for agreement savings was greater than the supply before Yuebao was launched. However, as Yuebao and Caitong achieved rapid growth around the spring of 2014, ChinaAMC and Tianhong Fund turned out to be competitors in the agreement savings market. Recently, Yuebao's yield has decreased from 6 percent to 5 percent, which is a normal level for a monetary fund.

Advantages of internet wealth management

- Low rates: The standard purchase rate for buying funds from banks is 1.5 percent, but it is 0.6 percent when buying online. Many third parties will subsidise the purchase rates for buying funds online as a preferential policy.

- Low threshold: The minimum threshold to buy a short-term WMP in banks is RMB 50,000, while online products like Alipay require lower thresholds, such as RMB 1, which caters to the needs of investors.

- Short-term periods: Wealth management plans with one-month, one-week or even one-day periods provide greater convenience for investors looking to invest in stocks and bonds.

Wealth management plans with one-month, one-week or even one-day periods provide greater convenience for investors looking to invest in stocks and bonds.

Advantages of banks' wealth management plans

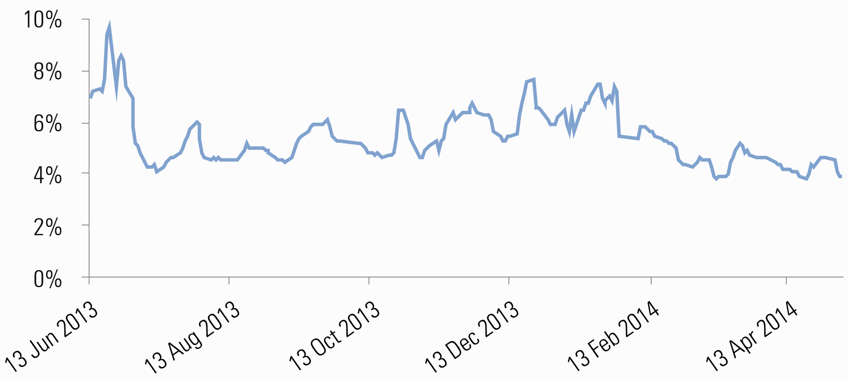
- Conventional channels: Investors can buy more diverse types of funds through banks, such as equity funds, bond funds, index funds, hybrid funds, private funds and futures funds. The internet channels mainly focus on monetary funds.

- High security: Fund companies operated by large state-owned banks provide investors with professional wealth management plans and advice, as well as abundant financial resources and a team of experienced finance management staff.

- Relatively low risks: Online wealth management is exposed to business risks, including default risk. Furthermore, it carries the risk of breaches in personal privacy due to information transparency. In addition, the safety of third-party payments is lower than that of bank accounts and such payments are more vulnerable to theft.

Investors can buy more diverse types of funds through banks, such as equity funds, bond funds, index funds, hybrid funds, private funds and futures funds.

Figure 9.4: One-month SHIBOR trend



Source: Wind Info

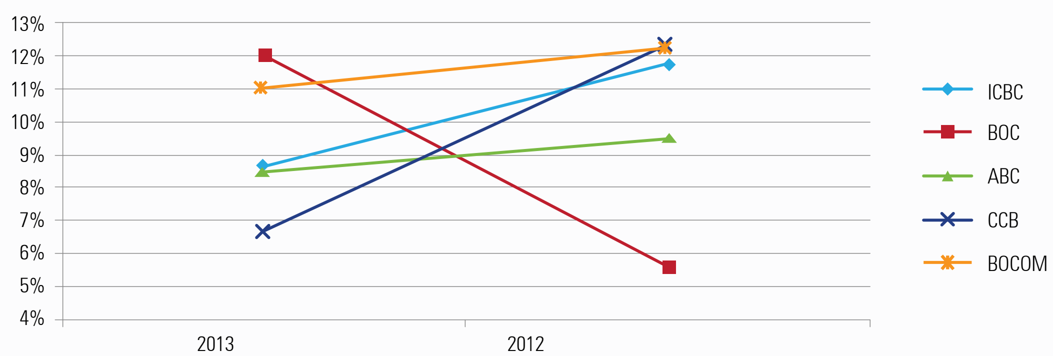
The impact of internet wealth management products on banks

Banks are facing other deposit-related pressures too, such as a decline in corporate deposits in large state-owned banks and joint stock banks.

A. From bank deposits to online wealth management products

For commercial banks, Yuebao and Alipay are higher-yielding alternatives to traditional savings accounts, which draw money away from bank deposits. As more and more customers get accustomed to Yuebao, they will likely slowly move away from banks, leading to a decline in income from individual customers. The rapid growth of internet finance represented by Yuebao not only squeezes the profit margin of commercial banks, but also facilitates its disintermediation, which changes current customers' financial habits and poses a challenge to the dominant position of commercial banks in the financing market. In fact, banks are facing additional deposit-related pressures too, such as a decline in the balance of customer deposits in large state-owned banks and joint stock banks. This is due to new rules that prohibit several methods of calculating deposits, such as attracting deposits along with loan offerings and deposits with payments on deferred terms; converting financial products to deposits; or converting financial institution deposits to its own deposits.

Figure 9.5: Comparison of corporate deposit growth in five state-owned banks



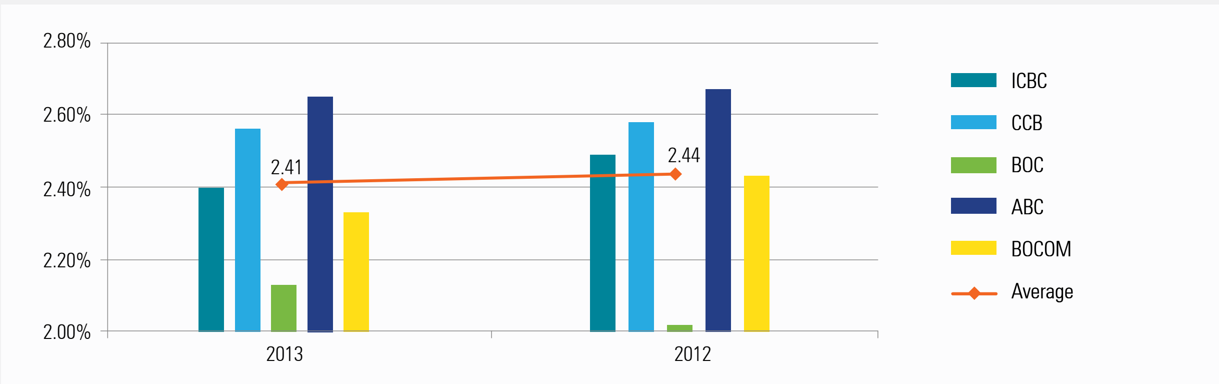
Source: Annual reports of listed companies on the Shanghai Stock Exchange (SSE) website

B. Interest rate liberalisation

The most optimistic observers even believe that the interest rate will grow by at least 100BPS within one to two years.

Yuebao attracts capital from bank deposits with higher interest rates through Alipay, and then deposits capital into the bank in the form of agreement savings. The money still stays in the system, but it turns cheap deposits into expensive agreement savings. This drives up the banks' liability costs and, in turn, increases clients' borrowing costs. Currently, the banks' benchmark interest rate is 3.25 percent, while the Consumer Price Index (CPI) in 2013 was 2.6 percent, which means depositors can only get a 0.65 percent return. By contrast, the annualised yield on online financial products is usually 6-7 percent. Therefore, banks have also launched their own high-yield financial products. In this way, the liberalisation of interest rates seems to be accelerating. The most optimistic observers even believe that the interest rate will grow by at least 100BPS within one to two years. Also, as key supporting mechanisms of liberalisation, the deposit insurance system and exit mechanism will soon be introduced. The narrowing down of the interest margin will slow down the growth of the banks' net interest income.

Figure 9.6: Changes of net interest margin in five state-owned banks



Source: Annual reports of listed companies on the SSE website

C. Responses of traditional banks

Faced with the pressure of losing deposits on their financial statements, some state-owned commercial banks are launching a counter-attack against Yuebao. Currently, the three major state-owned commercial banks have refused to accept agreement deposits from Tianhong Asset Management Co,. Ltd, the mutual fund owned by e-commerce giant Alibaba. Contrary to the response of state-owned banks, joint stock commercial banks are more inclined to maintain business cooperation with monetary funds. As they are financing banks, Yuebao is a very important counterparty to them with regard to transactions.

D. Discussion of regulations for internet wealth management products

For Yuebao and other online financial products questioned by conventional banks, senior officials state that they will encourage internet finance instead of halting Yuebao-like products, as well as strengthen supervision. Experts in the banking and financing industry propose that online financial monetary funds should be included in general deposit management as bank saving deposits rather than interbank deposits, and should therefore be subject to reserve requirements. They request that all banks comply with relevant regulations, adopt a cap of 1.1 times the benchmark interest rate, and ask clients to pay the demand deposit rate on early withdrawals, or receive a penalty.

Sheng Songcheng, the statistics chief at the PBOC, published an article on 4 May 2014 to explain the reasons for applying the reserve requirement to such deposits, following the publication of *Yuebao and Reserve Requirement Management* in March 2014. He says that if the monetary fund agreement savings of banks were subject to reserve requirements, the cost for banks would rise, which will decrease Yuebao's yield. It is estimated that the annualised return of Yuebao would be reduced by 1 percentage point if there were a 20 percent reserve requirement on the portion of its money placed as deposits with banks, calculated based on a 6 percent interest rate for fund agreement deposits and a 1.62 percent statutory reserve requirement ratio.

Experts in the banking and financing industry propose that online financial monetary funds should be included in general deposit management as bank saving deposits rather than interbank deposits, and should therefore be subject to reserve requirements.

P2P lending

P2P lending model

According to iResearch, China's active P2P platforms exceeded 350 at the end of 2013 and accumulated transactions reached RMB 68.03 billion. Based on this forecast, P2P loan size is expected to maintain a 100 percent growth rate for the next two years. China's P2P lending transactions are estimated to reach RMB 348.27 billion in 2016.[3]

P2P loan size is expected to maintain a 100 percent growth rate for the next two years.

A. Solely online P2P, such as PPDai

Borrowers are connected with lenders through online platforms, mostly for the purpose of negotiating loans. Borrowers can list loan requests and certificates of creditworthiness to be reviewed online. Investors can select from those requests and certificates, and invest in loans. PPDai serves only as a platform for matching borrowers and lenders via online auctions, rather than being responsible for reviewing borrowers' qualifications.

[3] 'China P2P Microfinance Model Report, 2014', iResearch Consulting, 8 January 2014, http://report.iresearch.cn/2099.html

Social financing structures must be changed as the rapid growth in the banking industry will not last for long.

The innovative financing of P2P lending platforms will help meet loan requests from small enterprises and cater to the micro financing niche market.

B. Solely offline P2P, such as CreditEase

CreditEase collects borrowers' loan requests online and investors' information offline, and matches them via offline channels.

C. Online and offline, such as Renrendai

Renrendai combines online channels with offline channels, which characteristically involves obtaining investment online and reviewing loan projects via conventional channels. This P2P platform offers guarantees and sells loans online, attracting investors online through high yields and principal guarantee plans. This is the most popular model in internet financing, and is adopted by about 60 percent of companies. Renrendai has also introduced an advanced bidding tool to diversify investment priority plans, which allows investors to earn 13 percent annualised interest and to reinvest after receiving the principal and monthly interest.

D. Standardised products, such as Lufax.com, a financial institution under Ping An Group

Lufax.com packages small loans into standardised financial products to make investment more convenient via online and offline channels, using its professional competence and risk control management. Lenders do not invest in loans from borrowers, but rather financial products for sale composed of loan requests. Though they do not know where their money is being placed, investors rely on Ping An Group's reputation. Compared with the principal guarantee plans, Lufax.com offers better security. It has adopted an offline credit review model and set up 20 outlets around the country to examine borrowers' qualifications.

Advantages of P2P lending platforms

A. Standardised model, lower interest rates

Social financing structures must be changed as the rapid growth in the banking industry will not last for long. Financial resources will be invested in small enterprises in various forms. P2P lending platforms will expand their development with lower interest rates and more regulated models.

B. Meeting non-governmental financing demand and improving the efficiency of capital utilisation

As they take longer to grant loans, conventional banks are not able to satisfy the needs of small businesses and individuals for short-term funding. P2P lending platforms help reduce the interest costs for borrowers due to their efficiency and quick and easy approval process. Some platforms launch a daily auction to meet short-term demand, such as three-day to seven-day demand, with interest rates calculated on a daily basis.

C. Innovative financing caters to the niche market of small businesses

The reserve requirement ratio continues to remain at a relatively high level. It was adjusted to 21.5 percent by large commercial banks at the end of 2011, but currently remains at 20.5 percent. A high reserve requirement ratio will inevitably result in a preference for state-owned enterprises among the banks. The innovative financing of P2P lending platforms will help meet loan requests from small enterprises and cater to the micro financing niche market.

Experts within the industry hold different ideas about the impact of P2P lending on conventional banks.

Financial disintermediation is the core of P2P lending.

Shortcomings of P2P lending platforms

A. Credit ratings and information reviews might not be genuine

In the US, a complete and transparent personal credit certification system is established and borrowers' information, including personal credit records, social security numbers, personal tax numbers and bank account status is fully verified. However, China's credit system is still in the nascent stage and needs to be improved.

B. The difficulty of following up after lending

Due to cost restraints, P2P platforms find it difficult to satisfy lenders' need to know where their money is being placed. In the event that borrowers invest loans in high-risk sectors to earn high returns, there will be a risk of default if large losses occur.

C. Bad loans tend to involve a substantial risk of default, which may spiral out of control

Some P2P companies will set up a risk fund with a certain amount of money to repay lenders and then pursue recovery from borrowers in the event of bad loans. If there is a repayment crisis and several defaults occur due to social or economic changes, the risk fund will not be of much help in controlling the resultant risks.

The impact of P2P lending on conventional banks

Financial disintermediation is the core of P2P lending. The establishment of P2P lending platforms transforms borrowing from banks and other financial institutions to borrowing directly from investors. Experts within the industry hold different ideas about the impact of P2P lending on conventional banks:

A. Little impact

The P2P lending model is not very stable. Unable to implement controls on credit risks based on big data, the operational cost of P2P lending is significantly high and there is a flaw in indentifying risks. The vision for P2P lending in the future is to use big data to conduct risk control. The P2P industry can develop effectively on the premise that institutions provide credit ratings for small businesses and individuals based on big data. In this way, the pricing of P2P lending will rely on credit ratings and excessive profit will be obtained by ratings agencies.

B. Big impact

The guarantee model of P2P lending has a big impact on banks. It transforms retail loans to packaged loans, and underground lending to bank business. In addition, it operates using large platforms and institutions. Thanks to the support of guarantees, investors are discovering that P2P lending offers higher yields and lower risks than similar bank products. From the client's perspective, young customers are familiar with the internet and more willing to accept P2P lending. As the standard for retail loans in the P2P industry is lower than that in the banking industry, there will not be a big impact on banks in terms of capital. However, in the wholesale loan sector, P2P lending will expand aggressively and pose a challenge to banks' non-standard loan business due to its quick approval process.

C. Complementary roles

Banks mainly target big, multimillion-dollar lending projects due to cost and risk control constraints, while P2P lending can manage small lending projects involving much smaller sums of money. P2P lending platforms and banks should supplement each other.

The expansion of banks into online lending services seems to be a growing trend.

Currently, P2P lending institutions are planning to set up a self-disciplined professional committee for micro financing.

Banks enter the P2P sector

CMB launched the 'e+ Stable Financing Projects' for loans in September 2013, which was banks' first attempt at getting involved in the P2P sector. According to the data provided by CMB, it has introduced five investment projects involving transactions of up to RMB 150 million so far. This is equal to one-third of the total transactions of the first P2P platform PPDai in the past five years.

The success of CMB's trial launch has inspired the other banks. An increasing number of them, including China Guangfa Bank and Ping An Bank, are tapping into P2P business. The expansion of banks into online lending services seems to be a growing trend.

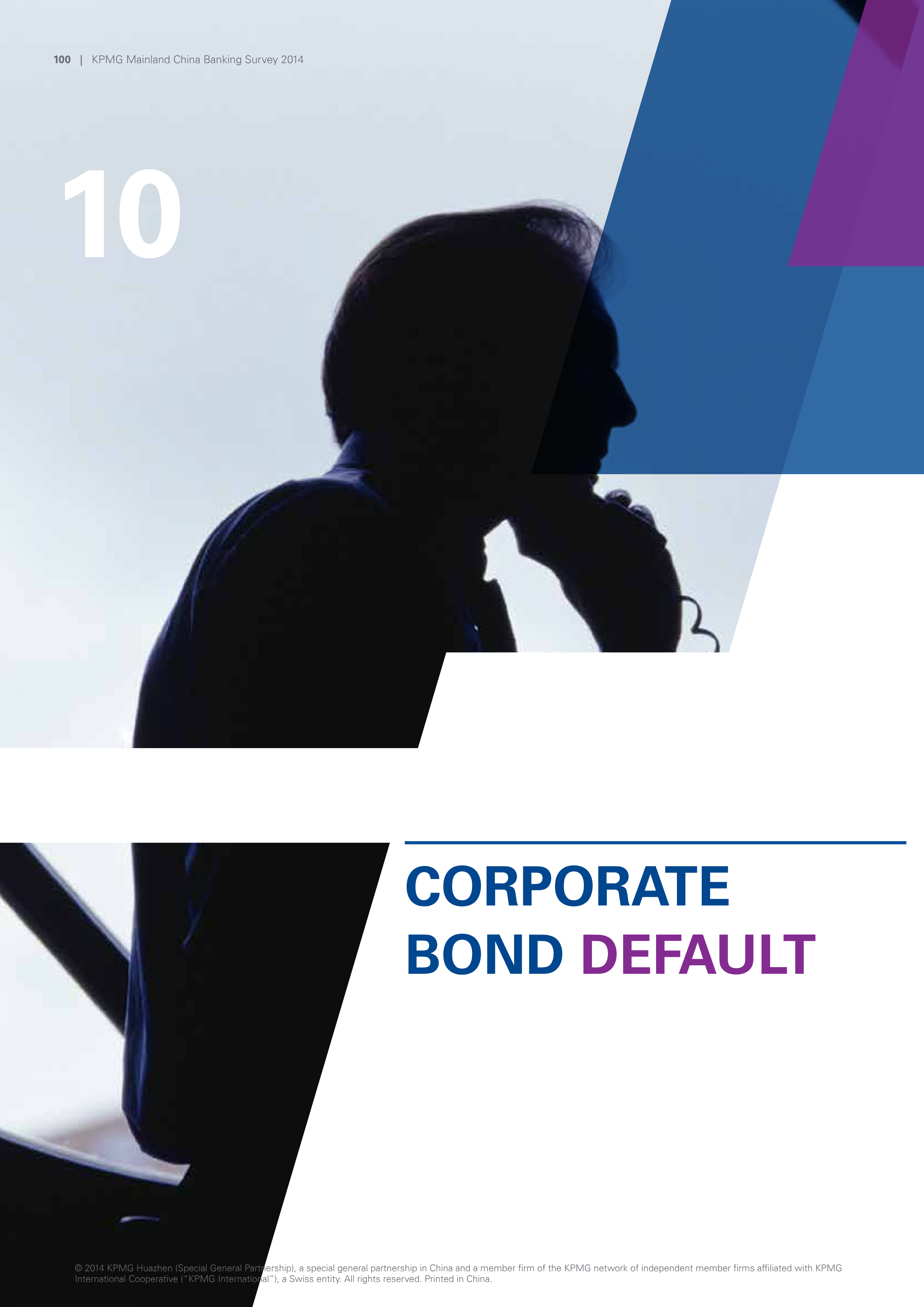
Attitude of the regulatory authorities

On 25 Aug 2011, the CBRC issued the *Notice on Risk Alert for P2P Services*, which disclosed the risks that exist in online P2P lending services.

- Backdoor investment: Due to the introduction of tighter policies for the real estate industry, as well as industries with high pollution, high resource consumption and excessive capacity, private funds may try to invest in restrictive industries through P2P lending intermediaries.
- Low market access threshold: Renrendai.com and other intermediaries may get involved with illegal lending institutions or illegal fundraising.
- Difficulty in controlling business risks: P2P intermediaries are not able to evaluate borrowers' credit or conduct supervision on after-lending activities in the manner that banks do.
- Impact on the banking sector's reputation due to false advertising by these intermediaries: If banks open accounts for Renrendai.com, it may be mistaken as one of the banks' partners due to misleading advertisements.
- Credit risk concerns: Overseas experience shows that the credit risk of this operational model tends to be high, with far lower loan quality than that of financial institutions in the banking sector.
- Legal and regulatory uncertainty: P2P lending may be beset by unclear legal definitions, as well as ambiguities with regard to regulatory roles and responsibilities.
- There are potential risks of engaging in second property mortgages.

Regulatory trends

The development of self-discipline in micro financing is mainly about improving its transparency in order to win market trust, instead of relying on the endorsement of financial supervision. Lacking laws and regulations, P2P lending is conducting self-discipline. Currently, P2P lending institutions are planning to set up a self-disciplined professional committee for micro financing to carry out research, identification and information disclosure work, and to ensure the healthy development of P2P lending business, which will become a standard for the industry if it is widely accepted.



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CORPORATE BOND DEFAULT

On 5 March 2014, Shanghai Chaori Solar Energy Science & Technology Co., Ltd. issued a notice saying that it was unable to make full payment of the current interest of the bond due on 7 March 2014 and that only RMB 4 million of the total amount could be paid on that day. One of the bonds they issued, '11 Chaori Solar bond', has symbolic significance as the first case of material breach in the bond market.

Short-term impact:

- It has broken the unspoken rule that fixed income products must not fail to be redeemed, which will change investors' expectations and force market players to enhance their risk awareness.
- It will have an obvious impact on the prices of high-yield bonds issued by companies in high-risk industries or industries with excess capacity. Market players investing in high-risk assets will soon be faced with risk aversion.
- It will make it more difficult for SMEs to raise capital and will increase borrowing costs for privately owned enterprises.

Long-term impact:

- It will affect the conditions for issuing bonds and favour the survival of the fittest, not only in the bond market but also in the whole capital market, by promoting healthy competition.
- The unspoken rule that fixed income products must not fail to be redeemed has distorted the market pricing system. The system will be able to right itself now that the rule has been broken, which in turn will improve the capital pricing system.
- It will enhance investors' risk awareness and their ability to identify risks. This will create more rational and mature investors, and systemic risks will therefore be reduced.
- More importance will be attached to credit rating, which in turn will promote healthy competition in the credit rating industry, help develop the industry and enable it to play a more efficient role in exposing risks.
- It will favour the development of such derivative products as CRM by driving investors' demand for risk hedging and turning their attention to such derivative products as CRM.
- It will oblige regulatory authorities to make improvements to relevant laws, which is conducive to the creation of a healthy bond market.

Market players investing in high-risk assets will soon be faced with risk aversion.

It will affect the conditions for issuing bonds and favour the survival of the fittest, not only in the bond market but also in the whole capital market, by promoting healthy competition.

Financial institutional investors are recommended to take the following actions:

In short, high-risk industry, private enterprises and ailing issuers may be more likely to default on bonds.

- Pay attention to bonds issued by privately owned enterprises in high-risk industries and with unsatisfactory levels of performance
- Take more proactive measures to monitor issuers' default risk, e.g. conduct periodic site visits, rather than simply relying on credit rating reports
- Develop a more powerful risk monitoring and warning system, which should take account of both financial and non-financial indicators, including: industry status, financial conditions, debt-paying abilities, cash flow analysis and tacit support provided by local government; changes in the utilisation of liquidity facilities; involvement in private lending; and the judgements of other financial institutions on the same issuer (e.g. rejections of its loan applications)

In short, high-risk industry, private enterprises and ailing issuers may be more likely to default on bonds. According to Wind Info, industry analysis as at 31 March 2014 shows that private enterprise bond issuance in the real estate, mining and construction industries accounted for 4.04 percent, 5.54 percent and 2.26 percent respectively.

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SUMMARY

Financial reform in China has entered a new stage. As in the previous stage, the banking sector will continue to embrace profound and lasting changes for the foreseeable future:

- Firstly, interest rate liberalisation will undoubtedly lead to a slowdown in the income growth of traditional deposit and loan business. The future development of the banking industry will no longer depend on the expansion of assets, and will instead turn towards specialisation and differentiation, with a focus on providing more diversified financial products.

- Secondly, fast-developing internet finance has brought unprecedented shocks to the traditional banking sector. Financial disintermediation has emerged. Furthermore, information and internet technology have resulted in lower costs and greater efficiency. Traditional banks will need to improve their competitiveness and consider embracing this movement.

- Finally, with the issuance of new administrative measures for capital management of commercial banks, administrative measures for liquidity risk management, and regulatory documents of interbank business and WMPs, banking regulation has entered a new stage. Going forward, regulations will focus more on the nature of business, as well as the improvement of information disclosure and risk alert mechanisms, which will lead to improvements in operations and internal control in the banking sector.

The future development of the banking industry will no longer depend on the expansion of assets.

Traditional banks will need to improve their competitiveness and consider embracing this movement.

Banking regulation has entered a new stage.

As an active observer of all these developments, KPMG will continue to closely monitor China's banking sector and deliver some of the latest exciting news and trends to interested readers.

Below, we outline the relevant regulatory policies promulgated by the PBOC and the CBRC.

Further Standardised Securitisation of Credit Assets

In December 2013, the PBOC and CBRC issued the *Announcement of the People's Bank of China and the China Banking Regulatory Commission on Further Standardising the Securitisation of Credit Assets* ("Article No. 21"). The document further standardises the risk retention of the originator of the securitisation of credit assets, requiring them to retain no less than 5 percent of the credit risk of underlying assets, and sets out specific requirements for retention.

Commercial Banks Liquidity Risk Management

In January 2014, the CBRC issued *Administrative Measures on Liquidity Risks of Commercial Banks (For Trial Implementation)* (hereinafter referred to as "the Method"), which came into effect on 1 March 2014. The Method sets out specific requirements for the liquidity risk management system of commercial banks, provides measures and sets a minimum standard for calculating the supervision index, and puts forward liquidity risk supervision methods. The Method requires that the liquidity coverage ratio of a commercial bank shall reach 100 percent by the end of 2018, and 60 percent, 70 percent, 80 percent and 90 percent by the end of 2014, 2015, 2016 and 2017 respectively, in the transitional period.

Notice on Issuance of Guidelines on the Global Systematic Importance of Evaluation Indicators of Commercial Banks

To strengthen market discipline, the CBRC announced *Notice on Issuance of Guidelines on the Global Systematic Importance of Evaluation Indicators of Commercial Banks* (Yin Jian Fa [2014] No. 12, hereinafter referred to as "the Guideline") on 6 January 2014, which introduced higher supervision standards. The Guideline requires commercial banks whose adjusted balance of on- and off-balance sheet assets as at the end of the previous year exceeds RMB 1.6 trillion, or which are determined to be global systematically important banks by the Basel Committee, to disclose 12 global systematically important evaluation indicators from 2014 onwards.

Guiding Opinions of the China Banking Regulatory Commission and the China Securities Regulatory Commission on the Issuance of Preferred Shares by Commercial Banks to Replenish Tier 1 Capital

The CBRC and CSRC jointly issued *Guiding Opinions of the China Banking Regulatory Commission and the China Securities Regulatory Commission on the Issuance of Preferred Shares by Commercial Banks to Replenish Tier 1 Capital* (Yin Jian Fa [2014] No. 12, hereinafter referred to as "the Notice") on 18 April 2014, which regulated the conditions and procedures for issuing preference shares. The Notice requires commercial banks to meet the corresponding eligibility criteria when issuing preference shares to replenish Tier 1 capital, and regulates the payment of dividends on preference shares, put provisions, and the forcible conversion of preference shares into ordinary ones, making preferred shares as operational as other Tier 1 capital instruments.

Notice on Regulating the Interbank Business of Financial Institutions

In order to further regulate the operations of the interbank business of financial institutions, the PBOC, CBRC, CSRC, CIRC and State Administration of Foreign Exchange (SAFE) jointly issued the *Notice on Regulating the Interbank Business of Financial Institutions* (Yin Fa [2014] No. 127, hereinafter referred to as "Notice No. 127"). Notice No. 127 regulates the operations of the interbank business of financial institutions according to the requirements of encouraging financial innovation and maintaining the autonomous operation of financial institutions, the main types of which include: interbank financing business such as interbank lending, interbank deposits, interbank loans, interbank refinancing and buy-back (sold for repurchase), and interbank investment business. Interbank business focused on investment and financing that is carried out by financial institutions shall, in accordance with the business nature of various transactions, be classified into the aforementioned basic types, and classified administration shall be implemented for different types of interbank business.

Notice of the General Office of the China Banking Regulatory Commission on Regulating the Governance of Interbank Business of Commercial Banks

In May 2014, the CBRC issued *Notice of the General Office of the China Banking Regulatory Commission on Regulating the Governance of Interbank Business of Commercial Banks* (Yin Jian Ban Fa [2014] No. 140, hereinafter referred to as "Notice No. 140"). Notice No. 140 requires that a commercial bank that engages in the interbank business shall adopt a specialised system, whereby its headquarters with legal person status shall establish or designate a specialised department to take charge of the interbank business, and the specialised department may not entrust other departments or branches with interbank lending, the buying back of bonds for sale and the selling of bonds for repurchase, interbank deposit receipts, and other interbank business for which the electronic transactions can be conducted through financial trading markets. Notice No. 140 requires commercial banks to complete the implementation of the specialised department system for all their interbank business before the end of September 2014, and submit the reform plan and the implementation details to the CBRC and its local offices. The headquarters with legal person status shall authorise the specialised department for the interbank business, extend credit to on- and off-balance sheet interbank business, and manage its trading counterparties according to a name list in a centralised and unified manner.

Notice on Regulating the Wealth Management Products of Commercial Banks

In order to further regulate the development of WMPs, and improve the relevant management system of its operation, the CBRC issued the *Notice on Regulating the Wealth Management Products of Commercial Banks* (Yin Jian Fa [2014] No. 35, hereinafter referred to as "Notice No. 35"). Notice No. 35 requires that financial institutions conduct separate accounting for WMPs, isolate risks, regulate operational behaviour, and manage the products in a centralised and specialised department.

Financial summary (1-1)

In RMB million unless otherwise stated

No.	Name of bank	Total assets		Net assets attributable to equity holders of the parent company		Net assets per share attributable to equity holders of the parent company (RMB)		Total loans and advances to customers	
		2013	2012	2013	2012	2013	2012	2013	2012
1	Industrial And Commercial Bank Of China Limited	18,917,752	17,542,217	1,274,134	1,124,997	3.63	3.22	9,922,374	8,803,692
2	China Construction Bank Corporation	15,363,210	13,972,828	1,065,951	941,668	4.26	3.77	8,361,361	7,309,879
3	Agricultural Bank Of China Limited	14,562,102	13,244,342	843,108	749,815	2.60	2.31	7,224,713	6,433,399
4	Bank Of China Limited	13,874,299	12,680,615	923,916	824,677	3.31	2.95	7,439,742	6,710,040
5	Bank Of Communications Co., Ltd	5,960,937	5,273,379	419,561	379,918	5.65	5.12	3,193,063	2,879,628
6	China Merchants Bank Co., Ltd.	4,016,399	3,408,099	265,465	200,328	10.53	9.29	2,148,330	1,863,325
7	Industrial Bank Co.,Ltd	3,677,435	3,250,975	199,769	169,577	10.49	13.35	1,320,682	1,204,542
8	Shanghai Pudong Development Bank	3,680,125	3,145,707	204,375	177,497	10.96	9.52	1,725,745	1,508,806
9	China Citic Bank Corporation Limited	3,641,193	2,959,939	225,601	198,356	4.82	4.24	1,899,921	1,627,576
10	China Minsheng Banking Corp. Ltd.	3,226,210	3,212,001	197,712	163,077	6.97	5.75	1,539,447	1,351,512
11	China Everbright Bank Co.,Ltd.	2,415,086	2,279,295	152,839	114,178	3.30	2.82	1,142,138	997,331
12	Ping An Bank Company Limited	1,891,741	1,606,537	112,081	84,799	11.77	10.35	832,127	708,262
13	Hua Xia Bank Co., Ltd.	1,672,447	1,488,860	85,420	74,694	9.59	8.39	800,726	699,861
14	Bank Of Beijing Co., Ltd.	1,336,764	1,119,969	78,114	71,617	8.88	8.14	568,852	483,445
15	Postal Savings Bank Of China	5,574,451	4,903,103	141,047	114,869	n/a	n/a	1,463,260	1,208,262
16	China Guangfa Bank Co., Ltd.	1,469,849	1,168,150	73,291	63,528	n/a	n/a	703,539	600,261
17	Bank Of Nanjing Co., Ltd.	434,057	343,792	26,590	24,618	8.96	8.29	9,580	8,510
18	China Development Bank Corporation	8,187,953	7,520,329	559,206	496,408	1.82	1.62	6,929,968	6,236,723
19	ADBC, Agricultural Development Bank Of China	2,622,682	2,293,079	63,933	49,796	3.20	2.49	2,502,682	2,185,077
20	The Export-Import Bank Of China	1,884,867	1,558,933	23,836	20,038	4.77	4.01	1,450,943	1,183,032
21	Bank Of Shanghai Co., Ltd.	977,722	816,904	55,955	41,954	13.22	9.91	441,488	390,540
22	Beijing Rural Commercial Bank Co.,Ltd.	465,990	424,358	21,307	18,853	2.23	1.97	226,050	193,044
23	Bank Of Jiangsu Co. Ltd.	763,234	650,238	47,746	34,140	4.60	3.75	410,563	352,215
24	Huishang Bank Corporation Limited	382,109	324,224	31,625	20,481	2.86	2.51	195,449	163,795
25	Bank Of Tianjin Co. Ltd.	405,687	302,346	19,234	16,698	4.72	4.06	148,239	122,796
26	Bank Of Dalian Co. Ltd.	284,034	256,800	12,758	10,778	3.11	2.63	115,287	98,881
27	Bank Of Hangzhou Co., Ltd.	340,189	324,984	20,547	17,457	12.33	10.48	169,318	148,341
28	Bank Of Dongguan Corporation Limited.	163,725	139,977	10,756	9,208	5.43	4.65	65,538	56,274
29	China Zheshang Bank Co., Ltd.	488,117	393,839	27,808	22,709	2.42	2.27	212,571	178,740
30	Baoshang Bank Co., Ltd.	242,556	207,618	18,847	17,494	4.82	4.47	72,203	57,321
31	Bank Of Chongqing Co., Ltd.	206,787	156,163	13,479	8,258	4.98	4.09	88,638	75,257
32	Bank Of Xi'an Co.,Ltd.	133,680	122,049	8,291	6,774	2.76	2.26	61,823	52,700
33	Qilu Bank Co., Ltd.	94,004	83,680	5,978	5,306	2.53	2.25	51,432	45,061
34	Fujian Haixia Bank Co.,Ltd.	84,351	70,271	6,134	5,618	2.07	1.89	38,649	33,861
35	China Bohai Bank Co., Ltd.	568,211	472,102	24,197	19,812	1.75	1.43	164,202	138,857
36	Bank Of Qingdao Co., Ltd.	135,689	101,658	8,205	7,437	3.21	2.91	55,630	45,723
37	Bank Of Zhengzhou Co.,Ltd.	149,334	103,734	9,536	7,671	2.42	1.95	62,944	50,161
38	Bank Of Wenzhou Co.,Ltd.	104,060	83,333	6,793	5,472	3.49	3.17	51,629	44,027
39	Jiangsu Jiangyin Rura1 Commercial Bank Co.,Ltd.	76,006	73,373	5,562	4,933	n/a	n/a	44,229	39,432
40	Bank Of Nanchang Co.,Ltd.	127,029	106,142	9,420	6,958	3.38	2.92	49,784	41,090
41	Ningbo Yinzhou Rural Cooperative Bank	73,786	66,696	6,506	5,401	3.05	2.63	40,999	36,328
42	Bank Of Ningxia Co.,Ltd.	79,683	67,736	7,435	5,820	4.12	3.52	42,570	36,169
43	Bank Of Shaoxing Co.,Ltd.	51,122	45,360	4,002	3,138	3.31	3.19	29,988	26,823
44	Bank Of Luoyang Co.,Ltd.	97,727	81,974	7,170	6,176	3.54	3.03	43,971	37,948
45	Bank Of Weifang Co., Ltd.	64,361	53,023	5,591	4,312	2.38	2.15	36,108	31,597
46	Jiangsu Wujiang Rural Commercial Bank Co.,Ltd.	62,483	57,177	5,435	4,740	n/a	n/a	33,842	30,183
47	Qi Shang Bank Co., Ltd.	61,068	48,398	4,411	3,815	n/a	2.93	33,354	28,952
48	Bank Of Taizhou Co.,Ltd	87,711	70,199	7,661	6,205	4.26	3.45	53,521	43,914
49	Bank Of Rizhao Co.,Ltd.	64,666	50,904	5,847	3,772	2.36	3.81	31,571	28,190
50	Bank Of Jinhua Co., Ltd;	39,600	34,433	2,462	2,107	3.06	2.88	24,006	20,497
51	Linshang Bank Company Limited	57,199	49,323	n/a	41,795	n/a	1.66	30,939	27,650
52	Fubon Bank	49,401	44,702	3,062	2,838	n/a	n/a	31,031	27,386
53	Dongying Bank Co., Limited	38,948	30,757	3,485	3,177	2.70	3.07	20,983	17,816
54	Zhejiang Tailong Commercial Bank Co.,Ltd	77,682	58,722	4,485	3,776	1.50	1.26	41,385	35,094
55	Guangdong Nanyue Bank Co. Ltd	131,561	108,887	7,972	7,279	1.49	1.59	42,994	33,014

Total deposits		Operating income		Net interest income		Net profit		Profit attributable to equity holders of the parent company		Cost-to-income ratio	
2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
14,620,825	13,642,910	589,637	536,945	443,335	417,828	262,965	238,691	262,649	238,532	28.03%	28.56%
12,223,037	11,343,079	508,608	460,746	389,544	353,202	215,122	193,602	214,657	193,179	29.65%	29.57%
11,811,411	10,862,935	462,625	421,964	376,202	341,879	166,211	145,131	166,315	145,094	36.30%	36.76%
10,097,786	9,173,995	407,508	366,091	283,585	256,964	163,741	145,746	156,911	139,656	30.61%	31.73%
4,157,833	3,728,412	164,435	147,337	130,658	120,126	62,461	58,472	62,295	58,369	29.35%	29.71%
2,775,276	2,532,444	132,604	113,367	98,913	88,374	51,742	45,272	51,743	45,268	34.36%	35.98%
2,170,345	1,813,266	109,287	87,619	85,845	72,193	41,511	34,927	41,211	34,718	26.71%	26.73%
2,419,696	2,134,365	100,015	82,952	85,177	73,362	41,200	34,311	40,922	34,186	25.83%	28.71%
2,651,678	2,255,141	104,558	89,435	85,688	75,486	39,717	31,385	39,175	31,032	31.41%	31.51%
2,146,689	1,926,194	115,886	103,111	83,033	77,153	43,282	38,308	42,278	37,563	32.75%	34.01%
1,605,278	1,426,941	65,306	59,916	50,862	50,263	26,754	23,620	26,715	23,591	31.58%	29.97%
1,217,002	1,021,108	52,189	39,749	40,688	33,035	15,231	13,512	15,231	13,403	40.77%	39.41%
1,177,592	1,036,000	45,219	39,777	38,902	35,344	15,511	12,796	15,506	12,797	38.93%	39.95%
834,480	713,772	30,665	27,817	26,285	24,623	13,465	11,684	13,469	11,675	25.51%	25.78%
5,206,468	4,659,299	144,714	126,679	138,973	121,250	29,668	28,371	29,668	28,371	49.65%	48.76%
994,927	856,166	34,425	31,105	26,003	24,596	11,583	11,220	11,583	11,220	41.92%	40.83%
5,736	4,849	10,478	9,114	9,096	7,696	4,531	4,045	4,497	4,013	31.03%	29.86%
684,182	608,364	181,872	175,213	171,472	154,410	79,917	63,094	79,584	62,888	5.53%	7.47%
411,191	386,200	75,309	71,799	74,354	70,737	14,137	14,292	14,137	14,292	19.82%	18.95%
62,267	70,266	19,546	19,818	13,392	13,054	4,263	3,793	4,262	3,776	10.00%	8.86%
626,013	545,032	21,467	17,290	19,059	15,661	9,360	7,517	9,342	7,509	29.31%	33.30%
382,327	355,056	11,134	11,063	7,496	7,601	3,829	3,246	3,825	3,242	43.50%	43.89%
596,196	532,492	22,275	19,806	19,758	17,602	8,179	7,035	8,179	7,035	32.30%	33.41%
272,798	239,543	10,173	9,235	9,602	8,569	4,926	4,306	4,926	4,306	33.29%	33.92%
247,107	203,815	8,114	6,497	7,814	6,075	3,435	2,637	3,418	2,634	25.93%	28.02%
213,730	174,938	7,405	6,206	6,641	5,559	2,317	1,750	2,317	1,750	34.81%	37.51%
249,246	220,689	9,775	9,788	9,158	8,842	3,799	3,558	3,788	3,552	33.00%	32.56%
108,116	96,637	4,776	4,646	4,038	4,028	1,978	1,927	1,974	1,925	33.30%	30.10%
319,795	266,888	13,432	10,422	10,807	9,230	4,901	4,026	4,901	4,026	32.11%	31.04%
148,561	122,974	7,530	6,764	6,226	6,177	2,365	2,205	2,320	2,173	45.93%	42.44%
148,801	114,043	5,874	4,657	5,178	4,150	2,329	1,925	2,329	1,925	32.37%	34.10%
102,596	89,448	5,880	4,980	n/a	n/a	1,632	1,456	1,632	1,456	29.68%	27.69%
83,285	70,401	2,834	2,462	2,553	2,285	1,011	860	1,009	861	36.12%	37.55%
57,442	51,941	2,342	2,298	2,373	2,217	823	801	823	801	n/a	n/a
303,747	213,421	12,788	9,460	10,515	7,546	4,562	3,339	4,562	3,339	34.74%	38.58%
96,284	75,648	3,525	2,870	3,088	2,607	1,142	920	1,142	920	41.40%	41.81%
102,097	74,654	4,255	3,304	4,102	3,190	1,902	1,460	1,902	1,460	26.94%	28.05%
72,490	62,358	2,768	2,284	2,457	2,160	705	548	705	548	41.72%	44.91%
58,332	53,272	2,289	2,365	2,177	2,267	1,030	1,004	1,002	985	n/a	n/a
89,018	76,190	4,940	4,129	3,260	2,854	1,651	1,485	1,626	1,470	n/a	n/a
53,630	48,545	2,628	2,592	n/a	n/a	1,088	1,258	1,088	1,258	29.04%	23.50%
65,845	56,080	3,140	2,863	3,075	2,755	1,330	1,145	1,330	1,145	34.75%	33.88%
41,298	36,846	1,285	1,303	1,211	1,218	383	430	381	424	42.28%	33.62%
64,767	55,045	3,239	2,780	3,122	2,670	1,507	1,401	1,420	1,345	21.09%	17.75%
55,436	45,710	2,299	2,034	n/a	1,713	756	740	n/a	731	34.86%	34.97%
51,540	46,904	2,284	2,106	2,118	1,972	973	871	965	864	32.70%	31.38%
51,709	40,838	2,159	1,977	2,002	1,902	794	790	793	789	38.46%	30.04%
73,700	57,913	4,409	3,607	3,900	3,239	1,820	1,532	1,727	1,488	29.17%	27.40%
51,259	41,342	2,433	2,263	2,228	2,005	1,150	991	1,147	991	n/a	n/a
34,374	29,259	1,136	1,048	926	902	435	394	435	394	n/a	n/a
48,336	39,364	2,218	1,802	1,925	1,594	528	407	528	407	n/a	n/a
44,070	40,932	1,111	1,039	882	731	277	388	277	388	n/a	n/a
32,602	26,631	1,351	1,220	1,322	1,191	586	563	586	563	n/a	n/a
60,690	44,823	3,674	2,654	3,083	2,309	790	624	783	622	n/a	n/a
85,615	63,434	3,128	2,494	977	1,330	985	883	985	883	n/a	n/a

Financial summary (1-2)

In RMB million unless otherwise stated

No.	Name of bank	Total assets		Net assets attributable to equity holders of the parent company		Net assets per share attributable to equity holders of the parent company (RMB)		Total loans and advances to customers	
		2013	2012	2013	2012	2013	2012	2013	2012
56	Zhe Jiang Chou Zhou Commercial Bank Co. Ltd.	107,115	86,497	9,091	7,050	5.97	5.30	50,231	41,663
57	Nanchong City Commercial Bank Company Limited	130,105	108,746	6,504	4,836	n/a	4.83	29,229	27,044
58	Panzhihua City Commercial Bank Co.,Ltd.	58,957	61,183	3,543	3,012	4.20	3.57	19,824	16,912
59	Guangxi Beibu Gulf Bank C.,Ltd.	91,589	121,716	7,420	7,303	2.69	2.92	38,186	35,824
60	Bank Of Quanzhou Co.,Ltd	43,341	31,598	3,402	2,420	1.87	1.72	14,527	12,111
61	Bank Of Deyang Co.,Ltd.	54,226	46,452	2,864	2,503	3.04	2.65	21,956	18,172
62	Jiaozuo City Commercial Bank Company Limited	20,095	15,035	1,612	1,493	1.13	1.14	9,258	8,202
63	Bank Of Jiujiang Co. Ltd.	123,233	81,218	9,150	7,633	6.04	5.04	32,539	27,177
64	Bank Of Huzhou Co.,Ltd.	30,313	26,080	2,351	2,239	3.87	3.68	17,133	15,297
65	Mianyang City Commercial Bank Co.,Ltd	42,504	33,155	1,962	1,527	4.66	3.63	16,327	13,894
66	Bank Of Cangzhou Co.,Ltd.	47,005	34,713	2,549	2,383	2.40	2.40	22,978	18,306
67	Guilin Bank Co.,Ltd	104,052	71,063	4,746	3,483	3.84	3.28	24,087	19,554
68	Guizhou Xingyi Rural Commercial Bank	9,438	7,182	714	616	n/a	1.54	5,751	4,403
69	Bank Of Chengde Co.,Ltd.	33,209	25,120	2,387	1,942	1.48	1.50	15,265	11,802
70	Bank Of Shangrao Company Limited	38,500	31,312	3,731	3,436	2.50	2.30	13,640	10,933
71	Bank Of Liuzhou Co.,Ltd	70,060	62,468	4,455	4,002	3.92	3.53	21,341	17,640
72	Bank Of Jinzhou Co., Ltd.	179,883	123,258	11,509	11,251	n/a	n/a	76,729	61,781
73	Bank Of Yingkou Co.,Ltd	71,344	63,343	5,954	5,096	n/a	n/a	34,037	27,763
74	Zaozhuang Bank Co., Ltd.	12,416	9,922	810	684	2.46	2.31	6,801	5,682
75	Bank Of Kunlun Corporation Limited	246,453	184,815	17,416	14,514	2.36	2.16	61,037	40,378
76	Chongqing Three Gorges Bank Co.,Ltd.	76,756	65,861	4,935	3,843	2.10	1.91	21,740	17,481
77	Weihai City Commercial Bank Co.,Ltd.	101,732	72,058	5,126	4,451	1.66	1.58	39,412	34,029
78	Bank Of Anshan Co.,Ltd	68,345	57,150	5,581	4,646	2.07	1.86	36,959	31,546
79	Bank Of Chengdu Co., Ltd.	261,277	240,299	15,214	12,881	n/a	n/a	107,922	91,780
80	Bank Of Dandong Co. ,Ltd.	37,347	29,705	2,956	n/a	2.22	1.81	15,607	12,187
81	Harbin Bank Co.,Ltd	322,175	270,090	19,728	16,765	2.39	2.22	103,515	85,298
82	Tangshan City Commercial Bank Co.,Ltd	35,942	34,579	2,200	2,054	2.11	1.97	17,779	14,466
83	Bank Of Wuhai Co.,Ltd	26,028	21,881	2,293	2,001	4.57	3.99	11,537	8,099
84	Bank Of Jilin Co.,Ltd	262,243	220,757	15,483	13,845	2.19	1.96	121,643	107,628
85	Erdos Rural Commercial Bank Co.,Ltd.	42,300	37,153	3,794	3,112	n/a	n/a	12,324	13,081
86	Bank Of Guiyang Co., Ltd.	122,549	105,719	7,970	6,692	4.43	3.72	55,285	45,385
87	Bank Of Inner Mongolia Co.,Ltd	65,310	61,078	7,845	7,480	n/a	n/a	27,427	19,948
88	Laishang Bank Co.,Ltd	51,282	42,744	5,015	4,731	2.73	4.93	24,310	19,994
89	Bank Of Hebei Co., Ltd.	152,438	122,116	9,094	8,350	2.84	2.62	60,719	48,356
90	Fudian Bank Co.,Ltd.	121,008	105,332	6,899	6,152	2.24	2.00	57,193	48,565
91	Shengjing Bank Co., Ltd.	355,400	313,204	21,152	14,378	5.16	3.89	131,558	112,271
92	Hankou Bank Co.,Ltd.	178,222	162,382	13,380	11,903	3.25	2.90	69,366	57,757
93	Leshan City Commercial Bank Co.,Ltd.	45,388	31,214	4,283	2,058	n/a	n/a	14,591	11,511
94	Shanghai Rural Commercial Bank Co., Ltd.	420,892	361,968	31,868	28,742	6.37	5.75	223,021	189,903
95	Bank Of Jining Co.,Ltd.	30,336	24,633	2,828	2,519	3.31	2.95	17,099	13,829
96	Zhejiang Xiaoshan Rural Cooperative Bank	88,898	76,064	9,281	6,308	n/a	n/a	49,838	45,089
97	Evergrowing Bank Co.,Ltd	772,176	617,950	32,029	25,533	n/a	n/a	200,734	167,650
98	Chongqing Rural Commercial Bank Co., Ltd.	502,446	433,827	36,251	31,907	3.90	3.43	198,151	167,615
99	Bank Of Ningbo Co.,Ltd.	467,773	372,697	25,523	22,117	8.84	7.67	167,302	142,565
100	East West Bancorp, Inc. (China)	3,896	3,771	1,263	1,206	n/a	n/a	1,195	875
101	Huashang Bank	90,114	58,987	5,345	4,827	n/a	n/a	26,519	19,845
102	Jiangsu Changshu Rural Commercial Bank Co.,Ltd.	82,841	73,391	5,845	5,633	3.85	3.71	40,743	35,512
103	Jiangsu Kunshan Rural Commercial Bank Co.,Ltd.	45,480	45,109	3,469	3,192	2.79	2.56	27,184	25,083
104	Jiangsu Zhangjiagang Rural Commercial Bank Co.,Ltd.	72,504	71,484	5,527	5,017	3.40	3.08	36,209	31,402
105	Ningxia Yellow River Rural Commercial Bank Co., Ltd	44,825	38,781	3,542	3,026	3.54	3.03	13,523	11,172
106	Hefei Science Technology Rural Commercial Bank	40,297	32,191	3,964	3,758	2.33	2.21	22,367	18,019
107	Jiangsu Taicang Rural Commercial Bank Co., Ltd.	33,387	25,660	2,109	2,020	2.92	2.80	16,051	13,707
108	Guangdong Nanhai Rural Commercial Bank Company Limited	108,173	83,812	7,646	6,773	2.71	2.52	55,853	48,834
109	Oversea-Chinese Banking Co.,Ltd.	58,973	50,474	4,243	4,233	1.21	1.21	18,068	15,815
110	The Hongkong And Shanghai Banking Corporation Limited (China)	365,824	298,508	31,298	24,841	n/a	n/a	148,770	132,129

Total deposits		Operating income		Net interest income		Net profit		Profit attributable to equity holders of the parent company		Cost-to-income ratio	
2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
66,896	56,593	3,657	3,169	2,564	2,785	1,163	972	1,160	974	n/a	n/a
73,148	63,820	3,546	2,681	2,892	2,225	1,920	1,398	1,887	1,371	22.70%	23.08%
38,351	36,434	1,895	2,003	1,646	1,545	688	741	688	741	20.77%	18.58%
58,103	56,077	4,031	3,614	3,813	3,275	270	1,121	255	1,114	30.75%	30.01%
28,158	20,694	2,337	1,469	n/a	817	363	331	363	331	39.10%	35.64%
35,865	30,326	1,494	1,481	1,417	1,402	558	630	558	630	24.28%	21.68%
13,382	12,582	513	502	191	324	109	138	109	138	n/a	n/a
83,896	65,367	3,670	3,758	3,542	3,526	1,850	1,670	1,797	1,665	24.29%	17.14%
24,788	21,294	1,039	1,093	877	923	235	380	205	355	40.06%	31.64%
26,336	22,171	1,062	964	785	750	511	435	511	435	28.07%	26.46%
40,237	30,308	1,487	1,208	1,534	1,268	453	373	453	373	38.96%	41.11%
67,976	46,464	2,715	1,926	915	1,112	956	692	934	676	30.57%	36.36%
7,811	6,085	n/a	434	n/a	313	143	89	143	89	n/a	49.63%
30,282	21,842	1,298	1,060	1,103	899	581	511	581	511	29.49%	24.51%
26,307	21,728	1,515	1,206	1,399	1,095	689	557	671	545	n/a	28.34%
50,487	42,732	2,454	1,956	2,269	1,865	768	599	757	604	38.57%	39.16%
92,681	82,741	3,903	3,461	3,818	3,253	1,336	1,156	1,331	1,152	41.20%	41.21%
62,022	52,727	2,438	2,187	2,121	1,926	995	879	995	879	36.36%	33.40%
11,203	9,049	517	397	509	392	126	96	126	96	32.00%	32.74%
130,425	104,830	5,658	3,887	4,628	2,956	2,592	1,945	2,585	1,944	20.30%	21.30%
56,513	43,031	2,185	1,668	1,838	1,368	1,004	754	1,004	754	n/a	n/a
70,844	53,656	2,316	1,943	1,318	1,091	882	649	882	649	n/a	n/a
59,921	50,693	1,913	1,944	1,473	1,615	682	650	682	650	31.40%	28.73%
195,022	164,192	7,068	5,621	6,648	5,395	2,973	2,542	2,971	2,542	30.51%	29.80%
31,100	25,336	1,151	999	809	857	507	442	507	442	n/a	n/a
224,178	186,642	8,544	7,711	6,818	6,658	3,371	2,871	3,350	2,864	35.85%	34.51%
33,104	31,967	1,101	979	1,098	917	239	221	239	221	n/a	n/a
19,339	16,440	1,008	1,003	895	962	489	451	489	451	21.59%	17.28%
191,973	160,111	7,463	7,393	5,470	6,225	2,516	2,160	2,462	2,105	42.80%	36.93%
30,676	28,578	2,147	2,537	1,205	2,114	738	939	679	890	30.26%	29.22%
109,640	88,241	3,822	3,469	4,026	3,379	1,812	1,620	1,807	1,625	30.97%	29.76%
49,749	49,117	2,696	2,572	1,960	1,841	868	849	859	847	44.13%	39.41%
34,985	29,604	1,928	1,752	1,677	1,533	590	695	526	640	31.91%	32.55%
116,944	90,452	4,231	3,256	3,878	2,999	1,386	1,213	1,384	1,211	39.83%	38.91%
83,981	71,874	3,372	2,843	3,276	2,727	1,229	970	1,223	965	38.73%	41.24%
262,913	207,987	8,865	6,917	7,844	6,785	4,876	3,498	4,852	3,486	19.19%	20.98%
125,615	108,101	5,514	4,350	4,495	3,383	2,070	1,858	2,067	1,859	28.69%	28.19%
34,167	22,359	1,884	1,069	985	760	692	451	675	442	23.98%	31.14%
347,891	292,100	11,188	10,871	9,883	9,842	4,317	3,656	4,215	3,724	38.85%	39.39%
26,164	20,166	1,341	1,513	1,289	1,449	442	364	435	362	30.24%	23.68%
73,747	66,094	2,821	2,724	2,492	2,328	1,184	1,076	1,184	1,076	26.32%	24.84%
370,202	306,507	16,522	12,799	12,662	10,732	6,921	5,803	6,847	5,762	24.35%	24.32%
347,883	294,511	16,316	13,653	15,703	13,092	6,015	5,378	5,991	5,361	37.66%	37.70%
255,278	207,577	12,761	10,342	11,259	9,216	4,847	4,068	4,847	4,068	34.86%	34.13%
2,087	1,692	106	117	99	110	57	51	57	51	n/a	n/a
38,355	31,490	1,405	1,467	1,108	1,236	757	739	757	739	n/a	n/a
65,251	58,011	2,365	2,335	2,272	2,190	996	887	981	873	37.62%	33.30%
38,288	39,151	1,388	1,506	1,317	1,420	482	612	502	603	31.32%	24.72%
51,311	44,236	2,219	2,091	1,937	1,888	1,046	1,015	1,016	990	28.27%	26.54%
20,025	14,569	1,566	1,220	1,195	975	686	536	686	536	n/a	25.46%
30,146	24,303	1,078	911	810	653	413	326	413	326	n/a	32.60%
23,485	20,003	893	901	884	874	254	306	249	305	36.00%	32.54%
87,196	74,515	5,111	4,432	2,487	2,359	1,568	1,203	1,568	1,203	n/a	n/a
26,923	22,883	723	986	496	1,020	72	260	72	260	76.05%	55.13%
199,805	182,309	8,773	8,990	7,076	6,616	3,699	3,824	3,699	3,824	n/a	n/a

Financial summary (1-3)

In RMB million unless otherwise stated

		Total assets		Net assets attributable to equity holders of the parent company		Net assets per share attributable to equity holders of the parent company (RMB)		Total loans and advances to customers	
No.	Name of bank	2013	2012	2013	2012	2013	2012	2013	2012
111	The Bank Of East Asia (China)	210,798	206,966	15,785	14,719	n/a	n/a	113,478	104,032
112	Zhejiang Hangzhou Yuhang Rural Commercial Bank Company Limited	50,589	40,713	4,499	2,894	3.28	2.89	27,921	24,984
113	Zhejiang Wenling Rural Cooperative Bank	23,075	19,663	2,542	2,197	4.66	4.32	14,410	12,752
114	Wing Hang Bank(China) Ltd	214,376	197,364	21,700	19,534	n/a	1.46	135,323	114,054
115	Hangzhou United Rural Commercial Bank Co.,Ltd	102,612	90,976	10,275	9,113	7.12	6.95	58,061	53,210
116	Development Bank Of Singapore (China) Limited	96,887	97,989	8,146	7,913	n/a	n/a	48,776	47,358
117	Dah Sing Bank (China) Limited	167,227	155,839	17,050	15,403	n/a	n/a	97,978	86,174
118	Bank Of Fuxin Co.,Ltd.	68,079	50,263	5,269	4,260	2.35	2.09	28,233	20,098
119	Bank Of Xingtai Co.,Ltd.	33,569	27,330	2,231	1,795	2.35	2.48	14,383	11,544
120	Changzhi Bank Co.,Ltd.	18,644	15,254	1,374	1,283	n/a	n/a	8,407	8,707
121	Liangshan Prefecture Commercial Bank Co.,Ltd	20,574	14,292	1,544	986	2.76	2.58	7,932	6,428
122	Chengdu Rural Commercial Bank Co.,Ltd.	429,316	301,183	20,202	15,857	2.02	1.59	133,600	113,365
123	Bank Of Tokyo-Mitsubishi Ufj(China), Ltd.	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
124	Woori Bank China Limited	19,460	17,555	2,409	2,424	n/a	n/a	7,929	6,686
125	Bangkok Bank (China) Company Limited	14,913	13,674	4,246	4,217	n/a	n/a	4,579	4,424
126	Bank Of Liaoyang Co.,Ltd.	74,432	60,500	5,784	4,428	2.25	2.04	32,796	28,665
127	Jincheng Bank Co. Ltd	44,797	32,155	2,809	2,481	n/a	2.91	14,220	11,182
128	Mizuho Bank (China), Ltd.	84,525	76,861	11,454	8,178	n/a	n/a	39,949	37,482
129	Nanyang Commercial Bank (China), Limited	87,572	73,424	7,957	7,796	n/a	n/a	41,272	35,293
130	Credit Agricole Corporate And Investment Bank (China) Limited	13,432	14,601	3,272	3,324	n/a	n/a	2,463	4,190
131	Bank Of Handan Co.,Ltd	72,363	50,809	4,234	2,687	1.78	2.35	18,329	15,006
132	Dazhou City Commercial Bank	13,821	7,389	1,518	1,354	1.52	1.35	4,083	3,335
133	Bank Of Shizuishan Co.,Ltd.	32,572	24,879	2,166	1,782	n/a	n/a	11,152	8,969
134	Sumitomo Mitsui Banking Corporation (China) Limited	88,483.00	84,163	10,678	10,267	1.53	1.47	37,007	31,456
135	United Overseas Bank (China) Limited	41,972	34,583	3,873	3,776	1.29	1.26	18,853	14,917
136	Yuxi City Commercial Bank Co.,Ltd	16,627	11,933	1,280	776	0.02	0.02	5,415	4,349
137	Zhe Jiang Mintai Commercial Bank Co., Ltd.	73,329	57,004	4,974	4,580	3.36	3.10	42,150	32,042
138	Zigong Commercial Bank Co.,Ltd.	16,743	10,575	2,873	746	n/a	2.09	6,383	5,127
139	Korla City Commercial Bank Co.,Ltd.	6,966	7,559	701	603	1.59	1.51	3,039	2,346
140	Wuhan Rural Commercial Bank Co.,Ltd.	130,322	112,503	11,921	7,091	2.98	2.36	73,901	62,777
141	Citibank (China) Co., Ltd.	152,748	152,334	11,388	10,544	2.87	2.66	62,056	63,452
142	Hang Seng Bank (China) Limited	90,178	80,504	7,655	5,584	1.59	1.16	47,608	41,770
143	Hana Bank (China) Company Limited	25,166	20,321	2,393	2,363	1.20	1.18	13,077	9,660
144	Bnp Paribas (China) Limited	50,003	31,748	5,603	5,802	1.15	1.19	9,914	7,926
145	Jinshang Bank Co.,Ltd	131,786	104,559	7,362	6,249	2.25	1.91	40,388	32,836
146	Bank Of Chaoyang Co.,Ltd.	30,808	24,745	305	243	1.69	1.62	18,183	14,949
147	Suining City Commercial Bank Co., Ltd	22,725	14,562	n/a	n/a	n/a	n/a	7,165	5,363
148	Erdos Rural Commercial Bank Co.,Ltd.	n/a	26,206	n/a	n/a	n/a	n/a	n/a	16,211
149	Anqing Duxiu Rural Commercial Bank	8,257	6,147	951	392	1.76	2.07	5,010	3,931
150	Guangzhou Rural Commercial Bank Co.,Ltd	378,665	347,455	26,272	23,328	3.22	2.86	160,193	138,253
151	Feixi Rural Commercial Bank Co.,Ltd.	n/a	n/a	509	498	n/a	n/a	4,739	4,001
152	Jp Morgan Chase Bank (China) Company Limited	43,464	33,247	7,191	7,230	1.11	1.11	13,158	13,676
153	Deutsche Bank (China) Limited	65,639	57,894	6,626	5,784	1.50	1.31	18,709	16,387
154	Societe Generale Bank (China) Limited	18,360	17,649	3,438	3,687	0.86	0.92	6,856	7,231
155	Chang'an Bank Co., Ltd.	105,470	76,670	5,996	4,667	1.89	1.56	41,702	32,248
156	Ningbo Cixi Rural Cooperative Bank	47,217	41,920	5,113	4,420	5.09	4.40	27,424	24,713
157	Anhui Yuexi Rural Cooperative Bank	3,792	2,950	245	129	2.17	1.59	2,344	1,786
158	Anhui Shucheng Rural Cooperative Bank	9,721	8,064	565	387	n/a	n/a	5,819	4,981
159	Jiangsu Suining Rural Commercial Bank	10,942	9,797	1,087	967	5.79	3.71	7,398	6,153
160	Luqiao Rural Cooperative Bank	17,580	14,573	1,754	1,522	5.08	4.41	10,648	9,376
161	Zhejiang Tiantai Rural Cooperative Bank	7,819	5,989	525	442	n/a	3.01	4,305	3,657
162	Zhejiang Xiaoshan Rural Cooperative Bank	88,898	76,064	9,281	6,308	n/a	7.39	51,898	46,807
163	Guangdong Huaxing Bank Co.,Ltd	51,888	31,692	4,806	5,106	0.96	1.02	14,029	8,241
164	Bank Of Suzhou Co., Ltd	163,960	128,420	15,441	14,760	5.15	4.92	54,611	42,999
165	Yingkou Coastal Bank Co.,Ltd.	11,691	5,423	1,842	1,654	n/a	n/a	3,454	2,456

Total deposits		Operating income		Net interest income		Net profit		Profit attributable to equity holders of the parent company		Cost-to-income ratio	
2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
165,318	154,138	5,351	4,571	4,535	3,863	1,208	1,286	1,208	1,286	49.96%	50.21%
44,222	36,775	1,628	1,532	1,518	1,361	519	466	519	466	n/a	n/a
20,002	17,054	1,218	1,055	1,124	978	420	367	420	367	n/a	32.81%
177,910	165,935	4,301	3,891	3,338	2,954	2,187	1,802	2,187	1,802	52.00%	47.60%
83,083	73,408	3,230	3,361	3,112	3,175	1,317	1,328	1,317	1,328	34.15%	26.57%
69,721	67,811	2,131	1,977	1,453	1,892	241	306	n/a	n/a	85.00%	80.00%
129,843	117,936	3,817	2,960	2,797	2,205	1,756	1,480	n/a	n/a	51.80%	59.50%
55,110	41,521	1,610	1,452	856	1,114	591	468	591	468	33.01%	32.80%
28,865	23,130	1,455	1,203	1,401	1,154	506	313	493	308	n/a	n/a
12,753	13,206	580	550	554	532	160	211	160	211	n/a	n/a
16,247	12,106	726	544	476	415	309	257	309	257	21.36%	25.22%
260,204	209,160	8,116	7,745	5,481	5,794	4,521	3,380	4,515	3,376	36.73%	33.19%
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
15,493	13,295	398	386	331	336	58	32	58	32	n/a	n/a
7,867	7,973	236	366	275	353	36	138	36	138	n/a	n/a
64,066	54,085	1,950	1,737	1,801	1,300	739	643	727	629	32.88%	32.39%
28,939	22,748	1,862	1,263	1,604	1,120	567	442	536	426	34.84%	31.49%
60,541	57,831	1,599	1,771	1,216	1,199	320	421	n/a	n/a	n/a	n/a
58,686	50,869	1,630	1,233	1,265	863	242	183	n/a	n/a	n/a	n/a
5,773	5,284	275	429	282	247	94	174	n/a	n/a	n/a	n/a
44,871	35,193	1,793	1,453	1,094	1,074	794	653	794	655	34.69%	31.19%
11,466	5,205	353	254	344	251	164	61	164	61	27.64%	40.22%
21,226	17,370	1,174	1,053	769	784	534	494	534	494	29.04%	n/a
61,088.00	55,358	1,612.00	1,883	1,123.00	1,124	450	687	450	687	57.94%	45.22%
29,060	23,945	877	871	808	626	127	215	127	215	75.30%	64.70%
12,259	9,900	490	357	n/a	n/a	178	136	178	136	n/a	n/a
54,426	43,810	3,519	2,511	3,135	2,107	707	554	661	544	67.67%	43.70%
12,932	9,493	468	327	439	315	201	126	195	125	n/a	27.18%
4,500	4,375	270	247	n/a	n/a	103	n/a	103	n/a	34.82%	32.35%
112,976	95,170	4,974	4,254	3,870	3,417	2,041	1,639	2,042	1,639	31.74%	29.28%
96,624	103,566	4,353	4,628	2,603	2,690	964	1,373	964	1,373	62.37%	55.06%
40,201	31,649	1,490	1,550	859	947	183	267	183	267	77.65%	70.13%
21,679	15,933	441	431	409	396	32	102	32	102	72.11%	57.55%
17,474	12,616	732	862	1,030	863	146	303	146	303	65.00%	45.09%
89,082	74,476	3,445	2,923	3,303	2,643	1,329	1,010	1,327	1,013	32.22%	34.06%
27,335	21,841	1,213	954	1,038	884	261	243	n/a	n/a	n/a	n/a
16,022	11,560	n/a	n/a	n/a	n/a	361	251	n/a	n/a	n/a	n/a
n/a	22,262	n/a	1,994	n/a	n/a	n/a	750	n/a	n/a	n/a	n/a
7,008	5,578	327	263	318	256	110	89	110	89	37.61%	38.40%
312,722	265,511	12,010	10,134	10,607	8,854	4,953	4,088	4,849	4,059	31.94%	31.45%
8,049	6,514	452	418	n/a	n/a	n/a	32	n/a	32	n/a	n/a
23,509	18,422	801	740	775	644	155	105	155	105	64.93%	63.26%
28,566	25,659	1,578	1,524	1,157	1,018	448	260	448	260	51.58%	71.13%
12,260	11,316	406	533	264	287	(142)	11	(142)	11	n/a	n/a
66,581	51,326	2,892	2,224	2,038	1,911	1,313	724	1,307	720	33.18%	36.48%
39,119	34,644	2,896	2,552	1,219	1,257	719	661	719	661	27.75%	29.21%
3,409	2,690	274	163	203	158	45	12	45	12	33.72%	43.04%
8,554	7,270	693	607	n/a	n/a	160	66	160	66	n/a	n/a
9,425	8,475	764	689	738	633	165	198	165	198	26.93%	22.13%
15,222	12,724	919	785	855	745	314	280	314	280	n/a	29.59%
6,664	5,413	n/a	n/a	n/a	n/a	90	79	90	79	n/a	n/a
73,935	66,094	2,821	2,724	2,492	2,328	1,184	1,076	1,184	1,076	26.32%	24.84%
21,300	12,534	868	574	853	542	20	51	20	51	65.27%	71.05%
96,349	70,662	4,509	3,455	4,112	3,192	1,627	1,383	1,598	1,356	38.98%	35.98%
4,811	3,391	377	245	134	178	171	103	171	103	32.32%	38.88%

Financial summary (1-4)

In RMB million unless otherwise stated

		Total assets		Net assets attributable to equity holders of the parent company		Net assets per share attributable to equity holders of the parent company (RMB)		Total loans and advances to customers	
No.	Name of bank	2013	2012	2013	2012	2013	2012	2013	2012
166	Tianjin Rural Commercial Bank Co.,Ltd	205,598	213,009	13,735	11,701	1.96	1.67	102,823	89,462
167	Jiangsu Gaochun Rural Commercial Bank	7,925	6,835	985	911	n/a	n/a	4,519	3,921
168	Jiangsu Jiangdu Rural Commercial Bank Co. Ltd	20,308	16,971	n/a	n/a	n/a	n/a	12,818	10,890
169	Lianyungang Dongfang Rural Commercial Bank	9,839	9,754	n/a	n/a	3	3	7,685	7,499
170	Jiangsu Jiangyan Rural Commercial Bank Co.,Ltd	19,903	17,074	1,652	1,445	3	3	11,909	10,083
171	Jiangsu Dafeng Rural Commercial Bank Co.,Ltd	17,666	14,810	n/a	n/a	n/a	n/a	10,188	8,593
172	Jiangsu Haian Rural Commercial Bank Co., Ltd.	35,268	27,651	2,439	2,118	3	3	19,625	16,400
173	Jiangsu Haimen Rural Commercial Bank Co. Ltd.	22,536	19,740	1,422	1,270	n/a	n/a	11,429	10,495
174	Wuxi Rural Commercial Bank Co., Ltd.	83,047	72,393	5,630	4,945	3	3	43,089	37,699
175	Anhui Qingyang Rural Commercial Bank Company Limited.	4,827	3,785	253	506	n/a	2	2,716	2,243
176	Tongling Rural Commercial Bank Company Limited	7,108	6,218	841	738	1	1	4,262	3,441
177	Anhui Tongcheng Rural Commercial Bank Company Limited	11,619	9,772	n/a	n/a	n/a	n/a	7,325	5,906
178	Huaibei Rural Commercial Bank	6,081	5,007	n/a	n/a	n/a	n/a	3,611	3,221
179	Anhui Jingxian Rural Commercial Bank Company Limited.	4,071	3,275	n/a	n/a	n/a	n/a	2,537	2,140
180	Anhui Jingde Rural Commercial Bank Company Limited.	n/a	1,340	n/a	n/a	n/a	n/a	952	804
181	Anhui Shitai Rural Commercial Bank Company Limited	2,011	1,664	124	103	2	2	1,088	917
182	Anhui Wangjiang Rural Commercial Bank Company Limited	3,831	3,084	320	184	n/a	n/a	2,291	1,895
183	Xinyu Rural Commercial Bank Co. Ltd	24,438	17,829	2,515	1,342	n/a	n/a	11,836	10,328
184	Guangdong Jieyang Rural Commercial Bank Company Limited	10,140	7,913	1,160	1,036	2	2	5,488	4,835
185	Guangdong Jiexi Rural Commercial Bank Co.,Ltd	15,703	8,961	1,845	1,656	3	3	7,882	5,050
186	United Bank Of Switzerland (China) Limited	2,790	2,710	n/a	n/a	n/a	n/a	15	-
187	Kookmin Bank (China) Limited	6,576	5,456	2,266	2,419	1	1	1,274	1,073
188	The Royal Bank Of Scotland (China) Limited	22,247	16,684	4,656	4,783	1	1	5,932	4,814
189	Australia & New Zealand Banking Group (China) Limited	42,272	29,798	4,906	4,833	1	1	15,729	11,429
190	China Citic Bank International Limited	216,308	177,181	17,176	15,052	2	2	127,017	105,092
191	Guangdong Shunde Rural Commercial Bank Co. Ltd	187,884	155,357	14,983	12,980	6	6	91,951	82,300
192	Bank Of Xi'an Co.,Ltd.	133,680	122,049	8,291	6,774	3	2	61,706	52,640
193	Jiangmen Ronghe Rural Commercial Bank Co.,Ltd.	24,211	19,582	2,841	2,626	2	2	13,059	11,300
194	Fujian Putian Rural Commercial Bank Co., Ltd.	15,107	11,598	1,161	919	n/a	2	7,284	5,841
195	Xinyu Rural Commercial Bank Co. Ltd	4,090	3,620	321	327	1	2	2,269	1,882
196	Fujian Na'nan Rural Commercial Bank Co., Ltd.	20,790	16,806	2,431	1,997	n/a	n/a	10,575	9,034
197	Jiangmen Xinhui Rural Commercial Bank Company Limited	37,400	31,438	n/a	n/a	n/a	n/a	20,278	17,330
198	Guangdong Nanhai Rural Commercial Bank Company Limited	108,173	83,811	7,646	6,772	n/a	n/a	54,099	47,253
199	Rural Commercial Bank Of Fuzhou Co.,Ltd.	19,934	16,853	1,465	1,209	n/a	n/a	10,840	9,011
200	Dalian Rural Commercial Bank Co., Ltd.	70,540	59,759	6,561	5,982	n/a	n/a	44,627	38,905

Total deposits		Operating income		Net interest income		Net profit		Profit attributable to equity holders of the parent company		Cost-to-income ratio	
2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
168,122	142,160	6,395	6,085	4,019	3,214	2,090	1,392	2,049	1,380	35.13%	34.78%
6,807	5,816	508	453	n/a	n/a	113	91	n/a	n/a	n/a	n/a
17,619	14,876	797	734	638	584	331	192	331	192	n/a	n/a
7,060	8,323	463	763	n/a	n/a	0	65	-	65	n/a	n/a
16,101	13,869	1,304	1,192	663	700	275	205	275	205	35.13%	27.93%
14,297	11,610	466	484	348	373	119	85	n/a	n/a	n/a	n/a
27,282	22,468	1,044	966	860	831	416	369	416	369	29.83%	25.47%
17,548	14,181	600	609	418	459	228	195	n/a	n/a	n/a	n/a
66,712	54,935	2,059	1,992	1,923	1,862	921	865	921	865	29.40%	27.31%
4,031	3,318	183	158	168	140	42	41	42	41	n/a	n/a
6,074	5,345	n/a	n/a	n/a	n/a	107	86	n/a	n/a	n/a	n/a
10,062	8,366	512	494	475	451	190	186	173	172	36.76%	n/a
4,999	4,348	208	171	206	170	58	40	58	40	n/a	42.63%
3,605	2,950	242	222	n/a	n/a	26	34	n/a	n/a	n/a	n/a
n/a	1,131	n/a	n/a	n/a	n/a	16	15	n/a	n/a	52.08%	48.94%
1,715	1,368	116	104	75	71	17	17	17	17	n/a	n/a
n/a	2,734	240	121	154	120	15	16	15	16	n/a	n/a
17,745	15,129	1,166	844	783	663	348	254	348	254	n/a	n/a
7,542	6,630	674	591	n/a	n/a	179	159	179	159	27.95%	30.65%
12,427	7,094	626	345	609	338	244	152	244	152	n/a	n/a
180	133	64	69	78	114	14	25	n/a	n/a	n/a	n/a
2,095	1,616	109	34	83	32	(81)	5	(81)	5	n/a	n/a
6,704	6,551	704	715	430	400	27	23	28	23	49.57%	77.48%
21,710	16,583	832	805	467	448	90	84	90	84	82.45%	83.23%
170,834	145,017	4,747	3,715	3,331	2,339	2,135	1,557	2,135	1,557	44.00%	48.70%
136,084	120,619	5,575	5,078	5,073	4,724	2,768	2,379	2,749	2,369	30.48%	31.31%
102,600	89,448	5,880	4,980	n/a	n/a	2,116	1,455	2,116	1,455	n/a	n/a
18,716	15,600	820	690	n/a	n/a	352	288	352	288	n/a	n/a
13,575	10,343	997	816	n/a	622	244	203	n/a	n/a	42.79%	44.28%
3,677	3,212	225	176	184	158	22	54	22	54	37.78%	41.72%
17,794	14,377	1,347	1,141	892	810	345	297	n/a	n/a	37.93%	37.47%
31,071	26,711	1,294	1,212	1,237	1,157	531	467	n/a	n/a	n/a	n/a
87,195	74,514	5,111	4,431	2,487	2,358	1,567	1,203	n/a	n/a	n/a	n/a
17,747	15,124	1,374	1,010	611	486	275	141	n/a	n/a	37.40%	41.99%
61,523	51,794	2,284	1,993	2,253	1,970	686	544	n/a	n/a	46.33%	44.71%

Financial summary (2-1)

In RMB million unless otherwise stated

		Basic earnings per share		Return on average equity		Net interest spread		Net interest margin	
No.	Name of bank	2013	2012	2013	2012	2013	2012	2013	2012
1	Industrial And Commercial Bank Of China Limited	0.75	0.68	21.92%	23.02%	2.40%	2.49%	2.57%	2.66%
2	China Construction Bank Corporation	0.86	0.77	21.23%	21.98%	2.56%	2.58%	2.74%	2.75%
3	Agricultural Bank Of China Limited	0.51	0.45	20.89%	20.74%	2.65%	2.67%	2.79%	2.81%
4	Bank Of China Limited	0.56	0.50	18.04%	18.13%	2.13%	2.02%	2.24%	2.15%
5	Bank Of Communications Co., Ltd	0.84	0.88	15.49%	18.43%	2.33%	2.43%	2.52%	2.59%
6	China Merchants Bank Co., Ltd.	2.30	2.10	23.12%	24.78%	2.65%	2.87%	2.82%	3.03%
7	Industrial Bank Co.,Ltd	2.16	2.15	22.39%	26.65%	2.23%	2.46%	2.44%	2.64%
8	Shanghai Pudong Development Bank	2.19	1.83	20.02%	21.53%	2.26%	2.39%	2.46%	2.58%
9	China Citic Bank Corporation Limited	0.84	0.66	18.48%	16.70%	2.40%	2.61%	2.60%	2.81%
10	China Minsheng Banking Corp. Ltd.	1.49	1.34	23.23%	25.24%	2.30%	2.75%	2.49%	2.94%
11	China Everbright Bank Co.,Ltd.	0.66	0.58	21.48%	22.54%	1.96%	2.34%	2.16%	2.54%
12	Ping An Bank Company Limited	1.86	1.64	13.59%	15.81%	2.14%	2.19%	2.31%	2.37%
13	Hua Xia Bank Co., Ltd.	1.74	1.44	19.30%	18.50%	2.50%	2.52%	2.67%	2.71%
14	Bank Of Beijing Co., Ltd.	1.53	1.38	18.05%	18.30%	n/a	n/a	n/a	n/a
15	Postal Savings Bank Of China	n/a	n/a	23.19%	27.79%	n/a	n/a	2.67%	2.70%
16	China Guangfa Bank Co., Ltd.	0.75	0.73	16.93%	19.31%	1.84%	2.31%	2.01%	2.52%
17	Bank Of Nanjing Co., Ltd.	1.51	1.35	17.56%	17.35%	2.09%	2.25%	2.30%	2.49%
18	China Development Bank Corporation	0.26	0.21	14.23%	12.67%	n/a	1.95%	2.17%	2.25%
19	ADBC, Agricultural Development Bank Of China	0.71	0.71	22.11%	28.70%	2.79%	2.93%	n/a	n/a
20	The Export-Import Bank Of China	n/a	n/a	17.88%	18.84%	n/a	n/a	n/a	n/a
21	Bank Of Shanghai Co., Ltd.	2.21	1.77	20.51%	19.53%	1.99%	2.06%	2.18%	2.25%
22	Beijing Rural Commercial Bank Co.,Ltd.	0.40	0.34	19.03%	17.20%	n/a	n/a	n/a	n/a
23	Bank Of Jiangsu Co. Ltd.	0.86	0.77	19.98%	22.71%	n/a	n/a	n/a	n/a
24	Huishang Bank Corporation Limited	0.58	0.53	15.58%	21.02%	2.44%	2.88%	2.63%	3.03%
25	Bank Of Tianjin Co. Ltd.	0.83	0.64	17.77%	15.77%	n/a	n/a	n/a	n/a
26	Bank Of Dalian Co. Ltd.	0.57	0.43	19.69%	17.65%	n/a	n/a	n/a	n/a
27	Bank Of Hangzhou Co., Ltd.	2.27	2.13	19.93%	22.28%	2.66%	3.06%	2.87%	3.27%
28	Bank Of Dongguan Corporation Limited.	1.00	0.97	19.90%	23.01%	n/a	n/a	n/a	n/a
29	China Zheshang Bank Co., Ltd.	0.45	0.40	19.40%	18.55%	2.43%	2.76%	n/a	n/a
30	Baoshang Bank Co., Ltd.	0.59	0.56	12.44%	13.22%	n/a	n/a	n/a	n/a
31	Bank Of Chongqing Co., Ltd.	1.10	0.95	21.40%	26.20%	2.61%	2.66%	2.81%	2.85%
32	Bank Of Xi’an Co.,Ltd.	0.54	0.49	n/a	n/a	n/a	n/a	n/a	n/a
33	Qilu Bank Co., Ltd.	0.43	0.36	17.85%	17.68%	n/a	n/a	n/a	n/a
34	Fujian Haixia Bank Co.,Ltd.	0.28	0.31	14.01%	15.04%	n/a	n/a	n/a	n/a
35	China Bohai Bank Co., Ltd.	0.33	0.24	20.69%	18.38%	1.96%	1.91%	2.14%	2.11%
36	Bank Of Qingdao Co., Ltd.	0.45	0.36	14.49%	12.81%	n/a	n/a	n/a	n/a
37	Bank Of Zhengzhou Co.,Ltd.	0.48	0.37	22.11%	21.04%	n/a	n/a	n/a	n/a
38	Bank Of Wenzhou Co.,Ltd.	0.41	0.36	10.38%	10.01%	n/a	n/a	n/a	n/a
39	Jiangsu Jiangyin Rura1 Commercial Bank Co.,Ltd.	0.80	0.79	n/a	n/a	n/a	n/a	n/a	n/a
40	Bank Of Nanchang Co.,Ltd.	0.59	0.62	n/a	n/a	n/a	n/a	n/a	n/a
41	Ningbo Yinzhou Rural Cooperative Bank	0.51	0.61	16.72%	23.21%	n/a	n/a	n/a	n/a
42	Bank Of Ningxia Co.,Ltd.	0.74	0.69	20.06%	21.49%	n/a	n/a	n/a	n/a
43	Bank Of Shaoxing Co.,Ltd.	0.38	0.43	10.55%	14.11%	n/a	n/a	n/a	n/a
44	Bank Of Luoyang Co.,Ltd.	0.65	0.68	19.80%	21.77%	n/a	n/a	n/a	n/a
45	Bank Of Weifang Co., Ltd.	0.32	0.37	n/a	n/a	n/a	n/a	n/a	n/a
46	Jiangsu Wujiang Rural Commercial Bank Co.,Ltd.	0.96	0.86	17.75%	18.22%	n/a	n/a	n/a	n/a
47	Qi Shang Bank Co., Ltd.	0.61	0.61	19.16%	22.50%	n/a	n/a	n/a	n/a
48	Bank Of Taizhou Co.,Ltd	0.96	0.83	24.91%	27.24%	n/a	n/a	n/a	n/a
49	Bank Of Rizhao Co.,Ltd.	0.54	0.50	n/a	n/a	n/a	n/a	n/a	n/a
50	Bank Of Jinhua Co., Ltd;	0.54	0.54	17.69%	18.70%	n/a	n/a	n/a	n/a
51	Linshang Bank Company Limited	0.21	0.19	n/a	n/a	n/a	n/a	n/a	n/a
52	Fubon Bank	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
53	Dongying Bank Co., Limited	0.47	0.64	17.58%	20.76%	n/a	n/a	n/a	n/a
54	Zhejiang Tailong Commercial Bank Co.,Ltd	0.26	0.21	18.94%	17.94%	n/a	n/a	n/a	n/a
55	Guangdong Nanyue Bank Co. Ltd	0.19	0.19	n/a	n/a	n/a	n/a	n/a	n/a

Non-performing loans (NPL) ratio		Allowance to total loans ratio		Loan-to-deposit ratio		Capital adequacy ratio		Core capital adequacy ratio	
2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
0.94%	0.85%	2.43%	2.50%	66.60%	64.10%	13.12%	13.66%	10.57%	10.62%
0.99%	0.99%	2.66%	2.69%	70.28%	66.23%	13.34%	14.32%	10.75%	11.32%
1.22%	1.33%	4.46%	4.35%	61.17%	59.22%	11.86%	12.61%	9.25%	9.67%
0.96%	0.95%	2.62%	2.62%	72.52%	71.99%	12.46%	13.63%	9.69%	10.54%
1.05%	0.92%	2.24%	2.30%	73.40%	72.71%	12.08%	14.07%	9.76%	11.24%
0.83%	0.61%	2.22%	2.16%	74.44%	71.37%	11.14%	11.41%	9.27%	8.34%
0.76%	0.43%	2.68%	2.00%	61.95%	66.50%	10.83%	12.06%	8.68%	9.29%
0.74%	0.58%	2.36%	2.31%	73.01%	72.21%	10.85%	11.41%	8.45%	8.45%
1.03%	0.74%	2.13%	2.12%	72.79%	73.59%	11.24%	12.42%	8.78%	9.29%
0.85%	0.76%	2.21%	2.39%	73.39%	71.93%	10.69%	10.75%	8.72%	8.13%
0.86%	0.74%	2.07%	2.53%	72.59%	71.52%	10.57%	10.99%	9.11%	8.00%
0.89%	0.95%	1.79%	1.74%	69.67%	70.64%	9.90%	11.37%	8.56%	8.59%
0.90%	0.88%	2.73%	2.82%	69.90%	69.51%	9.88%	10.85%	8.03%	8.18%
0.65%	0.59%	2.50%	2.50%	68.74%	68.19%	10.94%	12.90%	8.81%	10.90%
0.51%	0.36%	n/a	n/a	n/a	n/a	8.84%	n/a	7.72%	n/a
0.87%	1.48%	1.56%	2.52%	71.73%	71.67%	9.00%	11.27%	7.50%	n/a
0.89%	0.83%	2.66%	2.64%	56.49%	58.63%	12.90%	14.98%	10.10%	12.13%
0.48%	0.30%	3.05%	2.82%	n/a	n/a	11.28%	10.92%	7.09%	6.86%
0.70%	0.99%	3.18%	3.10%	n/a	n/a	n/a	n/a	n/a	n/a
n/a	0.75%	n/a	11.91%	n/a	n/a	n/a	n/a	n/a	n/a
0.82%	0.84%	2.39%	2.39%	70.52%	71.85%	11.94%	13.17%	9.30%	9.23%
1.71%	2.40%	4.14%	4.72%	61.68%	57.04%	11.28%	11.39%	8.34%	8.04%
1.15%	1.01%	2.58%	2.67%	68.86%	66.14%	11.63%	12.16%	9.49%	8.45%
0.54%	0.58%	2.13%	2.35%	71.65%	68.38%	15.19%	13.54%	12.60%	10.30%
1.03%	0.72%	2.76%	3.29%	59.99%	60.25%	11.05%	13.05%	8.30%	10.39%
1.96%	0.90%	3.09%	2.48%	55.66%	57.96%	9.20%	11.23%	7.49%	8.25%
1.19%	0.97%	2.52%	2.50%	66.48%	66.24%	11.05%	12.46%	9.12%	9.52%
0.97%	0.80%	2.83%	2.70%	62.96%	60.20%	13.13%	13.43%	11.09%	10.79%
0.64%	0.46%	2.10%	1.96%	67.77%	68.14%	11.53%	11.61%	9.17%	8.83%
1.00%	0.87%	n/a	2.15%	49.77%	47.64%	12.05%	16.84%	11.42%	15.52%
0.39%	0.33%	2.06%	1.80%	60.82%	67.20%	13.26%	11.11%	10.82%	8.18%
0.65%	0.76%	2.50%	2.66%	60.26%	58.92%	12.35%	13.82%	11.25%	12.68%
0.96%	1.15%	3.44%	3.51%	64.31%	65.97%	11.64%	13.07%	9.44%	11.20%
1.47%	1.30%	n/a	2.67%	64.22%	67.05%	12.50%	13.44%	11.38%	12.64%
0.26%	0.14%	2.21%	1.85%	55.28%	65.19%	11.06%	11.68%	8.70%	9.63%
0.75%	0.76%	n/a	n/a	56.79%	59.57%	10.88%	13.70%	9.75%	12.89%
0.53%	0.47%	2.25%	2.00%	61.74%	67.19%	12.08%	15.26%	10.28%	12.79%
1.24%	1.35%	2.01%	2.10%	70.96%	70.25%	11.34%	11.88%	9.15%	9.24%
1.19%	1.20%	2.82%	3.12%	n/a	n/a	13.50%	15.37%	12.36%	13.04%
1.77%	1.56%	3.94%	3.88%	55.93%	53.93%	12.61%	15.05%	n/a	n/a
1.28%	0.81%	n/a	n/a	71.39%	72.16%	12.41%	14.09%	11.11%	12.22%
0.87%	0.80%	n/a	n/a	67.75%	67.08%	14.23%	13.58%	13.24%	12.78%
1.22%	1.16%	n/a	n/a	72.61%	72.80%	12.75%	11.67%	11.84%	10.76%
0.57%	0.56%	n/a	n/a	67.89%	68.94%	13.18%	15.56%	11.96%	13.58%
0.96%	1.29%	n/a	2.88%	65.13%	69.89%	12.50%	12.36%	11.36%	11.55%
1.23%	1.51%	3.21%	3.32%	65.19%	63.59%	12.50%	13.59%	11.68%	11.90%
1.94%	1.40%	n/a	3.73%	n/a	n/a	10.86%	12.88%	9.83%	10.37%
0.41%	0.38%	2.49%	1.99%	72.62%	75.83%	15.05%	14.11%	13.01%	12.01%
0.96%	0.98%	n/a	n/a	61.59%	68.22%	13.38%	13.01%	11.22%	9.85%
1.14%	1.23%	2.50%	2.84%	71.01%	71.37%	10.11%	10.67%	8.97%	9.18%
1.87%	0.88%	3.30%	n/a	66.19%	72.30%	10.51%	12.83%	9.58%	11.87%
n/a	n/a	n/a	n/a	n/a	n/a	12.17%	12.48%	11.02%	12.48%
0.48%	0.51%	n/a	n/a	64.48%	67.02%	13.31%	14.76%	11.43%	12.93%
0.95%	0.80%	2.51%	n/a	61.34%	71.68%	11.57%	11.45%	8.71%	8.31%
1.43%	1.48%	n/a	n/a	n/a	52.77%	10.78%	12.57%	10.01%	12.04%

Financial summary (2-2)

In RMB million unless otherwise stated

No.	Name of bank	Basic earnings per share 2013	Basic earnings per share 2012	Return on average equity 2013	Return on average equity 2012	Net interest spread 2013	Net interest spread 2012	Net interest margin 2013	Net interest margin 2012
56	Zhe Jiang Chou Zhou Commercial Bank Co. Ltd.	0.81	0.80	12.73%	13.81%	n/a	n/a	n/a	n/a
57	Nanchong City Commercial Bank Company Limited	1.88	1.37	32.65%	31.99%	n/a	n/a	n/a	n/a
58	Panzhihua City Commercial Bank Co.,Ltd.	0.82	0.88	20.99%	27.23%	n/a	n/a	n/a	n/a
59	Guangxi Beibu Gulf Bank C.,Ltd.	0.10	0.45	n/a	n/a	n/a	n/a	n/a	n/a
60	Bank Of Quanzhou Co.,Ltd	0.23	0.24	12.77%	14.36%	n/a	n/a	n/a	n/a
61	Bank Of Deyang Co.,Ltd.	0.59	0.67	20.80%	28.92%	n/a	n/a	n/a	n/a
62	Jiaozuo City Commercial Bank Company Limited	n/a	n/a	7.03%	12.31%	n/a	n/a	n/a	n/a
63	Bank Of Jiujiang Co. Ltd.	1.22	1.11	n/a	22.61%	n/a	n/a	n/a	n/a
64	Bank Of Huzhou Co.,Ltd.	0.34	0.58	n/a	n/a	n/a	n/a	n/a	n/a
65	Mianyang City Commercial Bank Co.,Ltd	1.21	1.03	29.28%	32.48%	n/a	n/a	n/a	n/a
66	Bank Of Cangzhou Co.,Ltd.	0.46	0.38	n/a	n/a	n/a	n/a	n/a	n/a
67	Guilin Bank Co.,Ltd	0.69	0.60	n/a	n/a	n/a	n/a	n/a	n/a
68	Guizhou Xingyi Rural Commercial Bank	n/a	n/a	20.03%	14.45%	n/a	n/a	n/a	n/a
69	Bank Of Chengde Co.,Ltd.	0.40	0.60	26.83%	30.27%	n/a	n/a	n/a	n/a
70	Bank Of Shangrao Company Limited	n/a	n/a	18.85%	19.89%	n/a	n/a	n/a	n/a
71	Bank Of Liuzhou Co.,Ltd	0.67	0.51	17.67%	15.40%	n/a	n/a	n/a	n/a
72	Bank Of Jinzhou Co., Ltd.	0.34	0.30	11.50%	10.81%	n/a	n/a	n/a	n/a
73	Bank Of Yingkou Co.,Ltd	n/a	n/a	17.84%	18.49%	n/a	n/a	n/a	n/a
74	Zaozhuang Bank Co., Ltd.	0.38	n/a	16.91%	14.60%	n/a	n/a	n/a	n/a
75	Bank Of Kunlun Corporation Limited	0.38	0.29	16.24%	14.25%	1.94%	1.74%	2.13%	1.98%
76	Chongqing Three Gorges Bank Co.,Ltd.	0.43	0.37	22.87%	21.50%	n/a	n/a	n/a	n/a
77	Weihai City Commercial Bank Co.,Ltd.	0.29	0.25	18.42%	17.19%	n/a	n/a	n/a	n/a
78	Bank Of Anshan Co.,Ltd	0.27	0.26	13.33%	13.97%	n/a	n/a	n/a	n/a
79	Bank Of Chengdu Co., Ltd.	0.91	0.78	21.08%	21.44%	n/a	n/a	n/a	n/a
80	Bank Of Dandong Co. ,Ltd.	0.38	0.37	19.90%	22.82%	n/a	n/a	n/a	n/a
81	Harbin Bank Co.,Ltd	0.41	0.37	18.36%	20.35%	2.56%	3.06%	2.64%	3.09%
82	Tangshan City Commercial Bank Co.,Ltd	0.23	0.21	11.31%	13.93%	n/a	n/a	n/a	n/a
83	Bank Of Wuhai Co.,Ltd	0.98	1.79	22.77%	30.69%	n/a	n/a	n/a	n/a
84	Bank Of Jilin Co.,Ltd	0.35	0.30	16.66%	16.20%	n/a	n/a	n/a	n/a
85	Erdos Rural Commercial Bank Co.,Ltd.	n/a	n/a	19.11%	31.61%	n/a	n/a	n/a	n/a
86	Bank Of Guiyang Co., Ltd.	1.00	0.90	24.75%	27.26%	n/a	n/a	n/a	n/a
87	Bank Of Inner Mongolia Co.,Ltd	0.28	0.28	11.20%	11.70%	n/a	n/a	n/a	n/a
88	Laishang Bank Co.,Ltd	0.49	0.64	n/a	n/a	n/a	n/a	n/a	n/a
89	Bank Of Hebei Co., Ltd.	0.43	0.45	15.99%	18.30%	n/a	n/a	n/a	n/a
90	Fudian Bank Co.,Ltd.	0.40	0.31	18.75%	16.53%	2.99%	2.85%	3.17%	3.06%
91	Shengjing Bank Co., Ltd.	1.31	0.94	29.12%	27.09%	n/a	n/a	n/a	n/a
92	Hankou Bank Co.,Ltd.	0.50	0.53	16.44%	21.22%	n/a	n/a	n/a	n/a
93	Leshan City Commercial Bank Co.,Ltd.	0.61	0.40	n/a	n/a	n/a	n/a	n/a	n/a
94	Shanghai Rural Commercial Bank Co., Ltd.	0.84	0.74	13.91%	13.87%	n/a	n/a	n/a	n/a
95	Bank Of Jining Co.,Ltd.	0.51	0.42	n/a	n/a	n/a	n/a	n/a	n/a
96	Zhejiang Xiaoshan Rural Cooperative Bank	n/a	n/a	15.19%	18.46%	n/a	n/a	n/a	n/a
97	Evergrowing Bank Co.,Ltd	0.90	0.82	23.70%	25.33%	n/a	n/a	n/a	n/a
98	Chongqing Rural Commercial Bank Co., Ltd.	0.64	0.58	16.31%	16.69%	3.19%	3.26%	3.41%	3.50%
99	Bank Of Ningbo Co.,Ltd.	1.68	1.41	20.41%	19.97%	2.91%	3.29%	3.05%	3.49%
100	East West Bancorp, Inc. (China)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
101	Huashang Bank	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
102	Jiangsu Changshu Rural Commercial Bank Co.,Ltd.	0.65	0.57	16.79%	15.50%	n/a	n/a	n/a	n/a
103	Jiangsu Kunshan Rural Commercial Bank Co.,Ltd.	0.40	0.58	14.76%	22.51%	n/a	n/a	n/a	n/a
104	Jiangsu Zhangjiagang Rural Commercial Bank Co.,Ltd.	0.62	0.61	18.73%	19.98%	n/a	n/a	n/a	n/a
105	Ningxia Yellow River Rural Commercial Bank Co., Ltd	0.69	0.54	20.90%	18.96%	n/a	n/a	n/a	n/a
106	Hefei Science Technology Rural Commercial Bank	0.24	0.19	10.69%	12.30%	n/a	n/a	n/a	n/a
107	Jiangsu Taicang Rural Commercial Bank Co., Ltd.	0.34	0.45	11.76%	15.10%	n/a	n/a	n/a	n/a
108	Guangdong Nanhai Rural Commercial Bank Company Limited	0.56	0.45	21.78%	18.46%	n/a	n/a	n/a	n/a
109	Oversea-Chinese Banking Co.,Ltd.	n/a	n/a	1.70%	6.14%	n/a	n/a	n/a	n/a
110	The Hongkong And Shanghai Banking Corporation Limited (China)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Non-performing loans (NPL) ratio		Allowance to total loans ratio		Loan-to-deposit ratio		Capital adequacy ratio		Core capital adequacy ratio	
2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
1.01%	1.07%	2.66%	2.53%	74.80%	73.42%	13.03%	12.32%	11.58%	11.82%
0.47%	0.32%	n/a	n/a	39.96%	42.38%	12.08%	13.34%	11.13%	12.20%
0.08%	0.09%	n/a	n/a	54.58%	48.58%	11.46%	14.75%	9.93%	9.42%
n/a	0.51%	n/a	n/a	65.72%	63.88%	12.82%	10.63%	10.42%	8.71%
0.92%	0.82%	2.57%	2.96%	51.59%	58.53%	12.65%	12.17%	n/a	n/a
0.94%	0.64%	n/a	n/a	61.22%	59.92%	11.37%	14.25%	9.81%	12.61%
0.80%	1.79%	n/a	n/a	67.38%	69.20%	12.84%	16.85%	12.14%	15.97%
0.95%	0.89%	n/a	n/a	38.78%	41.58%	14.11%	16.22%	11.88%	13.28%
1.42%	1.18%	2.78%	3.02%	67.73%	70.01%	13.87%	13.66%	12.80%	13.11%
0.49%	0.64%	n/a	n/a	n/a	n/a	13.10%	13.49%	11.20%	11.17%
0.47%	0.46%	n/a	n/a	57.00%	61.39%	13.85%	15.64%	10.20%	11.86%
0.84%	0.53%	n/a	n/a	35.43%	42.08%	11.81%	12.67%	10.63%	11.71%
n/a	2.86%	n/a	n/a	n/a	72.36%	12.88%	13.08%	n/a	11.53%
0.29%	0.52%	n/a	n/a	51.78%	55.39%	13.78%	15.49%	12.23%	13.92%
0.81%	0.55%	n/a	1.77%	51.85%	50.32%	16.07%	18.35%	n/a	n/a
0.59%	0.60%	3.02%	2.85%	41.42%	41.29%	11.03%	10.56%	9.89%	9.59%
0.87%	0.84%	n/a	n/a	66.46%	69.08%	10.90%	13.91%	9.52%	12.22%
1.10%	1.15%	n/a	n/a	55.96%	53.75%	12.46%	14.22%	10.93%	11.22%
2.38%	1.76%	n/a	n/a	64.46%	66.30%	10.93%	14.50%	9.81%	13.54%
1.03%	1.80%	3.16%	2.38%	n/a	n/a	12.38%	13.33%	11.49%	13.11%
0.52%	0.25%	n/a	n/a	39.25%	41.33%	12.21%	12.97%	10.14%	10.09%
0.46%	0.57%	n/a	n/a	57.20%	65.37%	10.55%	13.69%	8.50%	10.41%
1.47%	0.93%	n/a	n/a	64.28%	64.84%	11.21%	11.56%	9.00%	9.00%
0.72%	0.62%	n/a	n/a	56.98%	57.47%	13.11%	14.52%	10.49%	11.62%
0.50%	0.64%	n/a	n/a	51.40%	49.49%	15.54%	13.67%	14.39%	12.48%
0.85%	0.64%	2.29%	2.25%	47.26%	46.75%	12.55%	12.97%	11.67%	11.94%
0.13%	n/a	n/a	n/a	55.24%	45.96%	11.09%	10.51%	9.97%	9.37%
0.40%	0.11%	n/a	n/a	60.95%	50.54%	19.87%	26.38%	18.70%	24.28%
1.17%	1.13%	3.31%	3.48%	65.62%	69.64%	9.80%	10.90%	7.74%	8.53%
1.87%	1.28%	7.39%	6.61%	43.38%	49.01%	17.16%	13.52%	16.46%	12.96%
0.59%	0.60%	n/a	n/a	52.15%	53.41%	14.25%	17.06%	10.77%	12.40%
1.76%	1.79%	n/a	n/a	57.42%	42.33%	15.90%	18.08%	16.05%	18.26%
1.23%	0.50%	n/a	n/a	68.19%	69.30%	15.90%	19.13%	14.84%	18.82%
0.68%	0.62%	n/a	n/a	53.41%	55.12%	11.55%	12.95%	9.64%	n/a
0.87%	0.96%	2.86%	3.19%	67.33%	66.42%	11.13%	n/a	9.98%	n/a
0.46%	0.54%	1.41%	1.63%	50.62%	51.61%	11.15%	n/a	10.17%	n/a
1.10%	0.96%	n/a	n/a	56.83%	54.60%	12.25%	12.54%	9.96%	10.17%
0.44%	0.53%	3.41%	3.65%	44.23%	53.44%	16.55%	14.15%	13.90%	10.42%
1.28%	1.26%	2.60%	2.83%	65.34%	66.11%	14.74%	14.51%	13.10%	12.71%
0.80%	0.73%	n/a	n/a	70.17%	74.05%	14.20%	17.23%	13.10%	n/a
1.69%	1.79%	3.97%	3.67%	n/a	n/a	16.57%	12.73%	15.45%	11.76%
0.95%	0.67%	n/a	n/a	55.99%	55.98%	10.61%	11.38%	9.21%	9.66%
0.80%	0.98%	3.46%	3.42%	59.00%	58.93%	13.31%	12.92%	12.51%	12.01%
0.89%	0.76%	2.27%	2.10%	61.97%	67.74%	12.06%	15.65%	9.36%	11.49%
n/a	n/a	n/a	n/a	n/a	n/a	56.90%	n/a	55.92%	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
0.97%	0.99%	3.31%	3.54%	63.11%	61.22%	13.06%	14.74%	11.93%	13.05%
2.48%	2.94%	n/a	6.18%	69.89%	63.53%	12.78%	11.88%	11.71%	10.79%
1.08%	1.00%	n/a	3.07%	70.57%	70.99%	14.26%	14.21%	13.96%	12.10%
2.57%	3.20%	n/a	n/a	71.68%	67.53%	11.24%	12.85%	10.13%	11.74%
1.56%	0.83%	2.71%	2.51%	n/a	n/a	16.42%	23.87%	15.40%	23.12%
2.44%	2.72%	n/a	n/a	67.94%	68.11%	12.72%	16.61%	11.60%	13.70%
0.95%	1.13%	3.14%	3.24%	64.05%	65.54%	11.64%	11.68%	10.50%	10.53%
0.95%	0.17%	0.81%	0.79%	66.88%	68.49%	14.79%	22.00%	14.40%	22.00%
n/a	n/a	0.20%	0.20%	n/a	n/a	16.40%	16.70%	16.40%	16.70%

Financial summary (2-3)

In RMB million unless otherwise stated

No.	Name of bank	Basic earnings per share		Return on average equity		Net interest spread		Net interest margin	
		2013	2012	2013	2012	2013	2012	2013	2012
111	The Bank Of East Asia (China)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
112	Zhejiang Hangzhou Yuhang Rural Commercial Bank Company Limited	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
113	Zhejiang Wenling Rural Cooperative Bank	n/a	n/a	17.71%	17.65%	n/a	n/a	n/a	n/a
114	Wing Hang Bank(China) Ltd	7.71	6.00	10.60%	9.80%	n/a	n/a	n/a	n/a
115	Hangzhou United Rural Commercial Bank Co.,Ltd	0.96	1.06	12.81%	14.58%	n/a	n/a	3.22%	3.27%
116	Development Bank Of Singapore (China) Limited	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
117	Dah Sing Bank (China) Limited	1.40	1.20	10.80%	10.30%	1.79%	1.54%	n/a	n/a
118	Bank Of Fuxin Co.,Ltd.	0.29	0.35	11.22%	10.98%	2.29%	2.14%	2.82%	3.38%
119	Bank Of Xingtai Co.,Ltd.	0.52	0.38	n/a	n/a	n/a	n/a	n/a	n/a
120	Changzhi Bank Co.,Ltd.	0.16	0.27	n/a	n/a	n/a	n/a	n/a	n/a
121	Liangshan Prefecture Commercial Bank Co.,Ltd	0.55	0.67	n/a	n/a	n/a	n/a	n/a	n/a
122	Chengdu Rural Commercial Bank Co.,Ltd.	0.45	0.34	24.03%	23.62%	5.24%	5.39%	n/a	n/a
123	Bank Of Tokyo-Mitsubishi Ufj(China), Ltd.	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
124	Woori Bank China Limited	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
125	Bangkok Bank (China) Company Limited	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
126	Bank Of Liaoyang Co.,Ltd.	0.28	0.29	n/a	n/a	n/a	n/a	n/a	n/a
127	Jincheng Bank Co. Ltd	0.63	0.76	19.09%	17.17%	n/a	n/a	n/a	n/a
128	Mizuho Bank (China), Ltd.	n/a	n/a	2.79%	5.15%	n/a	n/a	n/a	n/a
129	Nanyang Commercial Bank (China), Limited	n/a	n/a	3.04%	2.33%	n/a	n/a	n/a	n/a
130	Credit Agricole Corporate And Investment Bank (China) Limited	n/a	n/a	2.87%	5.23%	n/a	n/a	n/a	n/a
131	Bank Of Handan Co.,Ltd	0.68	0.57	23.00%	27.22%	n/a	n/a	n/a	n/a
132	Dazhou City Commercial Bank	0.16	0.06	10.82%	0.05%	n/a	n/a	n/a	n/a
133	Bank Of Shizuishan Co.,Ltd.	0.89	0.82	n/a	n/a	n/a	n/a	n/a	n/a
134	Sumitomo Mitsui Banking Corporation (China) Limited	0.06	0.10	4.21%	6.69%	n/a	n/a	n/a	n/a
135	United Overseas Bank (China) Limited	n/a	n/a	n/a	n/a	n/a	n/a	2.80%	2.50%
136	Yuxi City Commercial Bank Co.,Ltd	n/a	n/a	13.92%	17.57%	n/a	n/a	n/a	n/a
137	Zhe Jiang Mintai Commercial Bank Co., Ltd.	0.45	0.39	13.29%	11.88%	n/a	n/a	n/a	n/a
138	Zigong Commercial Bank Co.,Ltd.	0.19	0.35	6.80%	16.76%	n/a	n/a	n/a	n/a
139	Korla City Commercial Bank Co.,Ltd.	0.23	0.17	14.64%	15.09%	n/a	n/a	n/a	n/a
140	Wuhan Rural Commercial Bank Co.,Ltd.	0.68	0.55	16.85%	22.51%	n/a	n/a	n/a	n/a
141	Citibank (China) Co., Ltd.	0.24	0.35	8.47%	13.02%	n/a	n/a	n/a	n/a
142	Hang Seng Bank (China) Limited	n/a	n/a	2.39%	4.78%	n/a	n/a	n/a	n/a
143	Hana Bank (China) Company Limited	0.02	0.05	1.34%	4.30%	2.20%	2.47%	n/a	n/a
144	Bnp Paribas (China) Limited	0.03	0.06	2.61%	5.22%	n/a	n/a	n/a	n/a
145	Jinshang Bank Co.,Ltd	0.41	0.31	18.02%	16.21%	n/a	n/a	n/a	n/a
146	Bank Of Chaoyang Co.,Ltd.	0.17	0.18	n/a	n/a	n/a	n/a	n/a	n/a
147	Suining City Commercial Bank Co., Ltd	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
148	Erdos Rural Commercial Bank Co.,Ltd.	n/a	1.24	n/a	n/a	n/a	n/a	n/a	n/a
149	Anqing Duxiu Rural Commercial Bank	0.21	0.47	16.40%	24.96%	4.01%	4.29%	4.28%	4.72%
150	Guangzhou Rural Commercial Bank Co.,Ltd	0.61	0.50	18.46%	17.40%	n/a	n/a	n/a	n/a
151	Feixi Rural Commercial Bank Co.,Ltd.	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
152	Jp Morgan Chase Bank (China) Company Limited	n/a	n/a	2.16%	1.45%	n/a	n/a	n/a	n/a
153	Deutsche Bank (China) Limited	0.10	0.06	6.76%	4.50%	n/a	n/a	n/a	n/a
154	Societe Generale Bank (China) Limited	0.00	0.00	-4.13%	0.30%	n/a	n/a	n/a	n/a
155	Chang'an Bank Co., Ltd.	0.41	0.24	21.71%	15.37%	n/a	n/a	n/a	n/a
156	Ningbo Cixi Rural Cooperative Bank	0.72	0.66	14.06%	14.96%	n/a	n/a	n/a	n/a
157	Anhui Yuexi Rural Cooperative Bank	0.07	0.07	18.37%	9.30%	n/a	n/a	n/a	n/a
158	Anhui Shucheng Rural Cooperative Bank	n/a	n/a	28.32%	17.05%	n/a	n/a	n/a	n/a
159	Jiangsu Suining Rural Commercial Bank	n/a	n/a	n/a	20.48%	6.96%	5.97%	n/a	n/a
160	Luqiao Rural Cooperative Bank	n/a	n/a	17.90%	18.40%	n/a	n/a	n/a	n/a
161	Zhejiang Tiantai Rural Cooperative Bank	n/a	n/a	17.07%	17.97%	n/a	n/a	n/a	n/a
162	Zhejiang Xiaoshan Rural Cooperative Bank	n/a	1.26	12.76%	17.06%	n/a	n/a	n/a	n/a
163	Guangdong Huaxing Bank Co.,Ltd	0.00	0.01	0.42%	1.00%	1.67%	1.83%	2.16%	2.65%
164	Bank Of Suzhou Co., Ltd	0.54	0.46	10.35%	9.19%	2.98%	2.56%	3.14%	3.09%
165	Yingkou Coastal Bank Co.,Ltd.	0.11	0.07	n/a	n/a	n/a	n/a	n/a	n/a

	Non-performing loans (NPL) ratio		Allowance to total loans ratio		Loan-to-deposit ratio		Capital adequacy ratio		Core capital adequacy ratio	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
	n/a	n/a	1.02%	0.66%	68.81%	67.75%	11.54%	12.58%	11.08%	12.57%
	0.97%	0.62%	3.32%	2.60%	63.13%	67.93%	14.78%	11.61%	13.65%	10.38%
	1.05%	1.32%	n/a	n/a	72.04%	74.77%	17.50%	17.12%	16.42%	16.04%
	0.44%	0.45%	n/a	n/a	73.00%	67.30%	15.90%	20.00%	12.00%	20.00%
	2.37%	2.43%	4.77%	4.92%	69.88%	72.49%	13.53%	13.95%	11.49%	12.49%
	0.90%	0.60%	1.40%	1.10%	70.00%	70.00%	13.60%	n/a	12.70%	n/a
	n/a	n/a	n/a	n/a	72.10%	69.70%	14.50%	14.90%	10.40%	10.40%
	0.99%	1.15%	n/a	n/a	51.22%	47.96%	13.21%	15.98%	11.59%	14.24%
	0.52%	0.66%	n/a	n/a	49.29%	49.65%	11.66%	8.41%	10.55%	7.29%
	1.49%	0.87%	n/a	n/a	69.75%	68.37%	15.81%	17.37%	14.71%	16.26%
	0.24%	0.31%	n/a	n/a	48.82%	53.10%	12.15%	14.45%	11.01%	12.56%
	1.21%	2.02%	7.02%	9.03%	51.34%	54.20%	11.91%	n/a	10.75%	n/a
	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	0.93%	0.73%	1.41%	n/a	65.99%	n/a	38.10%	36.32%	36.52%	34.79%
	n/a	n/a	n/a	n/a	n/a	n/a	54.62%	77.74%	53.53%	75.42%
	0.95%	0.75%	n/a	n/a	51.31%	53.00%	13.37%	13.66%	11.70%	11.54%
	0.74%	0.67%	n/a	3.53%	49.13%	49.16%	12.06%	17.06%	10.90%	15.97%
	0.10%	0.14%	1.76%	1.45%	66.10%	64.81%	24.99%	18.52%	23.55%	17.33%
	0.51%	0.45%	1.79%	1.44%	72.00%	70.00%	15.23%	16.45%	15.23%	16.45%
	n/a	n/a	n/a	n/a	42.66%	79.29%	35.57%	41.60%	34.85%	39.86%
	0.23%	0.29%	2.36%	2.40%	40.90%	42.64%	14.03%	13.45%	n/a	n/a
	0.57%	0.53%	n/a	n/a	35.61%	64.07%	22.87%	47.50%	22.27%	46.36%
	0.58%	0.60%	2.91%	3.44%	52.54%	51.62%	13.43%	13.97%	13.27%	13.70%
	n/a	n/a	1.08%	1.14%	60.58%	56.40%	17.01%	24.23%	16.85%	24.23%
	0.33%	0.70%	n/a	n/a	65.90%	64.30%	17.74%	23.50%	16.72%	22.30%
	0.99%	1.19%	2.79%	2.77%	44.21%	43.93%	15.98%	14.07%	14.94%	12.07%
	1.37%	1.19%	2.67%	2.12%	76.32%	72.55%	12.60%	13.34%	10.33%	11.62%
	0.53%	0.68%	3.10%	2.59%	49.35%	54.01%	23.65%	14.53%	22.45%	13.22%
	1.96%	1.24%	3.36%	2.40%	67.52%	53.63%	14.63%	21.16%	13.78%	21.21%
	1.45%	1.47%	n/a	n/a	65.43%	65.99%	14.46%	13.58%	12.10%	9.07%
	n/a	n/a	1.08%	0.79%	64.22%	61.27%	14.22%	16.99%	13.76%	16.63%
	n/a	n/a	0.54%	0.62%	n/a	n/a	14.80%	14.70%	14.60%	14.50%
	n/a	0.27%	n/a	1.12%	60.32%	57.05%	n/a	26.32%	n/a	25.27%
	n/a	n/a	1.23%	2.14%	56.73%	62.82%	15.65%	28.23%	15.33%	27.85%
	0.81%	0.87%	3.32%	3.05%	45.34%	44.09%	11.27%	15.14%	10.13%	13.87%
	0.97%	0.97%	n/a	n/a	63.70%	68.44%	13.30%	16.73%	12.16%	15.60%
	0.42%	0.59%	n/a	n/a	45.87%	47.62%	13.68%	17.44%	12.59%	15.68%
	n/a	1.78%	n/a	n/a	n/a	72.82%	n/a	16.51%	n/a	16.64%
	1.46%	1.77%	3.45%	3.99%	71.49%	70.48%	17.34%	11.86%	16.21%	9.29%
	0.91%	0.71%	2.64%	2.47%	n/a	n/a	14.37%	13.97%	11.85%	11.56%
	3.60%	3.70%	5.63%	5.76%	58.88%	61.42%	12.97%	16.55%	14.52%	14.52%
	n/a	n/a	2.22%	1.81%	55.97%	74.24%	28.80%	43.07%	28.02%	41.85%
	0.01%	n/a	n/a	0.23%	65.49%	63.86%	17.67%	20.29%	17.42%	n/a
	n/a	n/a	1.85%	1.58%	55.92%	63.90%	24.02%	31.95%	23.67%	31.00%
	0.23%	0.22%	2.27%	2.92%	62.56%	62.80%	11.36%	13.17%	10.22%	11.10%
	0.96%	0.75%	3.88%	n/a	70.10%	71.33%	16.39%	16.93%	15.55%	14.13%
	3.60%	4.73%	7.65%	7.32%	68.77%	66.40%	11.05%	12.23%	9.97%	7.16%
	3.23%	4.71%	n/a	n/a	68.03%	68.51%	11.02%	10.92%	9.97%	7.87%
	4.28%	3.80%	n/a	8.22%	78.49%	72.60%	16.49%	15.06%	12.77%	11.32%
	0.96%	1.18%	n/a	n/a	69.95%	73.69%	15.58%	14.52%	14.53%	13.85%
	2.66%	3.14%	n/a	6.05%	64.60%	67.55%	12.26%	11.69%	10.30%	9.91%
	1.69%	1.79%	n/a	3.67%	70.19%	70.63%	16.57%	12.73%	15.45%	11.76%
	1.75%	n/a	2.63%	1.47%	65.86%	65.75%	18.64%	40.93%	18.17%	39.79%
	0.88%	0.85%	2.62%	2.57%	56.68%	60.85%	14.56%	17.53%	13.68%	16.77%
	n/a	n/a	0.00%	0.00%	71.79%	72.40%	23.12%	54.72%	22.69%	53.92%

Financial summary (2-4)

In RMB million unless otherwise stated

		Basic earnings per share		Return on average equity		Net interest spread		Net interest margin	
No.	Name of bank	2013	2012	2013	2012	2013	2012	2013	2012
166	Tianjin Rural Commercial Bank Co.,Ltd	0.29	0.20	15.94%	12.93%	n/a	n/a	n/a	n/a
167	Jiangsu Gaochun Rural Commercial Bank	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
168	Jiangsu Jiangdu Rural Commercial Bank Co. Ltd	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
169	Lianyungang Dongfang Rural Commercial Bank	-	0.13	0.00%	5.15%	n/a	n/a	n/a	n/a
170	Jiangsu Jiangyan Rural Commercial Bank Co.,Ltd	0.55	0.41	16.65%	14.19%	n/a	n/a	n/a	n/a
171	Jiangsu Dafeng Rural Commercial Bank Co.,Ltd	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
172	Jiangsu Haian Rural Commercial Bank Co., Ltd.	0.60	0.53	17.06%	17.42%	2.98%	3.49%	3.33%	3.86%
173	Jiangsu Haimen Rural Commercial Bank Co. Ltd.	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
174	Wuxi Rural Commercial Bank Co., Ltd.	0.56	0.52	16.43%	17.49%	n/a	n/a	n/a	n/a
175	Anhui Qingyang Rural Commercial Bank Company Limited.	n/a	0.39	n/a	n/a	n/a	n/a	n/a	n/a
176	Tongling Rural Commercial Bank Company Limited	0.19	0.17	13.31%	11.99%	n/a	n/a	n/a	n/a
177	Anhui Tongcheng Rural Commercial Bank Company Limited	0.34	0.34	19.01%	n/a	n/a	n/a	n/a	n/a
178	Huaibei Rural Commercial Bank	n/a	0.16	n/a	12%	n/a	n/a	n/a	n/a
179	Anhui Jingxian Rural Commercial Bank Company Limited.	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
180	Anhui Jingde Rural Commercial Bank Company Limited.	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
181	Anhui Shitai Rural Commercial Bank Company Limited	0.27	0.26	n/a	n/a	n/a	n/a	n/a	n/a
182	Anhui Wangjiang Rural Commercial Bank Company Limited	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
183	Xinyu Rural Commercial Bank Co. Ltd	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
184	Guangdong Jieyang Rural Commercial Bank Company Limited	n/a	n/a	15.42%	15.30%	n/a	n/a	n/a	n/a
185	Guangdong Jiexi Rural Commercial Bank Co.,Ltd	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
186	United Bank Of Switzerland (China) Limited	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
187	Kookmin Bank (China) Limited	-	-	-3.57%	0.21%	n/a	n/a	n/a	0.21%
188	The Royal Bank Of Scotland (China) Limited	0.01	0.01	0.58%	0.48%	n/a	n/a	0.60%	0.48%
189	Australia & New Zealand Banking Group (China) Limited	0.02	0.02	1.83%	1.74%	n/a	n/a	1.83%	1.74%
190	China Citic Bank International Limited	0.29	0.21	13.20%	10.80%	n/a	n/a	n/a	n/a
191	Guangdong Shunde Rural Commercial Bank Co. Ltd	1.04	1.06	18.47%	18.33%	n/a	n/a	n/a	n/a
192	Bank Of Xi'an Co.,Ltd.	0.54	0.49	21.67%	24.22%	n/a	n/a	n/a	n/a
193	Jiangmen Ronghe Rural Commercial Bank Co.,Ltd.	0.29	0.26	12.88%	11.47%	n/a	n/a	n/a	n/a
194	Fujian Putian Rural Commercial Bank Co., Ltd.	0.22	0.37	n/a	n/a	5.43%	5.91%	5.62%	6.09%
195	Xinyu Rural Commercial Bank Co. Ltd	0.09	0.27	6.85%	16.51%	n/a	n/a	6.85%	n/a
196	Fujian Na'nan Rural Commercial Bank Co., Ltd.	0.31	0.36	15.59%	15.93%	4.43%	4.81%	4.79%	5.18%
197	Jiangmen Xinhui Rural Commercial Bank Company Limited	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
198	Guangdong Nanhai Rural Commercial Bank Company Limited	0.56	0.45	21.78%	18.46%	n/a	n/a	n/a	n/a
199	Rural Commercial Bank Of Fuzhou Co.,Ltd.	0.35	0.21	20.54%	12.74%	3.64%	3.56%	4.00%	3.87%
200	Dalian Rural Commercial Bank Co., Ltd.	0.16	0.14	10.93%	10.17%	n/a	n/a	n/a	n/a

Non-performing loans (NPL) ratio		Allowance to total loans ratio		Loan-to-deposit ratio		Capital adequacy ratio		Core capital adequacy ratio	
2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
1.80%	2.09%	n/a	n/a	60.51%	62.68%	10.64%	9.47%	9.52%	8.58%
1.57%	1.67%	n/a	n/a	66.39%	67.43%	18.60%	18.70%	17.51%	17.60%
2.31%	3.34%	n/a	n/a	n/a	n/a	11.18%	13.34%	n/a	n/a
n/a	13.02%	n/a	n/a	n/a	90.10%	-4.56%	15.70%	-4.56%	15.35%
1.76%	1.94%	n/a	n/a	73.96%	72.70%	13.65%	13.88%	12.56%	13.17%
2.92%	4.89%	n/a	n/a	74.50%	77.31%	13.45%	18.35%	n/a	n/a
0.80%	0.96%	3.41%	3.68%	71.94%	72.99%	12.30%	12.85%	11.17%	11.72%
0.80%	n/a	n/a	n/a	n/a	n/a	12.67%	n/a	11.56%	n/a
1.02%	0.88%	2.58%	2.57%	65.47%	69.23%	13.10%	13.36%	12.05%	12.21%
n/a	2.85%	n/a	4.43%	n/a	n/a	19.65%	14.55%	18.55%	12.54%
0.93%	0.96%	2.82%	n/a	70.17%	64.38%	14.46%	15.38%	13.32%	16.17%
0.81%	0.84%	3.52%	3.88%	72.80%	n/a	14.44%	14.78%	13.33%	13.66%
1.81%	2.05%	n/a	n/a	n/a	n/a	23.74%	n/a	22.61%	n/a
4.10%	3.85%	6.20%	5.95%	n/a	n/a	11.20%	15.72%	10.12%	11.04%
3.05%	1.73%	4.77%	n/a	71.25%	71.05%	13.10%	16.49%	12.00%	13.51%
2.83%	2.51%	4.75%	4.59%	63.44%	67.08%	11.89%	12.10%	10.79%	11.56%
n/a	3.34%	n/a	n/a	n/a	n/a	10.88%	10.69%	10.88%	9.49%
1.06%	1.59%	4.45%	4.43%	66.70%	68.26%	13.64%	10.68%	12.51%	9.55%
2.46%	2.18%	n/a	n/a	72.77%	72.91%	15.03%	15.27%	13.93%	14.60%
1.37%	1.15%	n/a	n/a	n/a	n/a	19.42%	23.68%	17.14%	n/a
n/a	n/a	0.00%	0.00%	n/a	n/a	n/a	n/a	n/a	n/a
5.97%	0.49%	9.06%	1.69%	60.81%	66.40%	n/a	n/a	n/a	n/a
n/a	n/a	1.35%	1.04%	67.00%	61.00%	33.00%	35.00%	n/a	n/a
n/a	n/a	1.32%	1.48%	72.45%	68.30%	14.22%	27.12%	14.22%	27.12%
n/a	n/a	n/a	n/a	74.40%	72.50%	18.20%	18.22%	11.80%	11.77%
n/a	n/a	2.69%	2.69%	65.09%	68.59%	n/a	16.38%	n/a	14.80%
0.65%	0.76%	2.50%	2.65%	60.26%	58.92%	12.35%	13.82%	11.25%	12.68%
1.46%	1.71%	2.51%	2.74%	n/a	n/a	16.72%	20.52%	15.94%	20.35%
1.19%	1.25%	3.67%	3.28%	53.66%	56.48%	13.12%	12.96%	12.03%	11.87%
4.96%	2.15%	6.56%	5.64%	61.70%	58.58%	12.09%	15.87%	11.01%	12.77%
1.15%	1.18%	5.39%	5.46%	59.43%	62.84%	16.61%	17.83%	16.00%	17.52%
1.18%	2.10%	n/a	n/a	65.26%	64.88%	16.94%	17.43%	15.82%	16.30%
0.95%	1.13%	n/a	n/a	64.05%	65.64%	11.64%	11.68%	10.50%	10.53%
0.75%	0.87%	2.82%	2.55%	61.08%	59.58%	13.42%	11.74%	12.30%	12.02%
2.96%	3.56%	n/a	n/a	72.54%	75.11%	11.86%	n/a	10.70%	n/a

About KPMG

KPMG: Global Leadership in Financial Services

KPMG is part of a global network of professional firms providing Audit, Tax and Advisory services. KPMG International operates in 155 countries and has more than 155,000 people working in member firms around the world. The independent member firms of the KPMG network are affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. Each KPMG firm is a legally distinct and separate entity and describes itself as such.

In 1992, KPMG became the first international accounting network to be granted a joint venture licence in mainland China. KPMG China was also the first among the Big Four in mainland China to convert from a joint venture to a special general partnership, as of 1 August 2012. Additionally, the Hong Kong office can trace its origins back over 60 years. This early commitment to the China market, together with an unwavering focus on quality, has been the foundation for accumulated industry experience, and is reflected in the Chinese member firm's appointment by some of China's most prestigious companies.

Today, KPMG China has around 9,000 professionals working in 16 offices: Beijing, Chengdu, Chongqing, Foshan, Fuzhou, Guangzhou, Hangzhou, Nanjing, Qingdao, Shanghai, Shenyang, Shenzhen, Tianjin, Xiamen, Hong Kong SAR and Macau SAR. With a single management structure across all these offices, KPMG China can deploy experienced professionals efficiently, wherever our client is located.

Glossary of abbreviated terms

Bank names

PBOC – People's Bank of China
ABC – Agricultural Bank of China
BOC – Bank of China
BOCOM – Bank of Communications
CBHB – China Bohai Bank
CCB – China Construction Bank
CEB – China Everbright Bank
CIB – Industrial Bank
CMB – China Merchants Bank
CMBC – China Minsheng Bank
CNCB – China CITIC Bank
CGB – China Guangfa Bank
ICBC – Industrial and Commercial Bank of China
SPDB – Shanghai Pudong Development Bank

General terms

MOF – Ministry of Finance
CBRC – China Banking Regulatory Commission
CSRC – China Securities Regulatory Commission
CIRC – China Insurance Regulatory Commission
SAFE – State Administration of Foreign Exchange
CSDCC – China Government Securities Depository Trust & Clearing Co., Ltd.
Basel Committee – Basel Committee on Banking Supervision
CEBS – Committee of European Banking Supervisors
BPS – Basis points
CD – Certificate of deposit
CPI – Consumer Price Index
FDIC – Federal Deposit Insurance Corporation
IADI – International Association of Deposit Insurers
LPR – Loan prime rate
CRM – Customer relationship management
DDFI – Direct debt financing instruments
LCR – Liquidity Coverage Ratio
NIM – Net interest margin
NPL – Non-performing loan
P2P – Peer-to-peer
QE – Quantitative easing
SHIBOR – Shanghai Interbank Offered Rate
SME – Small and medium enterprise
SPV – Special purpose vehicle
SSE – Shanghai Stock Exchange
The Fed – The Federal Reserve System
US T-bonds – US Treasury bonds
VAR – Value at risk
VAT – Value-added tax
WMP – Wealth management product
YOY – Year-on-year
Circular No. 8 – Issues Related to Regulating Investment Activities of the Wealth Management Segment of Commercial Banks
Article No. 21 – Announcement of the People's Bank of China and the Banking Regulatory Commission on Further Standardising the Securitisation of Credit Assets
Notice No. 35 – Notice on Regulating the Wealth Management Products of Commercial Banks (Yin Jian Fa [2014] No. 35)
Notice No. 127 – Notice on Regulating the Interbank Business of Financial Institutions (Yin Fa [2014] No. 127)
Notice No. 140 – Notice of the General Office of the China Banking Regulatory Commission on Regulating the Governance of Interbank Business of Commercial Banks (Yin Jian Ban Fa [2014] No. 140)

Contact us

Internationally, KPMG member firms have established focused industry groups covering areas in which we have particular knowledge. Financial Services is one such area. In China, we have a wide range of capabilities in our Financial Services group. Feel free to contact the following individuals with your particular banking and finance queries.

Simon Gleave
Asia Pacific Partner-in-charge,
Financial Services
Tel: +86 (10) 8508 7007
simon.gleave@kpmg.com

Babak Nikzad
Partner-in-charge, Consulting
KPMG China
Tel: +852 2978 8297
babak.nikzad@kpmg.com

Edwina Li
China Partner-in-charge,
Financial Services Assurance
Tel: +86 (21) 2212 3806
edwina.li@kpmg.com

Egidio Zarrella
Head of Clients & Innovation
KPMG China
Tel: +852 2847 5197
egidio.zarrella@kpmg.com

Joan Ho
Partner, Financial Services
Hong Kong
Tel: +852 2826 7104
joan.ho@kpmg.com

Paul McSheaffrey
Partner, Financial Services
Hong Kong
Tel: +852 2978 8236
paul.mcsheaffrey@kpmg.com

Gary Mellody
Partner, Risk Consulting
Hong Kong
Tel: +852 2685 7659
gary.mellody@kpmg.com

Thomas Chan
Partner, Financial Services
Beijing
Tel: +86 (10) 8508 7014
thomas.chan@kpmg.com

Elise Wong
Partner, Financial Services
Beijing
Tel: +86 (10) 8508 7013
elise.wong@kpmg.com

Christine Song
Partner, Financial Services
Beijing
Tel: +86 (10) 8508 7015
christine.song@kpmg.com

Walkman Lee
Partner, Financial Services
Beijing
Tel: +86 (10) 8508 7043
walkman.lee@kpmg.com

Arthur Wang
Partner, Financial Services
Beijing
Tel: +86 (10) 8508 7104
arthur.wang@kpmg.com

Raymond Li
Partner, Financial Services
Beijing
Tel: +86 (10) 8508 7114
raymond.li@kpmg.com

Jason He
Partner, Financial Services
Beijing
Tel: +86 (10) 8508 7193
jason.he@kpmg.com

Tony Cheung
China Partner-in-charge,
Financial Services Advisory
Shanghai
Tel: +86 (21) 2212 2705
tony.cheung@kpmg.com

James Chen
Partner, Financial Services
Shanghai
Tel: +86 (21) 2212 2424
james.chen@kpmg.com

Kenny Shi
Partner, Financial Services
Shanghai
Tel: +86 (21) 2212 2261
kenny.shi@kpmg.com

Larry Choi
Partner, Financial Services
Guangzhou
Tel: +86 (20) 3813 8883
larry.choi@kpmg.com

Ivan Li
Partner, Financial Services
Shenzhen
Tel: +86 (755) 2547 1218
ivan.li@kpmg.com

Lewis Lu
Partner-in-charge, Tax
Shanghai
Tel: +86 (21) 2212 3421
lewis.lu@kpmg.com

Christopher Abbiss
ASPAC Regional Lead Partner
Financial Services – Taxation
Hong Kong
Tel: +852 2826 7226
chris.abbiss@kpmg.com

Tracy Zhang
Partner, Tax
Beijing
Tel: +86 (10) 8508 7509
tracy.h.zhang@kpmg.com

Paul Ma
Partner, Tax
Beijing
Tel: +86 (10) 8508 7076
paul.ma@kpmg.com

Simon Topping
Partner, Financial Risk
Management
Hong Kong
Tel: +852 2826 7283
simon.topping@kpmg.com

Rupert Chamberlain
Head of Transaction Services
Hong Kong
Tel: +852 2140 2871
rupert.chamberlain@kpmg.com

Louis Ng
Partner, Transaction Services
Beijing
Tel: +86 (10) 8508 7090
louis.ng@kpmg.com

Kevin Liu
Partner, IT Advisory
Beijing
Tel: +86 (10) 8508 7094
kevin.liu@kpmg.com

Mainland China

Beijing
8th Floor, Tower E2, Oriental Plaza
1 East Chang An Avenue
Beijing 100738, China
Tel : +86 (10) 8508 5000
Fax : +86 (10) 8518 5111

Chengdu
18th Floor, Tower 1, Plaza Central
8 Shuncheng Avenue
Chengdu 610016, China
Tel : +86 (28) 8673 3888
Fax : +86 (28) 8673 3838

Chongqing
Unit 1507, 15th Floor, Metropolitan Tower
68 Zourong Road
Chongqing 400010, China
Tel : +86 (23) 6383 6318
Fax : +86 (23) 6383 6313

Foshan
8th Floor, One AIA Financial Center
1 East Denghu Road
Foshan 528200, China
Tel : +86 (757) 8163 0163
Fax : +86 (757) 8163 0168

Fuzhou
25th Floor, Fujian BOC Building
136 Wu Si Road
Fuzhou 350003, China
Tel : +86 (591) 8833 1000
Fax : +86 (591) 8833 1188

Guangzhou
38th Floor, Teem Tower
208 Tianhe Road
Guangzhou 510620, China
Tel : +86 (20) 3813 8000
Fax : +86 (20) 3813 7000

Hangzhou
8th Floor, West Tower, Julong Building
9 Hangda Road
Hangzhou 310007, China
Tel : +86 (571) 2803 8000
Fax : +86 (571) 2803 8111

Nanjing
46th Floor, Zhujiang No.1 Plaza
1 Zhujiang Road
Nanjing 210008, China
Tel : +86 (25) 8691 2888
Fax : +86 (25) 8691 2828

Qingdao
4th Floor, Inter Royal Building
15 Donghai West Road
Qingdao 266071, China
Tel : +86 (532) 8907 1688
Fax : +86 (532) 8907 1689

Shanghai
50th Floor, Plaza 66
1266 Nanjing West Road
Shanghai 200040, China
Tel : +86 (21) 2212 2888
Fax : +86 (21) 6288 1889

Shenyang
27th Floor, Tower E, Fortune Plaza
59 Beizhan Road
Shenyang 110013, China
Tel : +86 (24) 3128 3888
Fax : +86 (24) 3128 3899

Shenzhen
9th Floor, China Resources Building
5001 Shennan East Road
Shenzhen 518001, China
Tel : +86 (755) 2547 1000
Fax : +86 (755) 8266 8930

Tianjin
Unit 15, 47th Floor, Office Tower
Tianjin World Financial Center
2 Dagu North Road
Tianjin 300020, China
Tel : +86 (22) 2329 6238
Fax : +86 (22) 2329 6233

Xiamen
12th Floor, International Plaza
8 Lujiang Road
Xiamen 361001, China
Tel : +86 (592) 2150 888
Fax : +86 (592) 2150 999

Hong Kong SAR and Macau SAR

Hong Kong
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

23rd Floor, Hysan Place
500 Hennessy Road
Causeway Bay, Hong Kong
Tel : +852 2522 6022
Fax : +852 2845 2588

Macau
24th Floor, B&C, Bank of China Building
Avenida Doutor Mario Soares
Macau
Tel : +853 2878 1092
Fax : +853 2878 1096

kpmg.com/cn

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