Law on Commercial Banks of the People's Republic of China

Dan Young Business Consultancy — www.danyoungcpa.com

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Chapter I — General Provisions

Article 1 — This Law is enacted for the purposes of protecting the lawful rights and interests of commercial banks, depositors, and other clients, regulating the conduct of commercial banks, improving the quality of credit assets, strengthening supervision and administration, ensuring the sound and stable operation of the banking industry, and maintaining the order of the financial market.

Article 2 — For purposes of this Law, commercial banks are enterprise legal persons established in accordance with this Law and the Company Law of the People's Republic of China to absorb public deposits,

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extend loans, handle settlements, and engage in other banking businesses.

Article 3 — Commercial banks may engage in all or part of the following businesses: (1) absorption of public deposits; (2) extension of short-term, medium-term, and long-term loans; (3) handling of domestic and international settlements; (4) handling of bill acceptance and discounting; (5) issuance of financial bonds; (6) acting as agent for the issuance, cashing, and underwriting of government bonds; (7) trading of government bonds and financial bonds; (8) inter-bank lending; (9) trading of foreign exchange on their own account or as agent; (10) bank card business; (11) provision of letters of credit and guarantees; (12) acting as collection agent and insurance agent; (13) provision of safe deposit box services; and (14) other businesses approved by the banking regulatory authority under the State Council.

Article 4 — Commercial banks shall abide by the principles of equality, voluntariness, fairness, and good faith in their dealings with clients. Commercial banks shall protect the lawful rights and interests of depositors and shall not refuse to pay deposits in accordance with the terms agreed upon.

Article 5 — Commercial banks shall independently conduct their business operations, bear their own risks, assume sole responsibility for their profits and losses, and exercise self-discipline in accordance with law. No entity or individual may interfere in the business operations of commercial banks.

Article 6 — The banking regulatory authority under the State Council shall be responsible for the supervision and administration of commercial banks nationwide.

Chapter II — Establishment and Organization of Commercial Banks

Article 7 — The establishment of a commercial bank shall be subject to the approval of the banking regulatory authority under the State Council. No entity or individual may engage in commercial banking business without approval.

Article 8 — The minimum registered capital for a commercial bank shall be RMB 1 billion for a nationwide commercial bank, RMB 100 million for an urban commercial bank, and RMB 50 million for a rural commercial bank. The registered capital shall be paid-in capital.

Article 9 — An applicant for the establishment of a commercial bank shall submit an application, a feasibility study report, and other documents and materials prescribed by the banking regulatory authority to the banking regulatory authority under the State Council.

Article 10 — Upon approval of the establishment, the commercial bank shall be issued a financial business license by the banking regulatory authority. The commercial bank shall register with the company registration authority and obtain a business license.

Article 11 — A commercial bank may establish branches within and outside the territory of China subject to approval by the banking regulatory authority. Branches shall not have legal person status and shall operate within the scope of authorization of the head office.

Article 12 — Commercial banks shall establish a sound organizational structure in accordance with the Company Law and this Law. A commercial bank shall have a board of directors, a board of supervisors, and senior management.

Article 13 — The qualification requirements for directors and senior management of commercial banks shall be prescribed by the banking regulatory authority under the State Council.

Article 14 — Any alteration to the name, registered capital, business premises, business scope, or shareholding structure of a commercial bank shall be subject to approval by the banking regulatory authority.

Chapter III — Protection of Depositors

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Article 15 — Commercial banks shall protect the lawful rights and interests of depositors, guarantee the payment of deposits principal and interest, and shall not delay or refuse payment of due deposits and interest.

Article 16 — Commercial banks shall comply with the provisions of the deposit reserve system, maintain sufficient reserves, and set aside provisions for bad debts.

Article 17 — Commercial banks shall maintain confidentiality with respect to depositors' information. They shall have the right to refuse any inquiry, freeze, or deduction of deposits by any entity or individual, except where otherwise provided by law.

Article 18 — The state shall establish a deposit insurance system to protect the lawful rights and interests of depositors. Specific measures shall be formulated by the State Council.

Chapter IV — Basic Rules for Loans and Other Businesses

Article 19 — Commercial banks shall extend loans based on the credit status of borrowers, ensuring that loans are secured and can be recovered on schedule. Banks shall conduct strict reviews of loan applications.

Article 20 — Commercial banks shall not extend unsecured loans to related parties. The terms for secured loans to related parties shall not be more favorable than those for similar loans to non-related borrowers.

Article 21 — Commercial banks shall comply with the asset-liability ratio management provisions. The loan-to-deposit ratio shall not exceed 75 percent.

Article 22 — Commercial banks shall not engage in trust investment or securities business, and shall not invest in real estate not for their own use.

Article 23 — Commercial banks shall not invest in non-bank financial institutions or enterprises, except as otherwise provided by the state.

Article 24 — Commercial banks shall exercise reasonable control over the proportion of loans to a single borrower, which shall not exceed 10 percent of the bank's capital balance.

Article 25 — Commercial banks shall charge fees for their services in accordance with relevant state provisions.

Chapter V — Financial Accounting

Article 26 — Commercial banks shall establish and improve their financial accounting systems in accordance with laws, administrative regulations, and the unified accounting system of the state.

Article 27 — Commercial banks shall prepare annual financial accounting reports that truly reflect their financial position and operating results.

Article 28 — Commercial banks shall publish their annual operating results and audit reports within three months after the end of each fiscal year.

Article 29 — Commercial banks shall set aside provisions for bad debts in accordance with state provisions to cover possible losses from non-performing assets.

Article 30 — The fiscal year of commercial banks shall run from January 1 to December 31.

Chapter VI — Supervision and Administration

Article 31 — The banking regulatory authority shall exercise supervision and administration over commercial banks, including on-site inspections and off-site surveillance.

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Article 32 — The banking regulatory authority shall conduct regular assessments of the capital adequacy, asset quality, management, earnings, liquidity, and market risk sensitivity of commercial banks.

Article 33 — Commercial banks shall submit financial statements, business reports, and other information to the banking regulatory authority on a regular basis.

Article 34 — Where a commercial bank is experiencing or is likely to experience a credit crisis that may seriously affect the interests of depositors, the banking regulatory authority may take over the bank.

Article 35 — The banking regulatory authority shall establish a risk early warning system and a risk management mechanism for commercial banks.

Chapter VII — Takeover and Termination

Article 36 — Where a commercial bank is dissolved due to division, merger, or in accordance with its articles of association, a liquidation group shall be formed and the financial business license shall be surrendered.

Article 37 — Where a commercial bank is declared bankrupt by a people's court, the priority of repayment shall be: liquidation expenses, employee wages and labor insurance, depositor principal and interest, and other creditors' claims.

Article 38 — Where a commercial bank is dissolved or revoked, the banking regulatory authority shall supervise the liquidation process.

Chapter VIII — Legal Liability

Article 39 — Where a commercial bank operates without a financial business license, it shall be banned and its illegal income confiscated by the banking regulatory authority. Where a crime is constituted, criminal liability shall be pursued.

Article 40 — Where a commercial bank violates this Law, the banking regulatory authority shall order it to rectify; where the circumstances are serious, it may order it to suspend business for rectification or revoke its financial business license.

Article 41 — Where a commercial bank fails to submit financial reports or other required information, it shall be ordered to rectify and may be fined not less than RMB 200,000 but not more than RMB 500,000.

Article 42 — Where staff members of commercial banks engage in illegal activities, they shall be subject to disciplinary sanctions; where a crime is constituted, criminal liability shall be pursued.

Chapter IX — Supplementary Provisions

Article 43 — The establishment of foreign-funded commercial banks in China shall be governed by the relevant laws and administrative regulations. Matters not covered therein shall be governed by this Law.

Article 44 — For purposes of this Law, urban credit cooperatives and rural credit cooperatives that have been restructured in accordance with the Company Law shall, after obtaining approval, be governed by this Law.

Article 45 — This Law shall come into effect as of July 1, 1995. The amendments adopted at the Sixth Meeting of the Standing Committee of the Tenth National People's Congress on December 27, 2003 shall enter into force as of February 1, 2004.

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