

CSR GUIDELINES - FOR FINANCIAL INSTITUTIONS IN CHINA

(CSR CLIENT ALERT NO.2)

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INTRODUCTION

On 12 January 2009 the China Banking Association (CBA) published Guidelines on Corporate Social Responsibility for Banking Financial Institutions in China (the Guidelines). Its objective is to promote comprehensive corporate social responsibility (CSR) programs within the Chinese banking system. The Guidelines reflect current Government thinking about the need to promote harmonious and sustainable development. The State-Owned Assets Supervision and Administration Commission of the State Council (SASAC) produced CSR Guidelines for State Owned Enterprises on December 29 2007 and the Chinese Academy of International Trade & Economic Cooperation (CAITEC), a subsidiary of the Ministry of Commerce (MOFCOM), drafted Guidelines on CSR for Foreign Invested Enterprises (FIE) at the end of August 2008 (see CSR Client Alert no. 1).

Who are the Guidelines aimed at

The Guidelines apply to Banking Financial Institutions with Chinese legal person status. This includes commercial banks, urban credit cooperatives, rural credit cooperatives and other financial institutions registered in China to attract public deposits as well as policy-oriented banks, financial assets management companies and micro-finance companies. Specifically it applies to the foreign financial institutions including the following locally Established Foreign Banks:

- . HSBC Bank (China) Co., Ltd.
- . Standard Chartered Bank (China) Ltd.
- . DBS Bank (China) Ltd.
- . Bank of East Asia (China) Ltd.
- . Bank of Tokyo-Mitsubishi UFJ (China) Ltd.
- . Mizuho Corporate Bank (China) Ltd.
- . Hang Seng Bank (China) Ltd.
- . First Sino Bank
- . Xiamen International Bank
- . ABN AMRO Bank (China) Co., Ltd.
- . Deutsche Bank
- . OCBC Bank

The most pressing aspect of the Guidelines is that CBA advises all banks to produce a CSR report for submission to CBA by the end of June 2009 and annually thereafter.

2009 will be the Year of CSR in China. For example the Transnational Corporations China Forum on 27 February 2009 organised by the Chinese Academy of International Trade & Economic Cooperation, MOFCOM and the Central Party School of the Central Committee of the Communist Party of China (CPC) is entitled "Global Strategies and Global Responsibilities in the Face of Economic Crisis" with a recurrent theme of CSR. The Olympics in 2008 promoted China's 'opening up' process. The world's cameras will return to Beijing in October 2009 for China's 60th Anniversary Parade of the establishment of the People's Republic of China. Chinese companies are being encouraged to cultivate CSR strategies so that they can play a full role as global citizens.

Similarly foreign companies are being encouraged to integrate into the social fabric of China. The earthquake in Sichuan severely tested the adequacy of the CSR strategies of foreign companies. The Guidelines encourage financial institutions to originate CSR programs tailor-made for China because global CSR strategies will not necessarily accommodate local conditions.

Benefits of the Guidelines Compliance

Banking Financial Institutions that comply with the Guidelines could receive the following benefits in terms of brand enhancement from the China Banking Association:

- Report back to China Banking Regulatory Commission;
- Mention in the media and conferences; and
- Information release on China Banking Association's website.

Legal significance

The Guidelines are formulated in accordance with the Company Law of the People's Republic of China, the Commercial Banking Law of the People's Republic of China, the Banking Supervision Law of the People's Republic of China and the Articles of Association of the China Banking Association. Their purpose is to urge financial institutions to assume corporate social responsibility and promote harmonious and sustainable development of the economy, society and the environment.

ECONOMIC, SOCIAL AND ENVIRONMENTAL RESPONSIBILITIES

CSR is defined in the Guidelines as the economic, legal, ethical and charitable responsibility that Financial Institutions assume in their dealing with shareholders, employees, consumers, business partners, government and the wider community. The Guidelines are divided into three key areas:

(i) Economic responsibility: Subject to compliance with the law, build up a fair, safe and stable competitive industry and consistently create economic value through best professional operation for State, shareholders, employees, clients and the general public.

(ii) Social responsibility: Actively protect the public interest of consumers, employees and the community as guided by the corporate vision; advocate charitable responsibility, actively participate in public welfare activities, cultivate social harmony and promote social development.

(iii) Environmental responsibility: Support State industrial policies and environmental protection policies, conserve energy, protect and improve the natural ecological environment and support sustainable development of the society.

The key requirements in each field are outlined below:

(i) Economic Responsibilities

Corporate governance

- Build up a fair, safe and stable competitive banking industry; and
- Strictly fulfil the obligation of disclosure, and ensure the rights for all stakeholders especially middle and minor shareholders.

Employees rights

- Pay must be performance related;
- Equal pay for equal work;
- Comprehensive employee development program; and
- Reasonable incentive scheme.

Consumer's rights

- Properly disclose information;
- Consumer complaints procedure;
- Client confidentiality protection system; and

- Warn clients of potential risks.

(ii) Social Responsibility

Responsible credit system

- Gradually establish a credit system;
- Raise public awareness about the credit; and
- Share information within the industry to develop the credit system.

Responsibility to employees

- Emphasise the health and safety of employees;
- Provide human resources management;
- Provide effective employee training; and
- Create a professional working environment.

Contribution to the Community

- Support the social development of the community;
- Provide convenient financial services for the community;
- Initiate campaigns for financial education and poverty alleviation; and
- Participate in charity donations and voluntary activities.

(iii) Environmental Responsibilities

Environmental protection program

- Establish a system to optimise allocation of resources in accordance with the State's environmental policies, international treaties, global practices and industry codes;
- Formulate plans for conserving resources and environmental protection;
- Set up a special division to manage environmental policy;
- Train employees regarding environmental protection; and
- Actively participate in public environmental campaigns.

Consumer products

- Borrow and learn from Equator Principles if applicable to economic and financial development of China;
- Provide preferential terms to clients with good CSR and environmental track record;
- Train clients in terms of environmental protection, including but not limited to specific operating procedures for assessing environmental impact and preparing green credit documents; and
- Conduct independent environmental impact assessments; do not purely rely on the environmental impact report provided by clients.

MANAGEMENT OF CORPORATE SOCIAL RESPONSIBILITY

This section is about how to integrate CSR into every aspect of your company's operation. This means that the primary objective or 'vision' of the company has to be ethical.

The following methods of implementation are recommended:

(i) Ethics

- Manage the company along ethical principles; and
- Integrate CSR compliance into management structures.

(ii) Setting up a CSR Department

- Enforce systematic management and reporting of CSR;
- Establish a decision making process based on ethics;
- Endeavor to achieve an organic combination of CSR in daily operations;
- Integrate CSR into performance review procedure;
- Integrate CSR into core business operations such as credit; and
- Undertake internal and external review of CSR.

(iii) CSR Reporting

- Actively establish a disclosure system for CSR, disclose information about performance of CSR via publications and websites as well as through other channels;
- Submit to the China Banking Association a CSR report for last year by the end of June of each year; and
- Encourage the implementation of an independent third party assessment of performance of CSR.

COMPLIANCE RECOMMENDATIONS

If a financial services company wishes to comply with the Guidelines we would recommend taking the following steps:

- (1) Imbue vision statement with CSR philosophy
- (2) Write a CSR strategy and appoint internal CSR Task and Finish Force to execute it
- (3) Integrate CSR into core business operations such as credit
- (4) Integrate CSR into performance review procedure
- (5) Undertake internal and external review of CSR
- (6) Promote CSR activities via your external and internal website
- (7) Prepare a CSR report before the end of June and submit to the China Banking Association

FURTHER INFORMATION

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