

Environmental Record of Chinese Banks



Yunnan Participatory Watershed Management Research
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The original Chinese version of the report also contained the following sections, which have been removed from the English version:

Appendix 1 Status Quo of Listed Chinese Banks' Implementation of Green Credit

Appendix 2 State Policies Related to Green Credit

The Circular of the People's Bank of China on the Implementation of Credit Policies and Strengthening Environmental Protection

Circular of the State Environmental Protection Administration on Using Credit Policies to

Promote Environmental Protection	
Circular on Further Strengthening the Coordination and Cooperation of Industry and Credit Policies to Control Credit Risks	
Decision of the State Council on Publishing and Implementing the Interim Provisions on Promoting Industrial Structure Adjustment	
Circular of the State Council on Accelerating Structural Adjustment of Overcapacity Industries	
Circular of China Banking Regulatory Commission on Issuing the Guidelines on Reputational Risk Management of Commercial Banks	
Opinions on Implementing Environmental Protection Policies and Regulations to Prevent Credit Risks	
Circular of China Banking Regulatory Commission on Issuing the Guiding Opinions on Credit Support for Energy Conservation and Emission Reduction	
China Banking Association's Guidelines on Corporate Social Responsibility of Financial Institutions	
Circular of China Banking Regulatory Commission on Issuing the Guidelines on Reputational Risk Management of Commercial Banks	
Circular of the State Council on Further Strengthening the Elimination of Backward Production Capacity	
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Chapter 1 Introduction

1.1 Objectives

It has become a trend at home and abroad for banks and other financial institutions to operate in a socially and environmentally responsible way. Such practice will not only reduce their adverse social and environmental impacts, but also help them to avoid risks, contributing ultimately to achieving economically, socially and environmentally sustainable development. Financial services provided by banks and other financial institutions in order to achieve economically, socially and environmentally sustainable development are called 'green finance' or 'sustainable finance.' The Green Credit initiative promoted by the Chinese government is part of sustainable finance, which mainly refers to restricting loans to projects that are harmful for the environment and increasing loans to projects that benefit the environment, by means of a series of policies and management measures.

In 2009, in an attempt to promote green finance, relevant state authorities introduced a number of new policies, regulations and guidelines, including: The Guiding Opinions on Further Adjusting Credit Structure to Promote Steady Rapid Development of National Economy issued on March 18th by the People's Bank of China and China Banking Regulatory Commission (CBRC), The Circular on Full Implementation of Green Credit Policies and Further Improvement of Information Sharing issued on June 6th by the Ministry of Environmental Protection (MEP) and the People's Bank of China, CBRC's Circular on Issuing the Guidelines on Reputational Risk Management of Commercial Banks issued on August 25th, and The Guidelines on Social Responsibilities of Financial Institutions issued on January 12th by the China Banking Association.

Nevertheless, as Yuan Qingdan, Deputy Director of MEP's Center for Policy Research, pointed out, China's green credit policies are characterized as compulsory in design and voluntary in implementation. In other words, they are "soft policies". It is unavoidable, therefore, that they have achieved widely varying degrees of effectiveness, despite that each bank has made some progress in formulating environmental policies and adopting relevant measures. Besides, it is very difficult to make a quantitative assessment of the banks' compliance with and implementation of green credit policies, due to the lack of an effective mechanism for oversight and restraint. Bank supervision authorities do not have an official assessment mechanism, while self-assessments of the banks are inevitably subjective and one-sided.

For that reason, it is of special significance for NGOs, as independent observers, to participate in the advocacy of green credit. The compilation and publication of *Environmental Record of Chinese Banks (NGO version)* has two objectives: first, to showcase the efforts and progress of China's banking sector towards green credit; second, to promote green finance through public oversight.

This annually published report aims at recording the footsteps of Chinese banks towards green finance. First published in 2009, *Environmental Record of Chinese Banks* recorded the status quo of

environmental policy compliance of 14 listed Chinese banks in 2008. The publication had a positive impact. *Southern Weekend* ran a story titled *Chinese Banks: Which one is Greener*, with the subtitle “*Civil Society Report Reveals for the First Time Green Credit Status Quo of 14 Listed Banks*”. *China Economic Times* published an article titled *Green Finance: How are the Banks Doing?* to introduce the main contents of the report. Both stories have been reprinted by various other media.

Later on, we received feedback from all sectors of the society, suggesting that banks and civil society should have more positive dialogue. Before this report went to print, we communicated with the banks concerned. Among them, Industrial and Commercial Bank of China (ICBC), CITIC Bank, China Merchants Bank and Industrial Bank actively responded. We have included their responses in this report.

1.2 Selection of Banks

Fourteen listed banks were selected as objects of assessment in this report¹: ICBC, China Construction Bank, Bank of China, Bank of Communications, China Merchants Bank, CITIC Bank, Shanghai Pudong Development Bank, China Minsheng Bank, Industrial Bank, Huaxia Bank, Shenzhen Development Bank, Bank of Beijing, Bank of Ningbo and Bank of Nanjing. Table 1.1 lists the total assets and loans of each bank as of the end of 2009:

Table 1.1 Total Assets and Loans of Listed Banks in 2009 (Million CNY)

Name of bank	Total assets	Total loans
ICBC	11,785,053	5,728,626
China Construction Bank	9,623,355	4,692,947
Bank of China	8,751,943	4,797,408
Bank of Communications	3,309,137	1,839,314
China Merchants Bank	2,067,941	1,185,822
CITIC Bank	1,775,031	1,065,649
Shanghai Pudong Development Bank	1,622,718	928,855
China Minsheng Bank	1,426,392	882,979
Industrial Bank	1,332,162	701,597
Huaxia Bank	845,456	430,226
Shenzhen Development Bank	587,811	359,517
Bank of Beijing	533,469	273,481
Bank of Ningbo	163,352	81,864
Bank of Nanjing	149,566	67,028

There are three reasons why these listed banks were selected. First, listed banks finance a large number of projects with their abundant capital. The total assets of these 14 listed banks account for more than half of that of all Chinese banks. Among them, the total assets and loans of the three largest state-owned banks (ICBC, China Construction Bank and Bank of China) account for about 60% and 66% respectively of the total assets and loans of all listed Chinese banks. Therefore, they

¹ In order of the total assets of the banks in 2009.

bear more responsibility for green credit. Second, the state has higher requirements for listed banks regarding corporate governance, information disclosure and social responsibility. Public oversight is also needed. Third, listed banks not only concern the interests of their depositors and borrowers, but also those of many average investors and tens of millions of shareholders. Currently a lot of banks are state-owned holdings and thus indirectly concern the interests of a wider group of taxpayers as well. The banks must speed up their progress towards green credit in order to protect stakeholder interests.

1.3 Selection of Indicators

The indicators used in this report have been improved on the basis of the 2009 report, with reference to state policies and domestic and international best practices. Some indicators have been refined and two new indicators have been added, namely, social donations and overseas investment. Now there are 13 indicators: environmental information disclosure, formulation of environmental policies, implementation of environmental policies, establishment of specialized department for environmental affairs, loans to energy inefficient and highly polluting industries, loans to environmentally friendly industries, recognition from the society, criticism from the society, adoption of relevant international principles, internal environmental activities, outreach and training, social donations and overseas investment.

Information disclosure is a basic requirement for good governance of banks. Meanwhile environmental information disclosure, which is in urgent need of improvement, is a basic condition for public oversight of banks' fulfillment of their environmental responsibilities. The formulation of environmental policies, implementation of relevant measures and establishment of a specialized department for environmental affairs can test the effectiveness of their strategies and methods for implementing green credit policies. The amount of loans withdrawn from energy inefficient and highly polluting industries and granted to environmentally friendly industries reveals the actual outcome of their efforts in pollution reduction and support for green economy. Adoption of relevant international principles, internal environmental activities, outreach and training, and social donations are general indicators of their performances on social responsibility. Recognition and criticism from society measures the impact of the banks' implementation of green credit from a public perspective. China's overseas investment has aroused a lot of attention and controversy both at home and abroad. Therefore, we have included the social and environmental performances of overseas investors as a new indicator of assessment.

1.4 Method of Assessment

This report adopted the Analytic Hierarchy Process (AHP) to rank the banks' performances on the above mentioned indicators. AHP is a multiple criteria method for decision making, invented by the American expert in operations research, Professor T. L. Saaty in the early 1970's. It is a simple way to make decisions on rather complicated and ambiguous matters, and is suitable for use on

matters that cannot be fully quantitatively analyzed. According to this method, we first invited several experts to decide on the indicator system and indicator weights. Then the banks were ranked on each indicator according to the data and information collected. Lastly an overall rank marking each bank's efforts and progress towards green credit was generated.

1.5 Sources of Information and Limitations

The primary source of information for this report was the information disclosed by the banks, including:

1. Corporate social responsibility (CSR) reports, annual reports and other relevant reports released by the banks;
2. Responses to our questionnaires from the banks;
3. Relevant domestic and international media coverage.

Due to the fact that the banks disclosed very limited information about their environmental and social impacts, we sent them questionnaires at the beginning of 2010, in hopes of obtaining more data. However, only five banks returned our questionnaires or provided partial information. The other nine banks did not respond. As a result, some environmental records are missing in this report. Those banks also lost a chance to disclose environmental information and improve their work. Information in this report was drawn from relevant domestic and international media coverage, the accuracy of which we were unable to verify.

1.6 Participating NGOs

The executive organization of this research was Yunnan Participatory Watershed Management Research and Promotion Center (Green Watershed). Other collaborating NGOs included: Friends of Nature, Global Environmental Institute, Institute of Public and Environmental Affairs, Green Earth Volunteers, Civil Society Watch, China Development Brief, Chongqing League of Green Volunteers, and Sichuan Hengduan Mountains Research Institute. SynTao Co. Ltd. provided consulting service for this report.

1.7 Structure of the Report

Environmental Record of Chinese Banks (2010) (NGO version) records the performances on green finance of 14 listed Chinese banks in 2009. Their performances on each of the indicators are compared horizontally as well as vertically with their performances in previous years. The main contents of the chapters are summarized below:

Chapter 1: Introduction, introducing the objectives and main contents of the report.

Chapter 2: Overview of the environmental performances of listed Chinese banks, recording their performances in implementing green credit policies and fulfilling their social responsibilities. Their performances on each indicator and their overall environmental and social performances were ranked using AHP. Comparisons were also made between their

performances in 2008 and 2009.

Chapter 3: Characteristics of listed Chinese banks in implementing green credit, summarizing each bank's performance, with emphasis on their good practices and shortcomings.

Chapter 4: Brief introduction to state policies related to green credit, sorting out the ones introduced in recent years with background information, so as to showcase the formulation and development of green credit policies in China.

Appendix 1: Status quo of the implementation of green credit among listed Chinese banks, quoting excerpts from relevant materials on green credit policies and measures as well as the banks' environmental performances, for quick reference and horizontal and vertical comparisons.

Appendix 2: State policies related to green credit, with excerpts of important policies issued by relevant government authorities in recent years.

Appendix 3: Brief introduction to international standards and good practices for investment in environmentally sensitive industries.

Appendix 4: Controversial cases, listing the companies and financial institutions involved in some of the incidents causing serious environmental pollution and ecological destruction in China in 2009.²

Appendix 5: Sharing international advocacy success stories (experiences from foreign NGOs)

Appendix 6: Criteria that the banks referred to while compiling their CSR reports.

Appendix 7: Open letter to ICBC from the international community regarding the construction of the Gibe III Hydroelectric Dam

1.8 Acknowledgments

We received much assistance in the compilation and publication of this report. Lin Yang proofread the report several times and revised the structure, contents and style. Kong Linghong, Fu Tao and Xiang Hongmei et al offered their valuable opinions. Oxfam Hong Kong provided us with financial support to publish the report (the report does not reflect the views of Oxfam Hong Kong). We would like to express our gratitude to all who have helped.

² Including some controversial pollution incidents in 2010.

Chapter 2 Overview of the Environmental Performance of China's Banking Sector

2.1 Environmental Information Disclosure

According to the Company Law of the PRC, Commercial Banks Law of the PRC, the Interim Measures on Information Disclosure of Commercial Banks, the Administrative Measures on Information Disclosure of Listed Companies and the Global Reporting Initiative (GRI), banks are required to disclose information to the public, publish annual reports and CSR reports, in order to satisfy the public's right to know and receive public oversight. Importance should be attached to the quality of the reports and the integrity of the environmental information disclosed. Third party verification is also required. Environmental information disclosure is a key component of information disclosure.

All the listed banks made some improvement in environmental information disclosure in 2009. However, the information that was disclosed remained very limited.

1. Forms of information disclosure: Currently, the main form of environmental information disclosure is still through CSR reports and annual reports released by the banks. There were also a few semi-annual reports. Except Shenzhen Development Bank, Bank of Beijing, Bank of Ningbo and Bank of Nanjing, which did not specify any reporting guidelines that were followed in the compilation of their CSR reports, all the other banks referred to relevant domestic or international guidelines, such as the Opinions on Strengthening Corporate Social Responsibility of Banking Financial Institutions issued by CBRC, the Guidelines on Corporate Social Responsibility of Banking Financial Institutions issued by China Banking Association, the Guidelines on Environmental Information Disclosure of Listed Companies issued by Shanghai Stock Exchange, GRI's Sustainability Reporting Guidelines (2006 edition), as well as other supplementary guidelines for financial services. The standards that the banks referred to in compiling their CSR reports are listed in Appendix 6. Industrial Bank for the first time issued an Annual Sustainability Report. It also submitted an Annual Report on the Implementation of the Equator Principles (2008 – 2009) to the Equator Principles Committee.

2. Channels of environmental information disclosure: The banks disclosed environmental information mainly through their websites. All the banks released annual and semi-annual reports on their websites. Except Bank of Ningbo and CITIC Bank, all the other banks published CSR reports on their websites. Some banks also disclosed information on the websites of their supervisory authorities (such as CBRC).

3. Contents of disclosed environmental information: All the banks disclosed information on environment and social responsibilities to different extents.

1) Environmental policies: Industrial Bank stood out by disclosing a number of its environmental policies, including publishing the original text of its policy on the Management of Environmental and Social Risks on its website. Bank of Communications, China Merchants Bank, Shanghai Pudong Development Bank, Bank of China, China Minsheng Bank and Bank of Beijing posted news that they had formulated environmental policies. However, except Bank of Communications, which published the full text of its Compliance Policy, the contents of the other five banks' environmental policies were not made public. All the other banks, except for the above mentioned, did not disclose their environmental policies.

2) Environmental measures: All the banks disclosed their environmental measures. Industrial Bank disclosed quite a number of creative environmental measures, including the establishment of a database of experts on environmental and social risks, the formulation of relevant institutional norms, the development of a system module for environmental and social risk management, etc. Bank of Communications, China Merchants Bank, China Minsheng Bank, Huaxia Bank and China Construction Bank made some improvement by their additional disclosure of measures for credit access and post-credit management. The other banks only followed relevant state policies without disclosing any information about whether they had formulated any supporting measures.

3) Specialized department for environmental affairs: Industrial Bank set up a specialized department for environmental affairs. China Merchants Bank and ICBC clarified and allocated responsibilities to each department. China Minsheng Bank and Bank of Nanjing assigned specialists to be in charge of relevant work. The other banks did not disclose any relevant information.

4) Loans to energy inefficient and highly polluting industries: ICBC, China Construction Bank, China Merchants Bank and Shanghai Pudong Development Bank disclosed detailed information. Industrial Bank, Bank of Communications, China Minsheng Bank, CITIC Bank disclosed brief information. Other banks did not disclose any relevant data.

5) Loans to energy efficient and environmentally friendly industries: ICBC, China Construction Bank, Shanghai Pudong Development Bank, Industrial Bank disclosed detailed information. Bank of China, Bank of Communications, China Merchants Bank, CITIC Bank, China Minsheng Bank, Huaxia Bank, Bank of Beijing and Bank of Ningbo disclosed information to different extents. Bank of Nanjing and Shenzhen Development Bank did not disclose any relevant information.

6) Internal environmental activities: Except Bank of Ningbo, all the other banks disclosed information on their internal environmental activities. ICBC, Bank of China and CITIC Bank also disclosed details about energy consumption at their headquarters or branch office.

7) Outreach: Industrial Bank stood out again by disclosing the most information. ICBC, Bank of China, China Merchants Bank, CITIC Bank, Shanghai Pudong Development Bank and Bank of Beijing also disclosed relevant information. The other banks did not disclose any information.

8) Social donations: All the banks disclosed relevant information. ICBC, Industrial Bank,

Shanghai Pudong Development Bank, Huaxia Bank, China Construction Bank disclosed details including their total donations in 2009, the fields in which donations were made and individual cases.

9) Overseas investment: Through the questionnaire, China Merchants Bank disclosed detailed relevant information. Industrial Bank claimed that currently it did not have any overseas investment. The other banks did not disclose any relevant information.

4. Response to public demands: Using the platform of the “Green Banking Innovation Award”, NGOs sent questionnaires to the participating banks and other listed banks. Among the listed banks, China Merchants Bank, Industrial Bank and Shanghai Pudong Development Bank returned our questionnaires. Bank of China and CITIC Bank responded by providing us with some relevant materials. The other banks did not respond. Besides answering our questionnaires in details, China Merchants Bank and Industrial Bank also accepted our interviews. All the other banks declined our interview requests. Among the foreign banks operating in mainland China, Standard Charter Bank accepted our interview and responded to our questionnaire as well as provided relevant materials.

Overall, Industrial Bank outdid all the other banks in information disclosure. The bank not only disclosed concrete information on its policies, measures and the establishment of a specialized department for environmental affairs, but also took the lead in disclosing relevant information on the project level, which was quite rare even among the banks which had adopted the Equator Principles. China Merchants Bank and ICBC also did well. Shenzhen Development Bank disclosed the least information. Bank of Ningbo and Bank of Beijing disclosed little information. Table 2.1 ranks each bank's performance on environmental information disclosure.

Table 2.1 Rankings of the Banks' Performances on Environmental Information Disclosure

Name of Bank	Channels of Environmental Information Disclosure	Forms of Environmental Information Disclosure	Contents of Environmental information Disclosure	Response to Public Demands	Overall Ranking	Ranking
ICBC	0.144297	0.089464	0.118758	0.035156	0.094694	3
China Construction Bank	0.135287	0.056809	0.084351	0.036256	0.071242	6
Bank of China	0.061384	0.121376	0.058773	0.097622	0.076522	5
Bank of Communications	0.061384	0.068869	0.059363	0.036256	0.054508	8
China Merchants Bank	0.061384	0.052156	0.165374	0.207713	0.157468	2
CITIC Bank	0.025620	0.136517	0.052865	0.064125	0.064184	7
Shanghai Pudong Development Bank	0.060642	0.07844	0.080189	0.097622	0.083499	4
China Minsheng Bank	0.059746	0.061234	0.059840	0.036256	0.053788	9
Industrial Bank	0.228911	0.089102	0.169632	0.207713	0.173438	1
Huaxia Bank	0.025052	0.078220	0.031532	0.036256	0.037919	10

Shenzhen Development Bank	0.059746	0.029894	0.025332	0.036256	0.030640	14
Bank of Beijing	0.026444	0.034067	0.035006	0.036256	0.034753	12
Bank of Ningbo	0.025052	0.046991	0.026592	0.036256	0.031455	13
Bank of Nanjing	0.025052	0.05686	0.032395	0.036256	0.03589	11

Compared with 2008, there were the following changes in the banks' performances on environmental information disclosure:

ICBC made noticeable improvement, with detailed disclosure on its loans to energy inefficient and highly polluting industries as well as environmentally friendly industries. It also disclosed detailed data on its energy consumption.

China Construction Bank made some improvement. Its 2009 CSR report referred to GRI's Sustainability Reporting Guidelines, and disclosed details about its loans to energy inefficient and highly polluting as well as environmentally friendly industries.

Bank of China made slight improvements. Its CSR report referred to GRI's Sustainability Reporting Guidelines and other relevant guidelines. It also did better in responding to public demands. However, the bank made no progress in environmental information disclosure.

Bank of Communications made slight improvements. Its CSR report referred to relevant domestic guidelines and disclosed more data, with special chapters devoted to social and environmental responsibilities. The bank made noticeable progress in environmental information disclosure, with more information than the previous year on its loans to energy inefficient and highly polluting as well as environmentally friendly industries. However, it did not do better in responding to public demands.

China Merchants Bank made some improvement. Its CSR report referred to GRI's Sustainability Reporting Guidelines, with special chapters devoted to environmental and social responsibilities. The bank did much better in environmental information disclosure and response to public demands. It disclosed more data on its loans to energy inefficient and highly polluting as well as environmentally friendly industries. It also earnestly responded to our questionnaire and accepted our interview.

CITIC Bank made good progress. Its CSR report referred to GRI's Sustainability Reporting Guidelines and other domestic requirements.

Shanghai Pudong Development Bank made good progress in the form of environmental information disclosure. Its CSR report paid attention to stakeholders, and disclosed much more environmental information and other relevant data. The bank answered our questionnaire, but its replies were not of a satisfactory quality.

China Minsheng Bank only referred to domestic guidelines in compiling its CSR report (whereas it had referred to GRI's Sustainability Reporting Guidelines in 2008). There was no increase in its disclosure of environmental information.

Industrial Bank made significant improvements. It compiled a sustainability report of ample

length devoted to environmental and social responsibilities, including quite a number of case studies. Nevertheless, the report did not disclose much data. Industrial Bank also released its Annual Report on the Implementation of the Equator Principles. In the report it disclosed some information on the project level, which although limited, was quite rare even among the banks that adopted the Equator Principles. As to the disclosure of environmental information, Industrial Bank did not voluntarily disclose any data on its loans to high risk or environmentally friendly industries, nor about its energy consumption. However, the bank made noticeable progress in responding to public demands by accepting NGOs' interviews and invitations to participate in training workshops.

Huaxia Bank made some progress. Its CSR report referred to GRI's Sustainability Reporting Guidelines and other relevant domestic guidelines, with special lengthier chapters devoted to environmental and social responsibilities. However, the bank did not improve on its channels of environmental information disclosure or response to public demands.

Shenzhen Development Bank, Bank of Beijing, Bank of Ningbo and Bank of Nanjing did not make any improvement in environmental information disclosure.

Response from Industrial Bank:

1. Our bank pioneered in China to adopt the Equator Principles to manage environmental and social risks of project loans, as well as grant loans to energy conservation and emission reduction projects to support environmental protection.
2. The project information disclosed in our Annual Report on the Implementation of the Equator Principles was disclosed according to the requirements of the Equator Principles Reporting Guidelines. Besides, we even went beyond the requirements to disclose some project cases, which was unseen in the reports of other banks that adopted the Equator Principles. Friends of the Earth had special coverage on that in the 7th issue of its quarterly *China Sustainable Finance Newsletter* in 2009.

2.2 Formulation of Environmental Policies

To ensure and facilitate the implementation of state environmental policies, banks need to formulate supporting policies according to their own circumstances. Therefore, whether a bank has formulated its own environmental policies is an important evaluation indicator.

In 2009, Industrial Bank improved its Policy on the Management of Environmental and Social Risks and disclosed on its website the details of management procedures, organizational structure and operational model. It also introduced regulations such as Measures for Pre-Credit Client Due Diligence, Detailed Rules on the Management of Fixed Asset Loans, etc., which broke down the requirements for managing environmental and social risks into pre-credit investigation, credit review and post-credit inspection. The bank formulated Detailed Rules on Annual Credit Access, with guidelines on investment orientation, clarifying which subjects and projects were to be given primary support, cautious support or avoided. It also introduced a series of guidelines on loan access for energy conservation and emission reduction projects, such as Measures for Energy Conservation

and Emission Reduction, Detailed Rules on the Access of Energy Conservation and Emission Reduction Projects and Criteria for the Identification of Energy Conservation and Emission Reduction Projects in Environmental Finance, etc, to facilitate the work on financing energy conservation and emission reduction projects. Among the above mentioned policies, except the Policy on the Management of Environmental and Social Risks which was published in full on its website, the full texts of the other policies were not disclosed.

China Merchants Bank introduced its Credit Policy for Green Finance and Marketing Guidelines for the Renewable Energy Industry to guide and support green finance. It also issued its Annual Credit Policy 2009, setting up strict access standards for energy inefficient and highly polluting industries. However, the original texts of the policies were not disclosed.

Bank of Communications formulated its Compliance Policy and Compliance Handbook, to ensure that its operations comply with laws, supervisory regulations, business rules, industry norms defined by self-regulatory organizations, codes of conduct and professional ethics, and to avoid legal sanctions due to non-compliance. Except for the Compliance Policy, the original texts of the other policies were not disclosed.

China Minsheng Bank introduced the Guiding Opinions on Credit Policy (2009). Shanghai Pudong Development Bank published the Guidelines on Credit Orientation Policy (2009). Bank of Beijing formulated the Guiding Opinions on Credit Supply (2009). However, none of the banks disclosed the original texts of their policies. ICBC, China Construction Bank, Bank of China, CITIC Bank, Huaxia Bank, Shenzhen Development Bank, Bank of Ningbo and Bank of Nanjing did not formulate any new environmental policies.

Overall, Industrial Bank, China Merchants Bank and Bank of Communications did well in the formulation and furtherance of environmental policies.

Table 2.2 ranks each bank's performance on this indicator.

Table 2.2 Assessment of the Banks' Performances on the Formulation of Environmental Policies

Name of Bank	Weight	Ranking
ICBC	0.019859	9
China Construction Bank	0.041434	8
Bank of China	0.088146	4
Bank of Communications	0.139972	3
China Merchants Bank	0.184163	2
CITIC Bank	0.017774	14
Shanghai Pudong Development Bank	0.059969	6
China Minsheng Bank	0.078143	5
Industrial Bank	0.241240	1
Huaxia Bank	0.018007	11
Shenzhen Development Bank	0.018007	11
Bank of Beijing	0.057072	7
Bank of Ningbo	0.018007	11

Bank of Nanjing	0.018206	10
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Compared with 2008, there were the following changes in the banks' formulation of environmental policies:

Industrial Bank perfected its environmental policies by clarifying management procedures, organizational structure and operational model to standardize implementation. It also formulated quite a number of new policies and measures. China Merchants Bank published its Credit Policy for Green Finance and Marketing Guidelines for the Renewable Energy Industry, integrating policies with marketing strategies. Bank of Communications formulated Compliance Policy and Compliance Handbook, which the staff can refer to while implementing environmental policies, in order to prevent environmental and social risks. Its Compliance Policy was made public. Bank of China, Shanghai Pudong Development Bank and Bank of Beijing also formulated new environmental policies, the original texts of which were not disclosed. The other banks did not introduce any new environmental policies.

Industrial Bank, China Merchants Bank, Bank of Communications and Shanghai Pudong Development Bank formulated new environmental and social policies for two years in a row. Bank of Beijing did not formulate any environmental policies in 2008, but it started doing so since 2009. China Construction Bank, ICBC, China Minsheng Bank had formulated environmental policies before. However, they did not formulate any new environmental policies in 2009. No disclosed information so far suggests that Bank of China, Shenzhen Development Bank, Bank of Beijing, Bank of Ningbo, Bank of Nanjing and CITIC Bank have formulated any environmental policies.

2.3 Adoption of Environmental Measures

Environmental measures guarantee the implementation of environmental policies. All the listed Chinese banks claimed to have adopted quite a number of environmental measures in 2009.

Industrial Bank: 1. Collected information about experts on environmental and social risks both within and outside of the bank, in order to gradually set up a database of experts on environmental and social risks to help strengthen professional and qualification management. 2. Established a green financial services system by converting policies into internal institutional norms. 3. Developed a system module and formulated special measures for the management of environmental and social risks. 4. Strove to become a conservation-oriented bank by promoting energy conservation and emission reduction, and raised awareness about environmental and social risks.

ICBC: 1. Put green credit into practice throughout the credit process: from client identification to credit rating, credit approval, post-credit management and system control, etc. 2. Adjusted and refined the criteria for the classification of corporate environmental risks; Attached importance to sharing corporate environmental information with environmental protection authorities; Using the information on corporate environmental violations from the credit reference system of the People's Bank of China, classified clients' environmental risks, and differentiated their credit and

management requirements accordingly. 3. Formulated criteria for the classification of green credit projects; and introduced “green credit project tags” in its credit management system (CM2002) to classify its loans. 4. Incorporated energy conservation and emission reduction into the credit rating system; and strictly implemented its “one-ballot veto for the environment” in the assessment and review of loans. 5. Adopted the general credit principle of “support the superior and restrict the inferior.”

China Construction Bank: 1. Took environmental protection and energy efficiency as strict prerequisites for the approval of loans. 2. Formulated 53 review and approval guidelines covering energy inefficient, highly polluting and overcapacity industries such as steel, cement, etc. 3. Took environmental compliance as an important factor for credit access and approval for large and medium-sized clients; applied the “one-ballot veto for the environment”; included clauses regarding environmental protection and energy efficiency in credit and guaranty contracts with large and medium-sized clients. 4. Projects that are listed in the state's Classified Catalogue for the Management of Environmental Impact Assessment (EIA) of Construction Projects must go through an EIA by environmental protection authorities according to relevant state regulations. Projects that fail to pass the EIA must not be approved. Projects and enterprises that do not comply with environmental regulations or are explicitly prohibited by the state must not be granted loans. Clients or projects that are within environmentally restricted regions or on the list of enterprises under environmental supervision must not be granted credit until their rectifications have been accepted. 5. Support for added capacity projects of energy inefficient and highly polluting industries such as steel, cement, flat glass, coal chemical, etc. must be strictly controlled. Annual loan limits must be set up for related industries. A client list management system must be adopted for 11 industries including iron and steel, coke, cement, etc. 6. Introduced the “environmental protection benefits the public” service scheme.

Bank of China: 1. Raised the credit access standards for energy inefficient and highly polluting industries; clarified specific requirements for energy conservation and emission reduction; implemented the “one-ballot veto for the environment.” 2. Adjusted the limits of authority for some credit services through differentiated industry-specific authorization; withdrew the right of approval for some energy inefficient and highly polluting industries so as to strictly control loans to related industries. 3. Carried out pre-credit investigation, credit review and post-credit inspection for loans to energy inefficient and highly polluting industries; established a mechanism for dynamic tracking, monitoring and analysis. 4. Screened clients involved in energy inefficient, highly polluting, and backward production capacity industries, blacklisting those that fit the state standards of backward production capacity as clients to be voluntarily abandoned, and made a plan for that; restricted or suspended loans to enterprises that violate environmental regulations. 5. Signed a memorandum of cooperation with the MEP to support environmentally friendly industries and nurture the development of environmentally friendly enterprises. 6. Introduced a series of green credit products with focus on supporting projects that help to protect and improve the environment,

such as clean energy, waste water treatment, garbage treatment, desulphurization and dust removal in power plants, remediation of rivers and lakes, etc.

China Merchants Bank: 1. Researched and furthered credit policies for 25 key industries; introduced credit guidelines on loans to government financing platforms; dynamically adjusted policies on credit orientation. 2. Implemented precautionary screening of portfolio and single risks; advanced management and control of systemic risks of group clients; furthered pre-credit investigation, credit review and post-credit inspection; strengthened clearance, verification and accountability of non-performance assets; enhanced management and monitoring of existing loans to continuously improve the quality of assets 3. Adopted risk quantification techniques; promoted the establishment of a management system; advanced a risk manager pilot program; nurtured a team of risk managers to ensure early recognition and prevention of risks.

China Minsheng Bank: 1. Checked clients' performance on environmental protection and energy conservation through multiple means, such as: collecting information released by relevant government authorities regarding energy conservation, emission reduction and environmental violations; using the information about polluting projects and enterprises that have violated environmental laws, etc. on CBRC's information disclosure system, and so on. 2. Measures of control on credit policies for energy conservation and emission reduction: (1) Strict control over credit for inferior quality enterprises involved in energy inefficient, highly polluting, and overcapacity industries; implemented strict credit access and total quantity control. (2) Gradual reduction of restricted projects and firm withdrawal from obsolete projects in accordance with state industrial policies and requirements for structural adjustment. (3) Increased credit support for high tech, energy efficient and environmentally friendly products. 3. Firm non-involvement in resource-intensive and highly polluting projects through strict control over credit access. In 2009, no new client listed under the restricted or obsolete categories of the Guiding Catalogue on Industrial Structure Adjustment were granted credit. 4. Adjusted existing loans through voluntary measures to deal with the clients under the restricted and obsolete categories of the Guiding Catalogue on Industrial Structure Adjustment and the loans to projects that have violated environmental laws.

Huaxia Bank: 1. In the evaluation, review and approval of loans to new projects, enterprises were required to show recent environmental monitoring and assessment reports. Projects that violated state industrial and environmental policies and that may cause negative environmental impacts were given one-ballot veto, in order to ensure the “greenness” of new loans. 2. Incorporated corporate environmental information into the digital credit management system, through which post-credit management is carried out; through close communication and collaboration with environmental authorities at all levels, tracked and monitored environmental performances of enterprises, in order to prevent credit risks resulting from environmental violations. 3. Strengthened management of clients involved in energy inefficient and highly polluting industries. As of the end of 2009, the bank was not involved in any projects or products that were explicitly prohibited by the

state.

Shanghai Pudong Development Bank: 1. Provided active credit support to key energy conservation, environmental protection and water pollution treatment projects including: conventional energy such as nuclear power, hydropower, petrol and petrochemical projects; energy conservation and emission reduction projects with comprehensive benefits, such as renewable energy, sulfur dioxide treatment, conservative use of water, comprehensive use of resources, utilization of waste materials, clean production, etc.; environmental projects such as urban waste water treatment, sewage pipelines, water pollution prevention and treatment of key watersheds, industrial pollution treatment, etc. 2. Strictly controlled restricted projects and withdrew from obsolete projects.

Bank of Communications: 1. Attached importance to environmental risks of clients or projects throughout the credit process. As of the end of 2009, 99.8% of its clients and 99.9% of its credit balance were covered by the bank's green credit environmental labeling system. 99% of its classified credit balance was in the green category. 2. Green credit was taken as an important criterion for credit access, with the establishment of the “one-ballot veto” mechanism; in credit review and approval, clients' performances on environmental responsibility and industry environmental regulations were regarded as important factors for the evaluation of their environmental risks; for project loans, attention was paid to their environmental performances and control of major pollutants such as noise, waste water, gases and residues, etc.; in post-credit management, the environmental risks of red- and yellow-labeled clients and their impacts on asset security were closely monitored; management of high risk clients was strengthened.

Shenzhen Development Bank: 1. Established a risk control system for energy conservation and emission reduction industries; attached importance to environmental protection in credit access; established a name list management system; implemented a “one-ballot veto for the environment” system; imposed strict credit access requirements; withdrew from resource-intensive, low production and overcapacity industries that are at the same time energy inefficient and highly polluting. 2. Signed a green finance agreement with the Environmental Protection Administration of Shenzhen in order to establish a mechanism to link environmental protection with finance. The bank and the administration jointly launched the “Green Financial Services Initiative” to provide a package of financial services for enterprises that require funds for environmental optimization and upgrading, through increase of loans and preferential financial policies.

Bank of Ningbo: 1. Implemented strict environmental standards for credit supply and “one-ballot veto for the environment” for corporate credit; non-involvement in enterprises that do not meet the requirements of environmental policies; firm withdrawal from such enterprises with which the bank is involved. 2. No credit support of any form for new projects and projects under construction before they pass environmental assessments of relevant state authorities. 3. Strict verification of environmental information of enterprises that apply for liquidity loans; no loans were to be granted to enterprises that do not meet environmental requirements.

CITIC Bank: 1. Implemented “one-ballot veto for the environment” of credit for energy inefficient and highly polluting industries; raised the access standards on capacity and technology; continued strict control over loans to energy inefficient and highly polluting industries; strictly refrained from granting credit to enterprises and projects that do not meet environmental requirements; prohibited credit for obsolete products listed in the Guiding Catalogue on Industrial Structure Adjustment issued by the National Development and Reform Commission (NDRC). 2. Attached importance to energy conservation and emission reduction; strictly reviewed environmental compliance of projects to be granted credit. No loans were to be granted to four kinds of projects and enterprises: 1) projects that have not been approved by EIA authorities; 2) new projects in the restricted category and obsolete projects; 3) projects in restricted regions; 4) enterprises and projects that have violated environmental laws.

Bank of Beijing: 1. Strictly controlled credit orientation by supporting key state energy conservation and emission reduction projects such as renewable energy, water pollution treatment, sulfur dioxide treatment, circular economy pilot program, conservative use of water, comprehensive use of resources, utilization of waste materials, clean production, technical service system for energy efficiency, environmental protection, etc., so as to promote low-carbon economy. 2. Promoted creative products in waste water and garbage treatment and use of alternative energy.

Bank of Nanjing: 1. Strengthened analysis and research on energy inefficient and highly polluting industries to ensure early warning and prevention of credit risks; controlled credit for industries that have overcapacity or do not meet the requirements for energy conservation, emission reduction and environmental protection. 2. Attached importance to communication with environmental and supervising authorities; took compliance with energy efficiency and environmental protection requirements as a prerequisite for credit; no credit of any form were to be granted to new projects that have not passed EIA or verification of environmental protection facilities; firmly withdrew from projects or enterprises that were found not to meet environmental standards or categorized by relevant state authorities as backward production capacity or have violated environmental laws.

Overall, every listed bank claimed to have adopted to varying degrees relevant environmental measures in the credit process, in accordance with the requirements of NDRC, MEP and CBRC. It was quite common for the banks to raise environmental requirements for credit, increasing support for environmentally friendly industries while reducing support for industries with backward production capacity. However, information on the actual implementation and monitoring process was not disclosed. Industrial Bank, ICBC, China Construction Bank and Bank of China did well in implementing environmental measures. Table 2.3 ranks each bank's performance on this indicator.

Table 2.3 Assessment of the Banks' Performances on Implementing Environmental Measures

Name of Bank	Weight	Ranking
ICBC	0.168210	2
China Construction Bank	0.166034	3

Bank of China	0.121549	4
Bank of Communications	0.028575	9
China Merchants Bank	0.076725	5
CITIC Bank	0.019257	12
Shanghai Pudong Development Bank	0.034066	8
China Minsheng Bank	0.076725	5
Industrial Bank	0.192621	1
Huaxia Bank	0.038605	7
Shenzhen Development Bank	0.021994	10
Bank of Beijing	0.018391	13
Bank of Ningbo	0.021547	11
Bank of Nanjing	0.015702	14

Compared with 2008, there were the following changes in the banks' implementation of environmental measures:

Industrial Bank adopted more creative environmental measures, such as the creation of a database of experts on environmental and social risks, the development of a system module for managing environmental and social risks. ICBC, China Construction Bank, Bank of Communications, China Merchants Bank, China Minsheng Bank, and Huaxia Bank adopted additional environmental measures for credit access and post-credit management. Bank of China began to adopt more environmental measures to control loans to energy inefficient and highly polluting industries. It also collaborated with MEP to develop environmentally friendly industries. The other banks made little improvement.

Response from Industrial Bank:

Our Sustainability Report disclosed data on different aspects of a conservation-oriented bank. Some descriptions on the concrete measures to convert external regulations into internal ones can also be found in the said report (See 2.2 for details).

2.4 Establishment of Specialized Departments for Environmental Affairs

The implementation of green finance policies is a whole new undertaking, which requires much careful attention to set up: formulation of policies and measures, promotion and implementation, inspection and supervision, feedback and technical support, identification of problems and solving them, analysis and evaluation, review and improvement. It makes a big difference whether a bank has set up a specialized department and assigned personnel with clarified responsibilities and rights to be in charge of this work to ensure that relevant policies are implemented in their daily work.

Industrial Bank set up a Sustainable Finance Office to coordinate the management of environmental and social risks. Its specific functions include: 1) Managing environmental and

social risks of projects to which the Equator Principles apply; 2) Coordinating review of environmental and social risks of projects to which the Equator Principles apply; 3) Providing consultancy, recommendations and training on environmental and social risk management for financing projects to which the Equator Principles apply; 4) Managing the bank's own resource of experts on environmental and social risks; 5) Information disclosure and reporting regarding the Equator Principles. The bank also set up a Sustainable Finance Center for the development and marketing of energy efficient, environmentally friendly and carbon financial products.

Some banks have not set up a specialized department for environmental affairs, but they allocated the responsibilities to different departments.

China Merchants Bank clarified the responsibilities in green credit for each of the departments at its headquarters. The **Administrative Office** is mainly responsible for coordinating work related to corporate social and environmental responsibilities, compilation of CSR reports, and information disclosure. The **Corporate Banking Department** is responsible for: 1) Research on green finance market and industrial policies; 2) Identification of green finance projects and operations; 3) Planning for development of green finance market; 4) Formulation and appraisal of indicators for green finance operations; 5) Organization and supervision of professional teams for green finance marketing and management to be set up at branch offices, as well as support for marketing activities at branch offices. 6) Creation and development of green finance products; 7) Communication and collaboration with international organizations, foreign governments and financial institutions And establishment of strategic alliances with relevant organizations. The **Credit Management Department** is responsible for: 1) Formulation of green finance policies; 2) Review of the implementation of green finance policies at branch offices and management of business authorization; 3) Development of relevant systems such as labeling and statistical systems for green finance. The **Credit Review and Approval Department** is responsible for the review and approval of green finance operations outside of the authority of branch offices.

ICBC assigned its **Credit Management Department** to be in charge of green credit related affairs. The **Administrative Department** is responsible for the promotion of a greener office and energy conservation. **Client Managers** are responsible for updating corporate environmental information in its CM2002 system and filing relevant evidences for future reference. Branch offices at all levels are responsible for regular review of the input of environmental labels and post-credit management of the enterprises under their authority. The **Headquarters** is responsible for real-time monitoring and implementing business control over new clients without environmental labels.

Some banks assigned specialists to be in charge of work related to green credit.

China Minsheng Bank established a social responsibility liaison mechanism on the basis of its Social Responsibility Center. Liaisons were appointed for the various offices and business departments at its headquarters as well as its branches.

Bank of Nanjing claimed to have assigned specialists to be in charge of the review of environmental standards of enterprises to be financed.

The other banks did not disclose any information on the establishment of a specialized department or assignment of specialists to manage green credit related affairs.

Overall, China Merchants Bank, Industrial Bank and ICBC again did best in the establishment of a specialized department for environmental affairs. They either set up a specialized department, or clarified the responsibilities in green credit for each department. China Minsheng Bank and Bank of Nanjing also made some improvement. They began to give special attention to this work by appointing specialists to be in charge of it. The other banks did not make any improvement. Table 2.4 ranks the performance of each bank on this indicator.

Table 2.4 Assessment of the Banks' Performances on Establishing Specialized Department for Environmental Affairs

Name of Bank	Weight	Ranking
ICBC	0.032513	5
China Construction Bank	0.032513	5
Bank of China	0.032513	5
Bank of Communications	0.032513	5
China Merchants Bank	0.247813	1
CITIC Bank	0.032513	5
Shanghai Pudong Development Bank	0.032513	5
China Minsheng Bank	0.120103	3
Industrial Bank	0.220181	2
Huaxia Bank	0.032513	5
Shenzhen Development Bank	0.032513	5
Bank of Beijing	0.032513	5
Bank of Ningbo	0.032513	5
Bank of Nanjing	0.086773	4

Compared with 2008, there were the following changes in the banks' performances on the establishment of a specialized department for environmental affairs:

China Merchants Bank made significant progress by clarifying the responsibilities in green credit for each of its departments. Industrial Bank also made some improvement by establishing a Sustainable Finance Center. The other banks did not make any improvement in this respect.

Response from Industrial Bank:
 In 2009, our bank recruited staff with backgrounds in environmental engineering and environmental laws for our Sustainable Finance Office. At the same time, our Sustainable Finance Center also enhanced its human resources by recruiting outside specialists with backgrounds in carbon, environment and relevant industries.

The State Council and MEP have explicitly restricted financial institutions to support energy inefficient and highly polluting industries. Withdrawal from those industries is therefore an

important indicator of how well they have implemented that policy.

In 2009, China Merchants Bank withdrew an accumulated total of 15.425 billion yuan from energy inefficient and highly polluting industries³. As of the end of 2009, its balance of loans to energy inefficient and highly polluting industries was 96.245 billion yuan, accounting for 14.88% of its loans to domestic companies, dropping by 1.95% compared with the beginning of the year. The non-performing loans (NPL) ratio was 0.62%. Among the energy inefficient and highly polluting industries the bank was involved in, except non-ferrous metal smelting and rolling in which its investment slightly increased, all the others decreased. As of the end of 2009, the balance of ICBC's loans to eight overcapacity industries (iron and steel, cement, flat glass, coal chemical, polysilicon, wind power equipment, electrolytic aluminum and shipbuilding) was 129.97 billion yuan, dropping by 7.14 billion yuan compared with the beginning of the year. The banks' NPL balance and ratio were 2.32 billion yuan and 1.79% respectively, dropping by 1.24 billion yuan and 0.81% respectively compared with the beginning of the year. ICBC disclosed one specific case: it refused to loan to a monosodium glutamate (MSG) company because it did not meet the requirements and standards for green credit. Shanghai Pudong Development Bank withdrew a total of 25.9 billion yuan from existing loans to energy inefficient and highly polluting industries in 2009.⁴ China Construction Bank withdrew a total of 76.724 billion yuan from loans to energy inefficient, highly polluting industries and other industries that did not meet relevant standards in 2009. Bank of Communications fully withdrew from an accumulated total of 45 projects that were either restricted or obsolete according to state policies. The amount of loans it withdrew from energy inefficient and highly polluting industries totaled 1.523 billion yuan, involving 63 clients. It restricted, suspended or recovered loans from an accumulated total of 73 clients which had violated environmental laws. The balance of its reduced and withdrawn loans totaled 413 million yuan. (The bank did not disclose any information about its loans to high risk projects in 2008). China Minsheng Bank withdrew a total of 54 million yuan from two clients involved in restricted industries and 243 million yuan from 4 clients involved in obsolete industries. The bank also voluntarily reduced 27 million yuan of its loans to 2 clients involved in obsolete industries, and recovered 4 loans which violated environmental regulations with a total credit worth of 187 million yuan. The loans were recovered in accordance with relevant MEP policies due to problems the clients had with EIA formalities. Industrial Bank refused a total of 5.975 billion yuan worth of loans to 61 clients involved in overcapacity and obsolete backward production capacity industries. It also reduced a total of 592 million yuan of loans to 39 clients involved in overcapacity and obsolete backward production capacity industries. As of the end of 2009, CITIC Bank's loans to energy inefficient and highly polluting industries accounted for 10.2% of all of its loans, dropping by 1.7% compared with the

³ China Merchants Bank's statistical standard covers: petroleum processing, coking and nuclear fuel processing, chemical materials and chemical products manufacturing, non-metallic mineral products, ferrous metal smelting and rolling, non-ferrous metal smelting and pressing, thermal power.

⁴ Shanghai Pudong Development Bank's statistical standard covers: non-metallic mineral products (cement, etc.), ferrous metal smelting and rolling, chemical materials and chemical products manufacturing, non-ferrous metal smelting and rolling (aluminum, etc.)

previous year.⁵ Overall, the bank's loans to energy inefficient and highly polluting industries were on the decline. Its increase rate was much lower compared with that of corporate loans. The bank also disclosed information about its loans to energy inefficient and highly polluting industries.

The other banks, including Bank of China, Huaxia Bank, Shenzhen Development Bank, Bank of Beijing, Bank of Ningbo and Bank of Nanjing did not disclose any information about their loans to energy inefficient and highly polluting industries.

It should be pointed out that due to the fact that the state has not formulated uniform criteria for the classification of energy inefficient and highly polluting industries, the information regarding loans to energy inefficient and highly polluting industries disclosed by the banks was based on their own interpretation of those industries, and therefore lacks horizontal comparability. Some banks claimed to have withdrawn from energy inefficient and highly polluting industries, but they did not disclose any figures about the total amount of loans to those industries, nor the proportional changes. So it was impossible to judge their performances on this indicator. Furthermore, the information disclosed by the banks in different years was not systematic, making vertical comparison difficult, too. Despite those obstacles, it was quite obvious, according to the available data, that China Merchants Bank and ICBC again took the lead in withdrawal of loans to energy inefficient and highly polluting industries, with significant withdrawals and noticeable proportional decline. Table 2.5 ranks each bank's performance on this indicator.

Table 2.5 Rankings of the Banks' Performances on Loans to Energy Inefficient and Highly Polluting Industries

Name of Bank	Weight	Ranking
ICBC	0.169853	2
China Construction Bank	0.115730	4
Bank of China	0.019895	9
Bank of Communications	0.048270	8
China Merchants Bank	0.239848	1
CITIC Bank	0.064967	6
Shanghai Pudong Development Bank	0.116604	3
China Minsheng Bank	0.052801	7
Industrial Bank	0.075395	5
Huaxia Bank	0.019327	10
Shenzhen Development Bank	0.019327	10
Bank of Beijing	0.019327	10
Bank of Ningbo	0.019327	10
Bank of Nanjing	0.019327	10

Compared with 2008, there were the following changes in the banks' performances on loans to energy inefficient and highly polluting industries:

Compared with the previous year, the balances of loans to energy inefficient and highly polluting

⁵ CITIC Bank Corporate Social Responsibility Report 2009, p25

industries of both China Merchants Bank and ICBC decreased. CITIC Bank's proportion of loans to energy inefficient and highly polluting industries also dropped. The existing loans to energy inefficient and highly polluting industries from which Shanghai Pudong Development Bank and China Construction Bank withdrew increased. Industrial Bank and Bank of Communications did not disclose any information about their high risk loans in 2008, but started doing so in 2009. So it was impossible to make a vertical comparison. China Minsheng Bank did not disclose the total amount of loans it withdrew from high risk projects for two consecutive years. However, it did disclose some related data. Bank of China, Huaxia Bank, Shenzhen Development Bank, Bank of Beijing, Bank of Ningbo and Bank of Nanjing did not disclose any data about their high risk loans to energy inefficient and highly polluting industries.

2.6 Environmentally Friendly Loans

The increase of support for environmentally friendly industries is also an important indicator for the assessment of the banks' performances on green credit.

Shanghai Pudong Development Bank outdid all the other banks on this indicator. As of the end of 2009, the bank loaned a total of 17.488 billion yuan to environmentally friendly industries, including water pollution treatment, alternative power generation (green energy), waste water treatment and recycling, urban greening and environmental sanitation, collection and wholesale of recyclable materials, etc. The proportion of its loans to environmentally friendly projects increased steadily, accounting for 1.89% of its total loans in 2009. ICBC, China Construction Bank and China Merchants Bank also did well. As of the end of 2009, ICBC's balances of loans to key environmental protection projects and alternative energy development and utilization projects reached 114.929 billion yuan and 102.925 billion yuan respectively. The bank also invested in various other green credit projects including: 56.669 billion yuan to key energy-saving projects, 42.810 billion yuan to Clean Development Mechanism (CDM) projects, 28.524 billion yuan to projects promoting advanced technologies for environmental protection, 22.507 billion yuan to projects on comprehensive utilization of resources, and 39.628 billion yuan to other technological reform projects for energy conservation and emission reduction. As of the end of 2009, China Construction Bank's balance of green credit projects was 181.097 billion yuan, increasing by 17.49% compared with the previous year. The bank's loans to renewable energy projects totaled 177.742 billion yuan, accounting for 3.82% of its total loans. Its loans to environmentally friendly projects totaled 3.355 billion yuan, accounting for 0.07% of its total loans. As of the end of 2009, China Merchants Bank invested a total of 39.832 billion yuan in green credit projects, increasing by 59.71% compared with the previous year. Among that, 13.432 billion yuan was invested in renewable energy, 3.701 billion yuan in clean energy, and 22.687 billion yuan in environmental protection. In 2009, CITIC Bank supported a total of 208 clients involved in environmentally friendly projects, with a loan balance of 12521 billion yuan, accounting for 1.62% of its corporate loans, increasing by 3.256 billion yuan or 35.14% compared with the beginning of the year. In 2009, Bank of Communications invested a total of 57.815 billion yuan in environmentally friendly

projects involving 364 enterprises and accounting for 3.34% of its total loans. Industrial Bank developed financial products and services for social progress and environmental protection, covering energy efficiency, environmental and carbon finance in six major areas: alternative and renewable energy, CDM, reduction of SO₂ (sulfur dioxide) emission, waste water treatment, water governance, and solid waste treatment. The bank granted 223 loans with a total worth of 16.583 billion yuan to energy conservation and emission reduction projects, which would each year save 10.397 million tons of standard coal equivalent, reduce the emission of 31.780 million tons of carbon dioxide and 439 thousand tons of COD (chemical oxygen demand) and comprehensively utilize 472.5 thousand tons of solid waste. In 2009, Bank of Beijing granted a total of 3.2 billion yuan worth of credit that would be directly used for environmental protection projects, accounting for 1.17% of its total corporate loans, increasing by 33.33% compared with 2008. Its balance of loans was 2.5 billion yuan. In 2009, Huaxia Bank signed an Agreement on Comprehensive Cooperation with China Energy Conservation Investment Corporation, providing a line of credit of five billion yuan to finance projects in energy conservation, emission reduction, clean energy, etc. The bank provided a line of credit of 8.385 billion yuan for energy-saving and environmentally friendly projects of 78 enterprises, with a total loan balance of 5.858 billion yuan. Bank of China's green credit loans increased by 55.201 billion yuan or 79.66% in 2009. China Minsheng Bank loaned a total of 8.91 billion yuan to 59 energy conservation and emission reduction projects of over 50 enterprises such as China Huaneng Renewable Energy Holdings Limited. The loans involved 10 key energy conservation and emission reduction projects, as well as technological innovation and reform, and product marketing, etc. Bank of Ningbo, Shenzhen Development Bank and Bank of Nanjing did not disclose any data on their loans to energy-saving and environmentally friendly projects.

Similar to the loans to energy inefficient and highly polluting industries, there was no explicit state criteria for the identification of energy-saving and environmentally friendly projects. The lack of a clear benchmark affected the comparison among the banks. According to the data disclosed, the amount and proportion of loans to energy conservation and environmentally friendly industries increased considerably, indicating that the banks were paying more and more attention to them. However, they still have a long way to go before they can catch up with the trend of green development. Table 2.6 ranks the performance of each bank on this indicator.

Table 2.6 Assessment of the Banks' Performances on Environmental Protection Loans

Name of Bank	Weight	Ranking
ICBC	0.130664	2
China Construction Bank	0.130664	2
Bank of China	0.026825	10
Bank of Communications	0.060084	6
China Merchants Bank	0.130664	2
CITIC Bank	0.086413	5
Shanghai Pudong Development Bank	0.226117	1

China Minsheng Bank	0.025774	11
Industrial Bank	0.054261	7
Huaxia Bank	0.038985	9
Shenzhen Development Bank	0.014195	13
Bank of Beijing	0.042720	8
Bank of Ningbo	0.019189	12
Bank of Nanjing	0.013447	14

Compared with 2008, there were the following changes in the performances of the banks on loans to energy conservation and environmental protection industries:

Shanghai Pudong Development Bank's loans to energy-saving and environmentally friendly projects increased in both the total amount and proportion. ICBC, China Construction Bank, China Merchants Bank, Industrial Bank, Bank of Beijing and China Minsheng Bank also significantly increased their loans to energy-saving and environmentally friendly projects. CITIC Bank, Bank of Communications, Bank of China and Huaxia Bank did not disclose any data about their energy conservation and environmental protection loans in 2008, but started doing so in 2009. Bank of Ningbo, Shenzhen Development Bank and Bank of Nanjing did not disclose any relevant data, nor make any improvement.

2.7 Recognition from Society (Environmental and Social Responsibilities)

Recognition from society is an external evaluation of the banks' performances on environmental and social responsibilities. It helps to supplement, verify and correct the banks' self-assessments. Therefore it is also an important indicator of the banks' performances on green credit.

In 2009, Industrial Bank received quite a number of awards on environmental and social responsibilities, such as the “Best Green Bank of 2008” special award in the “Best Chinese Banks of 2008” selection sponsored by *Economic Observer*, and “Asia's Sustainable Bank of the Year” in the “Sustainable Banking Awards” jointly organized by the UK's *Financial Times* and IFC.

China Merchants Bank received the “Best Green Finance Award” from *CFO World*, and was among the “2008 China Green Star Benchmark Companies” nominated by *China Entrepreneur* magazine, Guanghua School of Management of Beijing University, Daonong Center for Enterprise, and Price Waterhouse Cooper and Climate Change Capital (CCC).

ICBC won the “Best Corporate Social Responsibility Award” from *the Chinese Banker* magazine, and was among the “2008 China Green Star Benchmark Companies” nominated by Guanghua School of Management of Beijing University and Daonong Center for Enterprise. It was also chosen as one of the “Top 10 Responsible Green Enterprises” by the organizing committee of China Green Development Forum.

Shanghai Pudong Development Bank won the “2009 Contribution to Green Finance Award” at the 3rd China Environmental Investment Congress organized by Tsinghua University and China

Environmental Investment Network, in collaboration with IFC of the World Bank.

Bank of Beijing won the “2008 Green Finance Innovation Award” at the 2nd China Environmental Investment Congress organized by Tsinghua University.

China Minsheng Bank, China Construction Bank, Huaxia Bank, Shenzhen Development Bank, Bank of Ningbo and Bank of Communications received some recognition on social responsibility, but they did not receive any awards specifically on environmental responsibility. CITIC Bank and Bank of China received little recognition on social responsibility and none on environmental responsibility. Bank of Nanjing did not receive any awards on environmental or social responsibility. Table 2.7 ranks the banks' performances on this indicator.

Table 2.7 Assessment of the Banks' Performances on Recognition from Society

Name of Bank	Weight	Ranking
ICBC	0.142229	3
China Construction Bank	0.062459	5
Bank of China	0.021130	13
Bank of Communications	0.026538	12
China Merchants Bank	0.189497	2
CITIC Bank	0.028333	11
Shanghai Pudong Development	0.047095	7
China Minsheng Bank	0.099638	4
Industrial Bank	0.214311	1
Huaxia Bank	0.046486	8
Shenzhen Development Bank	0.029199	9
Bank of Beijing	0.051088	6
Bank of Ningbo	0.028922	10
Bank of Nanjing	0.013074	14

Compared with 2008, there were the following changes in the banks' performances on recognition from society:

Except Bank of Nanjing which received no awards on environmental or social responsibility, all the other banks received some awards. Industrial Bank received many awards. ICBC, China Merchants Bank and Shanghai Pudong Development Bank received some environmental awards, and other awards on social responsibility. Bank of Beijing did not win any environmental or social responsibility awards in 2008, but it began to receive recognition for its efforts on environmental and social responsibilities since 2009. The other banks only received awards on social responsibility.

2.8 Criticism from Society (Environmental and Social Responsibilities)

Criticism from society is a form of external monitoring which to a certain extent reflects the

banks' problems in green credit, and is therefore an important indicator for the assessment of the banks' performances on green credit.

Controversial projects of the banks which aroused much criticism were mainly the following: China Minsheng Bank financed the **XP Project of Xianglu Group**. Shenzhen Development Bank financed **Asia Paper & Pulp (APP)** which had serious problems in environmental pollution and ecological destruction. CITIC Bank financed **APP** and **China Huadian Corporation's Ludila and Longkaikou Hydropower Stations**. Both companies had serious problems in environmental pollution and ecological destruction. Huaxia Bank financed **APP** which had serious problems in environmental pollution and ecological destruction. China Merchants Bank financed the **XP Project of Xianglu Group** and **Zijin Mining Corporation**, both of which had serious problems in environmental pollution and ecological destruction. Bank of Communications financed **China National Petroleum Corporation (CNPC)**, **China Huadian Corporation's Ludila and Longkaikou Hydropower Stations** and **APP**, all of which had serious problems in environmental pollution and ecological destruction. Bank of China financed **China Datang Corporation** and **Dongling Group**, both of which had serious problems in environmental pollution and ecological destruction. It also financed **CNPC's oil and gas development project in Burma** which was highly controversial. China Construction Bank financed **Zijin Mining Corporation**, **Xianglu Group**, **China Huadian Corporation's Ludila and Longkaikou Hydropower Stations** and **China Huaneng Corporation's Yimin Coal-fired Power Plant**, all of which had serious problems in environmental pollution and ecological destruction. It also financed **CNPC's oil and gas development project in Burma** which was highly controversial. ICBC financed **China Datang Group**, **Zijin Mining Corporation**, **Xianglu Group**, **China Huadian Corporation's Ludila and Longkaikou Hydropower Stations**, and **China Huaneng Corporation's Yimin Coal-fired Power Plant**, all of which had serious problems in environmental pollution and ecological destruction. The bank also financed a number of overseas investments such as the **Gibe III Hydroelectric Dam in Ethiopia**, **oil sands projects in Canada**, **CNPC's oil and gas development project in Burma**, etc.; all of which aroused controversy in the international community.

No information related to criticism from society due to financing controversial projects and companies was seen for Shanghai Pudong Development Bank, Bank of Beijing, Bank of Ningbo, Bank of Nanjing and Industrial Bank.

Overall, the projects which received much criticism from home and abroad have already caused or will cause significant adverse environmental and social impacts to local areas. However, despite the criticism from the host country and the international community, some banks ignored the risks and continued with their investment or financing, which, in some cases, has led to irrevocable damages to their reputation as well as capital loss for their shareholders. Table 2.8 ranks the performances of the banks on this indicator.

Table 2.8 Assessment of the Banks' Performances on Criticism from Society

Name of Bank	Weight	Ranking
ICBC	0.009254	14
China Construction Bank	0.017479	13
Bank of China	0.030984	11
Bank of Communications	0.030984	11
China Merchants Bank	0.042927	10
CITIC Bank	0.047395	8
Shanghai Pudong Development	0.124883	1
China Minsheng Bank	0.075260	6
Industrial Bank	0.124883	1
Huaxia Bank	0.046042	9
Shenzhen Development Bank	0.075260	6
Bank of Beijing	0.124883	1
Bank of Ningbo	0.124883	1
Bank of Nanjing	0.124883	1

2.9 Adoption of International Environmental Principles

Adoption and implementation of international principles helps banks to make effective use of the fruits of relevant international research and development to greatly improve their level of management, as well as their image and reputation. It also helps them to win public recognition and favor from investors. Integration into the world system will ultimately bring economic returns to the banks. At the same time, adoption of international principles and conventions also means that the banks will have to implement more comprehensive and strict standards, report and disclose more detailed information, receive public and peer oversight, and possibly lose short-term interests in competitions.

As of 2009, Industrial Bank participated in the following international environmental initiatives: United Nations Environment Program (UNEP) Financial Initiative (FI), the Equator Principles, and the Carbon Disclosure Project. China Merchants Bank participated in UNEP FI and the Carbon Disclosure Project. ICBC joined the Carbon Disclosure Project.

China Construction Bank did not adopt any international environmental principles, but was making preparations to adopt the Equator Principles. According to CBRC's newly issued Guidelines on the Disclosure and Classification of Credit Risks of Commercial Bank Accounts, Interim Measures on the Management of Fixed Asset Loans and Project Finance Guidelines, and with reference to the experiences of international industry peers, the bank drafted operating procedures for the Equator Principles and procedure guidelines for the convenience of its clients. China Minsheng Bank did not adopt any international environmental principles, but in December 2009, its Energy Finance Department conducted research titled Analysis of the Trend of China's Energy Industry under the Background of Low Carbon Economy and Recommendations on the Operation and Development of the Energy Finance Department. Specialists were organized to research on the

energy industry in the framework of the Kyoto Protocol, energy finance in circular economy and the framework of the Equator Principles, etc. CITIC Bank did not adopt any international environmental principles, but it studied the Equator Principles and paid attention to the trend among domestic and international banks to adopt them. The bank also compiled a booklet titled *Shaping the Future for Sustainable Finance – Interpretation of the Equator Principles*. Shanghai Pudong Development Bank, Bank of Communications, Bank of China, Huaxia Bank, Shenzhen Development Bank, Bank of Beijing, Bank of Ningbo and Bank of Nanjing did not adopt any international social or environmental principles. Nor was there any indication that they are preparing to do so. Table 2.9 ranks each bank's performance on this indicator.

Table 2.9 Assessment of the Banks' Performances on Adopting International Environmental Principles

Name of Bank	Weight	Ranking
ICBC	0.158997	3
China Construction Bank	0.067442	4
Bank of China	0.026847	8
Bank of Communications	0.026847	8
China Merchants Bank	0.180239	2
CITIC Bank	0.065517	6
Shanghai Pudong Development Bank	0.039232	7
China Minsheng Bank	0.066375	5
Industrial Bank	0.247349	1
Huaxia Bank	0.024231	10
Shenzhen Development Bank	0.024231	10
Bank of Beijing	0.024231	10
Bank of Ningbo	0.024231	10
Bank of Nanjing	0.024231	10

Compared with 2008, there were the following changes in the banks' performances on participating in international environmental initiatives:

The pace of integration into world standards was not satisfactory. Except Industrial Bank and China Merchants Bank which joined the Carbon Disclosure Project, all the other banks did not adopt any international principles or join any international initiatives. China Construction Bank and CITIC Bank carried out research and preparatory work on the Equator Principles. China Minsheng Bank conducted research on energy finance in the framework of the Equator Principles. The other banks did not take any action in this respect.

2.10 Internal Environmental Performance

The banks' internal environmental actions mainly entail an increase of environmental awareness among the staff, and energy conservation and emission reduction activities (such as saving energy in the office) within the bank. Increased awareness among the staff is certainly the most important objective. However, data on energy conservation in the office is a more obvious

indicator.

Industrial Bank conducted a significant amount of environmental training, particularly on the interpretation and application of the Equator Principles. Its main measures included: 1. Strengthening specialized training on sustainable finance, increasing the staff's awareness on social responsibility and sustainable finance; Compilation of publicity and learning materials such as *Interpretation to the Equator Principles* and *Equator Principles Applicable Finance Case Studies*, etc. 2. Formulating the Measures for Energy Conservation in the Office to encourage its staff to save energy. 3. Making preparations to implement carbon footprint management by: initiating research on carbon management measures such as “carbon footprint,” “carbon neutrality,” etc.; learning from the success stories in carbon footprint management from outstanding enterprises at home and abroad; researching on international mainstream ways to review and calculate carbon footprint as well as the reporting system; establishing a good communication mechanism with relevant government authorities and other organizations such as MEP, IFC, WWF, SynTao, etc., to explore feasible ways to manage its carbon footprint and enhance the capacity for sustainable operation. Regretfully, although the bank emphasized reforms for energy conservation and emission reduction, it did not disclose any relevant data.

ICBC promoted a paperless office and achieved electronic processing of business transactions. Electronic banking accounted for over 50% of all of its transactions. Publicity and education on energy conservation was carried out to raise the staff's awareness of energy conservation and emission reduction. Energy conservation was integrated into its daily management by formulating relevant rules and encouraging its branches at all levels to explore new ways to save energy and voluntarily monitor their energy consumption. Trainings on green credit at different levels were conducted within the bank. Experts were invited to give specialized talks. Staff were sent to participate in green forums and seminars organized by supervisory and environmental authorities. Regular talks on environmental protection were organized. It is worthy of recognition that ICBC disclosed data on its energy consumption at the headquarters in the past three years.

China Merchants Bank invited outside experts to conduct training for its staff on energy conservation. A Green Corporate Culture Festival was organized to promote a greener bank and low-carbon operation. It also promoted green office, green purchasing, green building and electronic banking.

China Minsheng Bank stuck to green operations. It launched a “Promotion of Electronic Bills for the Advancement towards a Conservation-oriented Bank” campaign. A series of environmental management rules were formulated for the promotion of a greener office, and concrete measures, such as green purchasing, were taken to implement them. Internal training was conducted. A one-day Training Workshop on Social Responsibility was held at its Minsheng Training Institute. Experts from the Center for Research on Corporate Social Responsibility of China Academy of Social Sciences and Veritas Group were invited to lecture on the concepts, key issues and domestic and international best practices of social responsibility. More than 80 of the bank's social

responsibility liaisons from its headquarters, various divisions and branches participated in the workshop.

Bank of Communications conserved energy by cutting down consumption, applying advanced technologies and renovating its property and facilities. A work group on cost reduction and efficiency improvement was established at its headquarters. A total of 68 measures were implemented and 265 million yuan was saved as a result. The bank also continued to promote on-line banking and self-banking.

China Construction Bank encouraged its staff to actively take part in energy conservation and environmental activities. Its headquarters and Shanghai Branch participated in the Earth Hour 2009 global campaign.

Shanghai Pudong Development Bank initiated a campaign to become a low carbon bank, through attaching importance to energy conservation and environmental protection in its daily operations, promotion of electronic banking and exploration of other channels to go green.

CITIC Bank promoted video conferencing, paperless office and electronic banking. It was worthy of recognition that the bank disclosed data on its consumption of resources in the office, which, nonetheless, was on the rise.

Bank of China improved its policy and procedures for environmental management in the office. Its goals in energy conservation and emission reduction were clarified and regular monitoring of water, electricity and petroleum consumption was carried out. The staff was encouraged to save energy and reduce emissions. Shareholders were encouraged to obtain electronic copies of relevant documents to reduce the use of paper. According to the data it disclosed on energy consumption at its headquarters in 2009, the total consumption of water, electricity and gas stayed almost at the same level as the previous year. However, its per capita consumption was on a steady decline, which is worthy of recognition.

Bank of Beijing upgraded its paperless office system, encouraged its staff to save energy and reduce consumption and promoted electronic banking.

Shenzhen Development Bank set up a video conferencing system linking the headquarters with its branches and sub-branches in order to reduce expenses on business travel. It also held a competition of good ideas on energy conservation to encourage the staff to take responsibility and initiative in environmental protection. The winning ideas were put into practice. Energy-saving lamps were given as presents to the staff. It also went further in its efforts towards a paperless office.

Bank of Nanjing revised its telephone banking and customer service center systems and enriched the functions of its on-line banking and SMS banking systems. Intelligent payment terminals were installed at some of its offices in Nanjing to provide customers with a new electronic payment option. The bank promoted conservation-oriented operations by reducing consumption and long-distance business travel. Interactive phone and video conferencing systems were used for conferences, training sessions and communications within the bank. On the basis of paperless

review of documents for approval, various electronic procedures were continuously optimized by shortening and standardizing the procedures.

Huaxia Bank put the “green office” concept into practice by setting up electronic business platforms, promoting paperless office, purchasing environmentally friendly office supplies, reducing the use of disposable products, encouraging its staff to form habits such as saving water and electricity and double-sided printing, etc.

Bank of Ningbo did not disclose any relevant information.

Table 2.10 ranks each bank's performance on this indicator.

Table 2.10 Assessment of the Banks' Performances on Internal Environmental Protection

Name of Bank	Weight	Ranking
ICBC	0.169845	2
China Construction Bank	0.059028	6
Bank of China	0.031390	9
Bank of Communications	0.066219	5
China Merchants Bank	0.119400	3
CITIC Bank	0.033668	8
Shanghai Pudong Development Bank	0.054273	7
China Minsheng Bank	0.102446	4
Industrial Bank	0.237168	1
Huaxia Bank	0.022683	13
Shenzhen Development Bank	0.031127	11
Bank of Beijing	0.031281	10
Bank of Ningbo	0.012069	14
Bank of Nanjing	0.029402	12

Compared with 2008, there were the following changes in the banks' performances on internal environmental protection:

Industrial bank made some improvement by conducting trainings on the Equator Principles. However, it did not disclose concrete data on its energy consumption. ICBC made significant improvement. It invited experts to conduct trainings on green credit, as well as disclosed detailed data on energy consumption at its headquarters. Bank of China made significant improvement by disclosing details on its energy consumption. CITIC Bank made noticeable improvement. It disclosed information about the consumption of water, electricity and copying paper in the office, as well as gasoline for business cars. China Merchants Bank organized a Green Corporate Culture Festival. China Minsheng Bank organized theoretic trainings on corporate social responsibility for its staff. China Construction Bank, Bank of Communications, Shanghai Pudong Development Bank, Huaxia Bank, Shenzhen Development Bank, Bank of Beijing and Bank of Nanjing made small improvements. Bank of Ningbo did not disclose any relevant information. On the whole, all the banks need to be more creative and carry out more practical activities and measures.

2.11 Outreach to Industry Peers and Clients

Outreach to industry peers helps to create an overall environment in favor of green credit which nurtures green projects. Outreach to clients helps to familiarize them with the principles of green credit, so as to work with banks to undertake projects that are more environmentally friendly.

Industrial Bank excelled in this respect by reaching out to industry peers and clients to promote green credit and sustainable development. For instance, it introduced the Equator Principles to industry peers and shared its practical experience on sustainable development during occasions such as the China Workshop on Green Credit Policies. It discussed with Shanghai Pudong Development Bank about the adoption of the Equator Principles and shared its experience in implementing them. The bank also invited client representatives to participate in training workshops on the Equator Principles. Industrial Bank played a significant role in promoting green credit and the Equator Principles among its peers and clients in China. More and more people have gotten to know the Equator Principles as a result.

China Merchants Bank endeavored to advocate for green credit among industry peers. For instance, it collaborated with IFC on research and development of risk-sharing products. At the same time, it dedicated itself to new services such as consulting on Clean Development Mechanism, low-interest loans provided by the French Development Agency (AFD) for energy efficiency and renewable energy projects, and green private equity funds, etc. It also collaborated with Shanghai Pudong Development Bank, Huaxia Bank and Industrial Bank, etc. on different aspects of green finance, such as marketing policy, product innovation and social and environmental responsibilities. The bank also organized workshops on green finance, public lectures on social responsibility (in collaboration with *Southern Weekend*), as well as a conference on ecological civilization in Guiyang city.

Shanghai Pudong Development Bank endeavored to reach out to its peers. In collaboration with Tianjin Zhongxin Eco-city Investment Company, etc. it co-founded the first voluntary emission reduction alliance in China - Eco-city Green Industry Association (EGIA). It also pioneered among commercial banks in China with its Green Credit Comprehensive Service Scheme, which consisted of the energy efficiency finance programs of AFD and IFC, financial consultancy on Clean Development Mechanism, green equity finance and professional support.

ICBC promoted green poverty alleviation as a new way for development-oriented poverty relief, through its projects in Nanjiang and Tongjiang counties of Bazhong city (prefecture level), and Wanyuan city (county level) of Dazhou city (prefecture level) in Sichuan province. It carried out environmental activities such as tree planting. To strengthen international exchanges, the bank received a green credit study tour group from Vietnam. It also participated in a sustainable finance workshop organized by WWF, and promoted its own green credit policies.

Bank of China passed on the environmental message to its business partners by incorporating restrictive clauses on energy consumption and pollution risks into its credit contracts. These

clauses, urged borrowers to attach importance to environmental protection, and work on energy conservation and emission reduction. Borrowers were expected to state their compliance with relevant regulations, and, in the case that they fail to fulfill their commitments or when risks in energy consumption and pollution emerge, they are expected to agree to accelerated recovery or suspension of loans or advance exercise of collateral rights, etc..

CITIC Bank increased its active participation in the research of the Equator Principles through academic exchanges with supervising authorities, industry peers and other social organizations.

Bank of Beijing capitalized on its clients' financial needs for energy conservation and emission reduction projects. It also expanded its collaboration on energy-saving and environmentally friendly projects with IFC, China Investment Guaranty Corporation and other international organizations.

China Minsheng Bank co-sponsored with China Academy of Social Sciences a seminar to discuss the “Minsheng Phenomenon in Social Responsibility.” Experts and scholars from CBRC, the Ministry of Human Resources and Social Security, the National Federation of Industry and Commerce, China Banking Association, etc. discussed how banks should fulfill their social responsibilities in the post financial crisis era.

Huaxia Bank continued its cooperation with AFD on the second phase of the China Energy Efficiency and Renewable Energy Project. It also collaborated with the World Bank on the China Energy Efficiency Finance Project.

Bank of Nanjing guided and encouraged its clients to be more aware of their environmental and social responsibilities.

China Construction Bank, Shenzhen Development Bank, Bank of Communications and Bank of Ningbo did not disclose any information on their outreach to industry peers or clients regarding environmental protection.

Table 2.11 ranks each bank's performance on this indicator.

Table 2.11 Assessment of the Bank's Performances on Outreach

Name of Bank	Weight	Ranking
ICBC	0.079038	4
China Construction Bank	0.020684	11
Bank of China	0.079038	4
Bank of Communications	0.020357	13
China Merchants Bank	0.162830	2
CITIC Bank	0.051536	6
Shanghai Pudong Development Bank	0.128861	3
China Minsheng Bank	0.031675	8
Industrial Bank	0.272304	1
Huaxia Bank	0.031675	8
Shenzhen Development Bank	0.020612	12
Bank of Beijing	0.051047	7
Bank of Ningbo	0.018669	14

Bank of Nanjing	0.031675	8
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Compared with 2008, there were the following changes in the banks' outreach to industry peers and clients:

Industrial Bank had a lot of exchanges with industry peers both at home and abroad, after it joined the Equator Principles. It also tried to increase its clients' awareness on sustainable development. CITIC Bank began making progress with respect to external exchanges on the Equator Principles. Bank of China clearly conveyed the environmental message to its business partners by incorporating relevant clauses into its contracts to guide them to pay more attention to energy conservation and environmental protection. Bank of Beijing expanded its collaboration with IFC, China Investment Guaranty Corporation and other international organizations on energy-saving and environmentally friendly projects. (The bank did not disclose any information on its outreach to industry peers and clients in 2008.) China Merchants Bank collaborated and made exchanges on environmental protection with industry peers both at home and abroad. Shanghai Pudong Development Bank made good progress in outreach to its business partners on energy conservation and emission reduction. It co-founded the first voluntary emission reduction alliance in China. China Minsheng Bank made exchanges with industry peers on how to fulfill their social responsibilities. However, it did not carry out more substantive work. ICBC explored ways for green poverty alleviation and promoted its own green credit policies among industry peers. Huaxia Bank collaborated with international peers on energy conservation and emission reduction projects. However, it did not outreach to other industry peers or its clients. Bank of Nanjing began to pay more attention to promoting environmental and social responsibility awareness among its clients. The other banks did not make any improvements.

2.12 Social Donations

As a way for enterprises to fulfill their social responsibilities and an indispensable source of funds for charitable causes, social donations have been attached more and more importance. Therefore, we have included it as an indicator.

ICBC's headquarters and branches in China donated a total of 24.66 million yuan to poverty alleviation, culture and education, sports and charitable causes, including investing nearly 240 million yuan to support earthquake reconstruction; a donation of 5 million yuan for typhoon relief in Taiwan; an accumulated donation of over 4 million yuan to award outstanding teachers and outstanding disadvantaged students from rural areas, support Project Hope primary schools, fund its green poverty alleviation projects, etc. The bank also provided credit support for post-disaster reconstruction. For instance, it loaned 240 million yuan for reconstruction after the Sichuan Earthquake.

Shanghai Pudong Development Bank donated a total of 14.59 million yuan for charitable causes such as poverty alleviation, assistance to students and the disadvantaged, environmental protection, etc.

Industrial Bank provided brainpower as well as material and financial support to public services such as healthcare, education and culture. The bank showed appreciation for society through charitable activities such as poverty alleviation, donations, blood donation, educational assistance fund and sponsorships, etc. It was also concerned about the development of disadvantaged groups. The total accumulated donation of the bank exceeded 6 million yuan in 2009.

Bank of Ningbo donated a total of 5.18 million yuan in 2009, including 4.03 million yuan to Ningbo Charity Association, 230 thousand yuan to poverty-stricken areas in Guizhou province through the Civil Affairs Bureau of Ningbo, 126 thousand yuan collected during its “One Day Charitable Donation” campaign, etc.

Huaxia Bank donated a total of 12.45 million yuan to charitable causes. The bank increased its credit support for post-earthquake reconstruction and key infrastructure projects in Sichuan. It approved a total of 10.67 billion yuan in loans for 92 earthquake relief and post-quake reconstruction projects. It also donated 4 million yuan for typhoon relief in Taiwan.

China Construction Bank invested a total of about 72.74 million yuan in 13 charitable donations and commercial sponsorships.

China Merchants Bank has undertaken the task to help alleviate poverty in Yongren and Wuding counties of Chuxiong Yi Autonomous Prefecture in Yunnan province since September 1998. 2009 was the 11th year since it started the enterprise. In 2009, the bank sent 4 officers (the accumulated number of dispatched officers totaled 42 in 11 batches) and invested 4 million yuan in micro-credit revolving funds for the two poor counties. Its staff also donated 5.75 million yuan (the accumulated total reached 37.2 million yuan) and 31,600 articles of clothing.

Shenzhen Development Bank supported poverty alleviation and other charitable causes. For instance, the bank donated 13 million yuan for the reconstruction of Yutang Primary School in Dujiangyan. It launched a nation-wide educational assistance campaign to recruit volunteer teachers for schools in disaster-stricken areas and arouse public attention to those areas at the same time. The bank also raised 350 thousand yuan to help more than 110 Tibetan cataract patients in the Shigatze region have sight-restoring surgery through its Brightness for Tibet Initiative.

CITIC Bank donated 4 million yuan to various fields such as financial education, etc.

Bank of Beijing donated 700 thousand yuan to Beijing Charity Association and 250 thousand yuan to Beijing Xicheng District Charity Association to help handicapped people, disadvantaged students, elders and those in need of medical aid. It also donated 1 million yuan for the construction of Bank of Beijing Star of Hope Teaching Base to support educational development in central China.

China Minsheng Bank set up the China Minsheng Bank Charitable Fund to which it openly

committed a fixed percentage of its profit. It was the first of its kind among the banks in China. The bank donated 10 million yuan for poverty alleviation projects in Zhijin county of Guizhou province, and Bazhong and Yilong counties of Sichuan province. From 2006 to 2009, the bank donated a total of 58 million yuan to help 304 cities and counties nationwide to advertise their produce for free.

Bank of China disclosed a few cases of social donations. Through its “Savings of Love” initiative, it raised 10 million yuan for the construction of a modern primary school that would be earthquake resistant up to an eight on the Richter scale at Jinzishan township, Qingchuan county in Sichuan province, which had been struck by the Sichuan earthquake. Through the Association for Relations Across the Taiwan Strait, it donated 5 million yuan for the regions hit by Typhoon Morakot in Taiwan. It also made donations to typhoon-hit areas in the Philippines and earthquake-stricken areas in Indonesia.

Bank of Communications disclosed a few charity cases. The bank donated 5.64 million yuan to Taiwan after it was hit by Typhoon Morakot. After the Sichuan earthquake, it provided a line of credit of 4.15 billion yuan to support relief work and post-quake reconstruction in healthcare and pharmaceuticals, construction, machinery, agriculture, transportation, water resources management, chemical industry, cement, transitional shelter building, etc.

Bank of Nanjing carried out charitable activities in educational assistance, poverty alleviation, volunteering and community services, as well as publicity of financial knowledge, etc.

Table 2.12 ranks each bank's performance on this indicator.

Table 2.12 Assessment of the Banks' Performances on Social Donations

Name of Bank	Weight	Ranking
ICBC	0.142679	1
China Construction Bank	0.087366	6
Bank of China	0.029506	12
Bank of Communications	0.028906	13
China Merchants Bank	0.053900	7
CITIC Bank	0.050867	9
Shanghai Pudong Development Bank	0.142679	1
China Minsheng Bank	0.029755	11
Industrial Bank	0.142679	1
Huaxia Bank	0.088104	5
Shenzhen Development Bank	0.052362	8
Bank of Beijing	0.031004	10
Bank of Ningbo	0.099294	4
Bank of Nanjing	0.020899	14

2.13 Overseas Investment

China's overseas investment has been expanding rapidly. As of the end of 2009, the accumulated net amount totaled USD 245.75 billion, reaching over 170 countries and regions all

over the world. In 2009 alone, its overseas investment totaled USD 43.3 billion.

As the scale of Chinese Banks' overseas investments expands, criticism and skepticism about their environmental and social impacts have also been on the rise. Currently, there is still a lack of transparency about Chinese banks' overseas investments. Therefore, this indicator focuses on investment transparency for now. As disclosed information increases, it will incorporate assessments of the environmental and social impacts of different investment categories and specific projects.

China Merchants Bank's overseas investment is concentrated in the US and some countries and regions in Europe, Asia and Africa. The main industries it was involved in include oil and gas, mining, manufacturing, renewable energy and overseas trade. The bank claimed to have complied with international environmental standards. In 2009, its overseas investment totaled USD1.34 billion, accounting for 1.38% of its total loans, increasing by 0.29% compared with 2008.

Industrial Bank claimed to have no overseas investments.

ICBC, China Construction Bank, Bank of China, Bank of Communications, CITIC Bank, Shanghai Pudong Development Bank, China Minsheng Bank, Huaxia Bank, Shenzhen Development Bank, Bank of Beijing, Bank of Ningbo and Bank of Nanjing did not disclose any information about their overseas investments.

Table 2.13 ranks each bank's performance on this indicator.

Table 2.13 Assessment of the Banks' Performances on Overseas Investment

Name of Bank	Weight	Ranking
ICBC	0.041448	3
China Construction Bank	0.041448	3
Bank of China	0.041448	3
Bank of Communications	0.041448	3
China Merchants Bank	0.306367	1
CITIC Bank	0.041448	3
Shanghai Pudong Development Bank	0.041448	3
China Minsheng Bank	0.041448	3
Industrial Bank	0.196259	2
Huaxia Bank	0.041448	3
Shenzhen Development Bank	0.041448	3
Bank of Beijing	0.041448	3
Bank of Ningbo	0.041448	3
Bank of Nanjing	0.041448	3

2.14 Summary

Overall, China Merchants Bank, Industrial Bank, ICBC and Shanghai Pudong Development Bank made strides towards green credit, through the formulation of environmental policies and implementation of environmental measures, research on and practice of international environmental

standards, internal environmental activities and outreach, etc., which are all worthy of recognition. China Construction Bank, China Minsheng Bank, Bank of Communications, Bank of China, CITIC Bank and Bank of Beijing also made some efforts. However, the performances of Bank of Nanjing, Bank of Ningbo, Huaxia Bank and Shenzhen Development Bank were not satisfactory.

Disclosure of environmental information is the basis for the assessment of the banks' performances in implementing environmental policies and fulfilling their environmental and social responsibilities. Increasing the banks' transparency facilitates public oversight of their finances and environmental and social responsibilities. Relevant state authorities have formulated more and more laws and regulations for the financial sector regarding information disclosure. Nevertheless, those laws and regulations currently do not have systematic and explicit requirements regarding the contents and means of disclosure. Therefore, the banks' disclosure of information has been largely voluntary and varied, lacking comparability as a result. Instead of encouraging voluntary disclosure, relevant authorities should impose explicit requirements for the disclosure of information on environmental and social responsibilities in bank information disclosure systems in order to establish a transparency mechanism. At the same time, they should review the information disclosed and ensure public access to it. Presently, CSR reports published by the banks remain the main means for the public to obtain bank environmental information. It is gratifying, though, that more and more Chinese banks referred to the 2006 version of GRI's Sustainability Reporting Guidelines and other supplementary guidelines for the financial industry while compiling their CSR reports. They also tend to disclose environmental and social information more voluntarily than before.

Banks' response to public demands is important for public oversight. It shows that they are responsible and helps to increase their transparency. At present, domestic banks have performed poorly in this respect. Among the 14 listed Chinese banks which were evaluated, only China Merchants Bank and Industrial Bank accepted our interviews as well as returned our questionnaires together with other relevant materials: Shanghai Pudong Development Bank returned our questionnaire; Bank of China and CITIC Bank provided relevant materials; All the other banks did not respond at all. Civil society also finds it hard to get any response from Chinese banks when they send inquiries or petitions to them regarding the financing of controversial projects. For instance, civil society groups wrote to the banks interested in the Gibe III Hydroelectric Dam project in Ethiopia to draw their attention to the environmental and social impacts of the dam, and urge them to take precautions before making any investment. Owing to their efforts, the banks which had planned to finance the project withdrew from it one after another. However, their open letter to ICBC (see appendix 7) got no reply. Eventually, ICBC loaned USD 420 million to Oriental Electric Equipment Co. Ltd., one of the contractors of the dam project (see appendix 7 for details).

Regarding the formulation of environmental policies and implementation of environmental measures, all banks claimed to have either formulated their own environmental policies or adopted relevant measures. Except Industrial Bank and Bank of Communications, which published parts of their policies, the other banks did not disclose the contents of their environmental policies. The

effectiveness of their environmental measures is also hard to verify.

With respect to criticism from society, most listed Chinese banks, particularly the ones with larger assets, invested in controversial projects or companies. Even the ones which did relatively well in implementing green credit were involved. For instance, China Merchants Bank invested in Zijin Mining Corporation; ICBC invested in the Gibe III Hydroelectric Dam in Ethiopia; ICBC, China Construction Bank, Bank of China and Bank of Communications invested in Canadian oil sands. Investment in controversial projects became a gauge which testified to the banks' implementation of their policies. Taking a proactive attitude towards criticism from society and making rectifications accordingly may transform cases into good examples of green credit. However, ignoring public opinions and sticking to the banks' own ways will not only lead to damaged finances and reputations, but also erode their green credit policies and measures, setting a bad example for others.

Listed Chinese banks have been slow to adopt international environmental principles, about which there is a general lack of awareness. Except Industrial Bank, China Merchants Bank and ICBC, the other banks remain outsiders of international environmental principles. China Construction Bank has been studying the Equator Principles for several years, but there is still no sign that it will adopt them. That said, the overall trend looks positive, as CITIC Bank and China Minsheng Bank have started to study the Equator Principles.

All the banks made some progress in internal environmental protection, by taking relevant measures to save energy and train their staff on green credit. However, in order for the banks to play a pivotal role in allocating capital for green development, they still need to strengthen training on the concepts and methodology of sustainable finance for their decision-makers at the intermediate and upper levels of management.

As China's overseas investment expands, Chinese banks have also accelerated the development of their overseas investment services. China's controversial overseas investments are mainly concentrated in ecologically fragile regions in Asia, Africa and the Americas, involving industries that may impact the environment, such as mining, agriculture, oil and gas, and hydropower, etc. And indeed they have caused negative environmental and social impacts to some regions and received more and more criticism from the international community, consequently increasing the banks' financial and reputational risks. Overseas investment should comply with the banks' domestic green credit policies, or even stricter ones, in order to better face international competition, develop the overseas market, and achieve their goal to “go out”. The formulation and implementation of environmental and social policies for overseas investment is still a weak point for Chinese banks.

Table 2.14 lists each bank's overall ranking.

Table 2.14 Assessment of the Banks' Overall Performances

Name of Bank	Weight	Ranking
ICBC	0.0987531	3

China Construction Bank	0.0773501	5
Bank of China	0.0540107	8
Bank of Communications	0.0569185	7
China Merchants Bank	0.1666686	1
CITIC Bank	0.0483930	9
Shanghai Pudong Development Bank	0.0893205	4
China Minsheng Bank	0.0644785	6
Industrial Bank	0.1658228	2
Huaxia Bank	0.0328038	13
Shenzhen Development Bank	0.0295944	14
Bank of Beijing	0.0439339	10
Bank of Ningbo	0.0352018	12
Bank of Nanjing	0.0367504	11

Chapter 3 Characteristics of Listed Chinese Banks in Implementing Green Credit

ICBC

ICBC ranked 17th in terms of total assets among the world's banks in 2009 (*The Banker's* list of top 1,000 world banks of 2009). It achieved the 3rd overall ranking under the green credit assessment system of this report. As a bank with one of the largest assets in China and the world, ICBC has played an exemplary role in fulfilling its environmental and social responsibilities. First of all, the bank made significant improvement in information disclosure, with detailed data about its energy consumption and loans to energy inefficient and highly polluting as well as environmentally friendly industries. It also made some progress in responding to public demands. Nevertheless, it still needs to do better in disclosing its environmental and social policies. The bank implemented quite a number of environmental measures in accordance with relevant state green credit policies. However, it did not elaborate on those policies by formulating its own supporting policies for specific industries such as forestry, fishery, agriculture and extractive industries. Although the bank tried to incorporate international standards on sustainable development and green credit by joining the Carbon Disclosure Project, it has not showed any willingness to adopt the Equator Principles, an internationally-recognized benchmark for managing environmental and social risks. The bank also invested in or financed some controversial enterprises or projects at home and abroad, which reveals that there still exists a gap between its green credit policies and measures and their implementation.

China Construction Bank

China Construction Bank ranked 20th in terms of total assets among the world's banks in 2009. It is playing an increasingly important role in domestic and overseas investment. The bank achieved the 5th overall ranking under the green credit performance evaluation system of this report. It disclosed detailed information on its loans to energy inefficient and highly polluting sectors, as well as environmentally friendly industries. However, it made no improvement in responding to public demands or elaboration of policies. Although it had a credit scheme for energy conservation and emission reduction and formulated 53 review and approval guidelines (undisclosed) covering energy inefficient and highly polluting as well as overcapacity industries such as steel and cement, it did not formulate clear credit policies for other environmentally sensitive industries (such as agriculture, forestry, fishery, extractive industries, energy, etc.). The coverage of its environmental policies is still insufficient. The bank actively studied international good practices, especially the Equator Principles. However, it needs to speed up its pace and formulate of internal environmental principles. China Construction Bank invested in a number of controversial enterprises or projects at home and abroad, such as Ludila and Longkaikou power stations of China Huaneng Group, Yimin coal-fueled power plant of China Huadian Group, Canadian oil sand, etc., which reveal that the implementation of its environmental policies and measures is defective.

Bank of China

Bank of China ranked 23rd in terms of total assets among the world's banks in 2009. It achieved the 8th overall ranking under the green credit performance evaluation system of this report. Although it made some improvement in information disclosure, there is much room for improvement in elaborating on green credit policies and implementing environmental measures. Bank of China was one of the few listed Chinese banks that did not formulate environmental policies in 2009. Its controversial investments reveal that it has not been consistent in implementing its environmental measures. The bank did well in promoting environmental protection among its business partners and taking innovative approaches to guide them to conserve energy and reduce emission. For instance, it incorporated restrictive clauses on energy consumption and pollution risks into its credit contracts. Borrowers were expected to state their compliance with relevant regulations, and, in the case that they fail to fulfill their commitments or when risks in energy consumption and pollution emerge, they are expected to agree to accelerated recovery or suspension of loans or advance exercise of collateral rights, etc.

Bank of Communications

Bank of Communications ranked 4th in terms of total assets among domestic listed banks in 2009. It achieved the 7th overall ranking under the green credit performance evaluation system of this report. The bank made significant improvement in the elaboration of policies. It formulated its Compliance Policy, a new environmental and social policy aimed at preventing all types of risks and consequent reputational damages. It also introduced a Compliance Manual to elaborate on the policy. Nevertheless, the coverage of the policy is still insufficient, lacking provisions for specific industries such as extractive industries, energy and papermaking, etc. The bank disclosed more

information about its high risk as well as environmental protection loans. But it was not responsive to public demands. Bank of Communications implemented environmental protection measures such as its classified green credit environmental labels, which were taken as a prerequisite for credit access and covered almost all of its projects or clients. However, its controversial loans reveal that the enforcement of those measures needs to be strengthened. The bank made few exchanges with industry peers or business partners on sustainable development and the practice of green credit.

China Merchants Bank

China Merchants Bank has a proactive attitude towards sustainable development and green credit. It achieved the 1st overall ranking under the green credit performance evaluation system of this report. First of all, China Merchants Bank elaborated on its environmental policies by introducing the Green Finance and Credit Policy, in which its credit policy for 25 key industries such as railways, urban rail transit, environmental protection, telecommunications, etc. was further refined. It also formulated the Marketing Guidelines for the Renewable Energy Industry and increased its investment in renewable and clean energy. Second, the bank disclosed detailed information about its high risk as well as environmental protection loans, and actively responded to public demands for environmental information. It also accepted our interviews and returned our questionnaire together with other relevant materials. Third, the bank implemented many environmental measures, such as combined and single risk screening and risk quantification techniques, etc. Nevertheless, its controversial investments reveal that the enforcement of those measures still needs to be strengthened. Fourth, it clarified the responsibility in green credit of each of its departments. Fifth, it eagerly learned from advanced international experiences by joining the UNEP FI and the Carbon Disclosure Project. However, the bank expressed that it would not adopt the Equator Principles for the time being. Sixth, China Merchants Bank made some improvement in outreach to industry peers on green credit. It collaborated with Shanghai Pudong Development Bank, Huaxia Bank and Industrial Bank, etc. on aspects of green credit such as marketing strategies, environmental and social responsibilities, etc. It also held workshops on green credit and co-sponsored public lectures on social responsibility with *Southern Weekend*.

CITIC Bank

CITIC Bank achieved the 9th overall ranking under the green credit performance evaluation system of this report. Compared with 2008, CITIC Bank made significant progress. The bank implemented several environmental measures in accordance with state green credit policies. However, it did not formulate its own environmental and social risk policies or industry-specific credit guidelines. Nor did it elaborate on relevant state policies. The bank disclosed detailed data on its energy consumption and responded more actively to public demands. Nevertheless, the data it disclosed about its loans to energy inefficient and highly polluting as well as environmentally friendly industries was very limited. CITIC Bank began to pay attention to the Equator Principles. It initiated research on the Equator Principles and compiled a booklet titled *Shaping the Future of Sustainable Finance - Interpretation to the Equator Principles*, which will help it to learn from

international environmental concepts and develop customized environmental policies. CITIC Bank also financed controversial projects which reveals that the enforcement of its environmental policies and measures still needs to be strengthened. The bank joined academic exchanges on the Equator Principles with supervisory authorities, industry peers and other social organizations.

Shanghai Pudong Development Bank

Shanghai Pudong Development Bank achieved the 4th overall ranking under the green credit performance evaluation system of this report. The bank has some understanding about sustainable development and green credit. It elaborated on its environmental policies by formulating the Credit Orientation Policy Guidelines (2009), clarifying its credit orientation towards energy conservation and emission reduction. However, it did not formulate credit policies for specific industries, such as energy, extractive industries, etc. The bank disclosed much data about its loans to energy inefficient and highly polluting sectors, as well as environmentally friendly industries. It also collaborated with industry peers on all aspects of green finance. It was noteworthy that one of the bank's environmental measures was to provide credit support for conventional energy projects such as nuclear power and hydropower, which it categorized as key energy-saving and environmentally friendly projects. Nevertheless, it is still very controversial both at home and abroad as to whether nuclear power and large-scale hydropower are clean energies. Therefore, the rigor of some of its green credit measures needs to be improved.

China Minsheng Bank

China Minsheng Bank achieved the 6th overall ranking under the green credit performance evaluation system of this report. The bank elaborated on green credit policies by introducing its Credit Policy Guidelines (2009). However, it did not further refine the policies by formulating credit guidelines for specific industries such as agriculture, fishery, extractive industries, etc. The bank implemented a significant number of environmental measures in accordance with state credit policies. It did not finance any new clients classified as "restricted" or "obsolete" in the Guiding Catalogue for Industrial Structure Adjustment. The bank improved its organizational system for social responsibility by setting up a social responsibility liaison network. It disclosed limited data about its loans to energy inefficient and highly polluting as well as environmentally friendly industries. The bank has not adopted any international environmental principles. However, it conducted research on the energy industry in the framework of the "Kyoto Protocol," energy financing in circular economy and in the framework of the Equator Principles, etc. It also worked with supervisory authorities and business partners on how to fulfill their social responsibilities.

Industrial Bank

Industrial Bank achieved the 1st ranking on environmental information disclosure and the 2nd overall ranking under the green credit performance evaluation system of this report. As the first Chinese bank to put the concepts of sustainable development and green credit into practice, it conducted in-depth research on state green credit policies and elaborated on them by formulating its own policies such as the Policy on the Management of Environmental and Social Risks, which

clarified the management procedures, organizational structure and operational model. The policy was further concretized by developing the Administrative Measures for Pre-credit Due Diligence, Implementing Rules on the Management of Fixed Asset Loans, etc. The requirements for managing environmental and social risks are implemented through pre-credit investigation, credit review and post-credit inspection. The bank also formulated Annual Credit Access Rules to expand the coverage of its policies. In order to facilitate the management of finance for energy conservation and emission reduction projects, the bank introduced a series of credit access guidelines, including: the Administrative Measures for Operations related to Energy Conservation and Emission Reduction, Rules on Credit Access for Energy Conservation and Emission Reduction Projects, and Criteria for the Identification of Energy Conservation and Emission Reduction Projects, etc. In addition, Industrial Bank actively took part in international advocacy for green finance by joining the UNEP FI and the Carbon Disclosure Project, and adopting the Equator Principles. It set up a specialized department to manage green credit related affairs, and recruited specialists with professional backgrounds in environmental studies. Industrial Bank was the first bank in China to disclose information on the project level. It actively responded to civil society demands, and reached out to, as well as collaborated with, industry peers and business partners on green finance.

Huaxia Bank

With its 13th overall ranking under the green credit performance evaluation system of this report, Huaxia Bank was an underperformer. First, the bank did not formulate its own environmental policies. Second, it did not disclose any data about its loans to energy inefficient and highly polluting industries, nor about its energy consumption. The bank adopted a few environmental measures in accordance with state policies and claimed to have not been involved in any projects or products explicitly banned by the state as of the end of 2009. However, its controversial loans reveal that its consistency in implementing those measures still needs to be improved. Although Huaxia Bank lagged behind in its understanding of sustainable development and green credit, it has started to make exchanges and collaborate with industry peers both at home and abroad on green finance.

Shenzhen Development Bank

Shenzhen Development Bank was at the bottom of the overall ranking list among the 14 listed Chinese banks rated under the green credit performance evaluation system of this report. The bank does not have a good understanding of sustainable development and green credit. Neither did it formulate its own environmental policies, nor did it fully implement state green credit policies. Not to mention its lack of exploring internationally recognized environmental and social risk management standards such as the Equator Principles. The bank disclosed little environmental information. It did not set up a department dedicated to green credit related affairs. It did not make any exchanges with or outreach to industry peers or business partners on green credit. Although the bank adopted a few environmental measures in accordance with state policies, it did not disclose any information about the outcomes of those measures.

Bank of Beijing

Bank of Beijing achieved the 10th overall ranking among the 14 listed Chinese Banks assessed under the green credit performance evaluation system of this report. The bank made noticeable improvement in practicing sustainable development and fulfilling its environmental and social responsibilities. It elaborated on environmental policies by formulating its Credit Guidelines (2009). However, it did not formulate any guidelines for specific industries such as agriculture, fisheries, extractive industries, etc. The bank implemented a few environmental measures in accordance with state policies. Its disclosure of information also improved slightly, but is still insufficient. For instance, it did not disclose any data about its loans to energy inefficient and highly polluting or environmentally friendly industries, nor about its energy consumption. Not to mention any information on the project level. There is still a lot of room for improvement. The bank started to collaborate with international organizations such as IFC on energy conservation and environmental protection loans. However, it did not actively outreach to its clients regarding sustainable development and green credit.

Bank of Ningbo

Bank of Ningbo achieved the 12th overall ranking among the 14 listed Chinese banks assessed under the green credit performance evaluation system of this report. Although the bank implemented a few environmental measures in accordance with state industry and green credit policies, it did not formulate its own policies for managing environmental and social risks. Nor did it set up a specialized department for green credit related affairs. The bank did not disclose any data about its loans to energy inefficient and highly polluting or environmentally friendly industries, nor about its energy consumption. It needs to better understand and practice sustainable development and green credit.

Bank of Nanjing

Bank of Nanjing achieved the 11th overall ranking among the 14 listed Chinese banks assessed under the green credit performance evaluation system of this report. Although the bank implemented a few environmental measures in accordance with state green credit policies, it did not formulate its own environmental policies. It did not set up a specialized department for green credit related affairs, but assigned special staff to review the environmental standards of enterprises to be granted credit. The bank did not disclose any data about its loans to energy inefficient and highly polluting or environmentally friendly industries, nor about its energy consumption. It reached out to its clients to increase their awareness on environmental and social responsibilities. However, it did not make any exchanges with industry peers on the theory and practice of sustainable development and green credit.

Chapter 4 Brief Introduction to State Policies Related to Green Credit

In recent years, China's understanding of the close relationship between credit policies and environmental protection has gradually increased. Since 1995, the State Council, the People's Bank of China, MEP, CBRC and China Banking Association, etc. have formulated relevant policies to facilitate the sharing of information on corporate environmental violations between environmental protection authorities and banking financial institutions. Banks should make full use of this information in order to reduce their credit and reputational risks. Besides, their credit policies should encourage economic transformation, industrial optimization and upgrading, energy conservation and emission reduction, and elimination of backward production capacity.

In the absence of voluntary social and environmental principles among Chinese banks, the state used credit policies to promote environmental protection, which is uncommon internationally. Thanks to those policies, Chinese banks have made varying degrees of progress in formulating their own environmental policies. The measures they adopted have also achieved some initial results. However, compared with some of the international voluntary principles, the contents of China's credit policies are still insufficient. Current credit policies focus on energy conservation, emission reduction and the elimination of backward production capacity. There are no clear requirements regarding the classification of potential impacts and risks, the contents of social and environmental impact assessments, and applicable environmental and social standards for finance projects. Therefore, those policies need to be further improved in order for them to play a more significant role in promoting environmental protection and social equity. As a prerequisite, banks should make their social and environmental information open and transparent.

4.1 Credit Policies and Environmental Protection

The Circular of the People's Bank of China on the Implementation of Credit Policies and Strengthening Environmental Protection issued on February 6, 1995 was the earliest relevant official document, which for the first time, linked credit policies with environmental protection. The Circular required financial institutions to attach importance to protecting natural resources and the environment by taking the protection of ecological resources and pollution prevention and treatment as one of the factors of consideration for loan access, in order to promote coordinated economic development and environmental protection. It also regulated the loans of financial institutions at all levels in relation to various kinds of environmental problems.

On February 14, 1995, the State Environmental Protection Administration (SEPA) issued the Circular on Using Credit Policies to Promote Environmental Protection, requiring environmental protection authorities at all levels to understand state credit policies and relevant regulations, and learn to use them as important tools to integrate environmental protection into the comprehensive

decision-making for economic development. They were also encouraged to seek loans for environmental protection. However, for quite a long period of time, those two policies were not satisfactorily implemented due to weak enforcement.

No new credit policies to promote environmental protection were introduced until April 30, 2004, when NDRC, the People's Bank of China and CBRC jointly issued the Circular on Further Strengthening the Coordination and Cooperation of Industry and Credit Policies to Control Credit Risks, beginning a new round of efforts towards green credit. The Circular required relevant authorities to further strengthen the coordination between state industrial and credit policies, promote the transformation of economic growth pattern, optimize and upgrade industrial structure, improve the quality of economic growth, and effectively resolve prominent problems such as the low-level blind expansion and excessive credit growth of some industries as well as the imbalance of industrial structure, etc., in order to control credit risks.

On December 2, 2005, the State Council issued the Decision on Implementing the Interim Provisions on Promoting Industrial Structure Adjustment, clearly pointing out that the Guiding Catalogue on Industrial Structure Adjustment is an important reference not only for investment orientation, but also for the government to manage investment projects, formulate and implement policies on taxation, credit, land use, import and export, etc.

On March 12, 2006, the State Council again issued the Circular on Accelerating Structural Adjustment of Overcapacity Industries, requiring financial institutions as well as land resources, environmental protection and safety supervision authorities to optimize credit and land supply structures in strict accordance with state macro-control and industrial policies. Land and credit supply for projects and enterprises that comply with state industrial policies and market access conditions are to be supported, while dramatic ups and downs in credit supply should be avoided. Merges and reorganizations that have good market prospects, are profitable and helpful for forming economy of scale should be actively supported; while credit and land should not be provided to projects and enterprises that do not comply with state industrial and land policies, market access conditions, or are explicitly identified as obsolete by the state.

On May 14, 2007, CBRC issued the Guidelines on Compliance Risk Management of Commercial Banks, requiring commercial banks to take into consideration the interrelatedness between compliance risk and credit risk, market risk, operational risk and other risks, so as to ensure the consistency of different risk management policies and procedures. Commercial banks were also asked to foster a compliance culture. CBRC monitors commercial banks' management of compliance risk according to law and reviews as well as assesses its effectiveness.

On July 12, 2007, SEPA, the People's Bank of China and CBRC jointly issued the Opinions on Implementing Environmental Protection Policies and Regulations to Prevent Credit Risks, requiring environmental protection bureaus and financial institutions at all levels to fully understand the significance of credit policies as tools for environmental protection, and to strengthen environmental monitoring and credit management of construction projects and enterprises. Hitherto

the basic framework of China's green credit policies took shape.

On November 23, 2007, CBRC issued the Guiding Opinions on Credit Support for Energy Conservation and Emission Reduction, requiring banking financial institutions to earnestly implement the Circular of the State Council on Issuing the Comprehensive Work Scheme for Energy Conservation and Emission Reduction and the Decision of the State Council on Implementing the Scientific Development Concept and Strengthening Environmental Protection, taking it as an important mission and a concrete manifestation of social responsibility to promote energy conservation and emission reduction in society. Banks were required to increase their staff's awareness of energy conservation and emission reduction, grasp relevant laws, regulations and standards, and strive to enhance the science and predictability of credit provision. The Opinions also detailed requirements for banks regarding credit policies and management, such as strengthening disclosure of information on credit for energy conservation and emission reduction. Relevant credit policies and standards, as well as information on credit for enterprises and projects with high energy consumption and pollution risks, etc. were required to be disclosed in order to facilitate market and stakeholder oversight. In addition, CBRC made credit for energy conservation and emission reduction an important part of credit rating for banks.

On January 12, 2009, China Banking Association issued the Guidelines on Corporate Social Responsibility of Financial Institutions, pointing out clearly that corporate social responsibility of banks should at least consist of economic responsibility, social responsibility and environmental responsibility. The contents of each were detailed respectively. The requirements for environmental responsibility were as follows: 1) Banks should conduct research on the Equator Principles and actively learn from relevant contents that are applicable to China's economic and financial development; 2) Banks should set up a specialized department or designate relevant departments to be in charge of environmental protection, with necessary full-time and part-time staff; 3) Banks should develop schemes for resource conservation and environmental protection as well as minimize the negative impacts of their daily operations on the environment; 4) Regular or irregular staff training on environmental protection should be organized. Staff members should be encouraged and supported to participate in external trainings, exchanges and cooperation on environmental protection; 5) Banks should support their clients to conserve resources and protect the environment through credit and other financial instruments, guide and encourage their clients to increase social responsibility awareness and take action; 6) Importance should be attached to environmental training for clients. The contents of the training should include, but are not limited to, environmental impact assessment (EIA) procedures, preparation of green credit documents, etc.; 7) Advocacy of independent EIA through site survey and review, instead of solely relying on EIA reports and other materials submitted by the clients to make judgments; 8) Banking Banks should actively put environmental protection into practice and participate in relevant publicity activities, contributing to the increase of environmental awareness of their clients and the society.

On August 25, 2009, CBRC issued the Guidelines on Reputational Risk Management of

Commercial Banks, requiring all commercial banks to integrate reputational risk management into their comprehensive risk management and corporate governance systems. Commercial Banks were required to proactively and effectively prevent reputational risk and respond to reputational incidents, through the establishment of a reputational risk management mechanism and formulation of relevant measures, so as to minimize negative impacts on the public and their consequent losses. The Guidelines described in detail the responsibilities of the board of directors with respect to the reputational risk management system, the contents of the reputational risk management mechanism, as well as the measures to deal with major reputational incidents. CBRC is responsible for oversight.

On May 28, 2010, the People's Bank of China and CBRC issued the Opinions on Providing Financial Services to Further Promote Energy Conservation, Emission Reduction and Elimination of Backward Production Capacity. Banks were given explicit requirements to support energy conservation, emission reduction and elimination of backward production capacity by enhancing credit policy guidance, supervision and inspection. The Opinions also required all banks to carry out a serious self-examination on their enforcement and implementation of state policies on energy conservation, emission reduction and elimination of backward production capacity, in particular the implementation of the Circular of the State Council on Further Strengthening Work to Ensure the Realization of the Goals on Energy Conservation and Emission Reduction of the "11th Five Year Plan" and the Circular of the State Council on Further Strengthening the Elimination of Backward Production Capacity, and submit their self-examination reports to the People's Bank of China and CBRC, by the end of June 30, 2010.

4.2 Information Disclosure and Sharing

The Circular on Using Credit Policies to Promote Environmental Protection issued by SEPA on February 14, 1995 required environmental protection authorities at all levels to notify the local People's Bank of China and relevant financial institutions of pertinent environmental information and their treatment of environmental matters.

On April 30, 2004, NDRC, the People's Bank of China and CBRC jointly issued the Circular on Further Strengthening Coordination between Industry and Credit Policies to Control Credit Risks, explicitly requiring all banks to submit quarterly reports about the industrial structure and quality of their loans to the People's Bank of China.

On December 19, 2006, the People's Bank of China and SEPA issued the Circular on Sharing Environmental Information of Enterprises. Corporate environmental information (including violations of laws and regulations and other environmental information) was required to be included in the corporate credit system, and relevant data exchanged between SEPA and the headquarters of the People's Bank of China. Commercial banks and other financial institutions were required to review the corporate environmental information in corporate credit reports, and take enterprises'

performances on environmental compliance as an important factor for credit approval in their credit operations and management.

On July 12, 2007, SEPA, the People's Bank of China and CBRC jointly issued the Opinions on the Implementation of Environmental Policies and Regulations to Prevent Credit Risks, requiring environmental protection authorities and financial institutions at all levels to collaborate closely and establish a communication mechanism. Environmental protection authorities were required to provide financial institutions with relevant environmental information, in accordance with their responsibilities and limits of authority, as well as the Measures for Environmental Information Disclosure (for trial implementation).

On July 25, 2007, the People's Bank of China issued the Measures for Information Disclosure of Commercial Banks, requiring commercial banks to disclose relevant information about their finance, risk management, etc., in particular, risks that might cause them serious adverse impacts. However, the Measures did not have explicit requirements for environmental information disclosure.

On February 22, 2008, MEP issued the Opinions on Strengthening Supervision and Management of Listed Companies on Environmental Protection, encouraging listed companies to disclose their environmental information and actively explore ways to establish a mechanism for environmental information disclosure. The Opinions also sought to conduct research and pilot experiments on environmental performance assessment, and enhance the supervision and inspection of environmental compliance of listed companies.

On June 6, 2009, MEP and the People's Bank of China jointly issued the Circular on Full Implementation of Green Credit Policies and Further Improvement of Information Sharing, requiring environmental protection authorities and financial institutions at all levels to fully understand the importance of establishing a mechanism for sharing information on green credit, and make use of the Credit Reference Center of the People's Bank of China as a platform to share environmental information. The Circular also described in details what supplementary information environmental protection authorities were supposed to submit, as well as the respective responsibilities of environmental protection authorities and financial institutions.

Apart from formulating green credit policies, the state also required environmental protection authorities to establish a communication mechanism to share corporate environmental information with financial institutions at all levels, providing them with a reference for their financing. However, this is a one-way communication which does not require banking financial institutions to provide information about corporate loans to environmental protection authorities at all levels to inform them of the financing status quo of polluting enterprises.

The state issued the Measures for Information Disclosure of Commercial Banks, requiring banks to disclose information related to risks. China Securities Regulatory Commission also requires listed banks to disclose environmental information. However, currently the state has not issued any mandatory regulations and standards on environmental information disclosure for the

banking sector. Therefore, information disclosure of the banks is still voluntary and can not satisfy public demands. As a result, public oversight of banks' performances on implementing green credit is difficult.

Details of the policies can be found in Appendix 2.