

**Manual of Shareholder Rights and Obligations of Commercial
Banks
(Version 2022)**

March 2022

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Preface Manual Introduction

i. Purpose

The purpose of this Manual is to guide commercial banks to better carry out shareholder and equity management, specify and clarify relevant responsibility requirements, and urge commercial banks' shareholders to fully and clearly understand their rights, obligations and responsibilities.

ii. Basis

The Manual is formulated based on the *Company Law of the People's Republic of China*, the *Law of the People's Republic of China on Commercial Banks*, the *Law of the People's Republic of China on Regulation of and Supervision over the Banking Industry*, the *Interim Measures for the Equity Management of Commercial Banks*, the *Corporate Governance Standards for Banking or Insurance Institutions* and other pertinent laws, regulations and regulatory rules.

iii. Applicability

The Manual is applicable to commercial banks with legal personality incorporated within the territory of the People's Republic of China. Other banking financial institutions shall implement the Manual as a reference.

iv. Use requirements

The Manual is a compilation of equity regulations provided to commercial banks for reference. On the basis of the Manual, commercial banks can formulate their respective manuals of shareholders' rights and obligations according to their own conditions in combination with the articles of association, business nature, equity structure and other factors, update the manuals in time and carry out shareholder education on a regular basis.

v. Shareholder information

Commercial banks shall list the information of major shareholders and shareholders with a shareholding ratio of more than 1% in the manuals, including the name of shareholders, the number and proportion of shares held, the proportion of total shares held jointly with related parties and persons acting in concert, the type of shareholders, equity pledge, and the nature of shareholders. A listed commercial bank shall at least list the information of major shareholders.

vi. Laws, regulations and regulatory rules (see Appendix 1 for details)

Information Form for Commercial Bank's Shareholders

[illegible]

Note: [Type of shareholder]: Please fill in ordinary shareholder, major shareholder, majority shareholder or controlling shareholder;

[Nature of shareholder]: Please fill in natural person, domestic non-financial enterprise, domestic financial institution, foreign investor, government agency or others.

Chapter I Shareholders' Rights

Section I Property Rights

1. Shareholders of a commercial bank shall be entitled to gains on assets in accordance with the law, and dividends and other forms of benefit distribution based on the ratio of capital contribution or the shareholding ratio.

(Article 4 and Article 34 of the *Company Law*)

2. The shareholders of a commercial bank may transfer their equity interests or shares in accordance with laws, regulations, regulatory rules and the articles of association.

If the commercial bank is a limited liability company, a shareholder proposing to transfer its equity interests to a non-shareholder shall obtain the consent of more than half of the other shareholders. Where the shareholders consent to the proposed transfer, the other shareholders shall have pre-emptive right to acquire such equity interests on similar terms.

The shareholder of a commercial bank who is subject to approval of the regulator but fails to be approved by the regulator or fails to report to the regulator shall not exercise the right of disposition and other rights according to the provisions of the articles of association of the commercial bank.

(Article 71 and Article 137 of the *Company Law*, and Article 28 of the *Measures for the Equity Management*)

3. Where the commercial bank is a limited liability company, in the event of an increase in capital, the shareholders shall have pre-emptive right to subscribe for new capital in accordance with the ratio of capital contribution, unless all the shareholders agreed that bonus sharing or subscription to new capital shall not be in accordance with the ratio of capital contribution.

(Article 34 of the *Company Law*)

4. Where the commercial bank is a limited liability company, shareholders who object to the following resolutions adopted by the shareholders' meeting may request that the bank acquire their equity interests:

(1) The commercial bank has not made a profit distribution to the shareholders for five consecutive years although the commercial bank has been profitable for those five consecutive years and satisfy profit distribution requirements stipulated in the *Company Law of the People's Republic of China*;

(2) Merger, division and transfer of main assets of the commercial bank;

(3) Expiry of the term of business operations stipulated in the articles of association or the occurrence of other trigger events for dissolution stipulated in the articles of association or the passing of a resolution by a shareholders' meeting to amend the articles of association for continuance of the commercial bank.

Where the commercial bank is a company limited by shares, shareholders who object to

a resolution of a shareholders' general meeting on merger or division of the commercial bank may request that the commercial bank acquire their equity interests.

(Article 74 and Article 142 of the *Company Law*)

5. A director, supervisor or senior management personnel of the commercial bank who violates the provisions of laws and administrative regulations or the articles of association in his/her performance of duties and powers and causes the commercial bank to suffer damages shall bear compensation liability.

In the event of circumstances stipulated in paragraph 1 of this article involving a director or senior management personnel, a shareholder or a group of shareholders of a limited liability company or a company limited by shares individually or aggregately holding 1% or more of shares in the commercial bank for 180 days consecutively may submit a request in writing to the board of supervisors or the supervisor (in the case of a limited liability company which has not established a board of supervisors) to file a lawsuit with a people's court; under any of the circumstances stipulated in the first paragraph of this Article involving a supervisor, the aforesaid shareholder(s) may submit a request in writing to the board of directors or the executive director (in the case of a limited liability company which has not established a board of directors) to file a lawsuit with a people's court.

Where the board of supervisors or the supervisor (in the case of a limited liability company which has not established a board of supervisors) or the board of directors or the executive director refuses to file a lawsuit after receiving the written request of the shareholder(s) as stipulated in the preceding paragraph or fails to file a lawsuit within 30 days from receipt of the request or where the circumstances are urgent and the commercial bank will suffer irrecoverable losses if a lawsuit is not filed forthwith, the aforesaid shareholder(s) shall have the right to file a lawsuit with a people's court directly in their own names to protect the interests of the commercial bank.

In the event of an infringement of the legal interests of the commercial bank by others which causes the commercial bank to suffer damages, shareholders mentioned in the second paragraph of this Article may file a lawsuit with a people's court in accordance with the provisions of the second and third paragraphs of this Article.

(Article 149 and Article 151 of the *Company Law*)

6. In the event that a director or senior management personnel of a commercial bank violates the provisions of the laws and administrative regulations or the articles of association and infringes upon the interests of the shareholders, the shareholders may file a lawsuit with a people's court, and report the relevant situation to the regulatory authority.

(Article 152 of the *Company Law* and Article 17 of the *Corporate Governance Standards*)

7. Where a commercial bank experiences serious difficulties in its business and operation and the shareholders' interests will suffer serious damages if the commercial bank continues its operation, and such situation cannot be resolved by any other means, a shareholder or a group of shareholders holding 10% or more of the voting rights held

by all shareholders of the commercial bank may, request for a dissolution of the commercial bank by a people's court.

(Article 182 of the *Company Law*)

8. In the case of dissolution and liquidation of a commercial bank, after the commercial bank pays off respectively the liquidation expenses, the wages of its staff and workers, the social insurance premiums and the statutory compensations, pays its tax arrears and clears up its debts, the remaining property of a company with limited liability shall be distributed in proportion to the capital contributions made by its shareholders, and the remaining property of a company limited by shares shall be distributed in proportion to the shares held by its shareholders.

(Article 186 of the *Company Law*)

9. Where any shareholder who holds more than 5% of the shares of or any director, supervisor or senior management personnel of a listed commercial bank or a commercial bank listed on any other national stock exchange approved by the State Council sells the shares or other securities in the nature of equity interests of the commercial bank as held within six months after purchase, or purchases any stock as sold within six months thereafter, the proceeds generated therefrom shall be incorporated into the profits of the commercial bank. The board of directors of the commercial bank shall withdraw the proceeds. However, the aforesaid provisions do not apply to the circumstances where a securities company holds more than 5% of the shares of a listed company, which are the remaining shares after sale by proxy as purchased thereby, as well as other circumstances stipulated by the securities regulatory authority of the State Council.

The shares or other securities in the nature of equity interests held by directors, supervisors, senior management personnel and natural person shareholders as mentioned in the preceding paragraph include shares or other securities in the nature of equity interests held by their spouses, parents and children and those held through the accounts of other people.

Where the board of directors of a commercial bank fails to implement the provisions as prescribed in paragraph 1 herein, the shareholders concerned have the right to require the board of directors to implement them within 30 days. Where the board of directors of a commercial bank fails to implement them within the aforesaid term, the shareholders have the right to directly file a litigation with a people's court in their own names for the interests of the commercial bank.

Where the board of directors of a commercial bank fails to implement the provisions as prescribed in paragraph 1 herein, the directors in charge shall bear the joint and several liabilities according to the law.

(Article 44 of the *Securities Law*)

Section II Management Participation Right

1. Shareholders of a commercial bank shall be entitled to participation in major decision-making and selection of managers of the commercial bank in accordance with the law.

(Article 4 of the *Company Law*)

2. Shareholders of a commercial bank shall have the right to give suggestions on or query the operations of the bank.

(Article 97 of the *Company Law*)

3. Where a commercial bank is a company limited by shares, its shareholders holding one-tenth or more of the voting rights may propose to convene an ad hoc meeting of the board of directors.

(Article 110 of the *Company Law* and Article 49 of the *Corporate Governance Standards*)

4. Where a commercial bank is a company limited by shares, a shareholder separately, or shareholders in aggregate, holding more than 3% of the total voting shares of the commercial bank shall have the right to nominate candidates for non-independent directors.

The directors nominated by the same shareholder and its related parties shall not in principle be in excess of one-third of the total number of members of the board of directors, unless otherwise prescribed by the state.

(Article 27 of the *Corporate Governance Standards*)

5. Where a commercial bank is a company limited by shares, a shareholder separately, or shareholders in aggregate, holding more than 1% of the total voting shares of the bank may nominate candidates for independent directors. The shareholder and its related parties who have nominated a non-independent director shall not renominate any independent director, except for wholly-owned commercial banks.

(Article 35 of the *Corporate Governance Standards*)

6. A shareholder separately, or shareholders in aggregate, making more than 3% of capital contributions to or holding more than 3% of the total voting shares of the commercial bank may nominate candidates for shareholder supervisors; a shareholder separately, or shareholders in aggregate, making more than 1% of capital contributions to or holding more than 1% of the total voting shares may nominate candidates for external supervisors.

The supervisors nominated by the same shareholder and its related parties shall not in principle be in excess of one-third of the total number of members of the board of supervisors. In principle, the same shareholder can only propose one candidate for external supervisor, and shall not nominate both independent director candidates and external supervisor candidates. If the exemption is required due to the special equity structure, an application shall be submitted to the regulatory authority and the reasons shall be explained.

Where a commercial bank is a company limited by shares, the shareholder and its related parties who have nominated a director shall not renominate any supervisor, unless otherwise prescribed by the state.

(Article 61 of the *Corporate Governance Standards* and Article 6 of the *Guidelines for the Board of Supervisors*)

7. The shareholder of a commercial bank who is subject to approval of the regulatory authority but fails to be approved by the regulator or fails to report to the regulator shall not exercise the right to request for convening a shareholders' (general) meeting or the right to vote, the right to nominate and the right to make a proposal at the shareholders' (general) meeting according to the provisions of the articles of association of the commercial bank.

(Article 28 of the *Measures for the Equity Management*)

Section III Right to Know

1. Where a commercial bank is a limited liability company, its shareholders shall have the right to check and make copies of the articles of association, minutes of shareholders' meetings, resolutions of the board of directors, resolutions of the board of supervisors and financial reports.

Shareholders may request to check the accounts of the commercial bank. A shareholder who requests to check the accounts of the commercial bank shall make a written request to the commercial bank and state the purpose. If the commercial bank has reasonable grounds to believe that the shareholder who makes the request has an unjustifiable motive and may cause damage to the legal interests of the commercial bank, it may reject the request and shall give a written reply to the shareholder stating the reason within 15 days from the date of the written request of the shareholder. Where the commercial bank rejects the request, the shareholder may apply to a people's court for access to the commercial bank's accounts.

(Article 33 of the *Company Law*)

2. Where a commercial bank is a limited liability company, its shareholders shall have the right to inspect the articles of association, register of shareholders, commercial banking bonds counterfoil book, minutes of meetings of the shareholders' general meeting, resolutions of the board of directors, resolutions of the board of supervisors and financial reports.

(Article 97 of the *Company Law*)

3. Where a commercial bank is a company limited by shares, it shall disclose information on remuneration of directors, supervisors and senior management personnel gained from the commercial bank to the shareholders regularly.

(Article 116 of the *Company Law*)

4. Commercial banks shall ensure their shareholders and stakeholders can obtain annual reports in time.

(Article 27 of the *Measures for Information Disclosure*)

5. The board of supervisors (supervisors) of a commercial bank shall supervise and assess the comprehensive performance of the board of directors and the senior

management in terms of capital management, asset management, liquidity risk management and market risk management, and report on its work to the shareholders' (general) meeting at least annually. The contents of the report shall include:

- (1) Supervision of the performance of duties of the board of directors and the senior management of the commercial bank and their members, financial activities, internal control and risk management;
- (2) Work of the board of supervisors;
- (3) Independent opinions on relevant issues;
- (4) Other issues that the board of supervisors deems appropriate to be reported to the shareholders' general meeting or the shareholders' meeting.

(Article 12 of the *Measures for the Liquidity Risk Management*, Article 115 of the *Administrative Measures for the Capital* and Article 20 of the *Guidelines for the Board of Supervisors*)

Section IV Right to Convene, Attend and Vote at the Shareholders' (General) Meeting

1. The shareholders' (general) meeting of a commercial bank is the authority of the commercial bank and shall comprise all shareholders of the bank.

The commercial bank which is a one-person limited liability company is not required to establish a shareholders' meeting.

(Article 36, Article 61 and Article 98 of the *Company Law*)

2. The shareholders' (general) meeting of a commercial bank shall exercise its duties and powers within the scope prescribed by laws, regulations and the articles of association, which shall at least include:

- (1) Determining the business policy and investment plan of the commercial bank;
- (2) Electing and removing directors and supervisors who are not representatives of the employees and deciding on the remuneration of directors and supervisors;
- (3) Reviewing and approving reports of the board of directors;
- (4) Reviewing and approving reports of the board of supervisors or the supervisor;
- (5) Reviewing and approving the annual financial budgets and final accounts of the commercial bank;
- (6) Reviewing and approving the profit distribution plan and loss recovery plan of the commercial bank;
- (7) Resolving on increase or reduction of registered capital of the commercial bank;
- (8) Resolving on issue of commercial banking bonds;

(9) Resolving on merger, division, dissolution, liquidation or change of form of the commercial bank;

(10) Amending the articles of association, and reviewing and approving the rules of procedure of the shareholders' (general) meeting, the board of directors and the board of supervisors;

(11) Resolving on the listing of the commercial bank;

(12) Reviewing and approving a proposal for an equity incentive plan;

(13) Resolving on the acquisition of the commercial bank's shares in accordance with the law;

(14) Resolving on appointment or dismissal of the accounting firm that conducts regular statutory audit of the commercial bank's financial reports;

(15) Reviewing and approving other matters that shall be determined by the shareholders' (general) meeting in accordance with laws, regulations, regulatory provisions or the articles of association.

The aforesaid powers of the shareholders' (general) meeting shall not be delegated to the board of directors, another body, or an individual.

(Article 37 and Article 99 of the *Company Law* and Article 18 of the *Corporate Governance Standards*)

3. Where a commercial bank is a limited liability company, shareholders' meetings shall include regular meetings and ad hoc meetings. Regular meetings shall be convened regularly in accordance with the provisions of the articles of association. Shareholders holding one-tenth or more of the voting rights have the right to propose to convene an ad hoc meeting.

Where a commercial bank is a company limited by shares, shareholders' general meeting shall include annual general meetings and extraordinary general meetings. Commercial banks shall convene an annual general meeting within six months after the end of each accounting year. A shareholder separately, or shareholders in aggregate, holding 10% or more of the shares of a commercial bank may request to convene an extraordinary general meeting within two months.

(Article 39 and Article 100 of the *Company Law* and Article 20 of the *Corporate Governance Standards*)

4. Where a commercial bank is a limited liability company, all shareholders shall be notified 15 days before a shareholders' meeting is convened, unless otherwise provided in the articles of association or otherwise agreed by all shareholders.

Where a commercial bank is a company limited by shares, all the shareholders shall be informed 20 days in advance of a shareholders' general meeting of the date and venue of meeting and the agenda. All the shareholders shall be informed 15 days in advance of an extraordinary general meeting. Where bearer shares are issued, a notice of the meeting stating the date and venue of the meeting and the agenda shall be published 30 days in

advance of the meeting.

A shareholder separately, or shareholders in aggregate, holding 3% or more of the shares of a commercial bank may submit a written proposal of an agenda item 10 days before a shareholders' general meeting to the board of directors; the board of directors shall inform other shareholders of the proposal within two days from receipt of the proposal and table the proposal at the shareholders' general meeting for review. The contents of the proposed agenda item shall be within the scope of duties and powers of the shareholders' general meeting and shall contain a specific topic and specific resolution.

The shareholders' general meeting shall not resolve on matters which are not set out in the notice stipulated in the two preceding paragraphs.

(Article 41 and Article 102 of the *Company Law*)

5. Where a commercial bank is a limited liability company, the rules of procedure and voting procedures of a shareholders' meeting shall be stipulated by the articles of association of the bank, unless otherwise provided in the *Company Law of the People's Republic of China*. Resolutions passed by a shareholders' meeting on amendment to the articles of association, increase or reduction of registered capital, and merger, division, dissolution or change of form of the commercial bank shall be approved by shareholders holding two-thirds or more of the voting rights.

Where a commercial bank is a company limited by shares, a resolution of the shareholders' general meeting must be adopted by a majority of the voting rights held by the shareholders present at the meeting. However, the following matters shall be approved by more than two-thirds of the voting rights held by the shareholders present at the meeting:

- (1) The commercial bank increases or decreases its registered capital;
- (2) Issuing commercial banking bonds or other negotiable securities or listing of the commercial bank;
- (3) The merger, division, dissolution or liquidation of the commercial bank or change of form of the commercial bank;
- (4) Amending the articles of association;
- (5) Removing an independent director;
- (6) Reviewing and approving a stock incentive plan or an employee stock ownership plan;
- (7) Other matters required to be approved by more than two-thirds of the voting rights held by shareholders present at the meeting by laws, regulations, regulatory provisions or the articles of association.

(Article 43 and Article 103 of the *Company Law* and Article 22 of the *Corporate Governance Standards*)

6. Where a commercial bank is a limited liability company, the voting rights exercisable

by shareholders at a shareholders' meeting shall be based on the ratio of capital contribution, unless otherwise provided in the articles of association.

Where a commercial bank is a company limited by shares, shareholders attending a shareholders' general meeting shall exercise one vote per share. The commercial bank's shares held by itself shall not carry voting rights.

The shareholders' general meeting of a commercial bank shall be encouraged to implement a cumulative voting system when voting to elect directors and supervisors.

(Article 42 and Article 103 of the *Company Law* and Article 23 of the *Corporate Governance Standards*)

7. Shareholders of a commercial bank may appoint their proxies to attend a shareholders' (general) meeting; the proxies shall submit a power of attorney to the commercial bank and exercise the voting rights within the scope of authorization.

If the majority shareholder of a commercial bank appoints a proxy to attend a shareholders' (general) meeting, the proxy shall not be a person other than the shareholder himself/herself or his/her related party, person acting in concert, or nominated director or supervisor. The majority shareholder of a commercial bank shall not be appointed by a non-related party or person acting in concert to attend a shareholders' (general) meeting.

(Article 106 of the *Company Law* and Article 15 of the *Measures for Regulating the Conduct of Majority Shareholders*)

8. Contents of resolutions of the shareholders' (general) meeting or the board of directors of a commercial bank which violate laws and administrative regulations shall be void.

Where the convening procedures and voting method of a meeting of a shareholders' (general) meeting or the board of directors violates the provisions of laws and administrative regulations or the articles of association or the contents of the resolutions violate the articles of association, the shareholders may apply to a people's court within 60 days from the date of resolution for rescission of the resolution.

Where the shareholders file a lawsuit in accordance with the provisions of the preceding paragraph, a people's court may, upon a request of the commercial bank, ask the shareholders to provide the corresponding guarantee.

(Article 22 of the *Company Law*)

9. Where a commercial bank is a limited liability company, the shareholders' meeting shall record minutes of meeting about the decisions on the issues discussed and the shareholders present at the meeting shall sign on the minutes of meeting.

Where a commercial bank is a company limited by shares, minutes of shareholders' general meetings about the decisions on the issues discussed shall be recorded and signed by the chairman and directors who attend the meeting. The minutes of meetings shall be kept together with the record of signatures of shareholders present at the meeting and power of attorney.

(Article 41 and Article 107 of the *Company Law*)

Chapter II Responsibilities and Obligations of Shareholders

Section I General Requirements

1. Shareholders of a commercial bank shall exercise shareholder rights, perform their obligations and safeguard the lawful rights and interests of the commercial bank in accordance with laws, regulations, regulatory provisions and the articles of association. They shall not abuse shareholder rights to harm the lawful rights and interests of the commercial bank, other shareholders and stakeholders.

(Article 5 and Article 15 of the *Corporate Governance Standards*)

2. Shareholders of a commercial bank shall have good social reputation, credit records, tax records and financial status, which comply with the provisions of laws and regulations and meet regulatory requirements.

(Article 5 of the *Measures for the Equity Management*)

3. The majority shareholders of a commercial bank shall fully understand the industry attributes, risk characteristics and prudent operation rules of the banking industry, as well as the rights and obligations of majority shareholders, actively maintain the steady operation of the commercial bank and the stability of financial market, protect the rights and interests of consumers, and support the commercial bank to better serve the real economy and prevent and control financial risks.

(Article 5 of the *Measures for Regulating the Conduct of Majority Shareholders*)

4. The majority shareholders of a commercial bank shall earnestly study and implement the relevant regulations and policies of the CBIRC, strengthen self-discipline, practice the principle of good faith, exercise the rights of majority shareholders in good faith, and shall not use the status of majority shareholders to damage the legitimate rights and interests of the commercial bank and other stakeholders.

(Article 27 of the *Measures for Regulating the Conduct of Majority Shareholders*)

5. The majority shareholders of a commercial bank shall pay attention to the relevant situations of other shareholders' exercise of shareholder rights and performance of shareholder obligations. In case of any damage to the interests of the commercial bank or the legitimate rights and interests of other stakeholders, they shall notify the commercial bank in time. Commercial banks shall take corresponding measures in time according to laws, regulations and the articles of association, and report to the CBIRC or its local offices.

(Article 39 of the *Measures for Regulating the Conduct of Majority Shareholders*)

6. Non-financial enterprises investing in commercial banks shall aim at serving the real economy, closely focus on the development needs of their own core businesses, scientifically arrange their investment in commercial banks, and avoid diverting funds out of the real economy.

(Article ii of the *Guidelines for Non-financial Enterprises Investing in Financial Institutions*)

7. When investing in commercial banks, state-owned enterprises shall take the lead in complying with relevant laws and regulations of the state, highlight their core businesses, meet the needs of the adjustment to the layout and structure of state-owned capital, accept supervision according to laws, consciously strengthen risk prevention, and align it with major reforms including the reform of state-owned enterprises and the improvement of the management of state-owned financial capital.

In the case of investment in a commercial bank, the state-owned enterprise concerned shall report to the CPC Central Committee and the State Council.

(Article iii of the *Guidelines for Non-financial Enterprises Investing in Financial Institutions*)

Section II Obligations for Capital Contribution

1. The registered capital of a commercial bank shall be its paid-in capital.

(Article 13 of the *Law on Commercial Banks*)

2. The shareholders of a commercial bank shall fulfill the obligations for capital contribution in strict accordance with laws and regulations and the provisions of the CBIRC, acquire shares of commercial banks with proprietary funds from lawful sources based on authentic willingness of capital contribution, and perform the necessary internal decision-making procedures. The shareholders shall not:

(1) Engage in false capital injection, circular capital injection or capital withdrawal;

(2) Acquire shares with non-proprietary funds such as entrusted funds, debt funds, and "debt disguised as equity";

(3) Become a major or controlling shareholder of a commercial bank using wealth management funds, investment funds, other financial products or other means.

Unless otherwise prescribed by laws and regulations.

(Article 35 of the *Company Law*, Article 10 of the *Measures for the Equity Management*, Article 16 of the *Corporate Governance Standards* and Article viii of the *Guidelines for Non-financial Enterprises Investing in Financial Institutions*)

3. When the majority shareholder of a commercial bank acquires shares and reports to the CBIRC and its local office for approval and filing, it shall explain the source of funds in detail and actively assist the CBIRC and its local office and the commercial bank in examining the source of funds.

(Article 7 of the *Measures for Regulating the Conduct of Majority Shareholders*)

4. Shareholders of commercial banks shall support commercial banks to replenish capital through multiple channels in a sustainable manner, optimize capital structure, and enhance their abilities to serve the real economy and withstand risks.

The major shareholders of commercial banks shall make written commitments to replenish capital to commercial banks when necessary in accordance with the regulatory provisions, and report the capital replenishment capacity to the CBIRC or its local offices on an annual basis through the commercial banks.

When the CBIRC and its local offices order a commercial bank to replenish its capital according to laws, if the commercial bank cannot replenish capital by means other than capital increase, the majority shareholder shall perform the obligation for capital replenishment. If it does not have the ability to replenish capital or fails to participate in capital increase, it shall not prevent other shareholders or investors from taking reasonable plans to increase capital.

(Article 19 of the *Measures for the Equity Management* and Article 34 of the *Measures for Regulating the Conduct of Majority Shareholders*)

5. The majority shareholders of commercial banks shall, according to the development strategies, business plans and risk status of commercial banks, support commercial banks to prepare and implement long and medium-term capital planning, promote the matching of capital demand and capital replenishment ability of commercial banks, and ensure that the capital of commercial banks continues to meet the regulatory requirements.

(Article 33 of the *Measures for Regulating the Conduct of Majority Shareholders*)

6. Majority shareholders of commercial banks shall support commercial banks to adjust their profit distribution policies according to their own business conditions, risk status, capital planning and market environment, and balance the relationship between cash dividends and capital replenishment. If a commercial bank meets any of the following circumstances, the majority shareholder shall support it to reduce cash dividends or do not pay cash dividends:

- (1) Capital adequacy ratio does not meet regulatory requirements;
- (2) Corporate governance rating is lower than level C or regulatory rating is lower than level 3;
- (3) Allowance for loan losses is lower than regulatory requirement or non-performing loan ratio is significantly higher than the industry average;
- (4) The commercial bank has major risk events or major violations of laws and regulations;
- (5) Other circumstances where the CBIRC and its local offices deem not appropriate to distribute dividends.

(Article 35 of the *Measures for Regulating the Conduct of Majority Shareholders*)

Section III Governance Behavior

1. The shareholders of a commercial bank shall exercise their shareholders' rights in accordance with laws, regulations and regulatory provisions, participate in corporate governance by sending shareholders' representatives with the quality and ability to

perform their duties, and maintain the independent operation of the commercial bank. The shareholders shall not:

- (1) Obstruct the normal operation of the corporate governance mechanism by interfering with the normal convening of the shareholders' (general) meeting or any meeting of the board of directors or the board of supervisors or any other means;
- (2) Interfere with the decision-making power and management power of the board of directors and senior management under the articles of association;
- (3) Bypass the board of directors and senior management and directly interfere with the operation and management of the commercial bank;
- (4) Withdraw, misappropriate or encroach on the funds of the commercial bank and its customers directly or in a disguised form;
- (5) Conduct any other behaviors that infringe upon the legitimate rights and interests of the commercial bank, other shareholders and stakeholders.

(Article 18 of the *Measures for the Equity Management*, Article 5, Article 15 and Article 16 of the *Corporate Governance Standards*, Article 14 of the *Measures for Regulating the Conduct of Majority Shareholders* and Article xii of the *Guidelines for Non-financial Enterprises Investing in Financial Institutions*)

2. The majority shareholder of a commercial bank shall properly exercise shareholders' rights through corporate governance procedures, and maintain the independent operation of the commercial bank. It is strictly prohibited to improperly intervene in or restrict the commercial bank in violation of regulations by the following means, except as otherwise provided in laws and regulations or approved by the CBIRC:

- (1) The majority shareholder set up prior approval procedures for the resolutions of meetings of the board of directors and the shareholders' (general) meetings;
- (2) The majority shareholder intervenes in the normal selection and employment procedures for staff of the commercial bank, or directly appoints or removes staff bypassing the shareholders' (general) meeting and the board of directors;
- (3) The majority shareholder intervenes in the performance assessment of directors, supervisors and other employees of the commercial bank;
- (4) The majority shareholder intervenes in the normal business decision-making procedures;
- (5) The majority shareholder intervenes in the commercial bank's financial and accounting activities, including financial accounting, fund transfer, asset management and expense management;
- (6) The majority shareholder issues business plans or instructions to the commercial bank;
- (7) The majority shareholder requires the commercial bank to grant loans or provide guarantee;

(8) The majority shareholder intervenes in the commercial bank's independent operation by other means.

(Article 14 of the *Measures for Regulating the Conduct of Majority Shareholders*)

3. The majority shareholder of a commercial bank shall support the commercial bank to establish an independent and sound corporate governance structure with effect checks and balances, and encourage and support the commercial bank to effectively integrate the Party's leadership with corporate governance.

(Article 13 of the *Measures for Regulating the Conduct of Majority Shareholders*)

4. The majority shareholder of a commercial bank shall encourage and support all shareholders, especially minority shareholders, to carry out proper communication and consultation on matters related to the exercise of shareholders' rights, and coordinate and assist minority shareholders to exercise their legitimate rights such as the right to know or the right to query in accordance with the law.

(Article 37 of the *Measures for Regulating the Conduct of Majority Shareholders*)

5. The majority shareholder of a commercial bank shall support the minority shareholders to obtain the opportunity to effectively attend and vote at the shareholders' (general) meeting. However, the majority shareholder shall not obstruct or instruct the commercial bank to obstruct the minority shareholders from attending the shareholders' (general) meeting, or set other obstacles for the minority shareholders to attend the shareholders' (general) meeting.

(Article 38 of the *Measures for Regulating the Conduct of Majority Shareholders*)

6. If the majority shareholder of a commercial bank is an institutional investor such as an equity investment fund, it shall disclose to the ultimate beneficiary of the equity held and the commercial bank about its corporate governance and voting policies for the commercial bank, including relevant procedures for deciding to use the voting right.

(Article 16 of the *Measures for Regulating the Conduct of Majority Shareholders*)

Section IV Personnel Management

1. The major shareholder of a commercial bank shall effectively manage the cross appointment of the members of the board of directors, the board of supervisors and senior management personnel of it and the commercial bank and other affiliated institutions to avoid conflict of interest.

(Article 21 of the *Measures for the Equity Management*)

2. The majority shareholder of a commercial bank shall exercise the right to nominate directors of the commercial bank prudently to ensure that the nominees comply with relevant regulatory provisions. The majority shareholder is encouraged to select and appoint the nominated candidates for directors through market-oriented methods, so as to continuously improve the professionalism of directors.

(Article 17 of the *Measures for Regulating the Conduct of Majority Shareholders*)

3. The majority shareholder of a commercial bank shall strengthen the supervision of the performance of their nominated directors and supervisors according to laws, and timely adjust the personnel who cannot perform their duties effectively in accordance with laws and regulations, the articles of association and regulatory requirements.

(Article 20 of the *Measures for Regulating the Conduct of Majority Shareholders*)

4. The directors nominated by the majority shareholder of a commercial bank shall perform their duties independently based on professional judgment and treat all shareholders equally. They shall make independent, professional and objective decisions based on the principle of maximizing the overall interests of the commercial bank, and bear responsibility for the decisions according to law, without damaging the legitimate rights and interests of the commercial bank and other stakeholders.

(Article 18 of the *Measures for Regulating the Conduct of Majority Shareholders* and Article ix of the *Guidelines for Non-financial Enterprises Investing in Financial Institutions*)

5. In principle, the majority shareholder of a commercial bank and the staff of its enterprise group shall not serve as senior management personnel of the commercial bank concurrently, except for the wholly-owned commercial banks, commercial banks in the period of risk disposal and recovery determined by the regulatory authority and the banks whose major shareholders are financial enterprises under the management of the central government.

(Article 19 of the *Measures for Regulating the Conduct of Majority Shareholders* and Article ix of the *Guidelines for Non-financial Enterprises Investing in Financial Institutions*)

Section V Equity Change and Pledge

1. The shareholding ratio and the number of institutional shareholders shall comply with regulatory provisions. The institutional shareholders shall truthfully notify the commercial bank of its financial information, source of funds to acquire shares of the commercial bank, explain its equity structure level by level up to the actual controller and the ultimate beneficiary, and the connected relations with other shareholders or concerted action relationship, so as to ensure the equity relationship is true and transparent. It is strictly forbidden to conceal the actual controller and connected relations, hold shares on behalf of others, enter into private agreement and conduct other illegal acts.

(Article 12 and Article 15 of the *Measures for the Equity Management*, Article 16 of the *Corporate Governance Standards* and Article 8 of the *Measures for Regulating the Conduct of Majority Shareholders*)

2. The shareholders of a commercial bank and their related parties and persons acting in concert, either separately or jointly, intending to initially or accumulatively hold more than 5% of total capital or total shares of a commercial bank, shall file an application with the CBIRC or its local offices for approval in advance. The official reply for the administrative licensing of proposed holding of more than 5% of total shares of a commercial bank through a domestic or overseas stock market shall be valid for six

months. The specific requirements and procedures for approval shall be subject to relevant provisions issued by the CBIRC.

The shareholders of a commercial bank and their related parties and persons acting in concert that hold, either separately or jointly, more than 1% but less than 5% (exclusive) of a commercial bank's total capital or total shares shall report to the CBIRC or its local offices within 10 working days of the date of obtaining corresponding equities.

(Article 24 and Article 28 of the *Law on Commercial Banks*, Article 4 of the *Measures for the Equity Management* and Article 1 of the *Notice on Regulating the Reporting Matters of Shareholders of Commercial Banks*)

3. When a shareholder of a commercial bank transfers shares it holds in the commercial bank, the shareholder shall inform the transferee that it must meet the conditions stipulated by laws and regulations and the provisions of CBIRC.

(Article 13 of the *Measures for the Equity Management* and Article vi of the *Guidelines for Non-financial Enterprises Investing in Financial Institutions*)

4. When a major shareholder acquires shares of a commercial bank, it shall make a written commitment to abide by laws, regulations, regulatory provisions and the articles of association, and explain the purpose of acquisition of shares of the commercial bank.

(Article 11 of the *Measures for the Equity Management*)

5. The major shareholders of commercial banks shall not transfer the shares held within five years from the acquisition of the shares.

Exceptions include special circumstances such as taking risk disposal measures with the approval of the CBIRC or its local offices, being subject to an order of the CBIRC or its local offices for transfer, being involved in judicial enforcement or transfer of equity between different entities controlled by the same investor.

(Article 17 of the *Measures for the Equity Management*)

6. Unless otherwise stipulated by the State Council, the majority shareholder of a commercial bank and the commercial bank shall not directly or indirectly hold shares of each other.

(Article 9 of the *Measures for Regulating the Conduct of Majority Shareholders* and Article ix of the *Guidelines for Non-financial Enterprises Investing in Financial Institutions*)

7. The majority shareholders of commercial banks shall pay attention to long-term investment and value investment, avoid speculation, and maintain the relative stability of the equity structure of commercial banks. They shall not transfer directly or in a disguised form their equity interests in commercial banks within the period of equity transfer restriction, except for transfer according to judicial ruling, administrative allocation or the order by the CBIRC and its local offices.

(Article 11 of the *Measures for Regulating the Conduct of Majority Shareholders*)

8. The shareholders of a commercial bank shall make a written commitment that the equity pledge must comply with the guides of regulatory policies, the bank's articles of association and relevant equity management rules before its shareholder qualification is approved.

(Article 9 of the *Notice on Strengthening the Management of Share Pledge of Commercial Banks*)

9. Where a shareholder of a commercial bank pledges its shares of the commercial bank, it shall abide by the laws and regulations and the relevant provisions of the CBIRC on the share pledge of commercial banks, and shall not harm the interests of other shareholders and the commercial bank.

(Article 23 of the *Measures for the Equity Management*, Article 16 of the *Corporate Governance Standards* and Article vi of the *Guidelines for Non-financial Enterprises Investing in Financial Institutions*)

10. Commercial banks shall improve their articles of association to put forward normative requirements for shareholders' pledge of bank equity, and implement shareholders' responsibilities and obligations. A commercial bank shall specify the following contents in its articles of association:

(1) Shareholders who pledge their equity of the bank to provide guarantee for themselves or others shall strictly abide by laws and regulations and the requirements of regulatory authority, and inform the board of directors of the bank in advance. The office of the board of directors or other departments designated by the board of directors shall be responsible for the daily work, including collection, sorting and submission of bank equity pledge information. If the shareholders holding seats on the board of directors or board of supervisors of the bank, or shareholders directly, indirectly, jointly holding or controlling 2% or more of the shares or voting rights of the bank, pledge the shares of the bank, they shall apply to the board of directors of the bank for filing in advance, stating the reasons for the pledge, the amount of equity, the pledge period, the pledgee and other basic information. Where the board of directors determines that there is a significant adverse impact on the bank's equity stability, corporate governance, risk and connected transaction control, it shall not be filed. When the board of directors considers relevant filing matters, the directors appointed by the proposed pledging shareholder shall withdraw.

(2) After completing the registration of equity pledge, the shareholders shall provide the bank with information related to the pledged equity in a timely manner, in order to meet the needs of risk management and information disclosure of the bank.

(3) If the balance of loans granted to a shareholder by the bank exceeds the audited net value of the bank's equity in the previous year, it shall not pledge the bank's equity.

(4) When the number of shares of the bank pledged by a shareholder accounts for 50% or more of the shares held by the shareholder, the voting rights of the shareholder at the shareholders' general meeting and that of a dispatched directors at the meeting of the board of directors shall be restricted.

(Article 3 of the *Notice on Strengthening the Management of Share Pledge of*

Commercial Banks)

11. For a shareholder holding 5% or more of the equity of a commercial bank, if the number of equity pledged by the shareholder exceeds 50% of the total shares it holds in the commercial bank, the CBIRC or its local offices may restrict it from carrying out connected transactions with the commercial bank.

(Article 36 of the *Measures for Connected Transactions*)

12. When the number of equity pledged by the majority shareholder of a commercial bank exceeds 50% of the total shares held by it, the majority shareholder and the directors nominated by it shall not exercise their voting rights at the meeting of the shareholders' (general) meeting and board of directors.

The majority shareholder of a commercial bank shall not use its shares of the commercial bank to provide guarantee for the debts other than those of the majority shareholder itself and its related parties, nor shall it hold the equity of the commercial bank on behalf of others, hold shares of related parties in violation of regulations or transfer the equity in a disguised form through equity pledge.

(Article 10 of the *Measures for Regulating the Conduct of Majority Shareholders*)

Section VI Connected Transactions

1. Shareholders of commercial banks must observe laws, regulations and CBIRC's relevant provisions on connected transactions. They shall not practice unjust connected transactions with the commercial bank, or use their influence on commercial banks' operation and management to seek illegitimate interests. They shall not evade the obligations of internal review, external supervision and reporting and disclosure of connected transactions by concealing the connected relations and other improper means.

(Article 22 of the *Measures for the Equity Management*, Article 42 of the *Measures for Connected Transactions* and Article 21 of the *Measures for Regulating the Conduct of Majority Shareholders*)

2. When a non-financial enterprise becomes a major or controlling shareholder of a commercial bank, it shall submit a letter of commitment to the CBIRC or its local offices that it has no connected relations with other shareholders other than related parties and will not be involved any improper connected transaction.

(Article xi of the *Guidelines for Non-financial Enterprises Investing in Financial Institutions*)

3. When the connected transaction control committee, the board of directors and the shareholders' (general) meeting of a commercial bank vote or decide on a connected transaction, any person who has a stake in the transaction shall withdraw.

If a commercial bank has no shareholders' (general) meeting or cannot convene a shareholders' (general) meeting for reasons of withdrawal, the connected transaction shall still be considered by the board of directors and the provisions on withdrawal set out in paragraph 1 of this Article shall not apply. However, the connected directors shall issue a statement that there is no transfer of interests.

(Article 46 of the *Measures for Connected Transactions*)

4. Majority shareholders of commercial banks are strictly prohibited from engaging in improper connected transactions with commercial banks in the following ways, or using their influence on commercial banks to obtain illegitimate interests:

(1) Obtaining bank credit such as loans, bill acceptance and discount, bond investment and special purpose vehicle investment on terms superior to similar transactions with unrelated parties;

(2) Illegally occupying or controlling the funds or other rights and interests of commercial banks by means of loans, guarantee, etc.;

(3) Causing commercial banks assume unreasonable expenses or relevant expenses that shall be borne by majority shareholders and their related parties;

(4) Purchasing or leasing the assets of commercial banks on terms superior to similar transactions with unrelated parties, or selling or leasing inferior assets to commercial banks;

(5) Using the intangible assets of commercial banks free of charge or on terms superior to similar transactions with unrelated parties, or charging excessive fees for the use of intangible assets from commercial banks;

(6) Taking advantage of the position of majority shareholders to seek business opportunities belonging to commercial banks;

(7) Making use of the undisclosed information or trade secrets of commercial banks to seek benefits;

(8) Conducting improper connected transactions or obtaining illegitimate interests in other ways.

(Article 22 of the *Measures for Regulating the Conduct of Majority Shareholders*)

5. The majority shareholders of commercial banks shall fully review the necessity and reasonableness of connected transactions conducted with commercial banks, and it is strictly prohibited from evading the review of connected transactions by covering up connected relations, splitting transactions, lengthening the financing chain through nested transactions or other ways. Majority shareholders are encouraged to reduce the number and scale of connected transactions with commercial banks, and enhance the independence and market competitiveness of commercial banks.

(Article 23 of the *Measures for Regulating the Conduct of Majority Shareholders*)

6. When majority shareholders of commercial banks and their related parties conduct major connected transactions with commercial banks, they shall cooperate to provide relevant materials in accordance with relevant regulations and regulatory requirements, which shall be reported and disclosed by commercial banks in accordance with regulations.

(Article 24 of the *Measures for Regulating the Conduct of Majority Shareholders*)

7. Majority shareholders of commercial banks shall cooperate with commercial banks in the dynamic management of connected transactions, timely count the cumulative amount of connected transactions, monitor whether they comply with relevant provisions on the concentration of connected transactions, regularly provide commercial banks with the overall situation of connected transactions conducted with them, and take corresponding measures in time according to the alarms of commercial banks.

(Article 25 of the *Measures for Regulating the Conduct of Majority Shareholders*)

Section VII Information Submission and Disclosure

1. Commercial banks and their shareholders shall fully disclose relevant information and accept social supervision in accordance with laws, regulations and regulatory requirements.

(Article 8 of the *Measures for the Equity Management*)

2. The major shareholder of a commercial bank shall report the following information to the commercial bank in a timely, accurate and complete manner:

- (1) Its own operating status, financial information and equity structure;
- (2) Source of funds to acquire shares of the commercial bank;
- (3) The controlling shareholder, actual controller, related party, person acting in concert and ultimate beneficiary and their changes;
- (4) The capital contributions made to or shares held in the commercial bank are involved in litigation or arbitration, are subject to legal compulsory measures taken by the judicial authorities;
- (5) The capital contributions made to or shares held in a commercial bank are pledged or released from a pledge;
- (6) There is a change in the legal representative, company name, business premises, business scope, or any other important matters;
- (7) Merger and division;
- (8) The shareholder is subject to an order for suspension of business for overhaul, designated custody, receivership, abolishment, or any other regulatory measures, or is subject to a dissolution, bankruptcy and liquidation proceeding;
- (9) Other circumstances that may affect the qualification conditions of shareholders or lead to changes in the amount of capital contribution or equity of the commercial bank.

(Article 36 of the *Measures for the Equity Management*, Article 16 of the *Corporate Governance Standards* and Article vi of the *Guidelines for Non-financial Enterprises Investing in Financial Institutions*)

3. If the financial status of the major or controlling shareholder of a commercial bank deteriorates, it shall disclose and report the information in a timely manner according to

law.

(Article vii of the *Guidelines for Non-financial Enterprises Investing in Financial Institutions*)

4. If there are changes in the controlling shareholder, actual controller, related party, person acting in concert, or ultimate beneficiary of a shareholder of a commercial bank, the relevant shareholder shall notify the commercial bank of the changes in writing in a timely manner according to laws, regulations, and regulatory provisions.

(Article 16 of the *Corporate Governance Standards*)

5. A natural person, legal person or unincorporated organization that holds 5% or more of the equity of a commercial bank, or holds less than 5% of the equity but has a significant impact on the business management of the commercial bank, shall report the situation of its related parties to the commercial bank in accordance with the relevant provisions of the *Measures for Connected Transactions of Banking and Insurance Institutions* within 15 working days from the date when the shareholding ratio reaches 5% or it can exert significant influence. In case of any changes in the above reporting items, it shall report to the commercial bank and update the related party information within 15 working days after the change.

(Article 41 of the *Measures for Connected Transactions*)

6. Majority shareholders of commercial banks shall perform the obligation of information submission in strict accordance with regulatory provisions, formulate and improve internal working procedures, clarify the scope, content, review procedures and responsible departments of information submission, and ensure that the information submission is timely, authentic, accurate and complete without false records, misleading statements or major omissions.

(Article 30 of the *Measures for Regulating the Conduct of Majority Shareholders*)

7. When the majority shareholder of a commercial bank monitors reports or rumors related to it that may have a significant impact on the commercial bank, it shall timely notify the commercial bank of relevant matters.

(Article 31 of the *Measures for Regulating the Conduct of Majority Shareholders*)

Section VIII Other Responsibilities and Obligations

1. The shareholders of commercial banks shall issue written commitments on relevant responsibilities and obligations in accordance with the regulatory provisions, and actively fulfill the commitments.

(Article 36 of the *Measures for Regulating the Conduct of Majority Shareholders*)

2. Where a commercial bank is involved in any major risk incident or serious violation of laws or regulations, its shareholders shall cooperate with the regulatory authority in investigation and risk disposal, and strictly implement relevant regulatory measures and requirements. Its majority shareholder shall take the initiative to maintain the operation stability of the commercial bank and bear the responsibilities and obligations of a

shareholder according to law.

(Article 24 of the *Measures for the Equity Management*, Article 16 of the *Corporate Governance Standards*, Article 28 of the *Measures for Regulating the Conduct of Majority Shareholders* and Article xiv of the *Guidelines for Non-financial Enterprises Investing in Financial Institutions*)

3. Where the CBIRC and its local offices carry out on-site inspection and investigation on commercial banks according to law, the majority shareholders of commercial banks shall actively cooperate with the regulatory authority in taking relevant measures, and strictly implement the relevant regulatory requirements.

(Article 29 of the *Measures for Regulating the Conduct of Majority Shareholders*)

4. The major shareholders and controlling shareholders of commercial banks shall establish an effective risk isolation mechanism and a comprehensive risk management system suitable for investment behavior, including the organizational structure, index system, information system and internal control system of risk management, so as to prevent the contagion and transfer of risks among shareholders, commercial banks and other related institutions.

(Article 20 of the *Measures for the Equity Management* and Article x of the *Guidelines for Non-financial Enterprises Investing in Financial Institutions*)

5. The controlling shareholders of commercial banks shall establish and improve a firewall system for the isolation of legal persons, funds, finance, transactions, information and personnel between the industrial sector and the financial sector, and effectively regulate the business transactions, joint marketing, information sharing, and the sharing of business facilities, business places and operating systems between shareholders and commercial banks.

(Article xiii of the *Guidelines for Non-financial Enterprises Investing in Financial Institutions*)

6. Majority shareholders of commercial banks shall strengthen the risk isolation between commercial banks and other non-licensed financial institutions such as micro-finance companies and guarantee companies. They shall not involve improper publicity in the name of commercial banks, confuse the products and services between licensed and non-licensed financial institutions, or enlarge the credit of non-licensed financial institutions to seek improper interests.

(Article 32 of the *Measures for Regulating the Conduct of Majority Shareholders*)

7. Majority shareholders of commercial banks shall actively cooperate with commercial banks in reputation risk management, guide positive public opinion and safeguard the brand image of commercial banks.

(Article 31 of the *Measures for Regulating the Conduct of Majority Shareholders*)

Chapter III Equity Management Responsibilities of Commercial Banks
Section I Equity Management Mechanism and System Building

1. The board of directors of a commercial bank shall be diligent, and assume ultimate responsibility for equity management.

The board chairman of a commercial bank is the first responsible person for handling the equity affairs of the commercial bank. The board secretary shall assist the board chairman with his work, and is the person directly responsible for handling the equity affairs.

The board chairman and board secretary shall faithfully, honestly and diligently perform their duties. Those who fail to fulfill their duties with due diligence shall undertake legal liabilities according to the law.

(Article 26 of the *Measures for the Equity Management* and Article 40 of the *Measures for Regulating the Conduct of Majority Shareholders*)

2. Commercial banks shall conduct equity management under the principles of categorized management, good qualifications, clear relationships, specific rights and responsibilities, and openness and transparency, and improve equity structure dynamically.

(Article 3 of the *Measures for the Equity Management*)

3. A commercial bank shall strengthen the management of equity affairs and major shareholders and improve its corporate governance structure; it shall strictly examine the qualifications of its shareholders, and strengthen the look-through management of shareholders and actual controllers.

(Article 7 and Article 9 of the *Measures for the Equity Management*)

4. A commercial bank shall stipulate in its articles of association that major shareholders shall give a long-term undertaking in writing to the commercial bank to replenish its capital, as part of the capital planning of the commercial bank, and prescribe therein the main factors the commercial bank needs to take into account in formulating a prudential profit distribution plan.

(Article 6 of the *Corporate Governance Standards*)

5. A commercial bank shall specify in its articles of association the corresponding loss absorption and risk defense mechanism when a material risk is incurred.

(Article 16 of the *Corporate Governance Standards*)

6. Commercial banks should adhere to independent operation, establish an effective risk isolation mechanism, take prudent measures including isolation of equity, assets, debts, management, finance, business and personnel, realize independent accounting and risk bearing with majority shareholders, and effectively prevent interest conflicts and risk contagion. Where the CBIRC has other provisions on the supervision and administration of commercial banks, such provisions shall prevail.

(Article 42 of the *Measures for Regulating the Conduct of Majority Shareholders*)

7. Commercial banks shall establish an equity custody system to put equity under

centralized custody in qualified custodians. Unless otherwise stipulated by the CBIRC.

(Article 31 of the *Measures for the Equity Management* and Article 3 of the *Guidelines for Supervision and Administration of Private Banks*)

8. A commercial bank may entrust a custodian to handle the following equity management affairs on its behalf:

- (1) Providing equity information inquiry services for the commercial bank and its shareholders;
- (2) Handling the issuance, loss reporting and reissuance of equity certificates, and issuing equity certificates;
- (3) Distributing dividends of the commercial bank;
- (4) Other equity affairs that meet the requirements of laws and regulations.

(Article 14 of the *Measures for the Equity Custody*)

9. Under any of the following circumstances, a commercial bank shall replace the custodian in a timely manner:

- (1) Due to listing on a legal exchange, the equity must be registered and deposited with other institutions in accordance with laws and regulations;
- (2) The legal entity qualifications of the custodian disappears, or there is merger and reorganization, and the new entity does not meet the qualification conditions specified in the *Measures for the Equity Custody for Commercial Banks*;
- (3) The custodian violates the service agreement and causes damage to the interests of the commercial bank and its shareholders;
- (4) The custodian is blacklisted by the CBIRC;
- (5) Other circumstances in which the CBIRC or its local offices believe that the custodian shall be replaced.

(Article 15 of the *Measures for the Equity Custody*)

10. Rural commercial banks shall, in accordance with the relevant provisions of the regulatory authority, establish and improve the equity management system, clarify the equity management requirements, including but not limited to the qualification conditions of shareholders, equity registration and confirmation, centralized custody of equity, equity change procedures, equity pledge, equity transfer methods and reports on major information of shareholders, formulate equity management plans and submit them to the local regulatory authority for the record.

(Article i of the *Opinions on Strengthening the Equity Management of Rural Commercial Banks*)

11. Rural commercial banks shall formulate a scientific long and medium-term equity

management plan in line with their own reality, and actively encourage high-quality enterprises to acquire their shares under the principle of giving priority to agriculture and focusing on industry. Rural commercial banks are encouraged to introduce a certain number of high-quality agro-related corporate shareholders with a shareholding ratio of 5% or more, and support the introduction of financial institutions or Chinese-funded enterprises with strong capital strength, advanced management experience, strong risk control and service innovation ability as strategic investors.

(Article iv of the *Opinions on Strengthening the Equity Management of Rural Commercial Banks*)

12. Each rural commercial bank shall strengthen the building of information system, establish equity monitoring mechanism, designate personnel to closely monitor and analyze the transfer and pledge of the bank's equity transactions. When finding out behaviors such as frequent speculation of the bank's shares, malicious manipulation of share price, online auction of equity and pledge of equity in excess of limit, the commercial bank shall timely understand the situation, make response plans, take the initiative to properly deal with those behaviors and report to the local regulatory authority.

(Article vii of the *Opinions on Strengthening the Equity Management of Rural Commercial Banks*)

13. A private bank shall specify in its articles of association or agreement:

(1) Institutional arrangements for shareholders to bear residual risks, in order to promote shareholders to enhance credit of the bank, and implement shareholders' responsibilities in the process of bank disposal.

(2) Relevant provisions for shareholders to accept supervision, including but not limited to shareholders' submission of information and acceptance of extended supervision.

(Article 4 of the *Guidelines for Supervision and Administration of Private Banks*)

Section II Equity Change Management

1-8. See Articles 1-8 of Section V of Chapter II.

9. Rural commercial banks shall strictly review the qualification of shareholders in accordance with the relevant provisions of the regulatory authority, clearly inform shareholders of their equity management policies and shareholders' obligations before the shareholders acquire shares, make public the relevant information and commitments of shareholders holding 1% or more of shares, and accept social supervision.

(Article ii of the *Opinions on Strengthening the Equity Management of Rural Commercial Banks*)

10. Before acquisition of 5% or more of its shares by any party, rural commercial banks shall conduct due diligence on its corporate governance, financial status, related shareholders, actual controllers, involved in lawsuit (arbitration) and administrative penalties. Those who meet the conditions for equity participation shall be required to issue authenticity commitments on the status of controlling shareholders, actual

controllers, connected relations, whether they acquire shares with their own funds, whether they have related shareholders and whether they have acquired shares in a number of rural small and medium financial institutions, so as to ensure that the shareholders are qualified, and have legal fund sources and have the ability to continuously replenish capital. Rural commercial banks shall establish a "blacklist" and report to the local regulatory authority for shareholders who conceal information or provide false information, violate commitments, or interfere with the normal operation of institutions. Once any material information that has a significant adverse impact on the qualification of major shareholders is found, it shall be reported to the local regulatory authority immediately.

(Article ii of the *Opinions on Strengthening the Equity Management of Rural Commercial Banks*)

12. A rural commercial bank shall specify in its articles of association that if a shareholder intends to transfer its equity by means other than the stock exchange, it shall report to the board of directors or equity management organ of the bank for examination and consent in advance. If the matters are subject to regulatory approval, they shall be approved by the banking regulatory authority before formally going through relevant procedures with the transferee. If the matters need to be reported, they shall be reported to the local regulatory authority in accordance with relevant requirements. The transfer through the stock exchange shall comply with the relevant provisions of the banking and securities regulatory authorities simultaneously. After the equity transfer, the relevant change registration procedures shall be handled in time and the change registration shall be carried out in the register of shareholders.

(Article v of the *Opinions on Strengthening the Equity Management of Rural Commercial Banks*)

Section III Equity Pledge Management

1. Commercial banks shall strengthen the management of equity pledge and pledge release, record the pledge related information in the register of shareholders, and timely assist shareholders in handling the pledge registration with relevant institutions.

(Article 35 of the *Measures for the Equity Management*)

2. While protecting the legitimate rights of shareholders, the board of directors and senior management of a commercial bank shall incorporate the standardized management of bank equity pledge into corporate governance and risk prevention and control from the perspective of building good corporate governance and maintaining the healthy operation of the bank, earnestly perform their duties and ensure the implementation of various regulatory requirements.

A commercial bank shall improve its equity pledge management system, issue its equity pledge management measures taking into account the actual situation, and standardize the handling processes, filing elements, risk assessment requirements and follow-up measures for the bank's equity pledge.

(Article 1 and Article 2 of the *Notice on Strengthening the Management of Share Pledge of Commercial Banks*)

3. See Article 10 of Section V of Chapter II.

4. Commercial banks shall establish and improve the firewall for operational risk between them and their shareholders. Commercial banks shall guard against various risks caused by shareholders' pledge of bank equity. For the shareholders who have pledged bank equity, they shall regularly collect and analyze their financial data, and pay close attention to whether the pledged equity involves litigation, freezing, discount, auction and other matters. Commercial banks shall do a good job in risk monitoring, public opinion guidance and emergency planning.

(Article 4 of the *Notice on Strengthening the Management of Share Pledge of Commercial Banks*)

5. Commercial banks shall improve the standardization of equity management and the transparency of equity pledge by strengthening the building of IT system, establishing the monitoring account of equity pledge management, and conducting centralized equity custody via qualified equity custodians.

Under any of the following circumstances, commercial banks shall timely disclose information through quarterly reports, annual reports, equity centralized custodians and other channels. Commercial banks shall submit relevant information to the CBIRC through the legal person supervision information submission channel within 10 days after any of the following circumstances occurs. The CBIRC has the right to take corresponding regulatory measures according to the risk impact on the bank caused by the following circumstances:

- (1) The pledged equity of the bank reaches or exceeds 20% of the total equity;
- (2) When the number of shares of the bank pledged by a major shareholder accounts for 50% or more of the shares held by the major shareholder;
- (3) The pledged equity of the bank was involved in freezing, judicial auction, restriction of voting rights according to law or restriction of other rights.

(Article 5 of the *Notice on Strengthening the Management of Share Pledge of Commercial Banks*)

6. Private banks are encouraged to specify in their articles of association or agreements that the major shareholders, among others, shall not provide guarantee (including equity pledge) for themselves or others with their own equity of the banks.

(Article 3 of the *Guidelines for Supervision and Administration of Private Banks*)

Section IV Management of Connected Transactions with Shareholders

1. Commercial banks shall strengthen the management of connected transactions, accurately identify related parties, strictly implement the connected transaction approval system and information disclosure system, and timely report the connected transactions to the CBIRC or its local offices.

(Article 32 of the *Measures for the Equity Management*)

2. The balance of credits granted by a commercial bank to any related party shall not exceed 10% of the commercial bank's net capital at the end of the previous quarter. The total balance of credits granted by a commercial bank to any related legal person or the group of any unincorporated organization shall not exceed 15% of the bank's net capital at the end of the previous quarter. The total balance of credit granted by a commercial bank to all related parties shall not exceed 50% of its net capital at the end of the previous quarter.

When calculating the balance of connected credit transactions, the amount of margin deposits, pledged certificates of deposit and treasury bonds provided by related parties during credit granting can be deducted.

Commercial banks shall abide by the relevant provisions on interbank business when conducting interbank business with related parties. The interbank business between commercial banks and related parties of domestic and overseas banks may not be subject to the provisions on the proportion set out in paragraph 1 of this article and the standards for major connected transactions set out in Article 14 of the *Administrative Measures for Connected Transactions of Banking and Insurance Institutions*.

Commercial banks subject to risk disposal or takeover measures taken by the CBIRC or its local offices may not apply the proportion provisions of this Article upon approval of the CBIRC.

(Article 33 of the *Measures for the Equity Management* and Article 16 of the *Measures for Connected Transactions*)

3. Commercial banks shall not evade the approval or regulatory requirements for major connected transactions by covering up connected relations, splitting transactions and other covert ways.

Commercial banks shall not use various nested transactions to lengthen the financing chain, blur the essence of business, evade regulatory provisions, illegally finance shareholders and their related parties, transfer assets, engage in idle arbitrage, cover up risks, etc.

(Article 27 of the *Measures for Connected Transactions*)

4. Commercial banks shall not directly finance related parties through interbank, wealth management, off-balance sheet and other businesses, in excess of the proportion limit or in violation of the regulations.

A commercial bank shall not accept its own equity as the pledge for credit. No commercial bank may provide guarantee (including contingencies equivalent to guarantee) for the financing activities of its related parties, except that the related parties provide enough counter-guarantee using their certificates of deposit or treasury bonds.

In case a commercial bank suffers losses arising from credits granted to a related party, it shall not grant any credit to the related party within two years after the losses occur, unless approved by the board of directors of the commercial bank for reduction of the credit losses.

(Article 142 of the *Company Law* and Article 28 of the *Measures for Connected Transactions*)

5. Where the majority shareholder of a commercial bank issues bonds by private placement, the commercial bank shall not provide guarantee for it or purchase the bonds directly or through financial products.

(Article 26 of the *Measures for Regulating the Conduct of Majority Shareholders*)

6. Commercial banks making a share buyback shall comply with Article 142 of the *Company Law of the People's Republic of China*.

(Article 142 of the *Company Law*)

7. Commercial banks whose corporate governance is rated as E shall not carry out connected credit transactions, except for the circumstances as recognized by the CBIRC or its local offices.

(Article 33 of the *Measures for Connected Transactions*)

8. Private banks are encouraged to specify in their articles of association or agreements that they shall not grant related credits to their major shareholders, but not limited to the majority shareholders and their related parties.

(Article 3 of the *Guidelines for Supervision and Administration of Private Banks*)

Section V Equity Information Disclosure and Management

1. Commercial banks shall disclose information in compliance with regulations, following the principles of authenticity, accuracy, completeness and comparability.

(Article 5 of the *Measures for Information Disclosure*)

2. A commercial bank shall establish and improve an equity information management system and equity management rules, and effectively conduct equity information registration, management of connected transactions, information disclosure and other work.

A commercial bank shall strengthen communication with its shareholders and investors, and be responsible for such work as applying for administrative licensing relating to equity affairs, reporting of shareholders' information and relevant matters, and submission of information.

(Article 27 of the *Measures for the Equity Management*)

3. Commercial banks shall strengthen the examination of shareholders' qualifications, verify the information of major shareholders and their controlling shareholders, actual controllers, related parties, persons acting in concert and ultimate beneficiaries, understand their changes, judge the impact of shareholders on the business management of commercial banks, and report or disclose relevant information in a timely, accurate and complete manner according to law.

(Article 29 of the *Measures for the Equity Management*)

4. The board of directors of a commercial bank shall assess the qualifications of major shareholders, the performance of commitments, the implementation of the articles of association or terms of agreements and the compliance with laws, regulations and regulatory provisions at least annually, and timely submit an assessment report to the CBIRC or its local offices.

If the relevant information of major shareholders may affect the qualification conditions of shareholders, or lead to significant changes in the equity of commercial banks, commercial banks shall disclose the information in a timely manner.

(Article 30 and Article 38 of the *Measures for the Equity Management*)

5. The board of directors of a commercial bank shall, at least once a year, assess the majority shareholder's qualification, financial status, shareholding, connected transactions of the previous year, the exercise of shareholders' rights, the performance of responsibilities, obligations and commitments, the implementation of the articles of association and terms of the agreements, and the compliance with laws, regulations and regulatory provisions, and report them at the shareholders' (general) meeting or through written documents, with a copy sent to the CBIRC or its local offices.

When assessing majority shareholders, commercial banks may simultaneously assess major shareholders in accordance with the provisions of Article 4 of this section, and the relevant assessment reports can be submitted to the CBIRC or its local offices.

(Article 45 of the *Measures for Regulating the Conduct of Majority Shareholders*)

6. A commercial bank shall establish information archives of majority shareholders, record and manage the relevant information of majority shareholders, and verify the control right of majority shareholders, the connected relations and concerted action with other shareholders of the commercial bank and the freezing of equity pledge at least once every six months by querying shareholders and inquiring about public information. In case of any change, it shall timely, accurately and completely report and disclose relevant information in accordance with relevant regulations.

(Article 44 of the *Measures for Regulating the Conduct of Majority Shareholders*)

7. A commercial bank shall truthfully, accurately and completely disclose its equity information through the interim report or annual report on the official website and other channels, including:

- (1) Shares at the end of the reporting period, total number of shareholders and share changes during the reporting period;
- (2) Shareholdings of the top 10 shareholders at the end of the reporting period;
- (3) Major shareholders and controlling shareholders, actual controllers, related parties, persons acting in concert and ultimate beneficiaries at the end of the reporting period;
- (4) Connected transactions with major shareholders and controlling shareholders, actual controllers, related parties, persons acting in concert and ultimate beneficiaries within

the reporting period;

(5) Pledge of bank equity by major shareholders;

(6) Directors and supervisors nominated by shareholders;

(7) Other information prescribed by the CBIRC.

For equity matters that shall be approved by the CBIRC or its local offices but has not been approved, the commercial bank shall explain the matters when making information disclosure.

(Article 37 and Article 39 of the *Measures for the Equity Management*)

8. A wholly foreign-funded bank or a Sino-foreign joint venture bank shall submit the annual reports of the wholly foreign-funded bank and its shareholders or the Sino-foreign joint venture bank and its shareholders to the CBIRC or its local offices where the head office of the bank is located within six months after the end of the accounting year.

(Article 77 of the *Detailed Rules for the Implementation of the Regulation on the Administration of Foreign-funded Banks*)

Section VI Shareholder Education, Supervision and Communication

1. A commercial bank shall support the establishment of communication and consultation mechanism among shareholders, and promote proper communication and consultation among shareholders on the exercise of rights.

A commercial bank shall establish a smooth and effective communication mechanism between the bank and its shareholders, treat all shareholders fairly, and safeguard the rights of shareholders, especially minority shareholders, to know, participate in making decisions on, and supervise the material matters of the commercial bank, among others.

(Article 17 of the *Corporate Governance Standards*)

2. A commercial bank shall establish a safe, economical, and convenient network or adopt another means to provide convenient conditions for minority shareholders to participate in the shareholders' general meeting.

(Article 21 of the *Corporate Governance Standards*)

3. A commercial bank shall strengthen the management of shareholders' equity and connected transactions, pay close attention to the behavior of majority shareholders, and take timely measures to prevent the aggravation of violations when they find that majority shareholders and their actual controllers are involved in the violations involving the commercial bank, and report to the CBIRC or its local offices in a timely manner.

(Article 41 of the *Measures for Regulating the Conduct of Majority Shareholders*)

4. Commercial banks are encouraged to formulate a list of rights and obligations of

majority shareholders and a list of negative behaviors.

The list of rights and obligations shall specify the shareholders' rights, responsibilities and obligations that the majority shareholders may enjoy and shall perform according to law. The list of negative behaviors shall specify the violations that majority shareholders shall not involve taking advantage of their status as shareholders, as well as the legal responsibilities and possible regulatory penalties they will bear in case of violations.

Commercial banks shall timely update the list of rights and obligations and the list of negative behaviors in accordance with laws, regulations and regulatory policies, make full use of the articles of association, urge and guide majority shareholders to exercise shareholders' rights in strict accordance with laws and regulations, and actively perform their responsibilities and obligations.

(Article 43 of the *Measures for Regulating the Conduct of Majority Shareholders*)

5. If not involving trade secrets, commercial banks can regularly report the governance, operation and relevant risks of institutions, better protect the right to know, right to query and other relevant rights of stakeholders such as minority shareholders, independent directors, external supervisors, ordinary employees and financial consumers, and encourage the aforesaid stakeholders to supervise the improper intervention of majority shareholders.

(Article 46 of the *Measures for Regulating the Conduct of Majority Shareholders*)

6. If the majority shareholder of a commercial bank abuses its rights and causes losses to the commercial bank, the commercial bank shall require the majority shareholder to bear the liability for compensation in accordance with Article 20 of the *Company Law of the People's Republic of China*. If the majority shareholder refuses to cooperate to bear the liability for compensation, the commercial bank shall actively take relevant measures to safeguard its own rights and interests, and submit the relevant information to the CBIRC or its local offices.

(Article 47 of the *Measures for Regulating the Conduct of Majority Shareholders*)

Chapter IV Regulatory Measures and Penalties

Section I Regulatory Measures and Penalties for Shareholders

1. The CBIRC and its local offices shall conduct equity supervision of commercial banks in accordance with the law, and investigate and punish the violations of laws and regulations of commercial banks and their shareholders and other relevant entities and persons.

(Article 7 of the *Measures for the Equity Management*)

2. If the shareholders of a commercial bank or its controlling shareholders, actual controllers, related parties, persons acting in concert and ultimate beneficiaries have the following circumstances, resulting in the violation of the rules of prudent operation by the commercial bank, the CBIRC or its local offices may instruct the controlling shareholders of the commercial bank to transfer their equity in accordance with Article 37 of the *Law of the People's Republic of China on Regulation of and Supervision over*

the Banking Industry; it may restrict the relevant rights of shareholders of the commercial bank to participate in the business management, including the right to request the convening of a shareholders' (general) meeting, voting right, nomination right, proposal right and disposal right:

- (1) Making false capital contribution, or withdrawing capital directly or in a disguised way;
- (2) Illegally using entrusted funds, debt funds or other non-proprietary funds to in equity investment;
- (3) Holding equity on behalf of others in violation of regulations;
- (4) Failing to report as required;
- (5) Refusing to provide documentary materials or providing false documentary materials, concealing important information and delaying the provision of relevant documentary materials to commercial banks, the CBIRC or its local offices;
- (6) Violating the commitment or the articles of association;
- (7) The major shareholders or controlling shareholders or actual controllers do not meet the regulatory requirements set out in the *Interim Measures for the Equity Management of Commercial Banks*;
- (8) Conducting connected transactions in violation of regulations;
- (9) Providing equity pledge in violation of regulations;
- (10) Refusing or obstructing the investigation and verification conducted by the CBIRC or its local offices;
- (11) Failing to cooperate with the CBIRC or its local offices in risk disposal;
- (12) Other abuse of shareholders' rights or failure to perform shareholders' obligations, damaging the interests of commercial banks, depositors or other shareholders.

(Article 37 of the *Law on Banking Regulation and Supervision* and Article 48 of the *Measures for the Equity Management*)

3. According to the needs of prudential supervision, the CBIRC and its local offices have the right to limit the number of shares of a commercial bank held by the same shareholder and its related parties and persons acting in concert, the limit of shares held in the commercial bank, the proportion of equity pledge, etc.

(Article 44 of the *Measures for the Equity Management*)

4. Where a shareholder of a commercial bank holds 5% or more of the total capital or shares of the commercial bank without approval, the CBRIC or its local offices shall order the correction in accordance with the provisions of Article 79 of the *Law of the People's Republic of China on Commercial Banks*, and confiscate illegal earnings and impose a fine of one to five times the illegal earnings if illegal earnings are more than

RMB50,000; or impose a fine between RMB50,000 and RMB500,000 if no illegal earning is gained or if illegal earnings are less than RMB50,000.

If the shareholders of a commercial bank or its controlling shareholders, actual controllers, related parties, persons acting in concert and ultimate beneficiaries obtain approval to hold 5% or more of the total capital or shares of the commercial bank by improper means such as concealment and deception, the CBIRC or its local offices shall revoke the relevant administrative license in accordance with the provisions of the *Administrative License Law of the People's Republic of China*.

(Article 79 of the *Law on Commercial Banks*, Article 53 and Article 54 of the *Measures for the Equity Management* Article viii of the *Guidelines for Non-financial Enterprises Investing in Financial Institutions*)

5. If a commercial bank's shareholder, controlling shareholder or actual controller forces the institution to engage in the following acts by exerting influence on the institution, the CBIRC or its local offices shall require it to take remedial measures within a prescribed period of time. If the commercial bank fails to correct the deficiencies within the prescribed period of time, the CBIRC or its local offices may restrict the rights of the shareholder. For the controlling shareholder with serious circumstances, the CBIRC or its local offices may order it to transfer its equity:

(1) Conducting connected transactions in violation of Article 27 of the *Administrative Measures for Connected Transactions of Banking and Insurance Institutions*;

(2) Failing to conduct connected transactions under the business principles set out in Article 44 of the *Administrative Measures for Connected Transactions of Banking and Insurance Institutions*;

(3) Failing to examine connected transactions in accordance with the provisions of Article 45 of the *Administrative Measures for Connected Transactions of Banking and Insurance Institutions*;

(4) Providing guarantee for the financing of related parties in violation of the *Administrative Measures for Connected Transactions of Banking and Insurance Institutions*;

(5) Accepting the bank's own equity as the pledge for credit;

(6) Engaging an accounting firm controlled by a related party of the bank to provide auditing services for the bank;

(7) The balance of credit or financing for related parties exceeds the proportion set out in the *Administrative Measures for Connected Transactions of Banking and Insurance Institutions*;

(8) Failing to disclose information in accordance with the *Administrative Measures for Connected Transactions of Banking and Insurance Institutions*;

(Article 59 of the *Measures for Connected Transactions*)

6. If the majority shareholder of a commercial bank issues a false commitment or fails to

fulfill the commitment, the CBIRC may interview the commercial bank, the majority shareholder and other relevant personnel, and record it in the poor equity management records of commercial banks and insurance institutions.

(Article 36 of the *Measures for Regulating the Conduct of Majority Shareholders*)

7. The CBIRC and its local offices shall establish a database of records of poor equity management and shareholders' behaviors of commercial banks, and share the information with relevant departments or government agencies through the national credit information sharing platform.

For shareholders who have committed violations and refused to correct, the CBIRC and its local offices may punish them individually or jointly with relevant departments and units, and may notify, publicly reprimand and prohibit them from acquiring shares of commercial banks for a certain period of time or even for life.

(Article 50 of the *Measures for the Equity Management*)

8. Shareholders of a commercial bank who abuse their shareholders' rights and cause the commercial bank or other shareholders to suffer damages shall bear compensation liability in accordance with the law.

Shareholders of a commercial bank who abuse the independent legal person status of the company and limited liability of shareholders to evade debts and cause damage to the interests of the creditors of the commercial bank shall bear joint liability for the commercial bank's debt.

(Article 20 of the *Company Law*)

9. The controlling shareholders and actual controllers of a commercial bank who use their connected relations to cause damage to the commercial bank's interests and cause the commercial bank to suffer losses shall bear compensation liability.

(Article 21 of the *Company Law*)

10. Promoters or shareholders of the commercial bank who make false capital contribution or fail to make cash or non-cash contribution in accordance with the schedule shall be ordered by the company registration authorities to make correction and imposed with a fine ranging from 5% to 15% of the amount of false capital contribution.

(Article 199 of the *Company Law*)

11. Promoters or shareholders of the commercial bank who withdraw their capital contribution after the commercial bank is incorporated shall be ordered by the company registration authorities to make correction and imposed with a fine ranging from 5% to 15% of the amount of withdrawn capital contribution.

(Article 200 of the *Company Law*)

Section II Regulatory Measures and Penalties for Commercial Banks

1. Where a commercial bank has any of the following circumstances during the equity

management, the CBIRC or its local offices shall require it to take remedial measures within a prescribed period of time. If the commercial bank fails to correct the deficiencies within the prescribed period of time, or the safety and soundness of the commercial bank is likely to be severely threatened and the legitimate rights and interests of its depositors and other customers are likely to be jeopardized, the CBIRC or its provincial offices may, subject to the approval of its chief responsible officer, take the corresponding regulatory measures depending on the severity of the circumstances in accordance with the provisions of Article 37 of the *Law of the People's Republic of China on Regulation of and Supervision over the Banking Industry*:

- (1) Failing to apply for approval or report in a timely manner as required;
- (2) Submitting statements, reports and other documents or materials that are false or conceal important facts;
- (3) Failing to formulate the articles of association as required to clarify the rights and obligations of shareholders;
- (4) Failing to carry out equity custody as required;
- (5) Failing to disclose information as required;
- (6) Failing to conduct connected transactions as required;
- (7) Failing to carry out equity pledge management as required;
- (8) Refusing or obstructing the investigation and verification conducted by regulatory authorities;
- (9) Other violations of relevant requirements of equity management.

(Article 37 of the *Law on Banking Regulation and Supervision* and Article 47 of the *Measures for the Equity Management*)

2. Where a commercial bank fails to examine, review or disclose the information of its shareholders and their controlling shareholders, actual controllers, related parties, persons acting in concert and ultimate beneficiaries as required, the CBIRC or its local offices shall order it to make correction and impose a fine ranging from RMB200,000 to RMB500,000 in accordance with the provisions of Articles 46 and Article 48 of the *Law of the People's Republic of China on Regulation of and Supervision over the Banking Industry*; the chairman, the secretary of the board of directors and other relevant staff held responsible shall be given a disciplinary warning and concurrently imposed with a fine ranging from RMB50,000 to RMB500,000.

(Article 46 and Article 48 of the *Law on Banking Regulation and Supervision* and Article 51 of the *Measures for the Equity Management*)

3. If a commercial bank is involved in any of the circumstances specified in Article 1 of this Section, and the circumstances are relatively serious, the CBIRC or its local offices shall impose a fine ranging from RMB200,000 to RMB500,000 in accordance with Article 46, Article 47 and Article 48 of the *Law of the People's Republic of China on Regulation of and Supervision over the Banking Industry*; if the circumstances are

particularly serious or if it fails to make corrections within the time limit, it may be subject to suspension of business for overhaul or revocation of its business license. The chairman, the secretary of the board of directors and other relevant staff held responsible shall be given a disciplinary warning and imposed with a fine ranging from RMB50,000 to RMB500,000. If the circumstances are serious, their qualifications as directors and senior management personnel shall be revoked.

(Article 46, Article 47 and Article 48 of the *Law on Banking Regulation and Supervision* and Article 52 of the *Measures for the Equity Management*)

4. If a commercial bank fails to comply with the legal provisions for equity management, the CBIRC or its local offices may adjust the corporate governance assessment results or regulatory rating of the commercial bank.

A regulatory assessment level of E can be directly issued in the following circumstances:

(1) Shareholders make false capital contribution or cyclic capital injection, or withdraw capital directly or in a disguised way;

(2) Shareholders evade regulatory review by concealing actual controllers, connected relations, stealth shareholders, equity holdings on behalf of other people, voting rights entrustment, and agreement on concerted actions, etc., which have substantial impact on the control or dominance of the commercial bank;

(3) The corporate governance mechanism fails, and the meetings of the board of directors and the shareholders' (general) meetings cannot be held normally or make decisions for a long time.

If a member of the board of directors of a commercial bank fails to raise an objection to the violations of laws and regulations in equity management during the performance of his/her duties, he/she shall not be rated as competent in the latest performance assessment.

(Article 49 of the *Measures for the Equity Management* and Article 8 of the *Measures for the Assessment of Corporate Governance*)

5. The CBIRC and its local offices have the right to require a commercial bank to reduce the proportion of balance of credits granted by it to more than one or all of its shareholders and controlling shareholders, actual controllers, related parties, persons acting in concert and ultimate beneficiaries in its net capital according to the risk status of connected transactions between the commercial bank and its shareholders, and restrict or prohibit the commercial bank from conducting transactions with more than one or all of its shareholders and controlling shareholders, actual controllers, related parties, persons acting in concert and ultimate beneficiaries.

(Article 43 of the *Measures for the Equity Management*)

6. If a commercial bank violates the provisions of the *Administrative Measures for Connected Transactions of Banking and Insurance Institutions*, the CBIRC or its local offices shall order it to make corrections, including the following measures:

- (1) Prohibiting transactions with specific related parties;
- (2) Requiring the commercial bank to present an auditor's report on specific transactions;
- (3) According to the risk status of connected transactions of a commercial bank, requiring the commercial bank to reduce the proportion requirements for the amount of transactions with a single related party or all related parties until the connected transactions are stopped;
- (4) Ordering the replacement of accounting firms, professional appraisal agencies, law firms and other service providers;
- (5) Other measures that the CBIRC or its local offices may take according to law.

(Article 34 of the *Measures for Connected Transactions*)

7. Where the commercial bank is under any of the following circumstances, the CBIRC or its local offices may take relevant regulatory measures or impose penalties in accordance with laws and regulations:

- (1) Conducting connected transactions in violation of Article 27 of the *Administrative Measures for Connected Transactions of Banking and Insurance Institutions*;
- (2) Failing to conduct connected transactions under the business principles set out in Article 44 of the *Administrative Measures for Connected Transactions of Banking and Insurance Institutions*;
- (3) Failing to examine connected transactions in accordance with the provisions of Article 45 of the *Administrative Measures for Connected Transactions of Banking and Insurance Institutions*;
- (4) Providing guarantee for the financing of related parties in violation of the *Administrative Measures for Connected Transactions of Banking and Insurance Institutions*;
- (5) Accepting the bank's own equity as the pledge for credit;
- (6) Engaging an accounting firm controlled by a related party of the bank to provide services for the bank;
- (7) The balance of credit or financing for related parties exceeds the proportion set out in the *Administrative Measures for Connected Transactions of Banking and Insurance Institutions*;
- (8) Failing to disclose information in accordance with the *Administrative Measures for Connected Transactions of Banking and Insurance Institutions*;
- (9) Failing to implement the supervision and administration measures stipulated in Article 59 and Article 60 of the *Administrative Measures for Connected Transactions of Banking and Insurance Institutions* as required;
- (10) Other circumstances in violation of the *Administrative Measures for Connected*

Transactions of Banking and Insurance Institutions.

(Article 61 of the *Measures for Connected Transactions*)

Chapter V Supplementary Provisions

Section I Requirements for Shareholder Qualifications of Commercial Banks

1. Shareholders of a commercial bank shall have good social reputation, credit records, tax records and financial status, which comply with the provisions of laws and regulations and meet regulatory requirements.

(Article 5 of the *Measures for the Equity Management*)

2. The relationship between a commercial bank's shareholder and its controlling shareholders, actual controllers, related parties, persons acting in concert, ultimate beneficiaries and other parties shall be clear and transparent.

The shareholding ratio of a shareholder and its related parties and persons acting in concert shall be calculated on a consolidated basis.

(Article 6 of the *Measures for the Equity Management*)

3. The same investor and its related parties and persons acting in concert shall not purchase shares of more than two commercial banks as a major shareholder or control more than one commercial bank.

The purchase of shares of a commercial bank by an investor holding shares of a commercial bank upon authorization by the State Council, a banking financial institution or an entity as otherwise prescribed by laws and regulations, or merger and acquisition or restructuring of a high-risk commercial bank by an investor upon approval of the CBIRC shall not be subject to the restrictions in the provisions of the preceding paragraph.

(Article 14 of the *Measures for the Equity Management*)

4. Financial products may hold shares of a listed commercial bank, but the shares accumulatively held in the same commercial bank by the financial products controlled by a single investor, issuer or manager and its actual controllers, related parties and persons acting in concert shall not exceed 5% of total shares of the commercial bank.

A major shareholder of a commercial bank shall not hold shares of the commercial bank through financial products issued, managed or controlled by it by any other means.

(Article 25 of the *Measures for the Equity Management*)

5. A commercial bank's major shareholder and its controlling shareholder or actual controller shall not fall under any of the following circumstances:

(1) Being listed as an object subject to joint punishment for dishonesty by relevant departments;

- (2) Seriously evading bank debts;
- (3) Providing false materials or making false statement;
- (4) Assuming significant liability for a commercial bank's business failure or material violation of laws and regulations;
- (5) Rejecting or obstructing the lawful implementation of supervision and administration by the CBIRC or its local offices;
- (6) Having been investigated and punished by the financial supervision department or relevant government departments due to violations of laws and regulations, and having caused adverse impact;
- (7) Other circumstances that may cause adverse impact on a commercial bank's business management.

(Article 16 of the *Measures for the Equity Management*)

6. A financial institution's major shareholder or controlling shareholder which is a non-financial enterprise shall have prominent core business, strong capital strength, standardized corporate governance, clear equity structure, management ability up to standard, good financial condition, and moderate asset and liability and leverage level, and have formulated reasonable and clear business plans for investment in the financial industry. The controlling shareholder shall meet the following conditions:

- (1) Having prominent core business and business development sustainability;
- (2) Having strong capital strength and sustainable capital contribution capability. In principle, it shall meet the regulatory requirements for relevant industries, including making profits in the recent three consecutive accounting years, net assets reaching 40% of total assets after year-end distribution, and the balance of equity investment not exceeding 40% of the net assets of the enterprise;
- (3) Having standardized corporate governance, simple and clear organizational structure, and transparent structure of shareholders and beneficial owners. If the investor is an enterprise group or is in the structure of an enterprise group or holding company, it shall comprehensively and completely report or disclose the equity structure, actual controller, beneficial owner and changes of the group, including anonymity, holding of shares on behalf of others and other relevant information;
- (4) Meeting the standards for the management ability and having financial professionals.

(Article v of the *Guidelines for Non-financial Enterprises Investing in Financial Institutions*)

7. A non-financial enterprise shall not become the controlling shareholder of a commercial bank under any of the following circumstances:

- (1) Breaking away from the core business and expanding blindly to the financial industry;

- (2) Having weak risk control;
- (3) Making highly leveraged investments;
- (4) Having numerous connected enterprises with complicated and non-transparent equity relationships;
- (5) Having frequent occurrence of abnormal connected transactions;
- (6) Abusing its market monopoly position or technical advantages to carry out unfair competition, manipulate the market and disrupt the financial order.

An enterprise that assumes significant responsibility for the business failure or major violations of an invested commercial bank shall not reinvest in the commercial bank to become the controlling shareholder of the commercial bank within five years.

(Article v of the *Guidelines for Non-financial Enterprises Investing in Financial Institutions*)

8. Non-financial enterprise shareholders of commercial banks shall aim at serving the real economy, closely focus on the development needs of their own core business, scientifically arrange their investment in commercial banks, and avoid diverting funds out of the real economy.

(Article ii of the *Guidelines for Non-financial Enterprises Investing in Financial Institutions*)

9. Majority shareholders of commercial banks shall strengthen capital constraints, maintain an appropriate level of leverage, scientifically arrange their investment in commercial banks, and ensure that their investment behavior is compatible with their own capital scale, sustainable capital contribution capability and business management level, and the number of invested commercial banks shall meet relevant regulatory requirements.

(Article 6 of the *Measures for Regulating the Conduct of Majority Shareholders*)

Section II Requirements for Shareholder Qualifications of Chinese-funded Commercial Banks

1. The shareholders of Chinese-funded commercial banks shall meet the relevant requirements for the qualification of shareholders of commercial banks set out in Section I of this Chapter.

2. For the establishment of a Chinese-funded commercial bank with legal personality, there shall be eligible promoters, which include domestic financial institutions, overseas financial institutions, domestic non-financial institutions and other promoters acknowledged by the CBIRC.

The "overseas financial institutions" as mentioned in the preceding paragraph shall include the financial institutions in Hong Kong, Macau and Taiwan.

(Article 8 of the *Measures for the Administrative Licensing of Chinese-funded*

Commercial Banks)

3. As a shareholder of a Chinese-funded commercial bank with legal personality, a domestic financial institution shall meet the following conditions:

- (1) Its main prudent indicators shall meet the regulatory requirements;
- (2) It shall have a good corporate governance structure, as well as a sound and effective internal control system;
- (3) It shall have been keeping a favorable balance in the latest three accounting years;
- (4) It shall have a good social reputation, and shall have committed no major illegal or rule-breaking conducts or major violations caused by internal management problems in the latest two years;
- (5) Other prudent conditions as prescribed by the CBIRC.

(Article 9, Article 39 and Article 40 of the *Measures for the Administrative Licensing of Chinese-funded Commercial Banks*)

4. As a shareholder of a Chinese-funded commercial bank with legal personality, an overseas financial institution (wholly foreign-funded banks and Sino-foreign joint venture banks shall apply by reference) shall meet the following conditions:

- (1) Its total year-end assets in the latest year shall generally be no less than USD10 billion;
- (2) It shall have been rated as good for its long-term credit rating in the latest two years by an international rating institution acknowledged by the CBIRC;
- (3) It shall have been keeping a favorable balance in the latest two accounting years;
- (4) Its capital adequacy ratio shall reach the average level of capital adequacy ratio for the banking sector at the place of its registration and shall not be lower than 10.5% if it is a commercial bank, or the total amount of its capital shall not be lower than 10% of the total amount of risk-weighted assets if it is a non-bank financial institution;
- (5) It shall have a sound and effective internal control system;
- (6) The financial institution at the place of its registration shall have a sound supervision and management system;
- (7) Its host country (region) shall be in a good economic situation;
- (8) Other prudent conditions as prescribed by the CBIRC.

The overseas financial institution holding shares of a Chinese-funded commercial bank shall follow the principles of holding shares on the long-term basis, optimizing governance, business cooperation, and competition-related withdrawal.

The CBIRC may, in light of the risk situation of the financial industry and the

requirements for the supervision thereof, adjust the conditions for overseas financial institutions to be shareholders.

(Article 10, Article 39 and Article 40 of the *Measures for the Administrative Licensing of Chinese-funded Commercial Banks*)

5. A Chinese-funded commercial bank invested by an overseas financial institution shall be supervised and administrated according to the institutional type of the Chinese-funded commercial bank at the time of equity investment. Overseas financial institutions shall also observe the relevant provisions of the State on foreign investors' investment in China.

(Article 11, Article 39 and Article 40 of the *Measures for the Administrative Licensing of Chinese-funded Commercial Banks*)

6. As a shareholder of a Chinese-funded commercial bank with legal personality, a domestic non-financial institution shall meet the following conditions:

- (1) It shall be incorporated according to law and have the legal person qualification;
- (2) It shall have a good corporate governance structure or an effective organizational management model;
- (3) It shall have a good social reputation as well as good credit and tax record, and be able to repay the principal and interest of the loans it owes to the financial institutions on time and in full amount;
- (4) It shall have a comparatively long period of development and a stable operating status;
- (5) It shall have a comparatively strong management capacity as well as good capital strength;
- (6) It shall have a good financial situation and have been in a favorable balance for the latest three accounting years;
- (7) It shall have the net assets that account for 30% of its total assets (on a consolidated basis) after the year-end distribution;
- (8) Except for the investment companies or holding companies as prescribed by the State Council, the balance of equity investments shall generally not be more than 50% of the net assets of the enterprise (on a consolidated basis);
- (9) It shall acquire shares with its own capital instead of non-proprietary funds such as entrusted funds or borrowed funds, unless otherwise stipulated by laws and regulations;
- (10) Other prudent conditions as prescribed by the CBIRC.

(Article 12, Article 39 and Article 40 of the *Measures for the Administrative Licensing of Chinese-funded Commercial Banks*)

7. An enterprise under any of the following circumstances shall not be a shareholder of a

Chinese-funded commercial bank with legal personality:

- (1) Its corporate governance structure or mechanism has evident flaws;
- (2) It has numerous connected enterprises, complex and obscure equity relationships, or frequent and abnormal connected transactions;
- (3) It does not have a prominent major business, and its business scope covers too many industries;
- (4) Its cash flow fluctuation is largely influenced by the economic situation;
- (5) Its asset liability ratio or financial leverage ratio is higher than the industrial average levels;
- (6) It is holding equity of other Chinese-funded commercial banks on behalf of others;
- (7) Any other circumstances that may have significant adverse impact on the bank.

(Article 13, Article 39 and Article 40 of the *Measures for the Administrative Licensing of Chinese-funded Commercial Banks*)

8. The ratio of shares held in a small and medium commercial bank shall generally not exceed 20%. For some high-risk city commercial banks, the restriction on the ratio can be appropriately relaxed.

(Article 2 of the *Notice on Strengthening the Qualification Examination of the Major Shareholders of Small- and Medium-sized Commercial Banks*)

Section III Requirements for Shareholder Qualifications of Private Banks

1. The shareholders of private banks shall meet the relevant requirements for the qualification of shareholders of commercial banks set out in Section I of this Chapter.

2. Shareholders of private banks shall meet the following conditions: They shall be legally incorporated with legal person qualification; have a good corporate governance structure and an effective organizational management model; have a good social reputation as well as good credit and tax record; have a comparatively long period of development and stable business performance; have a comparatively strong business management capacity as well as good capital strength; have good financial and asset status and have been in a favorable balance for the latest three accounting years; have the net assets that account for 30% of its total assets after the year-end distribution and the balance of equity investment not exceeding 50% of the net assets.

(Article 3 of the *Notice on the Guidelines for Promoting the Development of Private Banks*)

3. The capital owner of a shareholder of a private bank shall have a good personal reputation, abide by the law, and be honest and dedicated; the corporate governance structure and mechanism of a corporate shareholder shall meet the requirements of the *Company Law of the People's Republic of China*, the connected enterprises and equity relationship shall be simple and transparent, and there is no organizational structure or

bad record of connected transactions.

(Article 3 of the *Notice on the Guidelines for Promoting the Development of Private Banks*)

4. The actual controller of a shareholder of a private bank shall undertake that he/she is a citizen in China and does not hold the nationality, permanent residence right and similar status of other countries or regions, and undertake not to apply for the nationality, permanent residence right or similar status of other countries or regions during the period of holding the shares of the private bank.

(Article 4 of the *Notice on the Guidelines for Promoting the Development of Private Banks*)

Section IV Requirements for Shareholder Qualifications of Rural Commercial Banks

1. The shareholders of private banks and rural commercial banks shall meet the relevant requirements for the qualification of shareholders of commercial banks set out in Section I of this Chapter.

2. For the establishment of a rural commercial bank, there shall be eligible promoters, which include natural persons, domestic non-financial institutions, domestic banking financial institutions, domestic non-bank financial institutions, overseas banks and other promoters acknowledged by the CBIRC.

For the purpose of the preceding paragraph, "domestic banking financial institutions" refers to commercial banks, rural credit cooperatives and other public deposit-taking financial institutions and policy banks which are incorporated within the territory of the People's Republic of China according to law.

(Article 8 of the *Measures for the Administrative Licensing of Rural Small and Medium-sized Banks*)

3. As a shareholder of a rural commercial bank, a natural person shall meet the following conditions:

- (1) He/she is a Chinese citizen with full civil capacity;
- (2) He/she has a good social reputation and credit record, and has no criminal record;
- (3) He/she acquired shares with his/her own capital instead of non-proprietary funds such as entrusted funds or borrowed funds;
- (4) Other prudent conditions as prescribed by the CBIRC.

(Article 9 of the *Measures for the Administrative Licensing of Rural Small and Medium-sized Banks*)

4. The total shares held by a single natural person and his/her close relatives in a rural commercial bank shall not exceed 2% of the total share capital of the bank. The total shares held by natural person employees in a rural commercial bank shall not exceed

20% of the total share capital of the bank.

(Article 10 of the *Measures for the Administrative Licensing of Rural Small and Medium-sized Banks*)

5. As a shareholder of a rural commercial bank, a domestic non-financial institution shall meet the following conditions:

- (1) It shall be incorporated according to law and have the legal person qualification;
- (2) It shall have a good corporate governance structure or an effective organizational management model;
- (3) It shall have a good social reputation as well as good credit and tax record, and be able to repay the principal and interest of the loans it owes to the financial institutions on time and in full amount;
- (4) It shall have a comparatively long period of development and a stable operating status;
- (5) It shall have a comparatively strong management capacity as well as good capital strength;
- (6) There is no material violation of laws or regulations in the latest two years;
- (7) It shall have a good financial situation, and shall have been keeping a favorable balance in the latest two accounting years or in the latest three accounting years if it has acquired the controlling interest;
- (8) It shall have the net assets that account for no less than 30% of its total assets (on a consolidated basis) after the year-end distribution; if it has acquired the controlling interest, the net assets after the year-end distribution shall be no less than 40% of total assets (on a consolidated basis);
- (9) The balance of equity investments shall not be more than 50% of the net assets of the enterprise (including the current investment, on a consolidated basis); if it has acquired the controlling interest, the balance of equity investments shall not be more than 40% of the net assets of the enterprise (including the current investment, on a consolidated basis);
- (10) It shall acquire shares with its own capital instead of non-proprietary funds such as entrusted funds or borrowed funds;
- (11) Other prudent conditions as prescribed by the CBIRC.

Under any of the following circumstances, a domestic non-financial institution shall not act as a promoter:

- (1) Its corporate governance structure or mechanism has evident flaws;
- (2) It has numerous connected enterprises, complex and obscure equity relationships, or frequent and abnormal connected transactions;

(3) It does not have a prominent major business, and its business scope covers too many industries;

(4) Its cash flow fluctuation is largely influenced by the economic situation;

(5) Its asset liability ratio or financial leverage ratio is higher than the industrial average levels;

(6) It holds shares of a rural small and medium-sized banking institution on behalf of others;

(7) Any other circumstances that may have significant adverse impact on the bank.

(Article 11 of the *Measures for the Administrative Licensing of Rural Small and Medium-sized Banks*)

6. The total shares held by a single domestic non-financial institution and its related parties and persons acting in concert in a rural commercial bank shall not exceed 10% of the total share capital of the bank.

(Article 12 of the *Measures for the Administrative Licensing of Rural Small and Medium-sized Banks*)

7. As a shareholder of a rural commercial bank, a domestic banking financial institution or a domestic non-bank financial institution shall meet the following conditions:

(1) Its main prudent indicators shall meet the regulatory requirements;

(2) It shall have a good corporate governance structure, as well as a sound and effective internal control system;

(3) It shall have been keeping a favorable balance in the latest two accounting years;

(4) It shall have a good social reputation; it shall have committed no major illegal or rule-breaking conducts or major violations caused by internal management problems in recent two years, or relevant illegal or rule-breaking conducts and internal management problems have been rectified as required and such rectification has been confirmed by the CBIRC or its local offices;

(5) It shall acquire shares with its own capital instead of non-proprietary funds such as entrusted funds or borrowed funds;

(6) Other prudent conditions as prescribed by the CBIRC.

(Article 13 of the *Measures for the Administrative Licensing of Rural Small and Medium-sized Banks*)

8. The total shares held by a single domestic non-bank financial institution and its related parties and persons acting in concert in a rural commercial bank shall not exceed 10% of the total share capital of the bank.

(Article 14 of the *Measures for the Administrative Licensing of Rural Small and Medium*

-sized Banks)

9. As a shareholder of a rural commercial bank, an overseas bank (wholly foreign-funded banks and Sino-foreign joint venture banks shall implement by reference) shall meet the following conditions:

- (1) It shall have been rated as good for its long-term credit rating in the latest two years by an international rating institution acknowledged by the CBIRC;
- (2) It shall have been keeping a favorable balance in the latest two accounting years;
- (3) Its capital adequacy ratio shall reach the average level of capital adequacy ratio for the banking sector at the place of its registration and shall not be lower than 10.5%;
- (4) It shall have a sound and effective internal control system;
- (5) It shall acquire shares with its own capital instead of non-proprietary funds such as entrusted funds or borrowed funds;
- (6) Its host country (region) shall be in a good economic situation;
- (7) The financial institution at the place of its registration shall have a sound supervision and management system;
- (8) Other prudent conditions as prescribed by the CBIRC.

The overseas bank, as a promoter or a strategic investor of a bank, shall follow the principles of holding shares on the long-term basis, optimizing governance, business cooperation, and competition-related withdrawal.

The CBIRC may, in light of the risk situation of the financial industry and the requirements for the supervision thereof, adjust the conditions for overseas banks to be promoters.

(Article 15 of the Measures for the Administrative Licensing of Rural Small and Medium-sized Banks)

10. A rural small and medium-sized banking institution invested by an overseas bank shall be supervised and administrated according to the institutional type of the bank at the time of equity investment. Overseas banks shall also observe the relevant provisions of the State on foreign investors' investment in China.

(Article 16 of the Measures for the Administrative Licensing of Rural Small and Medium-sized Banks)

Section V Requirements for Shareholder Qualifications of Foreign-funded Banks

1. A shareholder of a wholly foreign-funded bank or a Sino-foreign equity joint venture bank shall meet the relevant requirements for the qualification of shareholders of commercial banks set out in Section I of this Chapter.

2. A shareholder of a wholly foreign-funded bank or a Sino-foreign equity joint venture bank shall meet the following conditions:

- (1) Having sustained profitability, having a good credit standing, and having no record of any serious violation of laws and regulations.
- (2) In the case of a shareholder of a wholly foreign-funded bank or a foreign shareholder of a Sino-foreign equity joint venture bank, having experience in engaging in international financial activities.
- (3) Having effective anti-money laundering rules, except for a Chinese shareholder which is a non-financial institution;
- (4) In the case of a shareholder of a wholly foreign-funded bank, or a foreign shareholder of a Sino-foreign equity joint venture bank, being effectively regulated by the financial regulatory authority of the country or region where it is located, and having obtained an approval of its establishment application from the financial regulatory authority of the country or region where it is located;
- (5) Other prudent conditions as prescribed by the CBIRC.

The country or region where a shareholder of a wholly foreign-funded bank or a foreign shareholder of a Sino-foreign equity joint venture bank is located shall have a sound financial regulatory system, and the financial regulatory authority thereof has established a sound supervision cooperation mechanism with the CBIRC.

The "prudent conditions" as mentioned above shall at least include the following items:

- (1) Having a good industry reputation and a good social image;
- (2) Continuously having good business performance with assets of good quality;
- (3) The management has good professional qualities and management capabilities;
- (4) Having a sound risk management system and being able to control various risks;
- (5) Having a sound internal control system and an effective management information system;
- (6) Financial statements are formulated according to the prudent accounting principles, and the accounting firm issues unqualified opinions on the financial statements;
- (7) Having no record of gross violation of any laws or regulations or major violations caused by internal management problems;
- (8) Having effective human resource management system and high-quality professionals;
- (9) Having the experience and capacity of managing and supporting the activities of institutions within the territory of China;
- (10) Having an effective capital restraint and replenishment mechanism;

(11) Having a sound corporate governance structure;

(12) Other prudent conditions as prescribed by laws, administrative regulations and the CBIRC.

(Article 9 and Article 28 of the *Regulation on the Administration of Foreign-funded Banks*, Article 3 of the *Detailed Rules for the Implementation of the Regulation on the Administration of Foreign-funded Banks*, and Article 5 and Article 10 of the *Measures for the Administrative Licensing of Foreign-funded Banks*)

3. A shareholder of a wholly foreign-funded bank shall be a financial institution. In addition to the conditions as set out in Article 2 of this Section, the sole or controlling shareholder thereof shall meet the following conditions:

(1) It is a commercial bank;

(2) Its capital adequacy ratio satisfies the requirements of the financial regulatory authority of the country or region where it is located and the CBIRC.

(Article 10 and Article 28 of the *Regulation on the Administration of Foreign-funded Banks*, and Article 11 of the *Measures for the Administrative Licensing of Foreign-funded Banks*)

4. Among the shareholders of a Sino-foreign equity joint venture bank, in addition to the conditions as set out in Article 2 of this Section, a foreign shareholder shall be a financial institution, and the sole or majority foreign shareholder shall also meet the following conditions:

(1) It is a commercial bank;

(2) Its capital adequacy ratio satisfies the requirements of the financial regulatory authority of the country or region where it is located and the CBIRC.

Among them, "the sole or majority foreign shareholder" refers to:

A commercial bank, which holds 50% or more of the total capital or total shares of the Sino-foreign equity joint venture bank, or which does not hold 50% or more of the total capital or total shares of the Sino-foreign equity joint venture bank but is under any of the following circumstances based on the articles of association of the Sino-foreign equity joint venture bank:

(1) To hold half or more of the voting rights of the Sino-foreign equity joint venture bank;

(2) To have the power to control the financial and operating policies of the Sino-foreign equity joint venture bank;

(3) To have the power to appoint or dismiss most of the members of the board of directors or any similar power institution of the Sino-foreign equity joint venture bank;

(4) To have half or more of the voting rights in the board of directors or similar power institution of the Sino-foreign equity joint venture bank.

The majority shareholder of the Sino-foreign equity joint venture bank shall include the Sino-foreign equity joint venture bank into its scope of consolidated statements.

(Article 11 and Article 28 of the *Regulation on the Administration of Foreign-funded Banks*, Article 4 of the *Detailed Rules for the Implementation of the Regulation on the Administration of Foreign-funded Banks*, and Article 12 and Article 13 of the *Measures for the Administrative Licensing of Foreign-funded Banks*)

5. If a Chinese shareholder of a Sino-foreign equity joint venture bank is a financial institution, in addition to the conditions as set out in Article 2 of this Section, the Chinese shareholder shall also meet the following conditions:

- (1) Its main prudent indicators shall meet the regulatory requirements;
- (2) It shall have a good corporate governance structure, as well as a sound and effective internal control system;
- (3) It shall have been keeping a favorable balance in the latest three accounting years;
- (4) It shall have a good social reputation; it shall have no major illegal or rule-breaking records or major violations caused by internal management problems, or relevant illegal or rule-breaking conducts and internal management problems have been rectified as required and such rectification has been confirmed by the financial regulatory authority;
- (5) It has been effectively regulated by the financial regulatory authority and has obtained an approval of its application from the relevant financial regulatory authority;
- (6) Other prudent conditions as prescribed by the CBIRC.

(Article 14 of the *Measures for the Administrative Licensing of Foreign-funded Banks*)

6. If a Chinese shareholder of a Sino-foreign equity joint venture bank is a non-financial institution, in addition to the conditions as set out in Article 2 of this Section, the Chinese shareholder shall also meet the following conditions:

- (1) It has a sound corporate governance structure;
- (2) It shall have a good social reputation as well as good credit and tax record, and be able to repay the principal and interest of the debts it owes to the financial institutions on time and in full amount;
- (3) It shall have a comparatively strong management capacity as well as good capital strength;
- (4) It shall have a good financial situation and have been in a favorable balance for the latest three accounting years;
- (5) It shall have the net assets that account for 30% of its total assets (on a consolidated basis) after the year-end distribution;
- (6) Except for the investment companies or holding companies as recognized by the CBIRC, the balance of equity investments shall not be more than 50% of the net assets

of the enterprise (on a consolidated basis);

(7) It shall acquire shares with its own capital instead of non-proprietary funds such as entrusted funds or borrowed funds, unless otherwise stipulated by laws and regulations;

(8) Other prudent conditions as prescribed by the CBIRC.

(Article 15 of the *Measures for the Administrative Licensing of Foreign-funded Banks*)

7. The ratio of shares held by a single Chinese non-financial institution in a Sino-foreign equity joint venture bank shall comply with the provisions of the CBIRC. The ratio of shares held by a shareholder and its related parties and persons acting in concert in a Sino-foreign equity joint venture bank shall be calculated on a consolidated basis.

(Article 16 of the *Measures for the Administrative Licensing of Foreign-funded Banks*)

8. Any institution, which is under any of the following circumstances, shall not become a shareholder of a wholly foreign-funded bank or a Sino-foreign equity joint venture bank:

(1) Its corporate governance structure or mechanism has evident flaws;

(2) Its equity relationships are complicated and are of low transparency;

(3) It has a large number of connected enterprises and there are frequent or abnormal connected transactions;

(4) Its core business is not prominent or its business scope covers too many industries;

(5) Its cash flow fluctuation is largely influenced by the economic situation;

(6) Its asset liability ratio or financial leverage ratio is higher than the industrial average levels;

(7) It acquired shares using the capital that does not comply with laws, administrative regulations or regulatory provisions;

(8) It holds shares of a wholly foreign-funded bank or a Sino-foreign equity joint venture bank on behalf of others;

(9) Any other circumstances that may have significant adverse impact on the bank.

(Article 17 of the *Measures for the Administrative Licensing of Foreign-funded Banks*, and Article 5 of the *Detailed Rules for the Implementation of the Regulation on the Administration of Foreign-funded Banks*)

9. A foreign-funded bank which modifies its shareholders or adjusts the shareholding proportion of its shareholders shall be subject to the approval of the CBIRC, submit application materials as required, and go through the relevant registration procedure with the administration for market regulation.

(Article 27 of the *Regulation on the Administration of Foreign-funded Banks*)

Section VI Definitions

1. Major shareholders mean shareholders that hold or control no less than 5% of the shares or voting rights in a commercial bank or that hold less than 5% of total capital or total shares of the commercial bank but have significant impact on the business management and decision-making of the commercial bank.

For the purpose of the preceding paragraph, "significant impact" includes but is not limited to, nominating or dispatching directors, supervisors or senior management personnel to commercial banks, affecting the financial and business management decision-making of commercial banks via agreements or by other means, and other circumstances identified by the regulatory authority.

(Article 9 of the *Measures for the Equity Management*, Article 114 of the *Corporate Governance Standards* and Article iii of the *Guidelines for Non-financial Enterprises Investing in Financial Institutions*)

2. Majority shareholder refers to the shareholder of a commercial bank who meets one of the following conditions:

- (1) Holding 15% or more of the shares of an institution, such as a large state-controlled commercial bank, a national joint-stock commercial bank, a foreign-funded legal person bank or a private bank;
- (2) Holding 10% or more of the shares of an institution such as a city commercial bank or a rural commercial bank;
- (3) Those who actually hold the most shares in the commercial bank with a shareholding ratio of no less than 5% (including shareholders with the same number of shares held);
- (4) Nominating two or more directors in total;
- (5) The board of directors of the commercial bank considers that it has a controlling impact on the business management of the commercial bank;
- (6) Other circumstances confirmed by the CBIRC and its local offices.

The shareholding ratio of a shareholder and its related parties and persons acting in concert shall be calculated on a consolidated basis. If the total shareholding ratio meets the above requirements, the shareholder and its related parties and persons acting in concert shall be managed as majority shareholders.

(Article 3 of the *Measures for Regulating the Conduct of Majority Shareholders*)

3. Controlling shareholder means a shareholder who contributes to 50% or more of the capital of a limited liability company or a shareholder who holds 50% or more of the shares of a company limited by shares or a shareholder who is able to exercise significant influence on the resolutions of a shareholders' meeting or a shareholders' general meeting even though it contributes to less than 50% of the capital or holds less than 50% of the shares.

(Article 216 the *Company Law*, Article 56 of the *Measures for the Equity Management*,

and Article 114 of the *Corporate Governance Standards*)

4. Actual controller means a party which exercises actual control over a commercial bank as investor or through other agreements or arrangements even though it is not a shareholder of the commercial bank.

(Article 216 the *Company Law*, Article 56 of the *Measures for the Equity Management*, and Article 114 of the *Corporate Governance Standards*)

5. Connected relations means the relations between the controlling shareholder, actual controller, director, supervisor and senior management personnel of a company with the enterprises which are directly or indirectly under their control, and other relations which may lead to transfer of the company's interests. However, connected relations do not exist among the holding companies of the State although their shares are held by the State in common.

(Article 216 of the *Company Law*)

6. Concerted action means the act or fact that an investor expands the number of voting rights it can control over a commercial bank together with other investors through agreements and other arrangements. The relevant investors who conduct concerted action shall be persons acting in concert.

(Article 56 of the *Measures for the Equity Management* and Article 114 of the *Corporate Governance Standards*)

7. Ultimate beneficiary means a person who is actually entitled to the equity income of a commercial bank.

(Article 56 of the *Measures for the Equity Management*)

8. The related party of a commercial bank means a natural person, legal person, or unincorporated organization that controls or significantly influences, or is controlled or significantly influenced by the commercial bank, or is under the control of or is significantly influenced by the same party with the commercial bank.

(Article 5 of the *Measures for Connected Transactions*)

9. Connected natural persons of a commercial bank include the following:

(1) A natural person who is the controlling shareholder or actual controller of the commercial bank, as well as the persons acting in concert and ultimate beneficiaries thereof;

(2) A natural person who holds or controls more than 5% of the shares of the commercial bank, or holds less than 5% of shares but has significant influence over the business management of the commercial bank;

(3) The directors and supervisors of the commercial bank, and the senior management personnel of its head office and important branches, as well as the personnel with the power to approve or decide on such core services as large-sum credit granting and asset transfer;

(4) The spouse, parents, adult children, and siblings of a related party as set out in subparagraphs (1) through (3) of this Article;

(5) The directors, supervisors, and senior management personnel of a related party as set out in subparagraphs (1) and (2) of Article 10 of this Section.

(Article 6 of the *Measures for Connected Transactions*)

10. Connected legal persons or unincorporated organizations of a commercial bank include the following:

(1) A legal person that is the controlling shareholder or actual controller of the commercial bank, as well as the persons acting in concert and ultimate beneficiaries thereof;

(2) A legal person or an unincorporated organization that holds or controls more than 5% of the shares of the commercial bank, or holds less than 5% of shares but has significant influence over the business management of the commercial bank, and its controlling shareholders or actual controllers, persons acting in concert and ultimate beneficiaries;

(3) A legal person or an unincorporated organization controlled or significantly influenced by any related party as set out in subparagraph (1) of this Article; or a legal person or an unincorporated organization controlled by a related party as set out in subparagraph (2) of this Article;

(4) A legal person or an unincorporated organization controlled or significantly influenced by the commercial bank;

(5) A legal person or an unincorporated organization controlled or significantly influenced by any related party as set out in subparagraph (1) of Article 9 of this Section; or a legal person or an unincorporated organization controlled by any related party as set out in subparagraphs (2) through (4) of Article 9 of this Section.

"Connected legal persons" or "unincorporated organizations" mentioned in this Article do not include the state administrative organs, government departments, Central Huijin Investment Co., Ltd., the National Council for Social Security Fund, Wutongshu Investment Platform Co., Ltd., Deposit Insurance Fund Management Co., Ltd., and the related parties exempted from recognition with the approval of the CBIRC. If any institution above nominates the same natural person as director or supervisor of two or more banking or insurance institutions concurrently, and there is no other connected relation, the institutions the person serves shall not constitute related parties.

(Article 7 and Article 65 of the *Measures for Connected Transactions*)

11. A commercial bank may, under the principles of substance over form and penetration, determine any of the following natural persons, legal persons, or unincorporated organizations as a related party:

(1) Anyone that falls under any of the circumstances as set out in Article 9 or 10 of this Section in the past 12 months or in the next 12 months according to the arrangements of the relevant agreements;

(2) Any other close family members of a related party as set out in subparagraphs (1) through (3) of Article 9 of this Section;

(3) The internal employee of the commercial bank and the legal person or any other organization controlled by him or her;

(4) A legal person or an unincorporated organization over which the related party as set out in subparagraph (2) and (3) of Article 9 of this Section or subparagraph (2) of Article 10 of this Section may exercise significant influence;

(5) A natural person, a legal person, or an unincorporated organization that has influence over the commercial bank, conducts or is likely to conduct any unfair transaction in non-compliance with business principles with the commercial bank and can obtain benefits from the transaction.

(Article 8 of the *Measures for Connected Transactions*)

12. Connected transactions of a commercial bank means the matters concerning the transfer of interests between a commercial bank and its related party.

(Article 10 of the *Measures for Connected Transactions*)

13. The connected transactions of a commercial bank shall include the following types:

(1) Connected transactions of credit type: mean the transactions in which a commercial bank provides financial support to its related parties, or provides guarantee for possible compensation or payment obligations of any related party in relevant economic activities, including loans (including trade financing), acceptance and discount of bills, overdraft, investment in bonds, investment in special purpose vehicles, opening of a letter of credit, factoring, guarantee, letter of guarantee, loan commitment, securities repurchase, interbank lending, as well as other on- and off-balance sheet business in which credit risks are actual assumed by the commercial bank.

(2) Connected transactions of asset transfer type: including but not limited to the purchase and sale of movables and immovables for self-use, purchase and sale of credit assets and their rights to yields (profits), as well as the acceptance and disposal of assets for offsetting debts between a commercial bank and its related party.

(3) Connected transactions of service type: including but not limited to credit appraisal, asset appraisal, legal services, consulting services, information services, audit services, technical and infrastructure services, lease of property, and sale on commission;

(4) Connected transactions of deposit and other types, and the matters that may lead to the transfer of interests of the commercial bank as determined under the principle of substance over form.

(Article 13 of the *Measures for Connected Transactions*)

14. The methods for calculating the amount of connected transactions of a commercial bank are as follows:

(1) The amount of connected transactions of credit type shall be calculated based on the

amount specified in the signed agreement;

(2) The amount of connected transactions of asset transfer type shall be calculated based on the transaction price or fair value;

(3) The amount of connected transactions of service type shall be calculated based on the amount of business income or expenditure;

(4) Other calculation standards determined by the CBIRC.

(Article 15 of the *Measures for Connected Transactions*)

15. Major connected transactions mean the transactions between a commercial bank and a single related party of which a single amount reaches more than 1% of the net capital of the commercial bank at the end of the previous quarter, or the cumulative amount reaches more than 5% of the net capital of the commercial bank at the end of the previous quarter.

After the cumulative amount of transactions between a commercial bank and a single related party reaches the standards prescribed in the preceding paragraph, the subsequent connected transactions shall be redetermined as a major connected transaction once the cumulative amount thereof reaches more than 1% of the net capital at the end of the previous quarter.

(Article 14 of the *Measures for Connected Transactions*)

16. The cumulative voting system means that the voting rights carried by each share shall correspond to the number of directors or supervisors to be elected and the shareholders may use their voting rights collectively for election of directors or supervisors at a shareholders' general meeting.

(Article 105 of the *Company Law*)

17. Unless otherwise specially stated, the references "above", "below", "expiry" and "no less than" shall all include the number immediately following them, and the references "less than" and "more than" shall not include the number immediately following them.

Appendix 1 Laws, Regulations and Regulatory Rules

S/N	Name	Document No.	For short
1	<i>Company Law of the People's Republic of China (2018 Amendment)</i>	Order of the President of the People's Republic of China (No. 15)	<i>Company Law</i>
2	<i>Law of the People's Republic of China on Commercial Banks (2015 Amendment)</i>	Order of the President of the People's Republic of China (No. 34)	<i>Law on Commercial Banks</i>
3	<i>Law of the People's Republic of China on Regulation of and Supervision over the Banking Industry(2006 Amendment)</i>	Order of the President of the People's Republic of China (No. 58)	<i>Law on Banking Regulation and Supervision</i>
4	<i>Securities Law of the People's Republic of China (2019 Amendment)</i>	Order of the President of the People's Republic of China (No. 37)	<i>Securities Law</i>
5	<i>Regulation of the People's Republic of China on the Administration of Foreign-funded Banks (2019 Amendment)</i>	Order No. 720 of the State Council	<i>Regulation on the Administration of Foreign-funded Banks</i>
6	<i>Interim Measures for the Equity Management of Commercial Banks</i>	Order No. 1 [2018] of the CBIRC	<i>Measures for the Equity Management</i>
7	<i>Administrative Measures for Connected Transactions of Banking and Insurance Institutions</i>	Order No. 1 [2022] of the CBIRC	<i>Measures for Connected Transactions</i>
8	<i>Measures for the Equity Custody for Commercial Banks</i>	Order No. 2 [2019] of the CBIRC	<i>Measures for the Equity Custody</i>
9	<i>Implementation Measures of China Banking and Insurance Regulatory Commission for the Administrative Licensing Items concerning Chinese-funded Commercial Banks (2018 Amendment)</i>	Order No. 5 [2018] of the CBIRC	<i>Measures for the Administrative Licensing of Chinese-funded Commercial Banks</i>

10	<i>Implementation Measures of China Banking and Insurance Regulatory Commission on the Administrative Licensing Items concerning Rural Small and Medium-sized Banking Institutions (2019 Amendment)</i>	Order No. 9 [2019] of the CBIRC	<i>Measures for the Administrative Licensing of Rural Small and Medium-sized Banks</i>
11	<i>Implementation Measures of China Banking and Insurance Regulatory Commission for the Administrative Licensing Items concerning Foreign-funded Banks (2019 Amendment)</i>	Order No. 10 [2019] of the CBIRC	<i>Measures for the Administrative Licensing of Foreign-funded Banks</i>
12	<i>Detailed Rules for the Implementation of the Regulation of the People's Republic of China on the Administration of Foreign-funded Banks (2019 Amendment)</i>	Order No. 6 [2019] of the CBIRC	<i>Detailed Rules for the Implementation of the Regulation on the Administration of Foreign-funded Banks</i>
13	<i>Measures for the Liquidity Risk Management of Commercial Banks</i>	Order No. 3 [2018] of the CBIRC	<i>Measures for the Liquidity Risk Management</i>
14	<i>Measures for Information Disclosure of Commercial Banks</i>	Order No. 7 [2007] of the CBIRC	<i>Measures for Information Disclosure</i>
15	<i>Administrative Measures for the Capital of Commercial Banks (Trial)</i>	Order No. 1 [2012] of the CBIRC	<i>Administrative Measures for the Capital</i>
16	<i>Notice of the General Office of the State Council on Forwarding the Guidelines of CBRC for Promoting the Development of Private Banks</i>	Guobanfa. [2015] No. 49	<i>Notice on the Guidelines for Promoting the Development of Private Banks</i>
17	<i>Corporate Governance Standards for Banking or Insurance Institutions</i>	Yinbaojianfa [2021] No. 14	<i>Corporate Governance Standards</i>
18	<i>Measures for Regulatory Assessment of Corporate Governance of Banking and Insurance Institutions (Trial)</i>	Yinbaojianfa [2019] No. 43	<i>Measures for the Assessment of Corporate Governance</i>
19	<i>Measures for Regulating the Conduct of Majority Shareholders of Banking and Insurance Institutions (Trial)</i>	Yinbaojianfa [2021] No. 43	<i>Measures for Regulating the Conduct of Majority Shareholders</i>

20	<i>Guidelines for Strengthening the Supervision and Administration of Non-financial Enterprises Investing in Financial Institutions)</i>	Yinfa [2018] No. 107	<i>Guidelines for Non-financial Enterprises Investing in Financial Institutions</i>
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21	<i>Notice of China Banking Regulatory Commission on Strengthening the Management of Share Pledge of Commercial Banks</i>	Yinjianfa [2013] No. 43	<i>Notice on Strengthening the Management of Share Pledge of Commercial Banks</i>
22	<i>Guidelines for Internal Control of Commercial Banks</i>	Yinjianfa [2014] No. 40	<i>Guidelines for Internal Control</i>
23	<i>Working Guidelines for the Board of Supervisors of Commercial Banks</i>	Yinjianfa [2012] No. 44	<i>Guidelines for the Board of Supervisors</i>
24	<i>Guidelines of China Banking Regulatory Commission for Supervision and Administration of Private Banks</i>	Yinjianfa [2016] No. 57	<i>Guidelines for Supervision and Administration of Private Banks</i>
25	<i>Notice of the General Office of the China Banking Regulatory Commission on Regulating the Reporting Matters of Shareholders of Commercial Banks</i>	Yinjianbanfa [2018] No. 49	<i>Notice on Regulating the Reporting Matters of Shareholders of Commercial Banks</i>
26	<i>Notice of the General Office of the China Banking Regulatory Commission on Strengthening the Relevant Matters of Equity Management and Corporate Governance of Rural Commercial Banks</i>	Yinjianbanfa [2017] No. 99	<i>Opinions on Strengthening the Equity Management of Rural Commercial Banks</i>
27	<i>Notice of the General Office of the China Banking Regulatory Commission on Strengthening the Qualification Examination of the Major Shareholders of Small- and Medium-sized Commercial Banks)</i>	Yinjianbanfa [2010] No. 115	<i>Notice on Strengthening the Qualification Examination of the Major Shareholders of Small- and Medium-sized Commercial Banks</i>