Listed banks in China 2015 review and outlook

EY 安永

Building a better working world

Introduction

This is the ninth EY annual report on China's listed banks. The purpose of this annual report is to provide an outlook on the direction of the future development of China's banking industry based on observations of the businesses, operating models and regulatory environment of the twenty-six listed banks in mainland China.

This annual report covers twenty-six listed banks in mainland China:

Five large commercial banks

- Industrial and Commercial Bank of China (ICBC)
- China Construction Bank (CCB)
- Agricultural Bank of China (ABC)
- Bank of China (BOC)
- Bank of Communications (BOCOM)

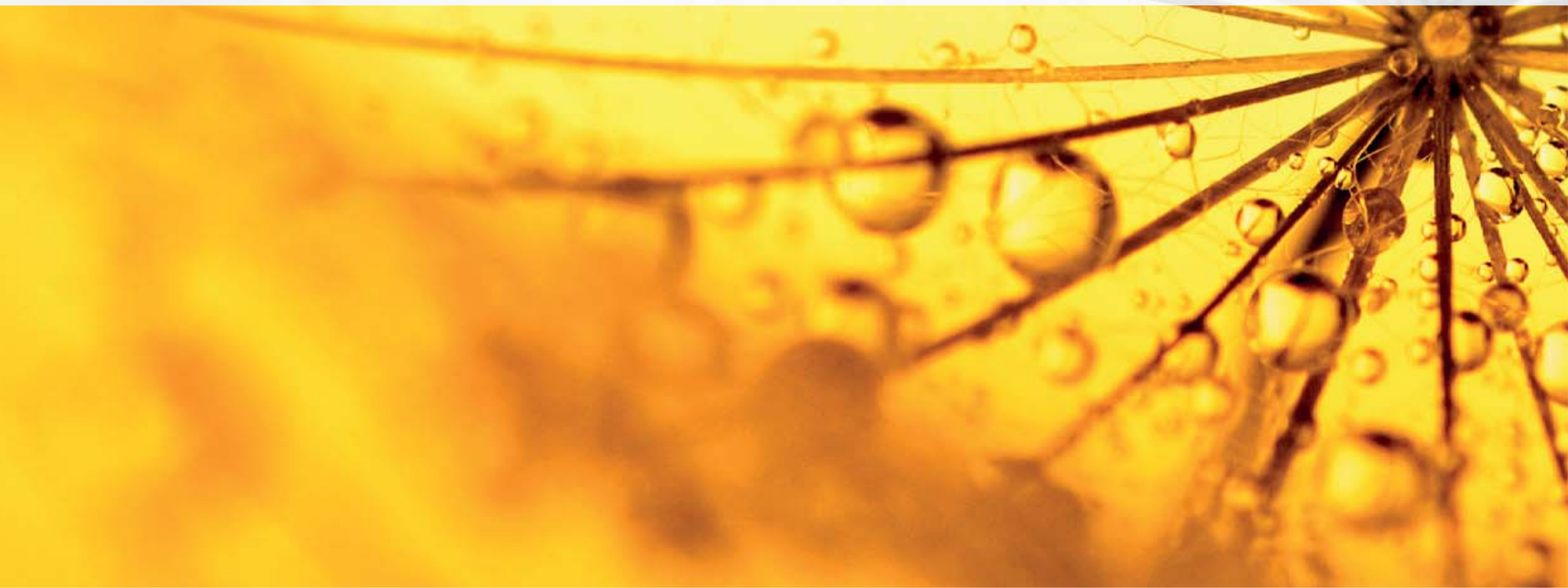
Nine national joint-stock commercial banks

- China Merchants Bank (CMB)
- Shanghai Pudong Development Bank (SPDB)
- Industrial Bank (IB)
- China Minsheng Bank (CMBC)
- China CITIC Bank (CITIC)
- China Everbright Bank (CEB)
- Ping An Bank (PAB)
- Huaxia Bank (HX)
- China Zheshang Bank (CZB)

Eleven city commercial banks and one rural commercial bank

- Bank of Beijing (BOB)
- Chongqing Rural Commercial Bank (CQRCB)
- Bank of Nanjing (BONJ)
- Bank of Ningbo (BONB)
- Shengjing Bank (SJB)
- Huishang Bank (HSB)
- Bank of Tianjin (BTJ)
- Bank of Jinzhou (BJZ)
- Harbin Bank (HRB)
- Bank of Zhengzhou (BZZ)
- Bank of Chongqing (BCQ)
- Bank of Qingdao (BQD)

The data contained in this report, unless otherwise noted, are sourced from the annual reports published by listed banks. Apart from the data of CZB, CQRCB, HSB, BCQ, HRB, SJB, BQD, BJZ, BZZ and BTJ which are collected from financial statements prepared under International Financial Reporting Standards, the data of other banks are collected from their financial statements prepared under Chinese Accounting Standards for Business Enterprises. When making comparisons, we have made necessary adjustments to the classification of certain data in order to make them more comparable. For those listed banks that restated their 2014 and 2013 financial statements, this report uses restated figures. Unless otherwise noted, the averages of all indicators of listed banks are weighted averages.



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Executive summary

In 2015, the combined net profit of the twenty-six listed banks reached RMB1,332.37 billion, up 2.56% from 2014, slowing by 5.47 percentage points as compared to 2014, due mainly to narrower net interest margin (NIM) and increased provisions. Net profit growth of listed banks has slowed for five consecutive years since 2011.

As at 31 December 2015, the average non-performing loan (NPL) ratio of the listed banks climbed to 1.62%, up 0.41 percentage point from the prior year-end. Since the beginning of 2012, the NPL balance of the listed banks has increased for four consecutive years, and the NPL ratio has risen for three consecutive years. To address pressures from rising NPLs, listed banks stepped up efforts in the disposal of NPLs through write-offs and transfers. The establishment of local asset management companies has provided listed banks with more options to dispose of NPLs. The implementation of policies on NPL securitization and debt-to-equity swap in the future will also create favorable conditions for listed banks to dispose of NPLs.

Loan impairment provision has grown by more than 50% for the second consecutive year as the listed banks increased provisions to address the deterioration of asset quality, thus pushing up the average credit cost to 1.36% of 2015 from 0.90% of 2014. The average net interest margin narrowed to 2.54%, down 7 basis points from 2014, due to interest rate liberalization and PBOC's interest rate cuts on five separate occasions.

To better address the pressure on operations, listed banks continued to accelerate and deepen organizational reform. Specifically, the available options are restructuring business departments, and setting up subsidiaries for business segments and business lines. Some listed banks moved forward with the reform agenda on their specialized business departments in order to increase competitiveness through optimized processes and improved efficiency. Others considered splitting off certain business departments and establishing subsidiaries to operate as separate entities to promote efficiency, isolate risks and create more diversified business opportunities through transparent division of authority, responsibility and profit, as well as more professional and integrated operation.

Internet finance and the application of new technologies have become new growth drivers for listed banks. Listed banks combined traditional finance with big data, cloud computing and mobile internet to accelerate the development of internet finance and promote internet-enabled businesses, through constructing and upgrading internet channels such as internet banking, mobile banking, WeChat banking and direct banking. The numbers of customers in these areas hit a record high in 2015.

The listed banks proactively implemented the national strategies to prop up economic structural transformation and serve the real economy while striving to navigate the economic "new normal". Meanwhile, they fulfilled corporate and social responsibilities actively and developed their businesses around inclusive finance and green finance.

In 2015, on top of capital replenishment with retained earnings, the listed banks issued ordinary shares in both domestic and overseas markets, as well as preference shares, tier-2 capital bonds and other new qualifying capital instruments, to effectively enhance the capital base, thus increasing capital adequacy ratios (CARs) steadily. Nevertheless, under the "new normal", improving capital efficiency and achieving higher returns for shareholders still remain the key challenges to the listed banks going forward.

The year 2015 is the final year of the 12th Five-Year Plan period. During the past five years, the listed banks have achieved initial success through business transformation, technological innovation and organizational reform amid complex domestic and international economic and financial environment. In the next five years, the listed banks are expected to face new challenges. Apart from new business opportunities arising from the implementation of supply-side structural reform and other national strategies, the mixed-ownership reform will also provide more momentum for the development of the state-owned banks. Meanwhile, the implementation of policies on combined debt-equity investment will also bring new business opportunities to listed banks.

1 Further slowdown in net profit growth

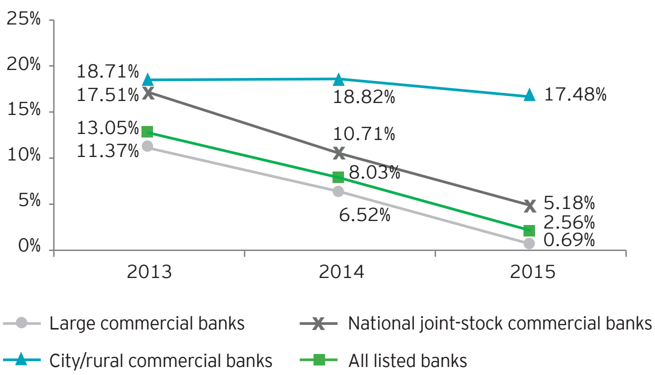
In 2015, the listed banks reported continued slowdown in net profit growth due mainly to narrower NIM and increased provisions. The combined net profit of the twenty-six listed banks reached RMB1,332.37 billion, up 2.56% from 2014, slowing by 5.47 percentage points from 8.03% in 2014.

Net profit of five large commercial banks grew by 0.69%, slowing by 5.83 percentage points from 6.52% in 2014; net profit of the national joint-stock banks grew by 5.18%, slowing by 5.53 percentage points from 10.71% in 2014; and net profit of city and rural commercial banks grew by 17.48%, slowing by 1.34 percentage points from 18.82% in 2014.

The majority of the listed banks reported a slowdown in net profit growth as compared to 2014. In particular, net profit growth of PAB dropped by 19.59% from 2014, primarily due to a 103.08% sharp rise in loan impairment losses from 2014. Nonetheless, PAB was a front-runner among the national joint-stock banks in net profit growth in 2015, second only to CZB. Net profit growth of BTJ slowed by 17.58 percentage points from 2014, largely due to a surge of 80.22% in loan impairment losses from 2014.

Nevertheless, seven listed banks reported a pick-up in net profit growth. In particular, BJZ reported a net profit growth of 131.18%, highest among the listed banks,

Trend of net profit growth of listed banks



Source: EY (calculated based on data published in the annual reports of listed banks)

an acceleration of 74.50 percentage points from 2014, benefitting primarily from stable growth in both interest-earning assets and the average return, which grew the net interest income by 92% from the prior year. CZB ranked second by a 38.36% net profit growth, up 34.38 percentage points from 2014, benefitting mainly from the growth in interest-earning assets that pushed up the net interest income by 41.63%, coupled with a 56.47% growth in net fee and commission income. In addition, SJB, HRB and BZZ each reported a pick-up in net profit growth by 3-7 percentage points from 2014, and BONJ and BONB each reported a growth by less than 1 percentage point.

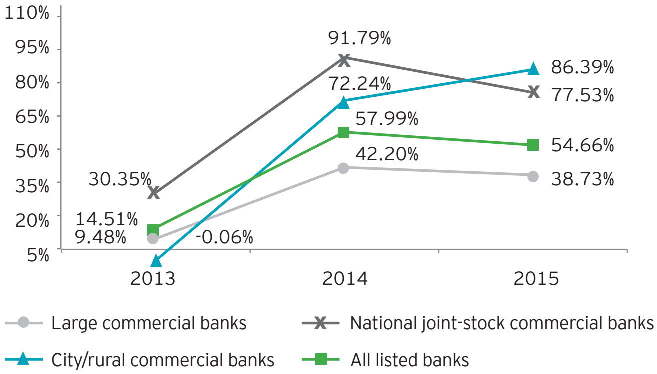
Net profit amount and growth rate* (RMB million)						
	2013		2014		2015	
	Amount	Growth rate	Amount	Growth rate	Amount	Growth rate
ICBC	262,965	10.17%	276,286	5.07%	277,720	0.52%
CCB	215,122	11.12%	228,247	6.10%	228,886	0.28%
ABC	166,211	14.52%	179,510	8.00%	180,774	0.70%
BOC	163,741	12.35%	177,198	8.22%	179,417	1.25%
BOCOM	62,461	6.82%	66,035	5.72%	66,831	1.21%
Large commercial banks	**870,500**	**11.37%**	**927,276**	**6.52%**	**933,628**	**0.69%**
CMB	51,742	14.29%	56,049	8.32%	58,018	3.51%
SPDB	41,200	20.08%	47,360	14.95%	50,997	7.68%
IB	41,511	18.85%	47,530	14.50%	50,650	6.56%
CMBC	43,282	12.98%	45,567	5.28%	47,022	3.19%
CITIC	39,717	26.55%	41,454	4.37%	41,740	0.69%
CEB	26,754	13.27%	28,928	8.13%	29,577	2.24%
PAB	15,231	12.72%	19,802	30.01%	21,865	10.42%
HX	15,511	21.22%	18,023	16.19%	18,952	5.15%
CZB	4,901	21.73%	5,096	3.98%	7,051	38.36%
National joint-stock commercial banks	**279,849**	**17.51%**	**309,809**	**10.71%**	**325,872**	**5.18%**
BOB	13,459	15.19%	15,646	16.25%	16,883	7.91%
CQRCB	6,015	11.84%	6,813	13.27%	7,228	6.09%
BONJ	4,531	12.01%	5,656	24.83%	7,066	24.93%
BONB	4,847	19.15%	5,634	16.24%	6,567	16.56%
SJB	4,889	39.33%	5,424	10.94%	6,224	14.75%
HSB	4,926	14.40%	5,676	15.23%	6,212	9.44%
BTJ	3,435	30.26%	4,429	28.94%	4,932	11.36%
BJZ	1,355	15.71%	2,123	56.68%	4,908	131.18%
HRB	3,371	17.42%	3,841	13.94%	4,510	17.42%
BZZ	1,902	30.27%	2,463	29.50%	3,356	36.26%
BCQ	2,329	20.99%	2,827	21.38%	3,170	12.13%
BQD	1,142	24.13%	1,495	30.91%	1,814	21.34%
City/rural commercial banks	**52,201**	**18.71%**	**62,027**	**18.82%**	**72,870**	**17.48%**
All listed banks	**1,202,550**	**13.05%**	**1,299,112**	**8.03%**	**1,332,370**	**2.56%**

Source: Annual reports published by banks
*Net profits of listed banks are shown in RMB million, on which the calculation of growth rates is based

Increased loan loss provision

In 2015, provisions for loan impairment losses of the listed banks increased by RMB226.016 billion, up 54.66%[1]. Provisions for loan impairment losses have increased by more than 50% for two consecutive years as non-performing loans continue to rise due to credit risk taken on by the banking industry amid slowing economic growth.

Changes in loan impairment losses of listed banks



Source: EY (calculated based on data published in the annual reports of listed banks)

In 2015, the average cost of credit, based on provisions for loan impairment losses per unit of loan balance, rose by 46 basis points from 2014. Specifically, the cost of credit was up 16 basis points, 60 basis points and 49 basis points, respectively, for large commercial banks, national joint-stock banks and city/rural commercial banks.

The national joint-stock banks generally reported sharper rise in cost of credit. In particular, PAB saw its cost of credit move up by 101 basis points, and CMB, SPDB, IB, CMBC and CEB each reported a rise of over 50 basis points. City/rural commercial banks also experienced rising cost of credit in 2015. Specifically, cost of credit of BONJ and BJZ climbed 136 basis points and 112 basis points respectively from 2014, and cost of credit of HSB and BZZ rose by 69 basis points and 73 basis points respectively from the prior year.

Cost of credit of listed banks (%)

	2013	2014	2015
ICBC	0.41%	0.54%	0.75%
CCB	0.53%	0.66%	0.93%
ABC	0.76%	0.85%	0.96%
BOC*	0.32%	0.58%	0.63%
BOCOM*	0.56%	0.60%	0.73%
Large commercial banks**	**0.52%**	**0.64%**	**0.80%**
CMB	0.50%	1.33%	2.15%
SPDB	0.63%	1.15%	1.73%
IB	1.27%	1.33%	2.20%
CMBC	0.88%	1.18%	1.71%
CITIC*	0.62%	1.06%	1.51%
CEB	0.40%	0.81%	1.40%
PAB*	0.84%	1.55%	2.56%
HX	0.47%	0.59%	0.88%
CZB	0.85%	1.80%	2.04%
National joint-stock commercial banks**	**0.72%**	**1.20%**	**1.80%**
BOB	0.59%	0.75%	1.05%
CQRCB	0.51%	0.82%	1.17%
BONJ	0.62%	1.59%	2.95%
BONB	0.83%	1.27%	1.65%
SJB	0.15%	0.59%	0.80%
HSB	0.24%	0.47%	1.16%
BTJ	0.59%	0.48%	0.74%
BJZ	0.39%	0.85%	1.97%
HRB	0.54%	0.49%	0.66%
BZZ	0.71%	0.58%	1.31%
BCQ	0.64%	0.74%	0.88%
BQD	0.68%	0.61%	0.79%
City/rural commercial bank**	**0.54%**	**0.77%**	**1.26%**
All listed banks**	**0.60%**	**0.90%**	**1.36%**

Source: Calculated based on the data published in the banks' annual reports
*Data for BOC, BOCOM, CITIC, PAB were disclosed in the banks' annual reports
**Simple arithmetic average

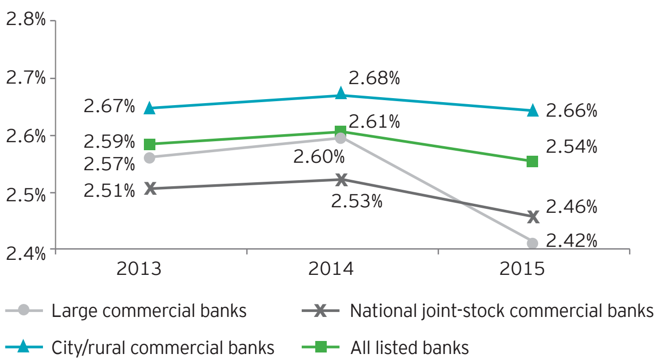
[1] Calculated based on data published in the annual reports of listed banks

Narrower net interest margin (NIM) and net interest spread (NIS)

In 2015, the PBOC cut the benchmark lending rates on five separate occasions and completely removed the deposit rate ceilings. NIM and NIS of the listed banks dropped 7 basis points and 4 basis points respectively from 2014, due to deepening interest rate liberalization. Specifically, NIM and NIS of large commercial banks contracted by 18 basis points and 17 basis points respectively; NIM and NIS of national joint-stock banks narrowed by 7 basis points and 4 basis points respectively; and NIM and NIS of city/rural commercial banks dropped slightly by 2 basis points and 1 basis point respectively. Overall, city/rural commercial banks reported higher NIM and NIS than both large commercial banks and national joint-stock commercial banks.

Of the listed banks that disclosed both 2015 NIM and NIS, 17 listed banks reported a decline in both indicators. In particular, ABC, CMBC, CZB and BCQ each recorded a decline of more than 25 basis points in both NIM and NIS.

Trend of changes in NIM of listed banks

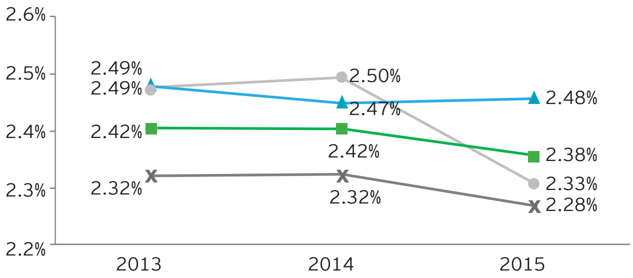


*Only including the banks that separately disclosed this ratio
Source: EY (calculated based on data published in the annual reports of listed banks)

NIM of listed banks*	2013	2014	2015
ICBC	2.57%	2.66%	2.47%
CCB	2.74%	2.80%	2.63%
ABC	2.79%	2.92%	2.66%
BOC	2.24%	2.25%	2.12%
BOCOM	2.52%	2.36%	2.22%
Large commercial banks**	**2.57%**	**2.60%**	**2.42%**
CMB	2.82%	2.64%	2.75%
SPDB	2.46%	2.50%	2.45%
IB	2.44%	2.48%	2.45%
CMBC	2.49%	2.59%	2.26%
CITIC	2.60%	2.40%	2.31%
CEB	2.16%	2.30%	2.25%
PAB	2.31%	2.57%	2.77%
HX	2.67%	2.69%	2.56%
CZB	2.63%	2.62%	2.31%
National joint-stock commercial banks**	**2.51%**	**2.53%**	**2.46%**
CQRCB	3.41%	3.37%	3.20%
BONJ	2.30%	2.59%	2.61%
BONB	2.51%	2.51%	2.38%
SJB	2.39%	2.32%	2.14%
HSB	2.63%	2.74%	2.71%
BTJ	2.12%	2.06%	2.08%
BJZ	2.52%	2.63%	3.51%
HRB	2.64%	2.71%	2.68%
BZZ	3.50%	3.31%	3.12%
BCQ	2.81%	2.81%	2.52%
BQD	2.54%	2.43%	2.36%
City/rural commercial banks**	**2.67%**	**2.68%**	**2.66%**
All listed banks**	**2.59%**	**2.61%**	**2.54%**

Source: Annual reports published by banks
*Only including the banks that separately disclosed this ratio
**Simple arithmetic average

Trend of changes in NIS of listed banks



*Only including the banks that separately disclosed this ratio
Source: EY (calculated based on data published in the annual reports of listed banks)

Five listed banks reported rise in both NIM and NIS. Specifically, CMB's NIM and NIS rose 11 basis points and 14 basis points respectively, driven by its continued optimization of liability structure and reduced cost of liability on interest payment; PAB's NIM and NIS went up by 20 basis points and 23 basis points respectively, benefitting from its continued efforts to enhance structural adjustment and risk pricing management and improve the efficiency in resource utilization; BONJ's NIM and NIS edged up 2 basis points and 3 basis points respectively, thanks largely to lowered cost of liability on interest payment; BTJ's NIM and NIS rose 2 basis points and 1 basis point respectively, benefitting mainly from reduced average interest rate on transactions with banking peers and other financial institutions; and BJZ's NIM and NIS climbed 88 basis and 86 basis points respectively from 2014.

NIS of listed banks*

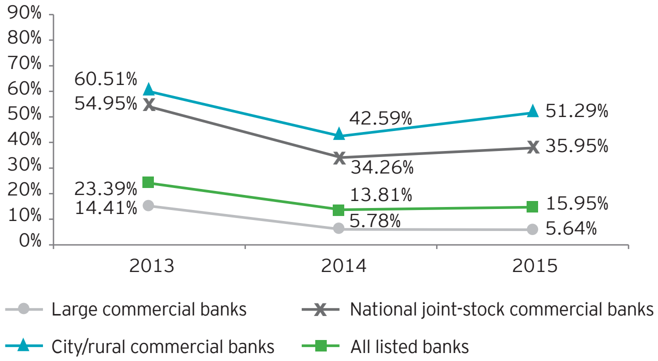
	2013	2014	2015
ICBC	2.40%	2.46%	2.30%
CCB	2.56%	2.61%	2.46%
ABC	2.65%	2.76%	2.49%
BOCOM	2.33%	2.17%	2.06%
Large commercial banks**	**2.49%**	**2.50%**	**2.33%**
CMB	2.65%	2.45%	2.59%
SPDB	2.26%	2.27%	2.26%
IB	2.23%	2.23%	2.26%
CMBC	2.30%	2.41%	2.10%
CITIC	2.40%	2.19%	2.13%
CEB	1.96%	2.06%	2.01%
PAB	2.14%	2.40%	2.63%
HX	2.50%	2.52%	2.40%
CZB	2.41%	2.38%	2.12%
National joint-stock commercial banks**	**2.32%**	**2.32%**	**2.28%**
CQRCB	3.19%	3.14%	2.99%
BONJ	2.09%	2.41%	2.44%
BONB	2.46%	2.50%	2.40%
SJB	2.17%	2.07%	2.00%
HSB	2.44%	2.47%	2.52%
BTJ	1.88%	1.73%	1.74%
BJZ	2.32%	2.43%	3.29%
HRB	2.56%	2.49%	2.47%
BZZ	3.30%	3.07%	2.95%
BCQ	2.61%	2.56%	2.29%
BQD	2.38%	2.25%	2.23%
City/rural commercial bank**	**2.49%**	**2.47%**	**2.48%**
All listed banks**	**2.42%**	**2.42%**	**2.38%**

Source: Annual reports published by banks
*Only including the banks that separately disclosed this ratio
**Simple arithmetic average

Divergent growth in fee and commission income

In 2015, net fee and commission income of the listed banks grew by 15.95%, up 2.14 percentage points year-on-year. In particular, SJB's fee and commission income contracted by 11.99% from 2014, primarily due to decreased fee income from agency and custody business. HSB, BJZ and BZZ all reported strong growth at over 100% due to their prior year's relatively lower base of comparison and great efforts on developing fee-based business.

Growth trend of net fee and commission income



Source: EY (calculated based on data published in the annual reports of listed banks)

As a traditional business of commercial banks, the bank card business has been an integral part and a stable source of growth of fee and commission income of large commercial banks and national joint-stock banks. In 2015, the 25 listed banks that disclosed bank card fee income collectively earned a combined fee income of RMB209.012 billion, accounting for 27.44% of the total net fee and commission income, up 15.83% year-on-year. Fee income from custodian business and other asset custody businesses grew rapidly and became a primary enabler for the growth of fee and commission income. The combined fee income from custody business of the 24 listed banks that disclosed such income amounted to RMB72.721 billion, up 24.41% from 2014.

Net fee and commission income amount and growth rate of listed banks* (in RMB million)						
	2013		2014		2015	
	Amount	Growth rate	Amount	Growth rate	Amount	Growth rate
ICBC	122,326	15.33%	132,497	8.31%	143,391	8.22%
CCB	104,283	11.52%	108,517	4.06%	113,530	4.62%
ABC	83,171	11.13%	80,123	-3.66%	82,549	3.03%
BOC	82,092	17.40%	91,240	11.14%	92,410	1.28%
BOCOM	25,968	24.36%	29,604	14.00%	35,027	18.32%
Large commercial banks	**417,840**	**14.41%**	**441,981**	**5.78%**	**466,907**	**5.64%**
CMB	29,184	47.85%	39,494	35.33%	53,419	35.26%
SPDB	13,904	58.98%	21,346	53.52%	27,798	30.23%
IB	23,762	58.98%	27,041	13.80%	32,190	19.04%
CMBC	29,956	45.96%	38,239	27.65%	51,205	33.91%
CITIC	16,811	49.96%	25,313	50.57%	35,674	40.93%
CEB	14,952	57.74%	19,157	28.12%	26,301	37.29%
PAB	10,456	82.73%	17,378	66.20%	26,445	52.18%
HX	6,312	56.01%	7,652	21.23%	12,372	61.68%
CZB	2,319	164.12%	2,621	13.02%	4,101	56.47%
National joint-stock commercial banks	**147,656**	**54.95%**	**198,241**	**34.26%**	**269,505**	**35.95%**
BOB	3,951	47.87%	4,780	20.98%	7,120	48.95%
CQRCB	680	55.96%	1,070	57.35%	1,495	39.72%
BONJ	1,180	27.57%	1,954	65.59%	3,253	66.48%
BONB	1,619	64.87%	2,485	53.49%	3,990	60.56%
SJB	770	587.50%	1,368	77.66%	1,204	-11.99%
HSB	540	36.36%	856	58.52%	1,771	106.89%
BTJ	417	25.23%	524	25.66%	996	90.08%
BJZ	75	-21.88%	116	54.67%	501	331.90%
HRB	1,247	83.65%	1,600	28.31%	1,959	22.44%
BZZ	162	161.29%	348	114.81%	713	104.89%
BCQ	645	75.27%	909	40.93%	1,512	66.34%
BQD	425	80.85%	689	62.12%	750	8.85%
City/rural commercial bank	**11,711**	**60.51%**	**16,699**	**42.59%**	**25,264**	**51.29%**
All listed banks	**577,207**	**23.39%**	**656,921**	**13.81%**	**761,676**	**15.95%**

Source: EY (calculated based on the data published in the banks' annual reports)
*Net fee and commission incomes of the listed banks are shown in million, on which the calculation of growth rates is based

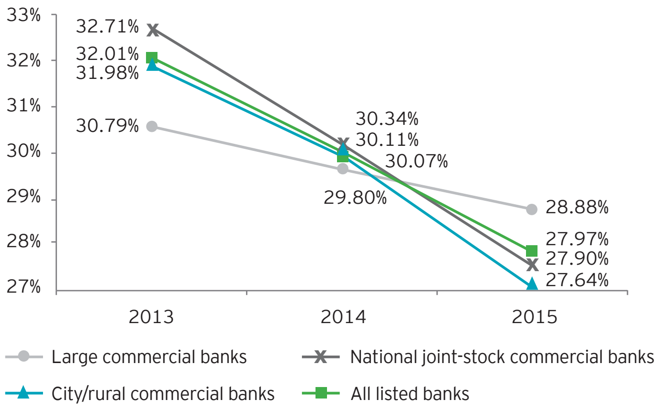
Further slowdown in cost-to-income ratio

In 2015, the listed banks tightened control over costs against the backdrop of economic slowdown and increasing pressure on operating performance. The average cost-to-income ratio of the listed banks stood at 27.97%, down 2.14 percentage points from 30.11% in 2014, exhibiting continued decline.

BJZ realized the largest drop in cost-to-income ratio of 12.46 percentage points, benefiting primarily from a surge of 98.8% in operating income largely due to a dramatic 88 basis-point improvement in NIM, coupled with a mere 23.1% rise in operating costs as a result of effective cost management.

Three listed banks saw cost-to-income ratio creep up in 2015. Specifically, BONB's cost-to-income ratio was up 1.96 percentage points from 2014, mainly due to investment in strategic resources and growth of businesses that pushed up operating costs and overhead expenses by 34.84%. BOCOM and BOB also reported a slight rise in this indicator, by 0.07 percentage point and 0.34 percentage point, respectively.

Trend of changes in cost-to-income ratio of listed banks



*Simple arithmetic average
Source: EY (calculated based on data published in the annual reports of listed banks)

Cost-to-income ratios of listed banks	2013	2014	2015
ICBC	28.03%	26.75%	25.49%
CCB	29.65%	28.85%	26.98%
ABC	36.30%	34.56%	33.28%
BOC	30.61%	28.57%	28.30%
BOCOM	29.35%	30.29%	30.36%
Large commercial banks*	**30.79%**	**29.80%**	**28.88%**
CMB	34.36%	30.54%	27.67%
SPDB	25.83%	23.12%	21.86%
IB	26.71%	23.78%	21.59%
CMBC	32.75%	33.27%	31.22%
CITIC	31.41%	30.32%	27.85%
CEB	31.58%	29.82%	26.91%
PAB	40.77%	36.33%	31.31%
HX	38.93%	37.57%	35.01%
CZB	32.08%	28.32%	27.66%
National joint-stock commercial banks*	**32.71%**	**30.34%**	**27.90%**
BOB	25.51%	24.65%	24.99%
CQRCB	37.66%	35.74%	34.69%
BONJ	31.03%	27.91%	24.10%
BONB	34.86%	32.07%	34.03%
SJB	19.01%	19.06%	19.04%
HSB	33.29%	33.08%	32.02%
BTJ	25.63%	23.63%	22.49%
BJZ	40.47%	31.26%	18.80%
HRB	35.85%	35.04%	31.75%
BZZ	27.06%	27.72%	23.27%
BCQ	32.37%	31.02%	30.69%
BQD	41.04%	39.61%	35.80%
City/rural commercial banks*	**31.98%**	**30.07%**	**27.64%**
All listed banks*	**32.01%**	**30.11%**	**27.97%**

Source: Annual reports published by banks
*Simple arithmetic average

2 Continued rapid growth in loans and receivables

Stable growth in assets

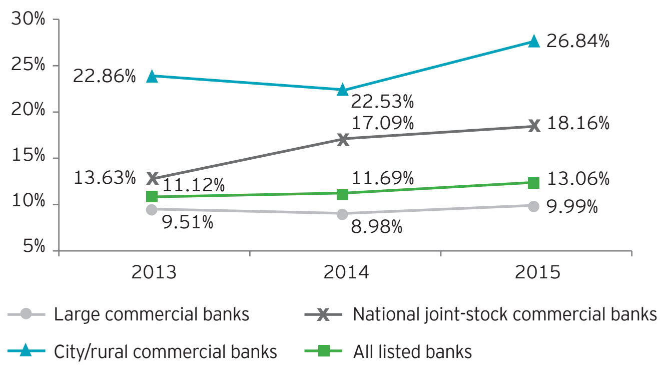
As at 31 December 2015, the total assets of the listed banks amounted to RMB124.08 trillion, up RMB14.33 trillion or 13.06% from a year earlier, or 1.37 percentage points year-on-year.

Of all the listed banks, the city/rural commercial banks experienced the most rapid growth in assets, by 26.84%, followed by the national joint-stock banks that saw 18.16% growth. In contrast, large commercial banks reported slower growth, only by 9.99%.

CZB's assets grew by 53.99%, the fastest among the listed banks, primarily boosted by large increase in interbank assets and liabilities through efforts to implement a business strategy covering the full spectrum of assets and expanding treasury business by enhancing cooperation with other banks and non-bank financial institutions, as well as the result of rapid growth in deposits and loans, up 42.05% and 33.36%, respectively. BONJ and BJZ each reported more than 40% growth in assets.

In 2015, the assets of the listed banks posted divergent growth. 17 banks saw their assets grow as compared with the same period of prior year, and nine banks reported slower growth. In particular, relative to subdued asset growth in 2014, HRB exhibited the most significant growth at 29.45%, up 22.79 percentage points from 2014, benefiting from increased lending and financial investment driven by the construction of Longjiang Silk Road Belt expedited by Heilongjiang government under the national "One Belt, One Road Silk" initiative. CZB's assets also grew rapidly at a rate merely dwarfed by HRB, up 16.74 percentage points from 2014. Asset growth of BCQ showed year-on-year deceleration of 16.27 percentage points, primarily due to decreased financial assets under reverse repurchase agreements.

Growth trend of total assets of listed banks



Source: EY (calculated based on data published in the annual reports of listed banks)

Balances and Growth rate of total assets of listed banks* (in RMB million)						
	2013		2014		2015	
	Balance	Growth rate	Balance	Growth rate	Balance	Growth rate
ICBC	18,917,752	7.84%	20,609,953	8.95%	22,209,780	7.76%
CCB	15,363,210	9.95%	16,744,093	8.99%	18,349,489	9.59%
ABC	14,562,102	9.95%	15,974,152	9.70%	17,791,393	11.38%
BOC	13,874,299	9.41%	15,251,382	9.93%	16,815,597	10.26%
BOCOM	5,960,937	13.04%	6,268,299	5.16%	7,155,362	14.15%
Large commercial banks	68,678,300	9.51%	74,847,879	8.98%	82,321,621	9.99%
CMB	4,016,399	17.85%	4,731,829	17.81%	5,474,978	15.71%
SPDB	3,680,125	16.99%	4,195,924	14.02%	5,044,352	20.22%
IB	3,678,304	13.14%	4,406,399	19.79%	5,298,880	20.25%
CMBC	3,226,210	0.44%	4,015,136	24.45%	4,520,688	12.59%
CITIC	3,641,193	23.02%	4,138,815	13.67%	5,122,292	23.76%
CEB	2,415,086	5.96%	2,737,010	13.33%	3,167,710	15.74%
PAB	1,891,741	17.75%	2,186,459	15.58%	2,507,149	14.67%
HX	1,672,447	12.33%	1,851,628	10.71%	2,020,604	9.13%
CZB	488,117	23.94%	669,957	37.25%	1,031,650	53.99%
National joint-stock commercial banks	24,709,622	13.63%	28,933,157	17.09%	34,188,303	18.16%
BOB	1,336,764	19.36%	1,524,437	14.04%	1,844,909	21.02%
CQRCB	502,446	15.82%	618,889	23.18%	716,805	15.82%
BONJ	434,057	26.26%	573,150	32.04%	805,020	40.46%
BONB	462,188	24.93%	554,113	19.89%	716,465	29.30%
SJB	355,432	13.47%	503,371	41.62%	701,629	39.39%
HSB	382,109	17.85%	482,764	26.34%	636,131	31.77%
BTJ	405,687	34.18%	478,859	18.04%	565,668	18.13%
BJZ	175,514	42.35%	250,693	42.83%	361,660	44.26%
HRB	322,175	19.28%	343,642	6.66%	444,851	29.45%
BZZ	149,334	43.96%	204,289	36.80%	265,623	30.02%
BCQ	206,787	32.42%	274,531	32.76%	319,808	16.49%
BQD	135,689	33.48%	156,166	15.09%	187,235	19.89%
City/rural commercial banks*	4,868,182	22.86%	5,964,904	22.53%	7,565,804	26.84%
All listed banks*	98,256,104	11.12%	109,745,940	11.69%	124,075,728	13.06%

Source: EY (calculated based on data published in the annual reports of listed banks)
*Total assets of listed banks are shown in RMB million, on which the calculation of growth rates is based

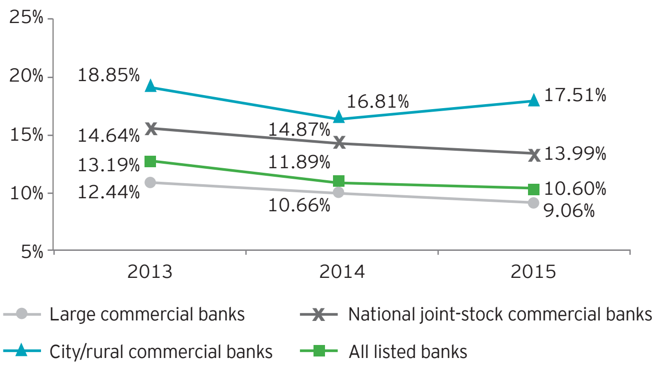
Continued slowdown in loan growth

As at 31 December 2015, the total loans of the listed banks stood at RMB62.47 trillion, growing by 10.60%, a 1.29 percentage point deceleration year-on-year. Specifically, corporate loans (excluding discount loans) amounted to RMB40.91 trillion, growing by 5.69%, down 3.68 percentage points year-on-year; personal loans amounted to RMB19.18 trillion, picking up by 17.71%, up 1.91 percentage points year-on-year; and discount loans totaled RMB2.38 trillion, growing by 69.56%, up 10.78 percentage points year-on-year.

Of all the listed banks, city/rural commercial banks witnessed the most rapid growth of loans, growing by 17.51% year-on-year, followed by 13.99% for national joint-stock commercial banks; whereas the large commercial banks saw slowest growth rate, which stood at 9.06%.

BONJ and CZB exhibited the most prominent growth in loans in 2015, up 43.80% and 33.36% respectively, primarily fuelled by increased loanable funds from substantial growth in deposits.

Growth trend of total loans of listed banks



Source: EY (calculated based on data published in the annual reports of listed banks)

The revised version of *The Law of the People's Republic of China* on Commercial Banks was formally implemented in October 2015. The revision has deleted the provision that "the ratio of the balance of loans to the balance of deposits must not exceed 75%". In addition, the China Banking Regulatory Commission (CBRC) revised the *Measures for Liquidity Risk Management of Commercial Banks) (Trial Implementation)* (Order of the CBRC [2015] No.9), changing the loan-to-deposit ratio as a regulatory indicator to a liquidity inspection indicator. Although the loan growth of commercial banks is no longer constrained by the loan-to-deposit ratio requirement, most listed banks did not break the 75% limit in 2015. Of the 20 listed banks that disclosed loan-to-deposit ratio, only CITIC and HX disclosed this ratio slightly higher than 75%.

2015 Deposit-loan ratio (%)*	
ICBC	71.40
CCB	69.80
BOCOM	74.08
CMB	73.93
IB	67.62
CMBC	71.00
CITIC	75.63
CEB	73.59
PAB	69.01
HX	75.29
CQRCB	57.12
BONJ	49.82
BONB	63.73
SJB	48.58
BTJ	55.93
BJZ	47.44
HRB	48.46
BZZ	55.73
BCQ	62.60
BQD	59.99

Source: Annual reports published by banks
*Only including the banks that separately disclosed this ratio

Growth rate of total loan balance of listed banks* (in RMB million)						
	2013		2014		2015	
	Balance	Growth rate	Balance	Growth rate	Balance	Growth rate
ICBC	9,922,374	12.71%	11,026,331	11.13%	11,933,466	8.23%
CCB	8,590,057	14.35%	9,474,510	10.30%	10,485,140	10.67%
ABC	7,224,713	12.30%	8,098,067	12.09%	8,909,918	10.03%
BOC	7,607,791	10.82%	8,483,275	11.51%	9,135,860	7.69%
BOCOM	3,266,368	10.83%	3,431,735	5.06%	3,722,006	8.46%
Large commercial banks	**36,611,303**	**12.44%**	**40,513,918**	**10.66%**	**44,186,390**	**9.06%**
CMB	2,197,094	15.37%	2,513,919	14.42%	2,824,286	12.35%
SPDB	1,767,494	14.43%	2,028,380	14.76%	2,245,518	10.70%
IB	1,357,057	10.40%	1,593,148	17.40%	1,779,408	11.69%
CMBC	1,574,263	13.70%	1,812,666	15.14%	2,048,048	12.99%
CITIC	1,941,175	16.73%	2,187,908	12.71%	2,528,780	15.58%
CEB	1,166,310	13.99%	1,299,455	11.42%	1,513,543	16.48%
PAB	847,289	17.55%	1,024,734	20.94%	1,216,138	18.68%
HX	823,169	14.30%	939,989	14.19%	1,069,172	13.74%
CZB	217,137	19.11%	259,023	19.29%	345,423	33.36%
National joint-stock commercial banks	**11,890,988**	**14.64%**	**13,659,222**	**14.87%**	**15,570,316**	**13.99%**
BOB	584,862	17.74%	675,288	15.46%	775,390	14.82%
CQRCB	205,253	18.26%	242,198	18.00%	268,586	10.90%
BONJ	146,961	17.32%	174,685	18.86%	251,198	43.80%
BONB	171,190	17.56%	210,062	22.71%	255,689	21.72%
SJB	133,437	16.92%	158,644	18.89%	195,460	23.21%
HSB	195,449	19.33%	219,396	12.25%	243,434	10.96%
BTJ	148,238	20.72%	170,918	15.29%	184,604	8.01%
BJZ	78,273	23.85%	88,799	13.45%	101,174	13.94%
HRB	105,941	21.40%	123,930	16.98%	148,675	19.97%
BZZ	62,944	25.48%	77,986	23.90%	94,294	20.91%
BCQ	90,504	18.10%	106,449	17.62%	124,769	17.21%
BQD	55,630	21.67%	62,988	13.23%	72,695	15.41%
City/rural commercial banks	**1,978,682**	**18.85%**	**2,311,343**	**16.81%**	**2,715,968**	**17.51%**
All listed banks	**50,480,973**	**13.19%**	**56,484,483**	**11.89%**	**62,472,674**	**10.60%**

Source: Annual reports published by banks
*Total loan of listed banks are shown in RMB million, on which the calculation of growth rates is based

Continued rapid growth of investment in loans and receivables

Loans and receivables investment of the listed banks continued to grow rapidly, despite slower loan growth in 2015. Within loans and receivables investment, growth in investment in special purpose vehicles (SPVs) such as trust plans, wealth management products, special asset management plans was particularly strong.

Balance and growth rate of receivables-type investmentsin which the underlying assets are wealth management products and beneficial interests in trust plans or asset management plans* (in RMB million)

	2013		2014		2015	
	Balance	Growth rate	Balance	Growth rate	Balance	Growth rate
ICBC**	-	Not disclosed	11,615	100%	38,005	227.21%
ABC**	5,908	Not disclosed	10,613	79.64%	16,812	58.41%
BOC	147,161	Not disclosed	154,110	4.72%	278,068	80.43%
BOCOM	94,151	1,458.02%	183,961	95.39%	258,302	40.41%
CMB	212,140	100.00%	365,662	72.37%	684,791	87.27%
SPDB	499,493	242.30%	835,916	67.35%	1,277,346	52.81%
IB	303,006	255.68%	684,929	126.04%	1,611,450	135.27%
CMBC	29,998	273.11%	209,629	598.81%	388,938	85.54%
CITIC	277,544	712.03%	639,713	130.49%	1,112,592	73.92%
CEB	262,699	0.57%	334,118	27.19%	524,828	57.08%
PAB	184,456	104.18%	246,529	33.65%	294,177	19.33%
HX	180,195	Not disclosed	198,970	10.42%	75,467	-62.07%
CZB	19,159	83.60%	156,849	718.67%	428,718	173.33%
BOB	42,378	9.21%	84,882	100.30%	107,773	26.97%
CQRCB **	Not disclosed	Not disclosed	26,803	Not disclosed	111,143	314.67%
BONJ	63,057	115.23%	145,884	131.35%	206,882	41.81%
BONB	35,069	68.12%	70,756	101.76%	70,416	-0.48%
SJB	24,713	54.79%	85,612	246.42%	235,141	174.66%
HSB	594	-62.78%	7,684	1,193.60%	89,647	1,066.67%
BTJ	65,861	54.00%	71,170	8.06%	140,086	96.83%
BJZ	35,421	494.31%	79,335	123.98%	166,990	110.49%
HRB	43,345	95.74%	49,124	13.33%	90,000	83.21%
BZZ	21,985	77.44%	45,244	105.79%	61,275	35.43%
BCQ	35,001	64.85%	53,445	52.70%	67,987	27.21%
BQD	20,293	2,495.01%	27,161	33.84%	41,662	53.39%

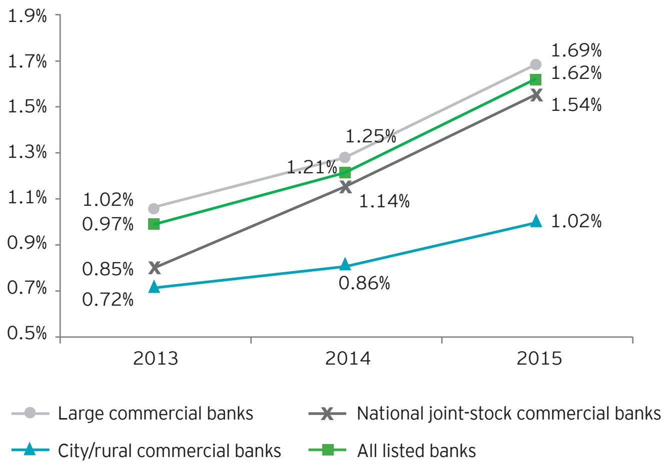
Source: Annual reports published by banks
* Only including the banks that separately disclosed the figures
**Figures of ICBC, ABC and CQRCB are sourced from "Interests in other unconsolidated structured entities" of Notes to Financial Statements, while data of other banks are sourced from "Receivables investment" of Notes to Financial Statements

3 Continued decline in asset quality

In 2015, in the face of decelerating macroeconomic growth and deepening economic structural adjustments, some enterprises experienced operating difficulties and tightened cash flows, which in turn reduced their ability to repay their debts and exerted increased pressures on the asset quality of listed banks. As at 31 December 2015, the total non-performing loan (NPL) balance of twenty-six listed banks reached RMB1,013 billion, increasing by RMB331.78 billion from the prior year end, the weighted average NPL ratio climbed to 1.62% at the end of 2015 from 1.21% at the end of 2014. The manufacturing sector and the wholesale and retail sector were the two main sectors that saw sizeable increases in NPL balance.

Apart from BONJ and SJB, the other 24 listed banks all saw year-on-year increase in both NPL balance and NPL ratio. Despite an RMB443 million increase of NPL balance by from 2014 year-end to 2015 year-end, BONJ's NPL ratio dropped by 11 basis points, benefiting primarily from its accelerated disposal of problematic assets, and increased emphases on the collection and write-off of non-performing and overdue assets. Similarly, SJB's NPL ratio dropped by two basis points despite an RMB118 million increase in NPL balance from 2014 year-end to 2015 year-end, mainly due to SJB's tightened risk prevention and control measures, and efforts in the collection, write-off and transfer of existing non-performing loans.

Changes in NPL ratio of listed banks



Source: EY (calculated based on data published in the annual reports of listed banks)

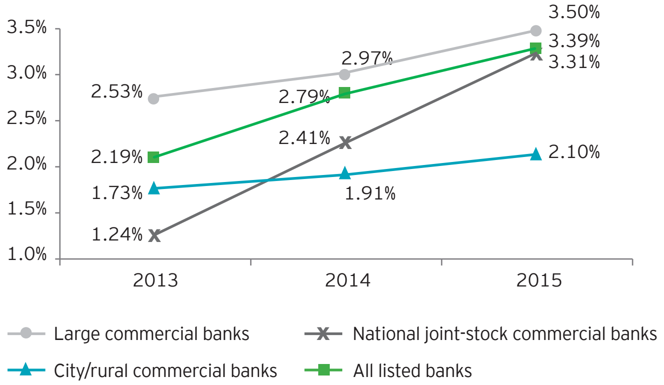
NPL balances and NPL ratios of listed banks (in RMB million)						
	31 Dec 2013		31 Dec 2014		31 Dec 2015	
	NPLs	NPL ratio	NPLs	NPL ratio	NPLs	NPL ratio
ICBC	93,689	0.94%	124,497	1.13%	179,518	1.50%
CCB	85,264	0.99%	113,171	1.19%	165,980	1.58%
ABC	87,781	1.22%	124,970	1.54%	212,867	2.39%
BOC	73,271	0.96%	100,494	1.18%	130,897	1.43%
BOCOM	34,310	1.05%	43,017	1.25%	56,206	1.51%
Large commercial banks	374,315	1.02%	506,149	1.25%	745,468	1.69%
CMB	18,332	0.83%	27,917	1.11%	47,410	1.68%
SPDB	13,061	0.74%	21,585	1.06%	35,054	1.56%
IB	10,331	0.76%	17,544	1.10%	25,983	1.46%
CMBC	13,404	0.85%	21,134	1.17%	32,821	1.60%
CITIC	19,966	1.03%	28,454	1.30%	36,050	1.43%
CEB	10,029	0.86%	15,525	1.19%	24,375	1.61%
PAB	7,541	0.89%	10,501	1.02%	17,645	1.45%
HX	7,443	0.90%	10,245	1.09%	16,297	1.52%
CZB	1,387	0.64%	2,290	0.88%	4,233	1.23%
National joint-stock commercial banks	101,494	0.85%	155,195	1.14%	239,868	1.54%
BOB*	3,788	0.65%	5,784	0.86%	8,655	1.12%
CQRCB	1,650	0.80%	1,887	0.78%	2,630	0.98%
BONJ	1,308	0.89%	1,639	0.94%	2,082	0.83%
BONB	1,525	0.89%	1,863	0.89%	2,362	0.92%
SJB	613	0.46%	696	0.44%	814	0.42%
HSB	1,051	0.54%	1,826	0.83%	2,398	0.98%
BOTJ	1,523	1.03%	1,871	1.09%	2,481	1.34%
BJZ	682	0.87%	879	0.99%	1,046	1.03%
HRB	904	0.85%	1,400	1.13%	2,079	1.40%
BZZ	331	0.53%	583	0.75%	1,040	1.10%
BCQ	355	0.39%	732	0.69%	1,210	0.97%
BQD	417	0.75%	718	1.14%	864	1.19%
City/rural commercial banks	14,147	0.72%	19,878	0.86%	27,661	1.02%
All listed banks	489,956	0.97%	681,222	1.21%	1,012,997	1.62%

Source: Annual reports published by listed banks
*Data available in BOB's 2013 annual report were disclosed at the bank level instead of the group level

From the beginning of 2012, the NPL balance of listed banks had increased for four consecutive years, and NPL ratio had risen for three consecutive years. Apart from non-performing loans, the balance of Special Mention loans had also kept rising. As at 31 December 2015, the proportion of Special Mention loans of all listed banks climbed to 3.39%, up 0.60 percentage point from the end of 2014. In particular, large commercial banks, national joint-stock commercial banks, and city/rural commercial banks experienced year-on-year increases in the proportion of Special Mention loans of 0.53, 0.90, and 0.19 percentage point, respectively.

Apart from CCB, BOB, CQRCB, BONJ, BONB and BJZ, the remaining 20 listed banks all experienced an increase in the proportion of Special Mention loans relative to the end of 2014. In particular, BCQ saw a 2.13-percentage point increase in the proportion of Special Mention loans from the end of 2014, and ICBC, CMBC, CEB and HX each also witnessed a rise of more than 1 percentage point.

Changes in the proportion of Special Mention loans of listed banks



Source: EY (calculated based on data published in the annual reports of listed banks)

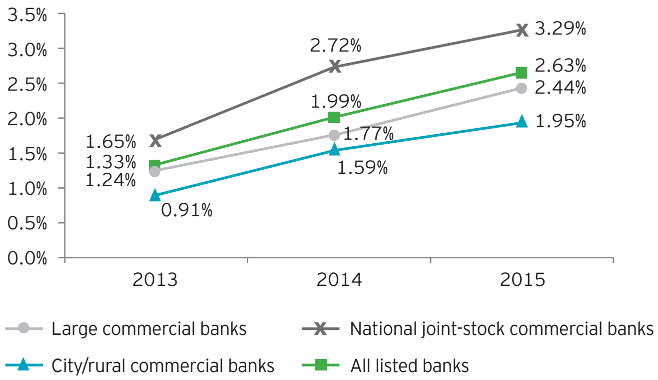
Balance and proportion of Special Mention (SM) loans* (in RMB million)						
	31 Dec 2013		31 Dec 2014		31 Dec 2015	
	Balance	Proportion	Balance	Proportion	Balance	Proportion
ICBC	196,162	1.98%	319,784	2.90%	520,492	4.36%
CCB	204,680	2.38%	281,459	2.97%	302,917	2.89%
ABC	276,343	3.82%	311,173	3.84%	374,432	4.20%
BOC	189,293	2.49%	200,654	2.37%	229,165	2.51%
BOCOM	59,047	1.81%	91,903	2.68%	118,103	3.17%
Large commercial banks	**925,525**	**2.53%**	**1,204,973**	**2.97%**	**1,545,109**	**3.50%**
CMB	24,603	1.12%	46,634	1.86%	73,794	2.61%
SPDB	21,826	1.23%	43,014	2.12%	64,668	2.88%
IB	8,689	0.64%	28,944	1.82%	41,776	2.35%
CMBC	20,373	1.29%	35,902	1.98%	75,547	3.69%
CITIC	23,156	1.19%	68,161	3.12%	90,392	3.57%
CEB	15,889	1.36%	42,018	3.24%	66,512	4.39%
PAB	18,027	2.13%	36,949	3.61%	50,482	4.15%
HX	12,294	1.49%	24,231	2.58%	45,010	4.21%
CZB	2,400	1.11%	3,639	1.40%	6,436	1.86%
National joint-stock commercial banks	**147,257**	**1.24%**	**329,492**	**2.41%**	**514,617**	**3.31%**
BOB**	7,292	1.25%	8,720	1.29%	8,153	1.05%
CQRCB	5,252	2.56%	5,703	2.35%	6,072	2.26%
BONJ	3,139	2.14%	3,916	2.24%	4,814	1.92%
BONB	1,809	1.06%	3,719	1.77%	4,528	1.77%
SJB	1,424	1.07%	978	0.62%	2,794	1.43%
HSB	3,729	1.91%	4,552	2.07%	7,026	2.89%
BTJ	4,292	2.90%	5,343	3.13%	6,466	3.50%
BJZ	3,561	4.55%	4,126	4.65%	3,817	3.77%
HRB	1,092	1.03%	1,990	1.61%	3,678	2.47%
BZZ	466	0.74%	1,140	1.46%	2,175	2.31%
BCQ	604	0.67%	2,253	2.12%	5,301	4.25%
BQD	1,488	2.67%	1,614	2.56%	2,305	3.17%
City/rural commercial banks	**34,148**	**1.73%**	**44,054**	**1.91%**	**57,129**	**2.10%**
All listed banks	**1,106,930**	**2.19%**	**1,578,519**	**2.79%**	**2,116,855**	**3.39%**

Source: Annual reports published by listed banks
* If the proportions of SM loans were directly disclosed by listed banks, then the report uses disclosed data. Otherwise, the proportions of SM loans were calculated based on the SM loan balances in RMB million
** Data available in BOB's 2013 annual report were disclosed at the bank level instead of the group level

Compared with the five-tier loan classification, the ageing of overdue loans is a more direct reflection of the changes in asset quality of listed banks amid the economic "new normal". As at the end of 2015, the proportion of overdue loans of listed banks further increased by 0.64 percentage point to 2.63%, from 1.99% at the end of 2014. In particular, large commercial banks, national joint-stock commercial banks, and city/rural commercial banks experienced a year-on-year increase in the proportion of overdue loans of 0.67, 0.57, and 0.36 percentage point, respectively.

Apart from CITIC, BONJ and BONB, the remaining 23 listed banks all experienced an increase in the proportion of overdue loans relative to the end of 2014. In particular, ABC, CMBC, HX and BCQ all saw increases of more than 1 percentage point.

Changes in the proportion of overdue loans of listed banks



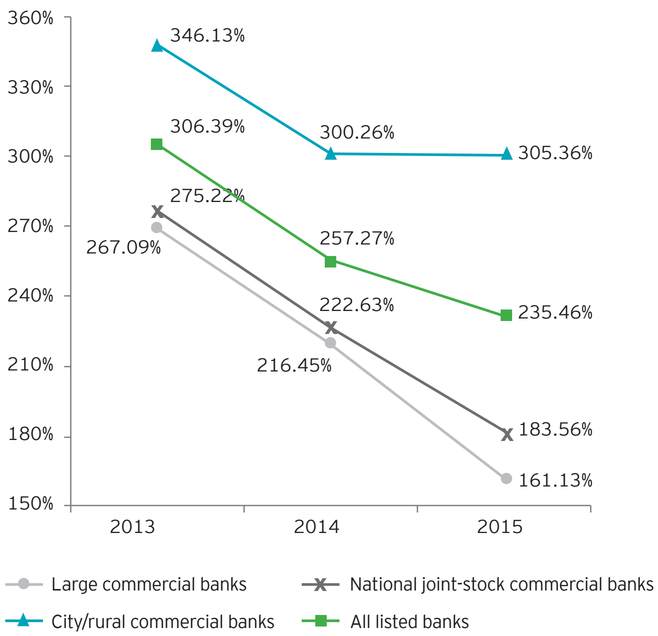
Source: EY (calculated based on data published in the annual reports of listed banks)

Balance and proportion of overdue loans* (in RMB million)						
	31 Dec 2013		31 Dec 2014		31 Dec 2015	
	Balance	Proportion	Balance	Proportion	Balance	Proportion
ICBC	133,631	1.35%	210,578	1.91%	332,698	2.79%
CCB	86,704	1.01%	133,216	1.41%	173,181	1.65%
ABC	100,424	1.39%	166,620	2.06%	279,512	3.14%
BOC	88,113	1.16%	125,936	1.48%	179,027	1.96%
BOCOM	46,127	1.41%	81,247	2.37%	113,333	3.04%
Large commercial banks	**454,999**	**1.24%**	**717,597**	**1.77%**	**1,077,751**	**2.44%**
CMB	32,995	1.50%	52,704	2.10%	80,368	2.84%
SPDB	22,984	1.30%	38,725	1.91%	59,185	2.64%
IB	14,330	1.06%	35,831	2.25%	48,767	2.74%
CMBC	27,321	1.74%	49,686	2.74%	80,715	3.94%
CITIC	35,589	1.83%	75,944	3.47%	74,900	2.96%
CEB	21,555	1.85%	45,145	3.47%	61,833	4.09%
PAB	26,510	3.13%	45,995	4.49%	57,427	4.72%
HX	13,178	1.60%	22,826	2.43%	42,348	3.96%
CZB	1,877	0.86%	4,224	1.63%	6,312	1.83%
National joint-stock commercial banks	**196,339**	**1.65%**	**371,080**	**2.72%**	**511,885**	**3.29%**
BOB	3,866	0.66%	8,897	1.32%	11,676	1.51%
CQRCB	2,523	1.23%	3,020	1.25%	4,901	1.82%
BONJ	1,474	1.00%	2,493	1.43%	3,381	1.35%
BONB	1,714	1.00%	4,062	1.93%	4,429	1.73%
SJB	935	0.70%	494	0.31%	1,051	0.54%
HSB	1,512	0.77%	3,174	1.45%	4,943	2.03%
BTJ	2,022	1.36%	4,305	2.52%	5,863	3.18%
BJZ	639	0.82%	1,878	2.11%	2,921	2.89%
HRB	1,375	1.30%	3,719	3.00%	5,165	3.47%
BZZ	960	1.53%	1,875	2.40%	2,893	3.07%
BCQ	445	0.49%	1,480	1.39%	3,503	2.81%
BQD	476	0.86%	1,430	2.27%	2,101	2.89%
City/rural commercial banks	**17,941**	**0.91%**	**36,827**	**1.59%**	**52,827**	**1.95%**
All listed banks	**669,279**	**1.33%**	**1,125,504**	**1.99%**	**1,642,463**	**2.63%**

Source: Annual reports published by listed banks
* If the proportions of overdue loans were directly disclosed by listed banks, then the report uses disclosed data. Otherwise, the proportions of overdue loans were calculated based on the overdue loan balances in RMB million

Due to increases in both NPL balance and NPL ratio, the average ratio of allowance to NPLs of listed banks dropped by 21.81 percentage points from the end of 2014 to 235.46% at 31 December 2015. Apart from BONJ, BONB, SJB and BJZ, all other listed banks all experienced declines in their ratios of allowance to NPLs. In recent years, the listed banks adopted relatively prudent policies on loan provisioning. Consequently, against the backdrop of rising NPLs, the listed banks were still able to maintain their ratios of allowance to NPLs at levels above the regulatory requirement of 150% as at 31 December 2015 which effectively mitigated the impact of increased credit risk due to economic slowdown.

Changes in the ratio of allowance to NPLs of listed banks



Source: Annual reports published by listed banks

To address the impact of the real economy on the quality of credit assets under the "new normal", the listed banks continued to work on preventing credit risk, and stepped up efforts in the disposal of NPLs through write-offs and transfers. Meanwhile, to break away from the dilemma of limited traditional means of NPL disposal in the face of rising NPLs, the listed banks have been exploring novel means of NPL disposal such as NPL securitization and debt-to-equity swap.

Ratio of allowance to NPLs of listed banks

	31 Dec 2013	31 Dec 2014	31 Dec 2015
ICBC	257.19%	206.90%	156.34%
CCB	268.22%	222.33%	150.99%
ABC	367.04%	286.53%	189.43%
BOC	229.35%	187.60%	153.30%
BOCOM	213.65%	178.88%	155.57%
Large commercial banks*	**267.09%**	**216.45%**	**161.13%**
CMB	266.00%	233.42%	178.95%
SPDB	319.65%	249.09%	211.40%
IB	352.10%	250.21%	210.08%
CMBC	259.74%	182.20%	153.63%
CITIC	206.62%	181.26%	167.81%
CEB	241.02%	180.52%	156.39%
PAB	201.06%	200.90%	165.86%
HX	301.53%	233.13%	167.12%
CZB	329.28%	292.96%	240.83%
National joint-stock commercial banks*	**275.22%**	**222.63%**	**183.56%**
BOB	385.91%	324.22%	287.39%
CQRCB	430.60%	459.79%	420.03%
BONJ	298.51%	325.72%	430.95%
BONB	254.88%	285.17%	308.67%
SJB	306.12%	387.42%	482.38%
HSB	396.61%	255.27%	250.49%
BOTJ	269.08%	238.15%	202.84%
BOJZ	226.40%	256.15%	369.13%
HRB	268.34%	208.33%	173.83%
BOZZ	425.54%	301.66%	258.55%
BOCQ	526.36%	318.87%	243.98%
BQD	365.24%	242.32%	236.13%
City/rural commercial banks*	**346.13%**	**300.26%**	**305.36%**
All listed banks*	**306.39%**	**257.27%**	**235.46%**

Source: Annual reports published by listed banks
*Simple arithmetic average

Write-off of non-performing assets

In 2015, the 26 listed banks collectively wrote off loans totaling RMB340.77 billion, an increase of RMB138.62 billion from the prior year, or 68.57%.

NPL write-offs of listed banks (in RMB million)

	2013	2014	2015
ICBC	16,500	38,364	60,296
CCB	11,868	21,485	34,851
ABC*	9,784	29,222	41,329
BOC*	9,096	25,731	45,197
BOCOM	11,810	15,811	15,268
Large commercial banks	**59,058**	**130,613**	**196,941**
CMB	2,134	14,917	38,383
SPDB	2,952	7,423	10,044
IB**	897	11,716	26,028
CMBC	4,049	7,119	12,255
CITIC	5,305	11,610	26,239
CEB	2,240	4,096	5,579
PAB	3,194	6,664	10,009
HX	1,498	3,797	5,201
CZB	188	497	1,123
National joint-stock commercial banks	**22,457**	**67,839**	**134,861**
BOB	395	98	616
CQRCB	90	142	533
BONJ**	263	1,080	2,708
BONB	457	983	1,928
SJB	157	31	165
HSB	87	488	1,344
BOTJ	710	378	464
BOJZ***	136	-	236
HRB	63	59	224
BOZZ	-	39	153
BOCQ	41	237	346
BQD	54	165	251
City/rural commercial banks	**2,453**	**3,700**	**8,968**
All listed banks	**83,968**	**202,152**	**340,770**

Packaging non-performing assets for transfer

In 2013, the CBRC issued the *Notice on Issues concerning Qualifying Conditions for Local Asset Management Companies to Execute Batch Purchase and Disposal of Non-performing Assets of Financial Enterprises*, setting out the qualifying criteria for local asset management companies. From the establishment of the first provincial-level asset management company in China, Jiangsu Asset Management Company, in May 2013 to 31 December 2015, more than 20 local asset management companies have been set up. The development of local asset management companies expanded the means of packaging and disposing of non-performing assets for listed banks.

However, the regulators also noticed instances of noncompliant and indiscreet acquisition of non-performing assets in some asset management companies, which resulted in increased exposure to project risks. To address this issue, the CBRC issued the *Notice on Regulating the Acquisition of Non-performing Assets by Financial Asset Management Companies* (Yin Jian Ban Fa [2016] No.56) (hereinafter referred to as the Notice) in March 2016, further standardizing the non-performing assets acquisition business of asset management companies. The Notice requires that asset management companies strictly follow the principles of truthfulness, cleanliness, and wholeness when acquiring non-performing assets from banking institutions, set market fair values based on assessment or valuation procedures, and achieve the true and complete transfer of assets and risks. Apart from the formal legal documents such as the transfer contracts, asset management companies are prohibited from signing or reaching agreements with transferors that compromise the true and complete transfer of assets and risks by altering the transaction structures, the ultimate bearer of risks, and the related processes of equity transfer. Asset management companies are also prohibited from setting out any explicit or implicit terms to allow repurchase, transferring benefits against the rules, and providing routes for banking institutions to bypass regulatory monitoring of asset quality.

Source: Annual reports published by listed banks
*Figures disclosed in the 2013, 2014 and 2015 annual reports of ABC and BOC refer to combined NPL write-offs and transfer-out
**Figures disclosed in the 2014 and 2015 annual reports of IB and BONJ refer to combined NPL write-offs and transfer-out
***Figures disclosed in the 2015 annual report of BJZ refer to disposal during the year

Securitization of non-performing assets

The CBRC pointed out in a nationwide banking industry regulatory management meeting held in January 2016 that it would roll out pilot programs on securitization of non-performing assets and on the transfer of beneficial interests of non-performing assets to gradually improve the efficiency and ability of the local asset management companies to dispose of non-performing assets. The listed banks took proactive steps to explore and launch pilot programs on securitization of non-performing assets, and six of them have submitted their plans and will participate in the first round of the pilot program. The securitization of non-performing assets and the transfer of beneficial interests of non-performing assets will play an important part in accelerating the disposal of non-performing assets in batches, thereby improving the efficiency and effectiveness of disposal of non-performing assets and solving the liquidity issues faced by commercial banks. But at the same time, these approaches also necessitate improvements in valuation and pricing mechanisms, issuance of revised laws, regulations or industry rules, development of secondary markets for asset-backed securities, and better professional services by agents.

Debt to equity swap of non-performing assets

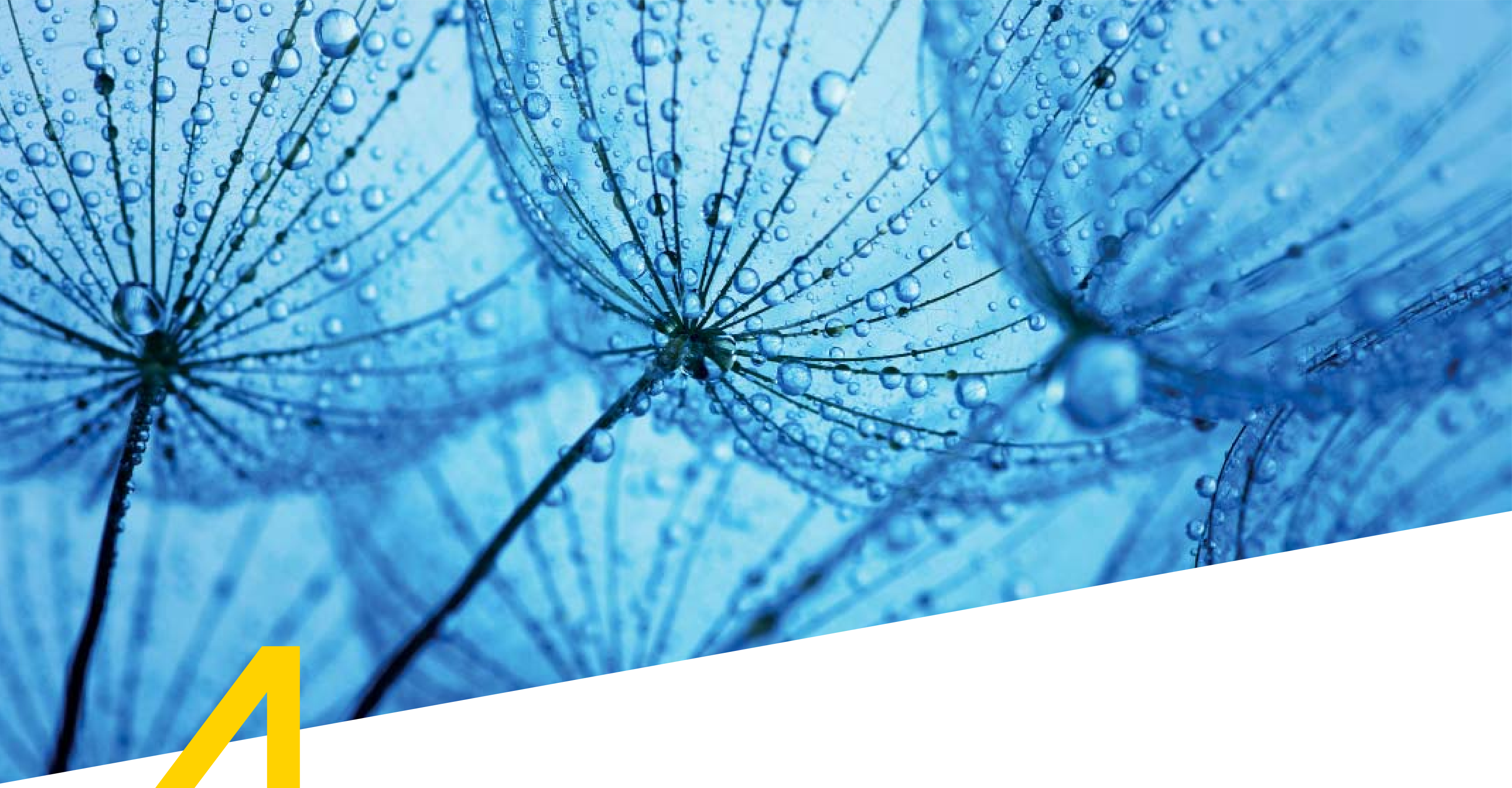
Against the backdrop of rapidly rising NPLs of the banking industry, banks should improve their ability to dispose of NPLs using market-oriented, diverse, and comprehensive approaches, so as to improve the asset quality of banks. Banks need to keep exploring and making innovations in market-facing and varied NPL disposal approaches.

The Chinese Premier Li Keqiang mentioned in a keynote speech at the opening ceremony of the 2016 annual conference of the Boao Forum for Asia that as part of the financial reform, the government will launch the debt-to-equity swap program through marketization to help companies lower their leverage ratios.

Policies on debt to equity swap no doubt provides commercial banks with a novel way of disposing of non-performing assets, which could help reduce NPLs and suppress the rise in NPL ratio. Banks also have more flexible means of disposing of non-performing assets at their disposal, and can achieve the purpose of restructuring and liquidating debt through selling the converted equity in the capital markets.

However, commercial banks will also face a range of potential risks:

- Compared with the debt-to-equity swap at the time of the shareholding reform of banks, it is increasingly difficult to walk out of temporary operating difficulties by capitalizing on the high growth of the Chinese economy, now that the domestic economy has entered the transition period. Currently, potential target companies for debt-to-equity swaps are mostly operating in industries burdened with overcapacity, which makes it more difficult for them to improve operating performance. In the event of a subsequent rise in operating risk and liquidation, banks as shareholders instead of creditors would rank low in the priority of claims on the company's assets.
- Swapping loans into equity exacerbates duration mismatches arising from borrowers using short-term debt to fund long-term investment, and could result in a rise in the liquidity risk of banks.
- When commercial banks swap their non-performing assets to equity, the occupation of their capital will increase. In accordance with the rules set out in the *Administrative Measures for the Capital of Commercial Banks*, the risk weight for equity investment in industrial and commercial enterprises passively held by commercial banks is 400% within the two-year disposal period as dictated by regulation, much higher than the 100% risk weight for loans. After the two-year period, this risk weight will shoot up to 1,250%.
- In addition, after the debt to equity swap, banks would also need to consider issues such as equity valuation and accounting treatment.



4 Combined use of old and new capital replenishment approaches

As at 31 December 2015, most listed banks reported increased CARs as compared with the prior year-end. The rise in CARs primarily resulted from the efforts of listed banks on refined capital management, rational control of the growth of risk-weighted assets, decent operating income, and, on top of capital replenishment with retained profit, and steady increase in external financing to effectively enhance capital base by issuing new qualifying capital instruments such as ordinary shares, preference shares and tier-2 capital bonds in both domestic and overseas markets.

Since 2015, an increasing number of banks have gone public on the Main Board of the Stock Exchange Hong Kong to enhance their capital strength and support the business development. Following the efforts of BZZ, BJZ and BQD to raise HKD5.8 billion, HKD6.4 billion and HKD4.5 billion[2] respectively from H-share IPO in December 2014, BTJ and CZB also successfully listed in Hong Kong on June 30, 2016.

PAB, BONJ and BCQ raised funds through non-public offering of ordinary shares to improve their tier-1 CAR; whereas other listed banks enhanced their capital base by issuing preference shares and tier-2 capital bonds. In 2015, the 11 listed banks issued preference shares amounting to RMB210.2 billion, and 10 listed banks issued tier-2 capital bonds amounting to RMB150.2 billion.

Meanwhile, the listed banks such as BOCOM, IB, CITIC, HX, CQRCB, HSB, BTJ and HRB reported lower CARs as their risk-weighted assets grew faster than net capital. In particular, HRB's CAR dropped by 3 percentage points from 2014 as it made a cash dividend of RMB1.13 billion[3] and saw rapid growth in credit asset in its efforts to prop up the real economy. These banks also developed the capital replenishment plans tailored to their own circumstances.

The implementation of the plan to dispose of NPLs through debt-to-equity swap in the future is expected to weigh on banks' CARs due to the higher risk-weights for passive equity investment in industrial and commercial businesses as well as heavier consumption of capital. Moreover, increasingly developed domestic credit asset securitization markets are providing listed banks with instruments to mitigate risks, reduce pressures on CARs, and bring about more options to manage capital.

[2] Annual reports published by banks
[3] The 2015 annual report of HRB

Capital adequacy ratios of listed banks			
	2013	2014	2015
ICBC	13.12%	14.53%	15.22%
CCB	13.34%	14.86%	15.39%
ABC	11.86%	12.82%	13.40%
BOC	12.46%	13.87%	14.06%
BOCOM	12.08%	14.04%	13.49%
CMB	11.14%	12.38%	12.57%
SPDB	10.97%	11.33%	12.29%
IB	10.83%	11.29%	11.19%
CMBC	10.69%	10.69%	11.49%
CITIC	11.24%	12.33%	11.87%
CEB	10.57%	11.21%	11.87%
PAB	9.90%	10.86%	10.94%
HX	9.88%	11.03%	10.85%
CZB	11.53%	10.60%	11.04%
BOB	10.94%	11.08%	12.27%
CQRCB	13.64%	12.45%	12.09%
BONJ	12.90%	12.00%	13.11%
BONB	12.06%	12.40%	13.29%
SJB	11.17%	12.65%	13.03%
HSB	15.19%	13.41%	13.25%
BTJ	11.05%	12.61%	12.23%
BJZ	10.89%	10.45%	10.50%
HRB	11.95%	14.64%	11.64%
BZZ	12.08%	11.12%	12.20%
BCQ	13.26%	11.00%	11.63%
BQD	10.88%	10.75%	15.04%

Source: Annual reports published by banks

Preference shares issued by listed banks*			
	Date of issue	Market of issuance	Amount (in RMB billion)
ABC	2015/3	Shanghai	40.0
BOC	2015/3	Shanghai	28.0
SPDB	2015/3	Shanghai	15.0
CEB	2015/6	Shanghai	20.0
IB	2015/6	Shanghai	13.0
BOCOM	2015/7	Hong Kong	14.9
ICBC	2015/11	Shanghai	45.0
BONB	2015/11	Shenzhen	4.9
CCB	2015/12	Hong Kong	19.7
BOB	2015/12	Shanghai	4.9
BONJ	2015/12	Shanghai	4.9
Total			**210.2**

Source: Annual reports published by banks
*Only including the banks that separately disclosed the figures

2015 Bonds qualified as tier 2 capital issued by listed banks (in RMB billion)	
CCB	37.0
SPDB	30.0
CMBC	20.0
BOB	18.0
ICBC	13.0
SJB	10.0
HSB	8.0
BONB	7.0
BTJ	5.0
BQD	2.2
Total	**150.2**

Source: Annual reports published by banks
*Only including the banks that separately disclosed the figures

At present, the listed banks mainly rely upon steady growth of assets as a driver to boost profit growth as the transformation of their "light capital" business model has not yet been completed. Seeing that the growing assets are bound to increase the size of risk assets, commercial banks have to replenish capital continuously through channels available so as to meet the regulatory requirements on capital. As the overall net profit growth of the banking industry is decelerating, the growing assets inevitably result in continued decline in return on net assets. Therefore, how to improve return on assets has become one of the key topics for the listed banks.

5 Supporting the real economy and national strategies

In 2015, as the Chinese economic growth entered the "new normal", the Chinese government successively issued policies designed to "encourage the public to start businesses and make innovations", the "Internet Plus" action plan, the "Made in China 2025" initiative, fully clarified and pressed ahead with the Three Initiatives, namely "One Belt, One Road" initiative, the Beijing-Tianjin-Hebei integration initiative, and the Yangtze Economic Belt initiative. Meanwhile, the supply-side structural reform tasked with cutting overcapacity and excess inventory, deleveraging, reducing costs, and strengthening weak points ("supply-side reform") has also entered the implementation stage. The objectives of the supply-side reform include lowering the financing costs of the enterprises, and increasing the ability of the financial sector to support for the real economy.

To capitalize on new development opportunities and proactively adapt to the economic structural adjustments and changes in the mode of development, the listed banks accelerated business transformation around national strategies, provided all-round financial support to the transformation and upgrade of the real economy, as well as the regional economic development, and helped Chinese companies to "go global".

Increased support for the real economy, full support on economic transformation and upgrade

According to the *2015 Report on the Improvement of Service Quality of the Chinese Banking Industry*, published by the China Banking Association in March 2016, infrastructure loans granted by banking institutions in 2015 grew by 9.4% year-on-year. Total balance of loans used for affordable housing projects rose to RMB1.99 trillion, up 58.9% year-on-year. As at 31 December 2015, total balance of agriculture-related loans issued by banking institutions grew 11.7% year-on-year to reach RMB26.4 trillion, representing 28.1% of total RMB loan balance. The balance of new agriculture-related loans issued in 2015 accounted for 32.9% of all new loans issued in 2015. Over a third of new loans had been invested to support the development of "agriculture, rural areas and farmers".

As a major constituent of the Chinese banking industry, in 2015, the listed banks made unceasing efforts to innovate business models and modes of service, and increased support for the real economy. Information disclosed in the annual reports of listed banks shows that, whereas large- and medium-sized commercial banks focused on supporting the nation's key programs and major engineering projects, regional commercial banks concentrated on serving regional economic development, cultivating emerging industries, and supporting the growth of small- and medium-sized enterprises.

Actions	Extract*
Providing more support to the nation's key programs and major engineering projects	▸ ICBC cumulatively issued project loans totaling RMB816.8 billion, increasing by RMB224.3 billion from prior year. ▸ CCB's balance of infrastructure loans reached RMB2.71 trillion, and the balance signed or reserved for major engineering projects totaled RMB1.25 trillion. ▸ ABC staunchly supported a full range of key national construction projects across transport, energy, water conservancy, urban rail transit, shanty town renovation, and high-end equipment manufacture. ▸ BOCOM innovated in businesses such as government-guided funds, urban development/construction funds, M&A funds, PPP funds and retirement funds.
Serving regional economic development, cultivating emerging industries, supporting the growth of small- and medium-sized enterprises, and serving city residents	▸ BOB took a whole spectrum of measures designed to support the Beijing-Tianjin-Hebei integration initiative, and specifically set up a task force dedicated to this initiative. Corporate loan balance for Beijing, Tianjin and Hebei amounted to RMB276.05 billion, most of which had been channeled into traffic integration, and relocation of departments with non-capital functions. ▸ HRB saw its loans to small businesses grow 33% from the 2015 year-end, and successfully issued "financial bonds for agriculture, rural areas and farmers" totaling RMB4 billion, and made progress in projects such as the PPP funds and the industry investment funds. ▸ SJB comprehensively pressed ahead with cooperation in the field of public utilities, with proactive strategic deployment in new energy sources, new materials, high-end equipment manufacture, information technology, energy conservation and environmental protection. ▸ BQD provided increased support for advanced manufacturing industries, modern services industries, cultural and creative industries, strategic emerging industries, modern information technology industries, and environmental protection.

Source: Annual reports published by listed banks
*Only include listed banks that separately disclosed such information

Expand network of overseas entities, and support the RMB internationalization strategy

To support the "One Belt, One Road" initiative, promote collaboration in international production capacity, and assist the Chinese companies in "going global", the listed banks, especially the five largest commercial banks, made ongoing efforts in improving the network of global services and accelerating strategic deployment globally. At the same time, the listed banks also expanded the international settlement business and the trade finance business to support RMB internationalization. In 2015, a number of listed banks set up new overseas entities and made overseas acquisitions. These include countries and regions along the "One Belt, One Road". The network of overseas entities of Chinese banks keeps expanding.

Countries and regions covered by the overseas entities of listed banks as at 31 December 2015*

*Source: Published annual reports of listed banks
Dark grey represents countries and regions where China's listed banks have already established overseas entities
Yellow triangles represent the locations where China's listed banks opened new overseas entities in 2015

Newly setup overseas entities and new overseas acquisitions*	
New additions of overseas entities in 2015	
ICBC	Five overseas entities commenced operation or obtained license: Riyadh Branch, Yangon Branch and ICBC (Mexico) officially opened for business. ICBC acquired 60% shares of Standard Bank PLC and 92.8169% shares of Tekstilbank in Turkey.
CCB	In June 2015, Paris Branch, Amsterdam Branch, Barcelona Branch and Milan Branch (under CCB Europe) commenced operation successively. In September, Cape Town Branch (under Johannesburg Branch) commenced operation. In October, London Branch commenced operation. In November, Zurich Branch was established and Dubai International Financial Centre Branch received its official banking license and commenced operation.
ABC	Moscow subsidiary, Luxembourg subsidiary and Luxembourg Branch successively commenced operation. Application for the establishment of Taipei Representative Office was officially approved by the local regulatory authorities. Applications for the establishment of Dubai Branch and Chicago Branch had been approved by the CBRC in succession. Applications for the establishment of Hanoi Branch and Vancouver Branch made significant progress. Sino-Congolese Bank of Africa established jointly by ABC and the Republic of Congo, was granted a license by the Ministry of Finance of the Republic of Congo and commenced operation.
BOC	Addition of new overseas entities in five countries and regions
BOCOM	Brisbane Branch, Australia and Luxembourg subsidiary commenced operation. BOCOM entered into an equity transfer agreement on acquisition of equity interest in Brazil's BBM Bank.
CMB	Luxembourg Branch obtained approval for commencing operation.
CITIC	London Representative Office had been established, and the establishment of Sydney Representative Office was underway. The subscription for a stake in CTBC Financial Holding Co., Ltd. in Taiwan had been approved by the CBRC.

Source: Annual reports published by listed banks
*Only include listed banks that separately disclosed such information

To help Chinese companies to "go global", the listed banks, especially large commercial banks, proactively developed international business in 2015, further expanding cross-border RMB settlement compared to prior year.

The global RMB clearing network has developed further to support RMB settlement. As of December 2015, the PBOC had signed agreements on RMB clearing and settlement with 16 counties and regions, including the United Kingdom, Germany, France, South Korea, Canada, Australia, Luxembourg, Qatar, Thailand, Malaysia, Chile, Hungary, South Africa, Zambia, Argentina and Switzerland, further expanding the total number of clearing banks from 12 as of the end of 2014 to 20 as of the end of 2015.

Cross-border RMB settlement*(in RMB billion)			
	2014	2015	Annual growth rate
BOC	5,320.0	5,390.0	1.32%
ICBC	3,660.0	4,410.0	20.60%
CCB	1,460.0	1,840.0	26.15%
BOCOM	1,099.7	1,611.2	46.51%
ABC**	1,185.8	1,277.3	7.72%
CMB	697.7	830.8	19.08%
SPDB	328.5	450.4	37.12%
IB	153.3	212.9	38.88%
CZB	27.7	89.5	224.00%

Source: Annual reports published by listed banks
*Only including listed banks that separately disclosed such information
**Data for ABC refers to cross-border RMB settlement conducted by domestic branches
***CZB only disclosed its 2015 cross-border RMB settlement volume and year-on-year growth; and the 2014 data is calculated based on the 2015 settlement and growth rate

Large commercial banks fully leveraged their strengths of extensive overseas network and strove to become RMB offshore clearing banks. Specifically, ten overseas branches of BOC, six overseas branches of ICBC, three overseas branches of CCB, and one overseas branch of BOCOM had been authorized to serve the as RMB clearing banks.

List of RMB offshore clearing banks

	Date	Countries/ Regions	RMB clearing bank
1	2003.12	Hong Kong	BOC
2	2004.9	Macao	BOC
3	2012.12	Taiwan	BOC
4	2013.2	Singapore	ICBC
5	2014.6	UK	CCB
6	2014.6	Germany	BOC
7	2014.7	Korea	BOCOM
8	2014.9	Luxembourg	ICBC
9	2014.9	France	BOC
10	2014.11	Canada	ICBC
11	2014.11	Australia	BOC
12	2014.11	Qatar	ICBC
13	2015.1	Thailand	ICBC
14	2015.1	Malaysia	BOC
15	2015.5	Chile	CCB
16	2015.6	Hungary	BOC
17	2015.7	South Africa	BOC
18	2015.9	Zambia	BOC
19	2015.9	Argentina	ICBC
20	2015.11	Switzerland	CCB

Source: PBOC website

Support the "One Belt, One Road" initiative, and help Chinese companies to "go global"

Since the "One Belt, One Road" initiative was proposed, the listed banks proactively provided a range of financial services to support the construction activities along the "One Belt, One Road".

For example, in 2015, among the large commercial banks, BOC granted a total of USD28.6 billion in credits to countries along the "One Belt, One Road", followed up on approximately 330 key projects, and successfully issued the first "One Belt, One Road" bond, thereby strengthening financial connectivity along the "One Belt, One Road". BOC maintained its first place in global markets in terms of cross-border RMB clearing transactions and cross-border RMB settlement volume[4].

Another example is the city commercial bank HRB, which has placed Russian finance at the core of its businesses due to the city's proximity to Russia and the special characteristics of the local economy. HRB set up a dedicated Russian Finance Department to proactively develop Russian finance, and realized an uplift in the profitability and overall contribution of the Russian finance business.

On 14 March 2016, the CBRC and the China Banking Association held a seminar in Beijing on services for the "One Belt, One Road" provided by China's banking industry. The seminar covered the risks and opportunities faced by the banking industry when providing services to promote the "One Belt, One Road" initiative. To give full support to "One Belt, One Road", the seminar put forward a number of proposals to China's banking industry to make greater efforts in the following aspects: first, optimize the overseas network of Chinese banks and accelerate the establishment of overseas entities in the countries along the "One Belt, One Road"; second, strengthen coordination and cooperation of the banking industry, make innovations in modes of service, products and mechanisms, improve the ability to provide comprehensive financial services through diverse channels, and provide premium financial services to companies "going global" and companies participating in the construction of "One Belt, One Road"; third, leverage on strength in diverse cross-border finance, explore and expand sources of long-term, low-cost funding from multiple channels; fourth, promote the close integration of financial capital and industry capital to support the industry development of countries along the "One Belt, One Road"; fifth, strengthen multilateral and bilateral financial cooperation.

It is expected that the listed banks will quicken their steps to expand the network of overseas entities, and provide more diverse and better quality financial services to support the Chinese companies "going global" and participating in the construction of "One Belt, One Road".

[4] The 2015 annual report of BOC

6 Focus on corporate and social responsibilities

While striving for economic returns, the listed banks have actively fulfilled their corporate social responsibility through efforts to increase financial support for people's livelihood improvement and green industry development initiatives and promoting the sustainable development of strategic emerging sectors, the people's livelihood-oriented industries, and industries focusing on China's agricultural initiative (development of agriculture, rural areas and farmers). We expect that the national policy incentive and guidance will be increasingly directed to such areas and banks will embrace more development opportunities as the financial inclusion and green finance become part of the national strategy.

Inclusive finance – Access to financial services for all market entities

The *Report of the Work of the Government (2015)* points out that "we will channel great energy into developing inclusive finance and ensuring equitable access to financial services for all market entities." Driven by this government initiative through 2015, the listed banks made greater efforts to develop inclusive finance and focus on supporting the improvement of living standards and the development of small and micro businesses and "agriculture, rural areas and farmers".

2015 Small and micro businesses loans*

	Balance (in RMB billion)	Growth rate
ICBC	1,883.2	9.39%
CCB	1,277.9	11.81%
ABC	1,088.2	11.62%
BOC	1,145.7	10.35%
CMB	310.8	-8.26%
IB	104.2	-7.05%
CMBC	378.2	-7.78%
CITIC	442.0	2.49%
CEB	288.4	17.02%
PAB	188.6	72.87%
HX	236.2	14.38%
CZB	107.4	20.14%
BOB**	235.1	19.04%
CQRCB	82.7	8.86%
BONJ	83.2	38.21%
HRB	50.3	33.74%
BZZ	49.5	21.03%
Total	**7,951.6**	**9.93%**

Source: Annual reports published by banks and corporate social responsibility reports
*Only including the banks that separately disclosed the figures. Growth rates of loans to small and micro businesses published by listed banks are used herein. Otherwise, growth rates are calculated based on the balances of such loans denominated in RMB100 million
**Individual business loans are not included

Seventeen listed banks disclosed balances of loans made to small and micro businesses. As at 31 December 2015, total balance of loans made to small and micro businesses amounted to RMB7.95 trillion, up 9.93% from the 2014 year-end. According to CMB's 2015 annual report, CMB recorded a slowing loan growth as it exited part of high-risk loans to small businesses to further prevent the credit risk exposure to such borrowers amid economic downturn. To counter the impact to small businesses, CMB has launched nurture programs especially for innovative businesses to support their growth. As at 31 December 2015, CMB had included a total of 26,442 innovative businesses into this program, an increase of 5,390 from a year earlier. In addition, 2,154 companies listed on the New Third Board had opened accounts at CMB, representing 42% of the total companies listed on the New Third Board. According to CMBC's 2015 annual report, in spite of a slower growth in loans to small and micro businesses, CMCM has propelled the implementation of "business strategy targeting small and micro businesses" to optimize product structures and promote cross-selling, in a bid to enhance the ability to tap into potential customers in this group. As at 31 December 2015, CMBC's small and micro business customers reached 4.5 million, up 54.48% year-on-year. IB also disclosed a slower growth in loans to small and micro businesses in its 2015 annual report. To address the impact, IB focused on the development of clusters of customers with industrial characteristics and established 729 industry clusters made up of small and micro businesses, up 45.51% from the beginning of 2015, with the total balance of loans granted to these clusters standing at RMB35.3 billion, up 79.37% from the beginning of the period.

2015 Agriculture-related loans*

	Balance (in RMB billion)	Growth rate
ICBC	1,997.9	3.15%
CCB	1,892.8	5.64%
ABC	2,580.0	Not disclosed
BOCOM	599.3	6.98%
SPDB	387.6	0.81%
HX	221.6	14.82%
BONJ	41.2	24.72%
Total	**7,720.4**	**Not applicable**

Source: Annual reports published by banks and corporate social responsibility reports
*Only including the banks that separately disclosed the figures. Growth rates of agricultural-related loans published by listed banks are used herein. Otherwise, growth rates are calculated based on the balances of such loans denominated in RMB100 million.

In 2015, the listed banks also increased lending to agriculture, rural areas and farmers, and stepped up financial services to solve the conundrum on this front. 7 listed banks disclosed the balances of such loans in their report. As at 31 December 2015, the related loans stood at RMB7.72 trillion, with HX and BONJ seeing growth of more than 10% year-on-year.

A sound legal system serves as a guarantee for the healthy development of inclusive finance. The government has issued a series of policies and regulations to improve and standardize the participating entities, regulatory framework, payment environment, and allocation of risks related to inclusive finance.

The State Council issued the *Plan for Promoting the Development of Inclusive Finance (2016-2020) (the Plan)* in January 2016, which, as the first state-level strategic planning for inclusive finance, reflects the government's determination to develop financial inclusion. The Plan is designed to focus on improving the financial service coverage, availability, and market satisfaction; to encourage large banks to accelerate the efforts to establish specialized division targeting small and micro businesses and particularly improve ABC's management and operation mechanisms for specialized division focusing on agriculture, rural areas and farmers; and to encourage national joint-stock commercial banks and city commercial banks to better serve communities and provide tailored services for small and micro businesses, agriculture, rural areas and farmers, and urban residents. Development-oriented policy banks are also encouraged to make wholesale loans to commercial banks at lower costs[5] as an approach to support inclusive finance through cooperation. This cooperation model would not only make up for the shortcomings of development and policy banks that run less branches and lack understanding of small and micro businesses, but also enable commercial banks to lend more actively by reducing their lending costs.

The People's Bank of China (PBOC) and other authorities jointly issued the *Implementation Opinions on Poverty Relief through Finance* in March 2016 to require financial institutions to promote the development of inclusive finance across poverty-stricken areas, accelerate the construction of payment infrastructures for poverty-stricken areas, and push for the application of settlement accounts, payment tools and payment clearing networks.

In addition, the Chinese government has made great efforts to promote the development of sectors such as financing guarantee and catastrophe insurance, in an effort to establish a multi-layer and industry-based guarantee system and effectively mitigate and address the risks facing banks in the development of inclusive finance.

[5] "Making wholesale loans to commercial banks" refer to a special lending arrangement in which development-oriented policy banks that hold significant amount of capital featuring lower funding costs make loans to commercial banks at rates 15%-20% off the benchmark lending rates, and commercial banks channel the funds from this source to small and micro businesses, or to agriculture, rural areas and farmers (source: The CBRC website).

Green finance – Key responsibility of the banking industry

China has entered a crucial period of economic restructuring and development mode transformation, and there is a growing demand for finance in the course of developing green industries and transforming the traditional industries into green-featured ones. This national initiative has made it incumbent upon financial institutions to undertake "green finance" responsibilities.

To push for the development of green finance in China, the CBRC and the National Development and Reform Commission (NDRC) jointly issued the *Guidelines for Energy Efficiency Credit (the Guidelines)* in January 2015. The Guidelines are designed to encourage and direct banking institutions to proactively develop energy efficiency credit business to support industrial structural adjustment and technical upgrading and promote energy saving and emission reduction. In September 2015, the State Council issued the *Overall Plan for the Reform of the Ecological Civilization Regime*, which sets out the framework for establishing a green finance system and encourages financial institutions to increase the size of green credit. In December 2015, the PBOC issued the Announcement (2015-No.39) to roll out green finance bonds in the interbank market, in an effort to open up debt capital market financing channels for the financial institutions supporting the green industry and to direct investors to increase the green investment. The No.39 Announcement also sets out the preferential policies on the issuance of green financial bonds.

The Chinese banks are generally committed to providing support for the development of green finance and to actively implementing the national strategies and policies. Initial achievements have been made as banks prioritize credit resources into economic areas such low-carbon, green and environmental protection sectors, and exit or phase out lending to industries with excess capacity, high pollution and high energy consumption. According to the CBRC data, as at 30 June 2015, the balance of green credit reached RMB6.64 trillion, up 36.63% from two years earlier.[6]

In 2015, the listed banks proactively implemented the green development initiative and promoted the development of green finance by granting green credit, issuing green bonds and originating green funds, etc. 16 listed banks disclosed green credit balances in the 2015 annual report. As at 31 December 2015, the total green credit balance stood at RMB 3.45 trillion. In particular, ABC issued dual currency green bonds (equivalent of USD995 million) in London. The effort was joined by SPDB, IB and BQD, which successfully issued green bonds in 2016.

Green credit of listed banks in 2015*

	Balance (in RMB billion)	Growth rate
ICBC	702.8	7.25%
CCB	733.6	50.61%
BOC	412.3	36.98%
ABC	543.1	15.56%
BOCOM	204.8	34.38%
CMB	156.5	3.71%
SPDB	171.8	9.85%
IB	394.2	33.18%
CMBC	11.4	Not disclosed
CITIC	23.7	-5.87%
PAB	16.4	31.27%
HX	40.0	1.52%
BOB	26.0	41.30%
BONJ	12.4	30.53%
BONB**	1.7	6.25%
HRB	1.2	100.00%
BQD	2.6	Not disclosed
Total	**3,454.5**	**Not applicable**

Source: Annual reports published by banks and corporate social responsibility reports.
*Only including the banks that separately disclosed the figures. Growth rates of green credit published by listed banks are used herein. Otherwise, growth rates are calculated based on the balances of green credit denominated in RMB100 million.
**Balance of loans to energy-saving and environmental protection industries.

Moreover, ABC and Amundi Asset Management have signed the Memorandum of Understanding on China-France International Energy Transitional Green Fund. This project focuses on green energy investment, with an aim to promote further cooperation between the Chinese and French financial institutions and energy-related enterprises in green finance and sustainable development.

Green finance has been identified as a national strategy. During the "13th Five-Year Plan", the Chinese banks are expected to continuously explore the mode of leveraging finance to promote green development, pursue innovation in business models, proactively develop innovative businesses such energy efficiency financing, carbon emission right financing and green asset securitization, in a bid to drive transformation and upgrading of economic structures and improve green financial services.

[6] Source: The CBRC website

7 Application of new technologies

The application of internet technologies was conducive to the transformation and upgrade of traditional businesses and services of financial institutions such as banks and securities companies, enabling financial institutions to make innovations in products and services. In 2015, the third year into the rapid development of internet finance, regulations tightened on internet finance. Ten government ministries including the PBOC jointly issued the *Guiding Opinions on Promoting the Healthy Development of Internet Finance*, setting out oversight responsibilities for the various internet finance businesses, clarifying the boundaries of businesses, and offering guidance to traditional financial institutions such as banks on developing internet finance. In March 2016, China Internet Finance Association was established in Shanghai, with many listed banks as its inaugural members.

Under heightened competitive pressures, the listed banks combined traditional finance with elements such as big data, cloud computing, and mobile internet to accelerate the development of internet finance and improve the level of internet-based services. The listed banks made great efforts in rolling out and upgrading internet finance channels such as internet banking, mobile banking, WeChat banking and direct banking, winning record number of internet channel users in 2015. More and more customers are beginning to familiarize themselves with and use the internet finance channels of banks. Apart from the more traditional internet banking and mobile banking, WeChat banking and direct banking also experienced rapid growth.

Internet banking

Based on data disclosed by 18 listed banks in their 2015 annual reports, as at 31 December 2015, total number of internet banking users reached 616 million, up 15.85% from the prior year end.

Number of internet banking users of listed banks* (Unit: 10,000)			
	2014	2015	Growth rate
CCB	18,199	21,280	16.93%
ABC	13,819	15,378	11.28%
BOC	11,509	12,531	8.88%
CMB	1,918	2,182	13.76%
SPDB**	1,200	1,691	40.92%
IB	832	933	12.14%
CMBC	1,210	1,509	24.71%
CITIC**	1,391	1,803	29.62%
CEB**	1,538	2,121	37.91%
PAB**	734	1,009	37.47%
HX	331	408	23.26%
CQRCB	138	198	43.48%
BONB***	149	202	35.57%
SJB****	8	13	66.94%
HSB**	132	162	22.73%
BTJ	Undisclosed	25	N/A
HRB****	59	95	61.59%
BQD	Undisclosed	55	N/A

Source: Annual reports published by listed banks
*Only include banks that separately disclosed such data. Data have been rounded to the nearest 10,000, on which the 2015 growth rates are calculated.
**Figures for SPDB, CITIC, CEB, PAB and HSB are personal internet banking data.
***BONB only disclosed the year-on-year growth of internet banking users in its 2015 annual report, so the 2015 data on user number were calculated based on the number of users disclosed in its 2014 annual report.
***HRB and SJB did not disclose 2014 data, so their 2014 data were calculated based on the number of users in 2015 and the year-on-year growth rate disclosed in their 2015 annual reports.

Even though large commercial banks continued to enjoy the largest share of internet and mobile banking users, but small- and medium-sized commercial banks are catching up faster, indicating wider acceptance and recognition of the internet finance channels of listed banks.

Mobile banking

Based on data disclosed by 16 listed banks in their 2015 annual reports, as at 31 December 2015, total number of mobile banking users reached 527 million, up 31.90% from the prior year end.

Number of mobile banking users of listed banks (excluding telephone banking)* (Unit: 10,000)			
	2014	2015	Growth rate
CCB	14,679	18,284	24.56%
ABC**	11,100	14,000	26.13%
BOC	6,460	7,999	23.82%
CMB	2,368	2,784	17.57%
SPDB	664	1,150	73.19%
IB	528	832	57.58%
CMBC	1,302	1,903	46.16%
CITIC	645	1,273	97.36%
CEB	1,258	2,203	75.12%
PAB***	540	1,395	158.33%
HX***	159	349	119.50%
CQRCB	222	376	69.37%
BONB****	30	64	110.10%
SJB	4	15	275.00%
HSB	33	66	100.00%
BQD*****	29	50	73.39%

Source: Annual reports published by listed banks
*Only include banks that separately disclosed such data. Data have been rounded to the nearest 10,000, on which the 2015 growth rates are calculated
**Figures for ABC are handsets banking data, and the unit disclosed in its annual report was RMB100 million users
***Figures for PAB are pocket banking data; Figures for HX and BONB are mobile banking data
****BONB only disclosed the year-on-year growth of mobile banking users in its 2015 annual report, so the 2015 data on user number were calculated based on the number of users disclosed in its 2014 annual report.
*****Number of users in 2014 for BQD was calculated based on the number of users in 2015 and the year-on-year growth rate disclosed in its 2015 annual report

WeChat banking

Since the launch by CMB of the first "WeChat Bank" in July 2013, a number of listed banks successively launched WeChat banking and saw rapid growth in the number of WeChat banking users. Based on the disclosure of 2015 annual reports, as at the end of 2015, the number of CCB's WeChat banking users reached 32.93 million. CMB and CEB also saw the number of their WeChat banking users exceeding 10 million. CQRCB and HRB also experienced rapid growth in the number of their WeChat banking users.

Direct banking

Users of direct banking services only need to register for an electronic account, before they can access banking products and services through remote electronic channels such as computers, emails, mobile phones, and landlines. Direct banks can provide customers with more competitive loan and deposit rates, lower fees and commissions, due to their ability to dispense with the operating expenses and administrative expenses of banking outlets.

In recent years, to better respond to the challenges posed by internet finance and other emerging industries, the listed banks, especially national joint-stock commercial banks and city commercial banks, successively launched direct banks, and entered into a phase of accelerated internet transition. Even though national joint-stock commercial banks had a larger market share in direct banking, city commercial banks were no less enthusiastic in terms of rolling out direct banking services. From the perspective of city commercial banks, which faced multiple pressures from slowing economy and interest rate liberalization, launching direct banks on the back of new technologies such as big data was conducive to bypassing geographical restrictions and providing more concise services to target customers in wider areas with lower cost.

In November 2015, CITIC and Baidu jointly set up the direct bank called Baixin Bank. Baixin bank is expected to be the first direct bank in China to operate as an independent legal entity, signaling a new model of cross-industry cooperation between financial institutions and internet companies.

Direct banks of listed banks

	Name of direct bank	Description
ICBC	ICBC Mobile	In 2015, ICBC launched the ICBC Mobile application, opening up the platform, customers and businesses, authorizing non-ICBC customers to register for ICBC Mobile, permitting customers to view all the businesses without login. The number of users of ICBC Mobile application reached 190 million.
SPDB	SPDB Direct Bank	SPDB launched internet direct investment platform "Kao Pu e Investment", realized the online-offline cross-channel application of "Pu Yin Dian Dai" internet consumer loan, and connected with Shanghai Trust whereby internet users are able to purchase the "Cash Reward" product of Shanghai Trust through the direct banking platform. SPDB was able to connect all of the internal transaction platforms.
IB	IB Direct Bank	IB enriched the product lines of its direct bank by adding the "Cash Treasure" channel, IB Treasure-Hua Fu Monetary Fund, IB Red-Hua Fu Big Health Flexible Allocation Fund, and promoting the "IB Investment" product with urban investment bond as underlying investment.
CMBC	CMBC Direct Bank	As at 31 December 2015, the number of direct banking customers reached 2.87 million, and the total subscription to Ru Yi Bao product amounted to RMB847.53 billion.
CEB	Sunshine Direct Bank	Formally launched on 18 August 2015, this platform provides financial services including wealth management and fund products, foreign exchange, payment of utility charges, and credit card application.
PAB	Ping An Orange	At the end of 2015, the number of Ping An Orange customers reached 5.06 million, up 883% compared with the beginning of the year. This was the result of the innovative cross-industry, cross-sector cooperation model, and PAB's step-by-step implementation of the "One Plus One Multiplication" strategy designed to build a financial consumer services ecosystem.
HX	HX Direct Bank	HX developed the four major service platforms of "electronic banking, direct banking, financial asset transactions, and small-and-micro businesses" to expand customer base.
CZB	CZB Direct Bank	CZB pioneered the use of facial biometric technology in the direct bank registration process at the mobile phone customer terminal.

Source: Annual reports published by listed banks

Direct banks of listed banks		
	Name of direct bank	Description
BOB	BOB Direct Bank	As at 31 December 2015, the number of direct banking customers reached 246,000. Total deposit balance reached RMB630 million, up 463.1% as compared to the start of the year. Volume of funds reached RMB690 million, up 322.2% year-on-year.
BONJ	Hello Bank	BONJ launched a new version of "Hello Bank" in 2015, and further enriched the internet finance product lines available on direct banking platform.
BONB	BONB Direct Bank	BONB started exploring direct banking from the second half of 2014, bringing together investors and customers looking for finance on the direct banking platform and providing real-time asset transaction services. BONB successively developed inclusive finance products such as "White Collar Finance" and "Direct Investment Series". As at 31 December 2015, the transaction volume of direct banking businesses exceeded RMB20 billion, and the cumulative number of customers at the financing terminal exceeded 180,000.
HSB	Hui Chang You Cai	The direct bank "Hui Chang You Cai" went online on 26 January 2015. As at the end of 2015, the effective number of HSB's direct banking customers reached 222,300. The value of wealth management products held by customers reached RMB3.37 billion, averaging RMB15,142 per customer. Cumulative transaction volume was close to RMB40 billion.
BZZ	Ding Rong Yi	The "Ding Rong Yi" internet finance service platform consists of direct banking and B2B e-commerce, and has developed four basic functions including wealth management, e-financing, B2B e-commerce and payment of utility charges. BZZ launched internet banking products such as Ritianli (meaning accruing interest daily) and Yuetianli (meaning accruing interest monthly), and new functions such as one-stop shop payment and payment gateway.
BCQ	BCQ Direct Bank	BCQ designed customized dedicated fund products for high net worth individuals, and in 2015, its "Direct Bank Ju Li Bao" business maintained steady growth.
BQD	BQD Direct Bank	BQD officially launched its direct bank in 2015, and its first product "Little Boy Digging for Treasure" was available for sale online.

Source: Annual reports published by listed banks and their websites

Application of new technologies has become the new growth drivers for listed banks

Several large commercial banks and national joint-stock commercial banks launched mobile payment products such as Apple Pay, Samsung Pay, China Mobile SIM card, and offered HCE Cloud Quick Pass products for debit and credit cards.

As at the end of April 2016, the official websites of Apple (China) and Samsung (China) disclosed that Apple Pay and Samsung Pay have respectively started cooperation with 14 and 9 listed banks.

In the field of financial technology, since 2015, there have been waves upon waves of research and investment in blockchain technology. This technology, which underpins digital currencies such as the bitcoin, deeply revolutionizes the financial services industry landscape and business models through reshaping the formation mechanism of credit, and could be the future direction of the upgrade of the financial services industry. With large global banks successively launching initiatives to embrace blockchain technology, China's listed banks should also speed up research on blockchain technology and its potential impacts on the businesses of commercial banks.

Listed banks that have cooperated with Apple Pay and Samsung Pay		
	Apple Pay	Samsung Pay
ICBC	✓	✓
CCB	✓	✓
ABC	✓	
BOC	✓	✓
BOCOM	✓	
CMB	✓	✓
SPDB	✓	
IB	✓	
CMBC	✓	✓
CITIC	✓	✓
CEB	✓	✓
PAB	✓	✓
HX	✓	✓
BONB	✓	

Source: official websites of Apple (China) and Samsung (China)

8 Press ahead with organizational reform

The year 2015 witnessed listed banks report slower net profit growth amid persisting downturn pressure, accelerating interest rate liberalization, and intensifying market competition. To address the lingering pressure on operations, the listed banks accelerated and deepened organizational reforms, in which splitting specialized business divisions or restructuring business segments and business lines into subsidiaries were identified as options. Some listed banks advanced the specialized business division reform in an effort to enhance the competitiveness through process optimization and efficiency improvement. Some listed banks explored the possibility of splitting business departments into independent subsidiaries and running them as entities featuring specialized management functions under a more transparent division of authority, responsibilities and profit distribution, aiming to improve the efficiency, isolate risks, and create business diversification opportunities.

Deepening the specialized business division reform

An increasing number of banks have attempted to implement the specialized department system reform. For example, CQRCB has established specialized business divisions for its corporate banking, small and micro finance, and e-banking/online banking, and applied a quasi-division system for the management of credit card and asset management business. BTJ has planned to initiate the quasi-division reform. The reform pioneers such as CMBC, PAB and BOCOM, which have been rewarded with positive operating results from business division reforms, are continuously improving their operational system of specialized divisions to address the changes in internal and external business environment.

As a front-runner among the Chinese banks pursuing the business division reform, CMBC has seven years of implementation experience and has inevitably confronted some problems in practice amid changing internal and external environment. To improve organization structure, CMBC launched an overhaul of its corporate banking in 2015, integrating the industry unit, product unit, branch corporate banking and headquarter marketing management unit into a single function known as Corporate and Investment Banking Division that manages the branch-level and regional markets under a matrix management structure. CMBC plans to phase in the implementation of this initiative in three to five years and steadily move towards the establishment of customer-centered governance characterized by specialization, flat structure, and process-based operation.

On top of the six industry-focused business divisions established earlier, PAB is preparing to set up Electronic Information Industry Finance Division and Equipment Manufacturing Finance Division, according to PAB's 2015 annual report. Upon establishment, PAB is expected to boast a full coverage of financial services provided to the market through its eight business divisions focusing on nine industry chains. According to PAB's 2015 annual report, the industry business divisions recorded RMB169.4 billion in deposit and RMB250.6 billion in loans (balances for their own accounts), both doubling from the beginning of 2015. The operating revenue for these business divisions stood at RMB10.1 billion, growing by 41% year-on-year.

Status of business division reform of listed banks														
	Intermediary services			Corporate and interbank business							Retail business			
	WMP/AMP	Invest-ment banking	Asset custody	Financial market/ Interbank	Bills	Precious metals	Offshore/Trade finance	Corporate business	Agri-culture finance	Small Micro, Community and Consumer finance	Credit card center	Personal banking	Internet finance	Others
ICBC	▲	▲	▲	▲	▲	▲					▲	▲		▲
CCB											▲			
ABC									▲		▲			
BOC											▲			
BOCOM	▲	▲	▲	▲	▲	▲	▲				▲	▲		
CMB											▲			
SPDB											▲			
CMBC		△		▲			▲	△		▲	▲	▲		
IB											▲			△
CITIC	△				▲						▲			
CEB	▲			▲							▲			
PAB	▲	▲	▲	▲	▲		▲		▲	▲	▲	▲	▲	△/▲
HX											▲			
BOB		▲								▲	▲			
CQRCB	△			△				△		△	▲	△	△	
HSB										△	▲			
BONJ	▲										▲			
HRB	▲								▲	▲	▲		▲	△/▲

Source: Annual reports published by banks and sustainable development report
△ The yellow triangle denotes new establishment
Others include pension, electronic information industry, manufacturing, real estate, energy, transportation, finance to Russia, and real estate business department

BOCOM's 2015 annual report shows that its ten business divisions and quasi-divisions achieved a 38.94% year-on-year increase in profit in 2015, above the industry average. BOCOM also established the sub-center in Hong Kong for its asset custody, financial markets, and asset management business, in a bid to promote the overseas expansion of divisions' business. In June 2015, the State Council approved Bank of Communications Plan for Deepening Reform, opening a prelude for fully implementing the mixed ownership reform. BOCOM emphasized its focus on deepening the business division reform in its proposal on the implementation of twenty specific reform-related projects.

Making breakthroughs in subsidiary management system reform

In recent years, the CBRC has explored the direction of reform of restructuring some business segments and business lines to subsidiaries. In 2015, a number of listed banks made breakthroughs on their reform journey. Notably, the pension fund subsidiary set up by CCB started operation. The joint-stock commercial banks (such as CEB and CITIC) that implemented business division reform ahead of their peers have expressed intent to establish business subsidiaries, and gradually entered the execution phase. The listed banks expect to set up a wealth management subsidiary or asset management subsidiary and apply for approval from the regulatory authorities for activating more business functions, in an effort to boost WMP innovation and diversify the investment to improve business competitiveness, and to ensure risk isolation and establish a more effective incentive and constraint mechanism.

In November 2015, CCB and Social Security Fund of the PRC jointly established a subsidiary, CCB Pension Management Company. The new subsidiary is China's first professional pension fund management company, marking a new breakthrough made by CCB in the course of building a comprehensive operation platform.

In March 2015, the Board of Directors of CEB reviewed and passed the proposal on the establishment of wealth management business subsidiary and Consumer finance subsidiary, and submitted the proposal to the CBRC.
On 27 May 2015, the Board of Director of SPDB issued the announcement, stating that the board has officially approved the establishment of a wholly-owned subsidiary, SPDB Asset Management Company, and the proposal has been submitted to regulators for approval. CITIC initiated the structural reform on credit card and asset management business in 2015. To seize the opportunity in the "golden period" of asset management business, CITIC developed an overarching plan – first restructure the head office asset management department into asset management business division, and then transform the business division into subsidiary. During the transitional period, asset management business division runs as a corporate entity, with human resource and risk management functions running relatively independently.

IB even set a precedent for the banking industry by restructuring its research function into an independent entity, CIB Research Company, in an on-going effort to explore comprehensive operation by leveraging the advantage of holding multiple business licenses.

The year 2016 sees the CBRC continuing its efforts to direct the eligible banks to move forward with pilot reforms on licensed business management and establishment of subsidiaries for such business segments as credit card, wealth management, private banking, direct banking, and small and micro enterprises lending. We expect to see more banks making attempts at the reform to restructure business segments into subsidiaries.

Improving arrangements for comprehensive operation

To address the challenges of substantially liberalized interest rates, the impact of financial disintermediation, and the erosion of internet finance on traditional banking operations, the Chinese banking industry expect to accelerate comprehensive operation arrangements to expand sources of profits, fend off cyclical business risks, and realize economy of scale and business synergy through cross-selling. Moreover, more Chinese enterprises are moving to go global as the national initiatives such as RMB internationalization and "One Belt, One Road" are implemented. To support Chinese enterprises going global, banks need to go beyond the traditional services in international settlement, trade loans, guarantee and foreign exchange transactions, and focus on building up investment banking capabilities to satisfy the needs of customers by serving as their advisors on funding, financial planning, and merger and acquisition. This process is expected to present opportunities to the listed banks as they pursue comprehensive operation.

The year 2015 witnessed the listed banks accelerate the pace of executing their comprehensive operation strategy, which was exemplified by 13 listed banks that obtained business licenses for securities, insurance, trust, leasing, consumer finance, futures and pension funds through business establishment, acquisition, equity purchase and spin-off, etc.

So far, CITIC Group, Ping An Insurance (Group) and China Everbright Group are the only three financial conglomerates with government approval to hold a full license for financial operation across China. As part of the overall blueprint for each of these three groups, the banking operation jointly contributed to overall business synergy along with businesses in other financial sectors. The listed banks other than CITIC, PAB and CEB are engaged in financial leasing, funds, securities, trust and insurance via their subsidiaries. In practice, however, these banks are still held up at the level of cross- channel (banking, securities and insurance) cooperation to earn fee and commission income. The journey of the banks from the current embryonic stage of comprehensive operation to the establishment of financial conglomerates relies on regulatory and policy support.

Integrated operation

		Insurance							
	Securities***	Life insurance	Property insurance	Fund	Leasing	Trust	Consumer finance	Futures	Others****
ICBC	▲	▲		▲	▲				▲
CCB	▲	▲	△	▲	▲	▲		▲	△
ABC	▲	▲		▲	▲				▲
BOC	▲	△*	▲	▲	▲		▲		▲
BOCOM	▲	▲	▲**	▲	▲	▲			▲
CMB	▲	▲		▲	▲		▲		▲
SPDB	△			▲	▲	△			▲
IB	△			▲	▲	▲	▲	▲	△
CMBC	△			▲	▲				▲
CITIC	▲				△				△
CEB	△				▲				
PAB					▲				
HX					▲				
BOB		▲		▲	▲		▲		
CQRCB					▲				
BONJ				▲	▲		△		
BONB				▲	△				▲
SJB							△		
HSB					△				△
BTJ					△				
HRB					▲				
BZZ					△				

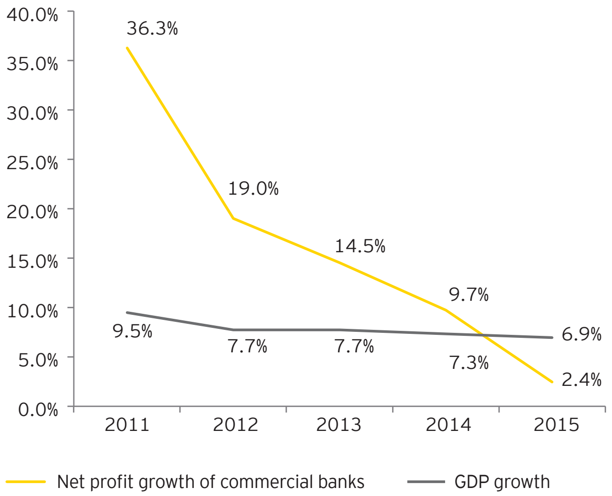
Source: Annual reports published by banks and their official websites
△The yellow triangle denotes new licenses in 2015.
*BOC newly established Samsung Life after the establishment of BOCG Insurance, BOCG Group Insurance and BOCG Life.
**China BOCOM Insurance was established in HK and provides general insurance products and services.
***Securities broker licenses are obtained by establishing wholly-owned subsidiaries in HK and holding overseas broker licenses indirectly via overseas subsidiaries, rather than by obtaining domestic broker licenses.
****Including: Pension, financing, investment, wealth management, private equity, digital finance, automobile finance, and economic research, etc.

9 Outlook: The next five years

2015 is the final year of the 12th Five-Year Plan period. The past five years was the most crucial five years for China's financial reform, during which significant progress had been made. During these five years, China's listed banks made huge efforts and achieved initial success in deepening reform, seeking development through transformation, product innovation, improving customer services, optimizing the financial ecosystem, and safeguarding against risks.

Competence has improved, but challenges still remain

As of the end of 2015, total assets of the banking industry reached RMB199.3 trillion, up 109.2% from the end of 2010. The net profit of commercial banks in 2015 amounted to RMB1.59 trillion, up 53.1% from 2010[7]. At the same time, listed banks as a whole experienced slowing profit growth and rising non-performing loan ratios, under the combined influence of complex global political and economic landscape, slowdown in domestic economic growth due to structural adjustments, shrinking profit due to increased credit risk exposure and declining asset quality, and impact of interest rate liberalization. The non-performing loan ratio of listed banks rose from 1.14% as at the end of 2010 to 1.62% as at the end of 2015. To address these challenges, listed banks took proactive steps to adjust the structure of income and strengthen cost management. Net interest income of listed banks as a proportion of total operating income declined from 79.8% in 2010 to 74.20% in 2015, pointing to the increase in the proportion of fee and commission income. The cost-to-income ratio of listed banks dropped from 33.99% in 2010 to 27.97% in 2015. In addition, the overall capacity of listed banks to offset and withstand risks remained stable. As at the end of 2015, the ratio of allowance to NPLs of listed banks was 235.46%, the ratio of allowance to total loans was 2.85%[8].



Source: 2015 Annual Statistical Report by National Bureau of Statistics of China, CBRC Annual Report, and 2015 4Q Regulatory Indicators released by the CBRC.

[7] The CBRC website
[8] Data on listed banks are calculated based on published annual reports

Deepening of reform and development through economic transition

The above financial performance of listed banks during the 12th Five-Year Plan period was no doubt closely connected with the macroeconomic climate. Since the global financial crisis of 2008, the global economy has been through a slow recovery, but adverse factors such as sovereign debt crisis still remain, and numerous destabilizing factors still persist in the Chinese macroeconomic landscape. These include slowdown in export, acute overcapacity issues in some industries, high cost of running businesses, and operational difficulties of small- and medium-sized enterprises. With the gradual release of macro-control policies on the real estate industry, overcapacity industries, and local government financing vehicles (LGFV) loans, listed banks appropriately cut back on the size of related loans, cleared existing loans or gradually disposed of related loans. Listed banks adjusted their loan portfolio to increase proportion of loans issued to modern service industries, as well as small- and medium-sized enterprises, on the back of government policies on increasing support to service industries, and small- and medium-sized enterprises to realize economic transition. Listed banks responded to the call of the government to service the real economy and further reduce the cost of finance to enterprises by means of strengthening management over the pricing of deposit and loan products, cutting down on fee-charging items and the steps needed to obtain finance, and improving the efficiency of loan approval and issuance.

With the evolution of interest rate liberalization reform, listed banks which traditionally relied on net interest income accelerated transformation of profit models, partly through making adjustments to the composition of assets and liabilities to alleviate the impact of narrowing NIM and NIS, and partly through developing intermediary fee-based businesses. Apart from developing traditional fee-based intermediary businesses, listed banks seized opportunities in M&A and restructuring arising from structural adjustments of the economy, as well as opportunities in the underwriting business during the course of financial disintermediation, and launched products and services suited to their respective market positioning across new businesses such as investment banking, wealth management business, custodian business, and private banking business.

With increasing competition from internet finance providers, listed banks took the challenges seriously and proactively responded to competition by strengthening the construction of electronic channels, enriching electronic products and services, expediting system upgrade and modification, and improving customer experience. The application of new technologies has become the new driver of the development of the banks.

During the course of these business reform and innovation, listed banks are also keeping an eye on the innovation of policies and management, as well as risk control. The banks should further improve the corporate governance structure consisting of the shareholders' meeting, board of directors and board of supervisors, and senior management; optimize business management through setting up or initiating reform on subsidiaries and divisions based on business characteristics and own development needs; consolidate credit risk management mechanisms while enhancing risk governance structure through in-depth analysis into the commercial substance of off-balance-sheet assets and innovative products, as well as assessment of capital occupancy and risk exposure. Throughout this process, regulators have promoted and pressed ahead with the reform of listed banks through policies on standardization of interbank businesses, wealth management businesses, clarification of scope of consolidation into balance sheet, and capital management.

The 12th Five-Year Plan period, which was full of challenges and opportunities, has drawn to a close. Listed banks will confront new challenges in the next five years. In the *Report on the Work of the Government* released in early 2016 outlined the blueprint of the 13th Five-Year Plan period, and pointed out to the tasks of deepening reform of the financial sector, and improving the efficiency of the financial sector in serving the real economy. The CBRC set out in its press conference that the focuses of the development of the banking industry during the 13th Five-Year Plan period should be placed on six areas including innovation and reform, inclusive finance, fully supporting the development of green credit, two-way opening, financial security, coordination and cooperation.

In the face of changing external forces during the 12th Five-Year Plan period, ranging from complicated domestic and global political landscape, the slowing growth of the domestic economy, steady ongoing interest rate liberalization reform, further strengthening of capital constraint mechanism, adjustments to policies on industrial capacity, to competition from internet finance, listed banks have explored, made efforts, and achieved satisfactory results in terms of strategic adjustments, business portfolio, institutional reform, and innovation of products and channels. However, how to support and sustain further reform and innovation of listed banks at the deeper institutional level has become a pressing issue. In 2016, the opening year of the 13th Five-Year Plan period, policies on promoting reform of the financial regulatory system and policies on business tax to VAT reform for the banking industry have either been issued or are under deliberation, mixed-ownership reform and trials to allow combined debt-equity investment are also being unveiled. These new breakthroughs in policies and institutions will not only bring new challenges to listed banks, but also clear the barriers to further development and safeguard the growth of listed banks.

Impending reform of the financial regulatory system

The *Report on the Work of the Government* released in early 2016 set out for the first time that "the government will move faster in the reform to improve modern financial regulatory system to ensure that financial risks will be fully covered by regulation". This will undoubtedly serve as the firewall against risks arising from integrated business operation across various sectors. With the development of mixed business operation, numerous financial products were launched one after another by non-financial industries and non-financial institutions, posing unforeseen challenges to the current financial regulatory system which separately regulates banking, insurance and securities sectors of the financial services industry. Some risks were not covered by regulation, and the coordination between regulators and the industry had been difficult. In late March 2016, the State Council approved and endorsed the NDRC's Opinions on Key Tasks for Deepening the Structural Reform of the Economy in 2016. These opinions call for reform and improvement of modern financial regulation system, improvement of macro prudential policy framework, drafting plans for reforming financial regulation system, and realizing the full regulatory coverage of financial risks. This signifies impending changes in the financial regulatory system in 2016. Creation of a seamless financial regulatory safety net covering all financial risks has become inevitable. The banking institutions will face new challenges in areas such as setting up or acquiring new entities, financial products, and financial services, but will also have clearer and more consistent regulatory guidance when designing and selling financial products, providing financial services or operating across sectors. The regulatory guidance will help to improve the efficiency by which the financial industry serves the real economy.

Full implementation of business tax to VAT reform

The *Report on the Work of the Government* released in March 2016 clarified that business tax will be replaced with VAT in all sectors (thereafter referred to as the "business tax to VAT reform"). Starting from 1 May 2016, the scope of the VAT pilot scheme will be extended to cover the construction, real estate, financial services, and consumer services industries, and VAT deductions for all immovable properties newly added by the enterprises will be allowed so as to reduce the tax burdens on all industries. The eagerly anticipated business tax to VAT reform has now covered all industries. Due to the high complexities of the information systems widely applied to the businesses of the banks, heavy reliance of day-to-day banking operations on information systems, the business tax to VAT reform would involve making changes to hundreds, or even thousands, of business systems and related products. Accompanying changes in legal contracts, finance processes, as well as staff training are also necessary. In addition, due to the hugely diverse income and expenditure items and financial product innovations of financial institutions, in the long term, the business tax to VAT reform will not only bring about changes to taxation management of banks, but also create opportunities for banks to rethink the designs of their products and services, or even necessitate adjustments to internal management of financial institutions, such as performance evaluation.

Mixed ownership reform is gaining momentum

On 16 June 2015, BOCOM announced in a statement that its plans for deepening reform had been approved by the State Council. The reform plans include optimization of ownership structure through introduction of private shareholders, senior management and employee stock ownership plans, reform on the performance evaluation and employee compensation mechanisms. As the curtain of mixed-ownership reform opens, other banks have revealed their intention to kick start mixed-ownership reform. The mixed-ownership reform of the banks will involve reform of shareholder structure, changes to operations, and market determination of employee appointment and compensation. With the deepening of interest rate liberalization reform, increasing impact of internet and finance technology, and abundance of private capital, mixed-ownership reform will help promote private capital and folk wisdom to play a more significant role in pushing forward the reform of the financial services industry. However, it should also be noted that, just like the past share ownership reform whereby the banks introduced strategic investors before listing on stock exchanges, the mixed ownership reform cannot be completed overnight. The mixed ownership reform will be a full-scale battle encompassing initiatives on the governance structure, human resources, and even business models.

Impending launch of the trials to allow combined debt-equity investment

In March 2015, the government set out in *Several Opinions of the CPC Central Committee and the State Council on Deepening the Reform of Systems and Mechanisms to Accelerate the Implementation of Innovation-Driven Development Strategies* that it would select eligible banking institutions to run a pilot program whereby these banks could join hands with venture capital funds and private equity funds in providing combined debt and equity financing to innovative business activities of startups and small businesses. In April 2016, the CBRC, Ministry of Science and Technology and the PBOC jointly issued the *Guiding Opinions on Supporting Financial Institutions in the Banking Industry to Drive Innovation and Run Pilot Schemes for Providing Debt and Equity Financing to Technology Startups* (Yin Jian Fa [2016] No.14), clarified the relevant regulatory policies and requirements, and published a list of piloted locations and piloted banks for the initial pilot scheme.

Due to the restrictions of the Commercial Banking Law, it has never been possible for banks to make direct equity investment into non-banking financial institutions and companies. Technology startups have experienced rapid development, and many of them are facing the dual challenges of funding shortages and high costs of finance. Traditionally, banks are reluctant to extend credit to startups that are typically characterized by low asset base, high investment need and high risks. The combined debt and equity investment model undoubtedly provides new opportunities to these companies. Banks, from their own perspectives, could equally benefit from investment in startups, not only in the form of interest income, but also an opportunity to share in the development and growth of these companies. In the meantime, the combined debt and equity investment model also brings new challenges to the banks. Banks should make efforts to adjust their credit culture and assessment model, integrate into the new value investing culture, achieve control and isolation of business risks, and launch targeted reform on internal control system of business lines, allocation of professional responsibilities, and performance management.

For the banking industry, the 13th Five-Year Plan period will bring many changes and challenges. In the face of changes, the banking industry has always taken a proactive approach to seeking solutions. Amidst the complexities of the global political and economic landscape, and the deepening of domestic economic and financial reforms, the banking industry will achieve new heights by standing firm, looking to the future, combining tradition with innovation, making full use of existing advantages, and expanding into new territories.

Indicator index

1. NIS: average return on interest-earning assets – average interest rate of interest-bearing liabilities
2. NIM: net interest income ÷ average interest-earning assets
3. Cost-to-income ratio: operating and administrative cost ÷ operating income
4. Non-performing loan ratio: non-performing loans ÷ total loans[9]
5. Ratio of allowance to NPLs: closing balance of loan loss provisions ÷ closing balance of NPLs
6. Cost of credit: loan impairment losses ÷ average of opening and closing balances of the carrying amounts of loans
7. Deposit-loan ratio: loans ÷ deposits[10]
8. Capital adequacy ratios: calculated according to CBRC's *Capital Rules for Commercial Banks (Provisional) and relevant regulations*

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[9] Source: Key indicators for Risk-based Supervision of Commercial Banks (Trial Implementation) by the CBRC
[10] Source: The Administrative Measures for Liquidity Risk of Commercial Banks(Trial Implementation) by the CBRC

Contact us

Leadership Team

Jack Chan
Greater China Financial Services
Managing Partner
+86 10 5815 4057
jack.chan@cn.ey.com

Geoffrey Choi
Greater China Financial Services
Assurance Leader
+86 10 5815 3222
geoffrey.choi@cn.ey.com

Kelvin Leung
Greater China Financial Services
Banking and Capital
Markets Leader
+86 10 5815 3305
kelvin.leung@cn.ey.com

Other Contacts

Beijing
Steven Xu
Financial Services
+86 10 5815 2621
steven.xu@cn.ey.com

Shanghai
Ron Yan
Financial Services
+86 21 2228 2332
ron.yan@cn.ey.com

Shenzhen
Benny Cheung
Financial Services
+86 755 2502 8287
benny-by.cheung@cn.ey.com

Guangzhou
Teresa Zhao
Financial Services
+86 20 2881 2773
teresa.zhao@cn.ey.com

Hong Kong
Teresa Tso
Financial Services
+852 2846 9033
teresa.tso@hk.ey.com