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REPORT

CHINA

2013

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The Sustainable Performance of Chinese Banking and International Financial Institutions Comparative Study

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China Development Bank, Export-Import Bank of China, Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, China Construction Bank, Bank of Communications, Huaxia Bank, China Merchants Bank, Shanghai Pudong Development Bank, Industrial Bank, Bank of Beijing

Citigroup Inc, Credit Agricole Corporate and Investment Banking HSBC Group, ING Groep N.V., Itaú BBA S.A., JPMorgan Chase & Co, Mizuho Bank Ltd, Standard Bank Group, Standard Chartered plc

FOREWORD

Banking institutions, serving as a major financing vehicle for businesses and individuals, are driving force to realize China’s technology progress and economic restructure as well as global sustainable development. The business behavior of banks is influencing the environment and society and shapes our future.

Recent years have witnessed a growing awareness of environmental, social and governance (ESG) risks in the banking sector, which has been integrated into lending decision and business strategy. The “Equator Principles” has become a global standard to address ESG issues in project financing, which has been widely adopted by international financial institutions. In China, Green Credit Guidelines was promulgated by the China Banking Regulatory Commission (CBRC) in February 2012, a milestone directive encouraging Chinese banks to support green, low-carbon and recycling economies; to well manage environmental and social risks in lending service; and to improve sustainable performance in their operations. The implementation of the Guidelines will make Chinese banks gain a strategic position to restructure lending portfolio, improve service quality, and catalyze development transformation. To monitor and evaluate the policy enforcement, CBRC is developing related statistical system and key performance indicators to set a benchmark of sustainability for the banks.

Facilitating international communication, enhancing inter-banks cooperation and promoting best practices are effective ways to fulfill the Green Credit Guidelines. CBRC has initiated active cooperation with various international organizations and financial institutions, such as WWF, International Finance Corporation, United Nations Environment Programme Finance Initiative as well as banks adopting “Equator Principles”. The collaboration, in the form of scientific research, policy workshops, international conferences and capacity building, has made significant contributions to the enforcement and implementation of the Guidelines.

In essence, Chinese and international banks are following similar sustainable principles; in practice, they have diversified procedures and products. The best practices, if can be identified, summarized and promoted, should set examples to the banking institutions to adopt green credit policies. To this end, CBRC’s Statistics Department, WWF China and PricewaterhouseCoopers jointly developed and delivered this report. The study compares and analyzes banks’ sustainable performance in terms of strategy and policy framework, governance, procedures and tools, monitoring, reporting and assurance, capacity building and sustainable financial products, through two-year desk research, questionnaire collection and interviews.

We shared the ambition that this study will explore opportunities, challenges and strategy for Chinese banks to grow in a sustainable way and to contribute to biodiversity conservation, environmental protection, energy saving and emission reduction.

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Background

Over the past decade, financial institutions have increasingly recognised the importance of managing environmental and social (E&S) risk in their lending activities. For example, the Equator Principles[1] (EPs), a credit risk management framework for assessing and managing E&S risk in project finance, has become an industry standard for E&S risk management. There are now over 78 financial institutions in 35 countries[2] that have officially adopted the EPs (the "EPFIs").

China Banking Regulatory Commission (CBRC) promulgated "Green Credit Guidelines" in February 2012, calling for Chinese banking institutions to promote green credit from a strategic height, increase the support to green, low-carbon and recycling economy, fend off environmental and social risk, and improve their own environmental and social performance. In order to help Chinese banks better implement the Guidelines, the Statistics Department of CBRC, WWF Beijing Office (WWF) and PwC have commissioned this survey in order to understand how the policies and practices for managing E&S risk of Chinese banks compare to those of EPFIs.

PwC China, supported by PwC UK as technical adviser, undertook interviews with the Equator Principles Financial Institutions (EPFI's) only and drafted the summary analysis on the EPFI's contained on this report. CBRC undertook the interviews with the Chinese financial institutions and, with WWF's support, drafted the summary analysis on the Chinese financial institutions contained in this report.

Objectives

The research group's overall objectives of this survey are to:

- Understand the approach and impact of EPFIs' policies and practices for managing E&S risk in theirlending activities;
- Assess how this compares to the policies and practices of Chinese banks, and identify gaps which may exist; and
- Highlight good practice using case studies.

Survey participants

The following banking institutions participated in the survey:

Financial Institution	Nature
China Development Bank (CDB)	
Export-Import Bank of China (Eximbank)	Policy Bank
Industrial and Commercial Bank of China (ICBC)	Large Commercial Banks
Agricultural Bank of China (ABC)	Large Commercial Banks
Bank of China (BOC)	Large Commercial Banks
China Construction Bank (CCB)	Large Commercial Banks
Bank of Communications (BoCom)	Large Commercial Banks
Huaxia Bank	Joint-Stock Commercial Bank
China Merchants Bank (CMB)	Joint-Stock Commercial Bank
Shanghai Pudong Development Bank (SPD Bank)	Joint-Stock Commercial Bank
Industrial Bank	Joint-Stock Commercial Bank
Bank of Beijing	City Commercial Bank

Financial Institution	Location of head office
Citigroup Inc (Citi)	United States
Credit Agricole Corporate and Investment Banking (Credit Agricole)	France
HSBC Group (HSBC)	United Kingdom
ING Groep N.V. (ING)	Netherlands
Itaú BBA S.A. (Itau BBA)	Brazil
JPMorgan Chase & Co (JPMorgan)	United States
Mizuho Bank Ltd (Mizuho)	Japan
Standard Bank Group (Standard Bank)	South Africa
Standard Chartered plc (Standard Chartered)	United Kingdom

1. The Equator Principles (EPs) is a risk management framework, adopted by financial institutions, for determining, assessing and managing environmental and social risk in projects.
2. http://www.equator-principles.com/(accessed 15 June 2012)

Approach

In order to understand EPFIs' policies and practices of E&S risk management in lending activities, a bespoke questionnaire was developed that focused specifically on the following six areas of enquiry:

1. Strategy and policy framework
2. Governance
3. Procedures and tools
4. Monitoring, reporting, and assurance
5. Capacity building
6. Sustainable financial products.

Our research approachwas divided into three stages:

- Desktop review of publicly available information on each bank
- Submission of the questionnaire to each bank to fill in information
- Interview with each bank to clarify/confirm responses to the questionnaire and obtain further detail on specific areas of interest.

The template of the questionnaire can be found in the Appendix 1.

About our report

This report is divided into two parts, the findings of Chinese banking institutions are presented in left side, and the findings of international EPFIs are presented in the right side.

The data and facts are based on disclosures made by the financial institutions at the time of the interviews (September 2012) and have not been verified by the authors.

Chinese Banking Financial Institutions | Equator Principles Financial Institutions

Strategy and Policy Framework

1.E&S risk management in lending strategy

Chinese Banking Financial Institutions

All of the banks have adopted the concept of sustainable development and pay attention to E&S risks in their lending. They give equal importance to economic and social returns and earnestly implement national policy on industrial structure adjustment.

Equator Principles Financial Institutions

To varying extents, all the EPFIs interviewed integrate E&S risk management considerations into their credit risk management strategy in order to manage and mitigate E&S risks in lending. The most common approach relates to working with clients to help them comply with internationally-recognised standards and improving their overall risk profile, rather than disengagement. In this way, EPFIs are able to potentially influence clients and improve E&S outcomes.

The emphasis placed on risk management and performance enhancement in each EPFI’s credit risk management strategy varies between banks. For example, ING aims to improve its own business and help its clients to improve their overall risk profile whereas JPMorgan has a long-standing commitment to understanding the environmental and social aspects of its clients’ businesses and to helping enhance their performance in this area.

2. Commitment to sustainable banking and finance initiatives

Chinese Banking Financial Institutions

CDB, CMB and Industrial Bank have pledged to join the United Nations Environment Programme Finance Initiative (UNEP FI). CMB also joined “Natural Capital Resource” in 2012. Industrial Bank is so far the only Chinese bank to have joined the Equator Principles (EPs) and the Carbon Disclosure Project (CDP). ICBC joined the UN Global Compact on May 16, 2012 , and has also been participating actively in the UNEP FI Global Roundtable.

Equator Principles Financial Institutions

Beyond the Equator Principles, all of the EPFIs have committed to good practice industry initiatives such as the UN Environment Programme (UNEP) Finance Initiative and the UN Principles for Responsible Investment (UNPRI) (the latter of which is only applicable to the EPFIs that have asset management activities).

There are also regional variations between banks i.e. where standards are specific to a certain region only. Fore xample, Mizuho has committed to the Japanese Principles for Financial Action to a Sustainable Society, and Citi and JPMorgan have committed to the Carbon Principles (which applies to US coal financing).

Sustainable finance initiative	CDB	ICBC	CMB	Industrial Bank	Citi	Credit Agricole	HSBC	ING	Itau BBA	JPMorgan	Mizuho	Standard Bank	Standard Chartered
UN Environment Programme Finance Initiative	✓		✓	✓	✓	×	✓	✓	✓	✓	✓	✓	✓
Natural Capital Resource			✓										
Equator Principles				✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Carbon Disclosure Project				✓									
UN Global Compact		✓											
Carbon Principles (US coal financing only)					✓					✓			
Climate Principles					×	✓	×	×	×	×	×	×	✓
UN Principles for Responsible Investment (Asset management only)						✓	✓	✓	✓	✓	✓	✓	✓

✓ means the financial institutions joined the sustainable finance initiative.
X means the financial institutions did not join the sustainable finance initiative.
Blank means the information is not available
(Apply to all tables below)

3. E&S risk management policies

E&S Policy Type	Overarching Policy	Sector Policies	No. of Sector Policies
CBD	✓	Environmental Protection, Energy Saving Emission Reduction, Renewable Energy	
EXIM			
ICBC		Ecological Protection, Energy Saving, Clean Energy, Comprehensive Resource Utilization	54
ABC		Real Estate, Road Construction, Iron And Steel, Cement, Papermaking And Wind Power, Meet, Dairy Product	31
BOC	✓	Clean Energy, Environmental Protection, Energy Conservation And Pollution Reduction	
CCB		Power Generation, Iron And Steel, Cement, Flat Glass, Non-Ferrous Metals	
BoCom			50
Huaxia Bank	✓	Energy Conservation, Pollution Reduction, Circular Economy, Iron And Steel, Coal	
CMB	✓	Environmental Protection, Energy Saving	48
SPD Bank	✓		
Industrial Bank	✓	Power, Chemical, Energy Saving, Environmental Protection	
Bank of Beijing	✓	Environmental Protection, Energy Saving	11

Most of the banks have formulated detailed E&S risk management policies that target specific industries or regions. Please see infobox 1 on page 06 for more information.

4. Disclosure of sustainability policy

11 of the 12 banks that completed the survey reported that they openly disclose their sustainability polices. CDB, ICBC, ABC and CMB disclose this information in both their annual and social responsibility reports and BOC, CCB, BoCom, Huaxia Bank and SPD Bank make these policies public in their social responsibility reports. Industrial Bank discloses its E&S risk management policies on its web site in a section titled "Sustainable Finance." It also publishes an annual sustainable development report, in which it shares the bank's definition of corporate governance, a road map for implementing its policies and a practical sustainable development model. Bank of Beijing publishes an annual social responsibility report and regularly submits its annual Report on Environmental and Social Performance to the World Bank Group's International Finance Corporation (IFC). Through annual, interim, seasonal and ad hoc reports, Bank of Beijing also makes public changes to its sustainability policy that may significantly impact the price of its securities.

E&S Policy Type	Citi	Credit Agricole	HSBC	ING	Itau BBA	JPMorgan	Mizuho	Standard Bank	Standard Chartered
Overarching policy	✓		✓	✓	✓	✓		✓	✓
- Publically disclosed	✓		✓	✓	✓	✓			✓
Common sector/issue-specific policies:									
Energy	✓	In Progress	✓	✓				In Progress	✓
Mining	✓		✓	✓		✓		In Progress	✓
Defence	✓	✓	✓	✓					
Forestry	✓		✓	✓		✓			✓
Climate Change	✓		✓						✓
Water[3]			✓						✓
Total No. of sector/ issuespecific policies (if applicable)	5	1	6	8	0	3			14
- Publically disclosed[4]	✓	✓	✓	✓					✓

With the exception of Mizuho and Credit Agricole, all of the EPFIs have established both an overarching E&S risk management policy and one, or a suite of, sector/issue policies. Mizuho's approach has been to embed basic principles addressing E&S issues directly into its credit management policy, rather than developing a standalone E&S risk management policy. Credit Agricole has adopted a different approach by only establishing a sector policy to deal with clients operating in the Arms and Defence sector. It is currently in the process of developing an Energy sector policy.

The overarching policies typically feature guiding principles to manage E&S and reputational risks and include guidance on implementation of relevant policies. For example, Standard Bank's Environmental and Social Policy covers the entire Group and both its direct and indirect impacts from transactions. It also includes guidance on how transactors in its business units should use the in-house E&S risk screening tool. In contrast, Itau Unibanco has developed business unit-specific E&S risk policies.

The sector/issue policies summarise an EPFI's position with respect to financing investments in socially and environmentally sensitive sectors. The most common policies relate to Energy (mainly Oil & Gas and Nuclear Power), Extractives (Mining & Metals), Defence, Forestry and Climate Change. Standard Chartered, HSBC and ING have all produced a set of sector policies covering a wide range of different sectors and issues. For example, Standard Chartered has established 14 position statements which guide its approach to providing financial services to clients who operate in sensitive business sectors or face specific issues. It is also the only EPFI surveyed that has externally published a standalone policy statement on Water.

5, Sustainability policies : scope of application

Most of the banks have applied sustainability policies to their credit businesses.

All banks have applied sustainability policies to their credit businesses.

3. In the case of HSBC, the policy on water applies to freshwater infrastructure only.
4. "Publically disclosed" means that one or more of the EPFI's sector policies have been made available in the public domain.

Infobox 1:E&S risk management policies of Chinese banking institutions

- **CDB** has issued credit guidelines for environmental protection, energy saving and emission reduction including specific guidelines regarding iron and steel, power generation, eliminating outdated production capacity and upgrades to coal-fired power plants to meet national policies for industrial structural adjustment. CBD has also issued credit guidelines for biomass power generation and solar power that focus on renewable energy development.
- **ICBC** issued credit policies for 54 industries in 2012 to fulfill government policy standards and requirements. To promote credit “green adjustment,” it also made industrial green credit standards and environmental risk management requirements a core part of its credit policy. The bank also improved standards for classifying green credit and managing environmental risk. To support the development of the green credit market, ICBC also strengthened its system for E&S risk prevention and control. For example, it created policies for ecological protection, energy saving, emission reduction, clean energy and comprehensive resource utilization. It also established policies to impose restrictions on enterprises with outdated production capacity or that are in high-polluting, high-energy-consuming industries with overcapacity.
- **ABC** has credit policies for 26 industries, including the real estate, road construction, iron and steel, cement, papermaking and wind power industries. The bank takes a differentiated approach toward managing its clients, particularly during the lending review and approval process, imposing strict restrictions on lending to clients and projects with E&S risks or that are in high-polluting or high-energy-consuming industries with overcapacity. The bank actively supports environmental protection and the development of a circular economy, clean energy, "green industry" and "green agriculture.”
- **BOC** created the BOC Credit Guidelines for Energy Conservation and Pollution Reduction in 2010 to support energy conservation and the development of the clean energy and environmental protection industries. The bank focuses primarily on supporting projects that promote energy conservation and pollution reduction and makes it a priority to lend to regions and companies that have good records of energy conservation and pollution reduction. The bank strictly controls lending to companies that do not comply with national requirements for energy conservation and pollution reduction in high-polluting and high-energy-consuming industries. BOC is also moving quickly to phase out lending to projects with outdated capacity. It gives priority to the promotion of clean energy, energy conservation and environmental protection to foster the development of these emerging and strategically important industries.
- **CCB** has made green credit standards an important part of its industrial and regional credit policies. For example, its credit policies state that environmental protection is a bottom line entry standard for lending to projects in industries such as the power generation, iron and steel, cement, flat glass and non-ferrous metals industries.
- **BoCom** has mapped out green credit requirements tailored specifically by industry in Measures on Implementing the "Green Credit" Program. As of 2012 BoCom had created policies for 50 industries that together make up more than 95% of its credit assets.
- **Huaxia Bank** actively promotes the green credit business through its annual credit policy, which emphasizes "energy conservation, pollution reduction and the development of a circular economy" as its central theme. The bank strictly controls new lending to high-polluting and high-energy-consuming industries with overcapacity as well as to companies violating environmental laws. It has created specific guidelines for green credit along with detailed credit policies for industries such as the iron and steel and coal industries. Huaxia Bank also lays down targeted regional credit policies annually according to its branches’ credit businesses.
- **CMB** has distributed information to improve access standards, the examination and approval process and the implementation of quota management. For example it has issued: the Green Credit Policy, Guidelines on Marketing the Green Finance Business, Guidelines on Strengthening Credit Risk Control of High-Polluting and High-Energy-Consuming Industries, Notice on Strengthening Lending Management of Companies with High-Polluting Techniques, Products that are Highly Polluting and Highly Dangerous to the Environment, and the Notice on Further Strengthening Major High-Polluting, High-Energy-Consuming Industries with Overcapacity Surplus. CMB has drafted specific credit policies for a total of 48 industries, including eight policies for green industries such as the energy conservation and environmental protection industries.
- **SPD Bank** issues a new credit target guidebook and business operation risk preference strategy every year to provide its lending business with policy guidance on different industries and regions and where products should go. The bank has also put forth the Trial Measures of SPD Bank for Social and Environmental Risk Management.
- **Industrial Bank** has issued the Environmental and Social Risk Management Policy and drafted the Sub-Strategy for Environmental and Social Risk Management, which will be part of its comprehensive risk management strategy. The bank drafts industrial access rules on an annual basis, including standards for saving energy and reducing emissions as well as technical standards for the power, chemical, energy-saving and environmental protection industries. Industrial Bank has also standardized its knowledge of various industries, established a green finance certification system and tested for environmental benefits that are “measurable, reportable and checkable.”
- **Bank of Beijing** drafts guidelines for its credit business every year and has 11 industry-specific polices that take energy saving and environmental protection into consideration. The bank emphasizes adherence to the “environmental protection veto” principle, providing no support to high-polluting, high-energy-consuming and high-emission enterprises and projects that are not in accordance with the national industrial structural adjustment policy or prescribed procedures for examination and approval. Even if an enterprise has followed all required environmental procedures, Bank of Beijing will not provide any support to an enterprise if there remains a high risk of causing water pollution or heavy metal and exhaust emissions. Bank of Beijing will also not support enterprises that are on the verge of being closed due to outdated production capacity. It aims to strengthen credit support to projects that will help save energy and reduce emissions. For example, Bank of Beijing supports Energy Management Corporations (EMCO), projects that promote the construction of ten key energy-saving projects, the development of a circular economy, disposal of polluted water and garbage, control of water pollution in key river basins, energy saving, environmental protection and enterprises’ demand for credit capital. To constantly improve its green credit policy system, Bank of Beijing has drafted a series of documents including the Credit Management Procedures for Project Construction Land Use, The Social and Environmental Protection Management Rules, The Management Rules for “China Energy Saving and Emission Reduction Financing Projects (CHUEE)” and The Energy Saving Credit Operation Procedures (Trial).

6. Sustainability policies: scope of application

Most of the banks have applied sustainability policies to their businesses, for instance to project financing, asset financing and general corporate financing. Eximbank, ICBC, Huaxia Bank, CMB, Industrial Bank and Bank of Beijing also apply sustainability policies to other areas of their businesses as necessary.

Please see infobox 2 on page 08 for more information.

All EPFIs apply their policies to project finance; however, many of the banks surveyed are also seeking to apply their policies to other forms of lending. For example, Citi is currently developing a group-wide Environmental and Social Risk Management (ESRM) Policy that will cover all business activities including private banking and consumer banking. Standard Chartered applies its policy and sector/issue position statements to all forms of lending (including SME lending, debt, capital markets activities, project finance and principal finance) as well as advisory services.

A number of EPFIs set financial thresholds for non-project finance products to guide their E&S due diligence activities. For example, Citi's Corporate and Investment Bank's ESRM policy currently covers a broad range of financial products in various sectors where the use of proceeds is known and tied to a specific physical project or asset, and which meet certain financial thresholds. These are: $5 million for equity investments; $10 million for project finance transactions; and $50 million for corporate loans, acquisition finance, and debt and equity placements or underwritings.
All transactions that exceed these thresholds require E&S due diligence. JPMorgan and Mizuho have financial thresholds of $10 million and $50 million, respectively, for non-project finance transactions.

7. Do the banks form their sustainability policies in accordance with relevant international norms (such as IFC's standards on E&S performance)?

Some of the banks, such as CDB, ABC, BoCom and Huaxia Bank, have referred only to regulations of relevant agencies in China in drafting their sustainability policies. Most of the other banks however also referred to relevant international norms.

Please see infobox 3 on page 08 for more information.

Beyond the Equator Principles/International Financial Corporation (IFC) Performance Standards and EHS Guidelines, the most common international standards referred to by the EPFIs' policies include the UN Global Compact, United Nations Universal Declaration of Human Rights, International Labour Organisation (ILO) Core Convention, and Criteria of the Roundtable for Sustainable Palm Oil (RSPO) and the Forest Stewardship Council (FSC) certification. HSBC, ING and Standard Chartered are again noteworthy for referring to a larger number of standards and best practices than the other EPFIs. This can in part be explained by the fact that they have numerous policies and therefore refer to a larger number of sector- and issue-specific good practice standards and guidelines.

8. Do the banks' sustainability policies also apply to client business activities that are not directly impacted by the bank loans provided? For example, do the banks' sustainability policies apply to indirect impacts on clients' supply chains?

Seven banks, Eximbank, ICBC, ABC, CCB, BoCom, CMB and Industrial Bank, apply sustainability policy to indirect impacts on clients' business activities.

Five of the EPFIs apply E&S policies to indirect impacts related to the financing of client transactions. Though banks are generally limited in the extent they have influence over upstream/downstream operations, Standard Chartered, HSBC, ING, Credit Agricole and Mizuho apply their policies to their client's overall business activities. For example, Standard Chartered requires its clients to extend their E&S management system to main contractors – this includes requirements around policies and procedures and the bank monitors progress by setting reporting requirements and monitoring the track record of the client. The other four banks follow a similar approach that is focussed on addressing supply chain-related impacts.

Infobox 2:Application scope of Chinese banking institutions' sustainability policies

- **CDB** focuses on encouraging energy saving, emission reduction and environmental protection projects. For example, it supports innovative small and medium enterprises that contribute to energy saving, ecological protection and the optimization of industrial structure. CBD also prioritizes support to enterprises that are encouraged by the Guidelines for Industrial Structural Adjustment. The bank's polices cover E&S impacts for all stages of credit investigation, commitment, distribution and management.
- **ICBC**'s green credit policy applies to both its credit and non-credit businesses. For its credit business, the bank has created green credit standards and requirements for every stage of the lending process from investigation, evaluation, examination and approval to contract signing, loan distribution and management. It has also established a green credit index. In addition, with the help of environmental monitoring information, media reports and loan management platforms, ICBC has also established its own system to monitor, recognize, control and therefore more effectively manage E&S risks.
- **ABC** applies sustainability policy to many areas of its credit business including the investigation, review, approval, and after-lending management processes. While the bank's sustainability policy only covers traditional credit products such as fixed asset loans and working capital loans, ABC stresses its commitment to applying the concept of green credit to its other financial services and products such as acceptance, letters of credit, investment and wealth management.
- **BOC**'s sustainability policies apply to its entire credit business, including project loans, syndicated loans, working capital loans and trade financing. In addition to its lending business, BOC also applies sustainability policies to some of its other businesses, such as its international settlement and fee-based services.
- **CCB** specifies its E&S risk policy in its credit policy, which applies to its entire credit business. Its E&S policy may also be applied as appropriate to short-term commercial paper, medium-term notes, corporate bonds and other types of credit-based bond underwriting.
- **BoCom**'s green credit policy applies to its entire credit business, including lending.
- **SPD Bank** has established a policy called "five blocs and ten innovative products" that will support energy conservation, pollution reduction, environmental protection, and the development of a circular economy. The "five blocs" are financing for: energy efficiency, clean energy, environmental protection, carbon goals and green equipment supply chains. The "ten innovative products" are: IFC loans for energy efficiency, green interim credit from the French Development Agency (AFD), Asia Development Bank (ADB) financing for energy conservation in buildings, mortgaged loans backed by the future income of contracted energy management, contracted energy management financial factoring, Clean Development Mechanism (CDM) financial advisors, international carbon financial factoring, loans backed by Pollution-Discharge Rights, green private equity (PE) and green debt financing instruments.
- **Industrial Bank**'s sustainability policy applies to its entire credit business, including corporate loans (such as loans for energy conservation and pollution reduction projects, financial services related to Pollution-Discharge Rights, and project financing where the EPs are used for E&S management), retail services (such as low-carbon credit cards), fee-based services (such as green wealth management), financial leasing (such as green leasing), and trust business. In addition, the Industrial Bank also uses an internal environmental management system to improve its management of green operations.
- **Bank of Beijing** applies sustainability policy to the investigation, examination, approval and loan management phases of its credit projects as well as to its daily operations. The bank has also built its own green credit brand called "Small Giant," which offers products specially developed for the green credit market, including three core products designed with regard to enterprises' different development stages. The brand also offers three industrial products designed according to the concepts of "scientific finance, cultural finance and green finance" and "scientific Beijing, cultural Beijing and green Beijing." The "green finance" product contains World Bank Phase II project financing in cooperation with China National Investment and Guaranty Co., Ltd, CHUEE in cooperation with IFC and credit products specifically designed for energy-saving industries.

Infobox 3:Chinese banking institutions form their sustainability policies in accordance with below intertational norm

- **ABC** drafted its domestic credit policy according to Guidance on Industrial Structural Adjustment and regulations from regulatory ministries. For overseas business management the bank follows its headquarters' regulations, local financial regulations and the local Privacy Act.
- **BOC** carries out project financing in China in accordance with domestic laws and regulations on sustainable development and the environment. When lending for overseas projects, BOC also follows local environmental and sustainable development laws and regulations, and in some cases also draws upon relevant international norms such as IFC's E&S performance standards. BOC will first consult its clients as well as the other banks it is cooperating with, and then independently analyze the E&S risks associated with the project. BOC may also hire an independent third party to assess E&S risks according to relevant international norms.
- **CCB** bases the green credit standards in its credit policy on relevant national standards as well as its own risk preferences. For its overseas credit business, COB implements its own policy, complies with the local laws and regulations of every country and references relevant international norms.
- **SPD Bank** makes clear in its report Interim Measures for Managing Social and Environment Risks that project financing in cooperation with IFC and the AFD should not be on the Exclusion List defined by the two organizations.
- **Industrial Bank**'s sustainability policy draws upon the EPs and the IFC's performance standards.
- **Bank of Beijing** works in cooperation with IFC on CHUEE. It refers to IFC's E&S performance standards, including standards for established time of enterprises and calculating the debt to asset ratio, profitability and the payback period for energy-saving projects.

Governance

9. The highest ranking official in charge of sustainability issues at each bank is:

Responsible Officials	Chairman	Executive Director	Executive Board	President	CEO	Senior Management	Environmental Officer
CBD	✓						
EXIM	✓			✓			
ICBC	✓						
ABC				✓			
BOC				✓	✓		
CCB	✓						
BoCom	✓						
Huaxia Bank				✓	✓		
CMB		✓				✓	
SPD Bank	✓						
Industrial Bank			✓			✓	✓
Bank of Beijing	✓						

Industrial Bank has also established a group to lead work related to the EPs, headed by the Chairman of the company and consists of the President, Vice Presidents, Board Secretary and other leaders at the bank. The group is responsible for overall planning and decision making related to the adoption and implementation of the EPs.

At all of the EPFIs, ultimate responsibility for sustainability issues is held at Board of Directors level i.e. either by the entire Board of Directors, one member of the Board, or a Committee that includes Board members. For example, overall responsibility for sustainability issues at Standard Chartered belongs to the Brand and Values Committee, which includes the Chairman and the Group Chief Executive. At Mizuho, ultimate responsibility for sustainability issues is held by the President of the Mizuho Group.

Responsibility for approving E&S policies is also held at Board level at all of the EPFIs. At Citi and JPMorgan, the Chief RiskOfficer is responsible for approving policies. At HSBC, this is the responsibility of the Group Management Board. Most EPFIs review their E&S policies on a ‘regular’ or ‘as-needed’ basis, although a few have specified review periods. For example, Standard Bank reviews its Group Environmental and Social Policy on an annual basis and Standard Chartered reviews its policy every two years.

10. Are the banks’ directors and senior management evaluated by their performance in carrying out sustainability policies and fostering sustainable development? If so, is performance in these areas linked to their income?

Only Bank of Beijing said that its directors and senior management are not evaluated by their performance in promoting sustainable development and that performance in this area is not linked to their income. Most of the banks however explicitly reported that directors and senior management are evaluated in part by their performance in carrying out sustainable development goals and that performance in this area is linked to their income. CMB and SPD Bank did not provide specific enforcement plans. At ICBC, senior management is evaluated by indicators including "social contribution per share," a shared target for all members of senior management, which supports the bank's goals to uphold social responsibility and pursue sustainable development. At ABC, 50% of senior management’s performance-based income is paid during the current financial year. For each year over the course of three years, a third of the remaining 50% is released based on business performance results. Industrial Bank has incorporated sustainable development performance into the performance examination system it uses for evaluating senior management and links performance in this area of sustainable development to income. The bank enforces this in two central ways: first, in addition to stressing the value of current performance, the bank also emphasizes the importance of the bank's asset quality and compliance with safety targets; second, the bank retains 50% of senior management's performance-based income as a risk fund to be released only after three years based on evaluation results. These measures have been designed to prevent management from focusing only on producing short-term results and to ensure the bank's long-term sustainable development.

There is less consistency among the EPFIs in terms of whether senior management are evaluated based on sustainability performance. Four of the EPFIs (Credit Agricole, HSBC, ING, and Mizuho) report that sustainability criteria are considered when determining senior management ratings and remuneration. For example, at Mizuho, the director of each business unit is evaluated periodically on the unit’s overall performance, including sustainability performance. At Credit Agricole, a new corporate social responsibility programme (the “FReD programme”) was introduced in 2011, where progress achieved relating to environmental issues affects up to one third of the long-term variable remuneration of the bank’s senior management. At the other EPFIs, only those with full-time roles in sustainability (e.g. Head of Sustainability) are remunerated based on the bank’s sustainability performance.

11. Who reviews and approves the banks' sustainability policies? How frequently are the policies reviewed and updated?

At most of the banks either the Board of Directors or senior management review and approve sustainability policy.

- The Board of ICBC has authorized the President of the bank to review and approve the bank's sustainability policy. The ICBC Credit Risk Committee will first review and approve the bank's industrial credit and green credit policies, then submit the policies to the President, who decides whether to endorse the policies for bank-wide enforcement. ICBC reviews and approves sustainability policies annually.
- The President of ABC's headquarters is responsible for reviewing and approving the bank's sustainability policy. Regular policies are updated every one to two years.
- The Board of BOC is responsible for reviewing and approving the bank's sustainability policy, which is updated annually.
- The Board of CCB is responsible for the bank's development strategy and risk management policies, including policies related to green credit and sustainable development. The Board and other specific committees continuously monitor and evaluate the implementation of the bank's development strategy and related policies. Relevant polices are updated on a regular basis.
- According to BoCom's Green Credit Policy, the Board is responsible for developing the bank's green credit strategy as well as approving green credit objectives and work reports that the senior management team develops every year.
- The Credit Policy Committee of Huaxia Bank's headquarters reviews and approves the bank's sustainability policy every one to two years.
- The President of CMB's Executive Meeting Group at CMB's headquarters is responsible for reviewing and approving the bank's sustainability policy and does so annually.
- SPD Bank's senior management reviews, approves and updates the bank's sustainability policy every year.
- The Board of Industrial Bank makes decisions about the bank's E&S risk management strategies and development direction. It reviews and updates the bank's sustainability policy regularly according to the needs of Industrial Bank's operational management.
- Bank of Beijing's sustainability policy can be found primarily in its annual credit policy, which is updated annually.

12. Do the banks have specialized teams for assessing E&S risks in their credit businesses? How many people are in each team?

Five banks, CDB, ABC, BOC, CCB and SPD Bank, do not have specialized teams to investigate and examine the E&S risks of their clients. They carry out this type of evaluation mainly during the credit review process. Six banks however did report that they have specialized teams dedicated to assessing E&S risks of credit clients and also specified the size of those teams. ICBC has industrial green credit centre responsible for the development of green credit policy, consisting of 4 sections and 17 staff. BoCom has three people in one of its lead departments looking at green credit and one or two people in related departments also involved. At Huaxia Bank, the green

Responsibility for E&S risk management

There are three main groups within the EPFIs that have responsibility for E&S risk management, as illustrated in the diagram below:

- Front office are involved in initially identifying transactions with high E&S risk
- Compliance teams conduct E&S screening as part of client on-boarding to ensure compliancewith the bank's E&S policies
- Legal teams are involved when integrating E&S covenants

- Specially trained individuals (often part of wholesale credit risk) who provide initial guidance to front office on E&S issues and determine whether additional advice is required from the E&S Risk Team

- Team dedicated to E&S risk management within the EPFI, usually based in the group head office credit department has four people responsible specifically for the development and implementation of green credit policies. CMB and Industrial Bank each have teams of 40 people. Industrial Bank also has at least one green credit product manager at each of its 38 branches. Bank of Beijing has a total of ten people responsible for examining E&S risks.

13. What formal procedures do the banks have for conducting E&S risk assessments of potential clients and trading? For example, is this approval process managed directly by the headquarters or is it managed regionally or by an authorized department?

A majority of the banks said that they assess client E&S risks during the credit approval process. Most of the banks categorize potential client projects based on what types of credit businesses they have or the importance of the industry the project is in (for example, bank headquarters usually manage high-polluting, high-energy-consuming and overcapacity industries). In most cases the department in charge of credit risk management or sustainable finance, either at the bank's headquarters or branches, approves the assessments. Industrial Bank's headquarters manage the approval process for E&S risk assessment. The final E&S risk evaluation report is also formulated according to input from independent experts. Each branch's sustainable finance department formulates evaluations based on the information it receives from the bank's operations department, which is then delivered to headquarters for checking.

14. Are staff members who are not specialized in evaluating E&S risks (such as customer relationship managers or front office staff) also responsible for assessing client and trading E&S risks?

At almost all of the banks, customer relationship managers or front office staff members are responsible for assessing clients or projects E&S risks. Most of the banks ask staff members who initiate business, such as credit officers or account managers, to review relevant approval and reply documents that are from state ministries and also collect information from clients about what they do to protect the environment and conserve energy. BoCom also uses a "veto mechanism" for green credit. It conducts client E&S risk assessments before establishing credit relations and does not allow credit business to go forward without having collected a client's green credit information or having established green credit labels. At Huaxia Bank, account managers investigate client and trading E&S risks during credit investigation. They also monitor client and trading E&S risks during the post-lending management stage. As soon as any risk has been spotted, the account managers report it immediately or issue a warning according to set procedures. At Industrial Bank, the operations department evaluates client E&S risks while carrying out preliminary checks, E&S risk due diligence and post-distribution loan management. At CMB, the customer relationship managers or front office staff evaluate client E&S risks by using standardized and institutionalized environmental accreditation results as well as information from sources such as the credit investigation system of the People's Bank of China, banking regulatory systems, environmental protection information systems, the media, feedback from the public and on-site investigations.

Dedicated E&S Risk Teams

All of the EPFIs surveyed have dedicated E&S risk management teams ('E&S Risk Teams'). These teams tend to be centralised and based at the bank's head office. The sizes of the E&S Risk Teams vary between the banks, ranging from two or three to eight full time staff dedicated to E&S risk management.

E&S Champions

In addition to full-time E&S risk management staff, five of the EPFIs surveyed (Citi, HSBC, Credit Agricole, ING, and Standard Bank) have formal 'E&S risk champion' roles. These E&S Champions are specially trained individuals, often part of wholesale credit risk teams, who provide initial guidance to front office on E&S issues and determine whether additional advice is needed from the E&S Risk Team. Some are full time roles, while others have responsibility for E&S risk management as part of a wider role. ING, for example, has Environmental and Social Risk Champions who act as the main contact point for E&S issues in specific regions. HSBC has over 40 country-level and regional-level Sustainability Risk Managers, who act as conduits between front office Relationship Managers and Group Sustainability based at the head office.

Involvement of other parts of the bank

All EPFIs emphasised the role of the front office in terms of identifying high E&S risk transactions, and escalating these to E&S Champions/E&S Risk Teams for further review (this escalation process is discussed in more detail in Section 3). In addition to initially identifying risk, front office – as the main point of client contact - play an ongoing role in facilitating the E&S assessment process and in supporting clients in improving their sustainability performance.

For six of the EPFIs (HSBC, Credit Agricole, ING, Mizuho, Standard Bank, and Standard Chartered), front office teams are responsible for undertaking initial E&S-specific screening. At Standard Bank, for example, transactors are responsible for completing an Environmental and Social Risk Screening Tool, which considers the E&S risk of both the transaction and the client. At Mizuho, for all project finance transactions, front officers must complete an E&S Screening Form (essentially a checklist) that is submitted to the Sustainable Development Department for review.

Other roles within EPFIs that are involved in E&S review include credit risk officers, compliance and the legal department (typically involved in integrating E&S covenants into loan documentation).

Procedures and Tools

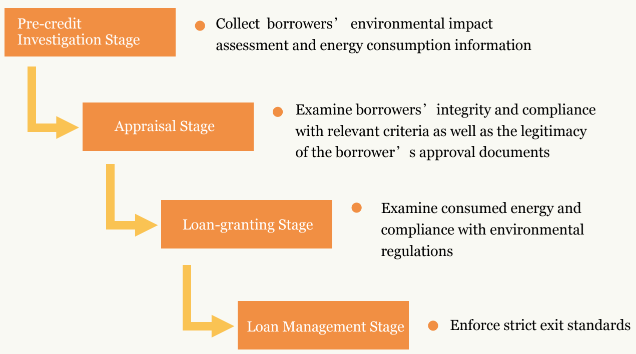
15. Regarding the due diligence process for E&S risk in lending:
a) What screening criteria do the banks use (such as a catalogue of industries that should be entered with caution, a black list of clients with poor environmental behavior, etc.) to identify clients or projects that should not be allowed credit access?

All of the banks use screening criteria based primarily upon the Catalogue for Guidance on Industrial Structural Adjustment, a catalogue of prohibited regions and industries that should be entered with caution. Most of the banks also screen clients in accordance to procedures in their industrial credit policies as well as by establishing client black lists. Please see infobox 4 on page 13 for more information.

b) When selecting clients, do the banks follow any E&S risk management procedures aside from those carried out during the project approval process?

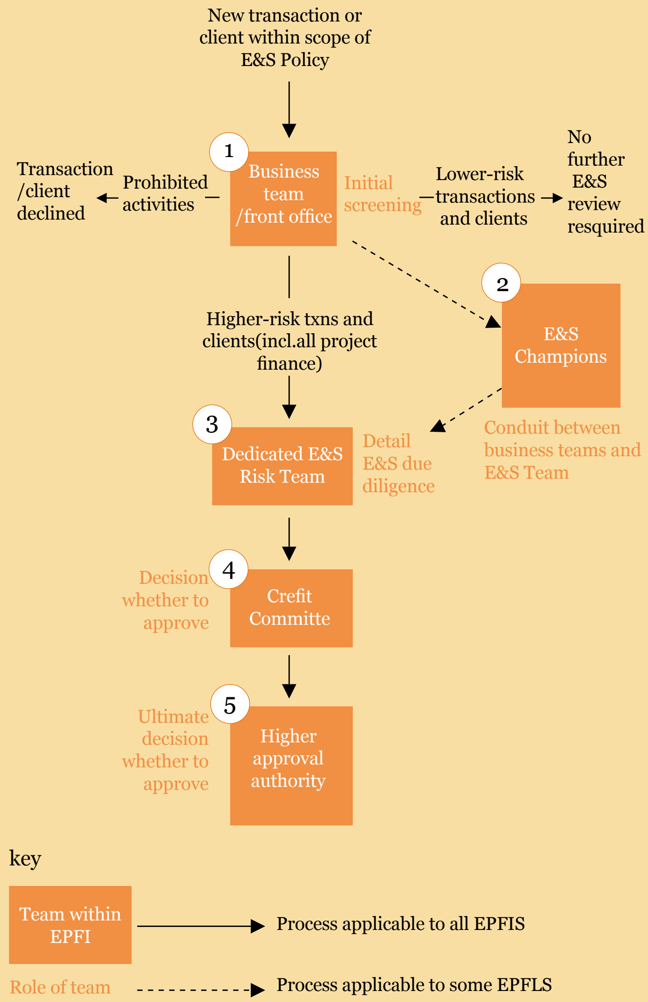
Six of the banks, CDB, ABC, BOC, Huaxia Bank, SPD Bank and Bank of Beijing, do not have any additional procedures.

c) In which stage(s) of credit management do the banks pay most attention to E&S risks?



All twelve banks reported that they pay close attention to E&S risks at every stage of credit management from due diligence and appraisal to examination and post-credit management. Only SPD Bank however explicitly states in its provisional regulations for E&S risks that close attention must be given to E&S risks at the stages of due diligence and loan management in project financing. Normally during the pre-credit investigation stage, the bank's loan officer (customer manager) collects the borrower's environmental impact assessment and energy consumption information. The loan officer does not commit to granting loans to projects that fail to pass the environmental impact assessment. During the appraisal stage, the bank examines the borrower's integrity and compliance with relevant criteria as well as the legitimacy of the borrower's approval documents. Last, during the loan-granting stage, particular attention is paid to examining how much energy the borrower consumes and if the borrower is complying with environmental regulations. During the loan management phase the bank also enforces strict exit standards.

E&S due diligence proc
All EPFIs undertake E&S due diligence on project finance transactions as specified in the Equator Principles. However, many also conduct E&S due diligence on other transaction types (see Section 1 for further detail on scope). While the details of the procedure differ from one EPFI to another, we can at a high-level identify a common five-step E&S due diligence process for high risk transactions. This is illustrated in the diagram below:



Please see infobox 5 on page 14 for more information.

Infobox 4:Screening criteria for E&S management of Chinese banking institutions.

- **ICBC** has issued credit policies for 43 industries and adopted specific client categorization standards and management requirements for industries sensitive to E&S risks. It uses its green credit categorization standards to categorize every company loan into four stages and 12 categories according to the "green degree" of the loan, which reflects associated E&S risks and helps the bank to identify opportunities in the green credit market.
- **ABC** places clients from relevant industries into four categories based on whether they are eligible for additional loans, restricted from increasing their loan balance, asked to reduce their loan balance or are in the process of exiting loans. ABC strictly enforces its criteria for screening clients and projects. Projects that fail to meet its criteria are not eligible to receive credit support.
- **BOC** screens based on standards established by outside organizations as well as criteria from its own credit policy, taking into consideration environmental factors such as a client or project's industrial energy consumption, material consumption and emissions. For example, the bank draws upon standards in the Catalogue for Guidance on Foreign Investment Industries, a list of companies that are required to phase out their outdated production lines and standards. It also draws upon the Green Credit Guidelines and other standards issued by regulatory and supervisory authorities. BOC has also established targeted standards in its credit policy, such as standards for the steel industry that encourage the use of technology and techniques that promote energy conservation, emission reduction and the development of a circular economy. BOC also limits support for steel enterprises in major environmental protection zones, scenic spots, areas with severe water shortage and megacities. All new projects must pass environmental protection reviews and meet standards for energy consumption, water consumption, emissions and water recycling.
- **CCB** adheres to five basic principles for approving credit and screening clients and projects, including "vetoing for failing to meet environmental criteria." It maintains a comprehensive list of enterprises that have pollution issues or have been urged to make rectifications, ordered to phase out outdated production lines or prevented from carrying out activities in certain drainage basins by government authorities. CCB also prohibits its branches from handling additional credit requests from these enterprises. During the post-credit period CCB will also take action against clients or projects that have been penalized for violating the regulations of state environmental protection authorities, or that have failed to meet environmental protection criteria or obtain approval of their environmental impact assessments on schedule. The bank may, for example, compress credit and withdraw loans to urge clients to rectify their behavior and make timely adjustments.
- In the Green Credit Guidelines of the Bank of Communications, **BoComm** has established rigorous criteria for screening clients and projects in industries with high pollution and energy consumption, such as the steel, nonferrous metals and paper-making industries. Clients with substandard E&S performances are placed on a particular list and treated differently from clients that meet such standards.
- **Huaxia Bank** uses screening criteria mainly from sources such as the Catalogue for Guidance on Industrial Structural Adjustment. It also uses early warning information for example and maintains a black list of clients with poor environmental performance.
- **CMB** identifies which clients and projects are not qualified for credit according to screening criteria in the Catalogue for Guidance on Industrial Structural Adjustment, the Catalogue for Guidance on Foreign Investment Industries (amended in 2011), the Catalogue of Heavily Polluting Techniques and Environmentally Friendly Techniques, the Catalogue of Products with High Pollution and Environmental Risks (amended in 2011), the List of Enterprises in Industrial Sectors Ordered to Phase out Outdated Production Lines in 2011 and other industrial policies.
- **SPD Bank** requires that project financing comply with Chinese laws, regulations and industrial policies on phasing out outdated production lines. Clients and projects must also not be on IFC and AFD's exclusion lists.
- **Industrial Bank** issues rules annually to target areas of credit. The rules state that the bank cannot be involved in any projects inconsistent with state policies or environmental standards or that lack full approval. The bank must pay close attention to environmental laws pertaining to particular industries, projects and enterprises with considerable ecological hazards. The bank must also exercise caution against enterprises and projects that violate environmental laws, have had major production safety accidents or that are responsible for negative incidents such as disputes over expropriation of land and labor. With regard to project financing where the EPs apply, shareholders must have a strong awareness of and capacity to manage E&S risks. Potential clients must also have good track records of obeying environmental laws. The Industrial Bank also issues early warnings against and prohibits dealing with the credit systems of real estate developers that leave land idle, enterprises with major environmental risks and enterprises that have been listed by authorities at any level of government to phase out outdated production lines.
- **Bank of Beijing**'s screening criteria is based on state industrial policies, the Catalogue for Guidance on Industrial Structural Adjustment, standards and provisions for industrial production and operation issued by the National Development and Reform Commission (NDRC), lists of enterprises ordered to phase out outdated production lines, lists of enterprises with recognized qualifications, lists of enterprises with sub-par environmental standards and other relevant policies and notices.

Infobox 5: Detailed introduction of international EPFIs' due diligence for E&S risk evaluation.

1. Initial screening by business teams/front office

E&S screening is typically initiated by business teams/front office for new transactions and/or clients that fall within the scope of the EPFIs E&S policies. Generally, the objectives of initial E&S screening are to identify:

- Transactions and clients that are prohibited by the EPFIs policies (see section on prohibited and restricted activities below). Such transactions/clients are associated with an unacceptable level of E&S risk and are declined by the bank;
- Lower risk transactions and/or clients that do not represent significant E&S risk and therefore do not require further E&S review; and
- Higher risk transactions and/or clients that are not necessarily prohibited, but may require more detailed E&S review.

Generally, all project finance transactions are escalated to the dedicated E&S Risk Team for detailed E&S review. For non-project finance transactions, EPFIs have two main approaches to identifying higher risk transactions and clients that require more detailed E&S review:

- Standard Bank, HSBC, Mizuho and Standard Chartered have developed specific E&S assessments for initial screening by business teams. At Standard Bank, for example, transactors are responsible for completing the bank's E&S Risk Assessment Tool to assess the transaction and client risk of potential new business. In addition to checking that the transaction does not fall within Standard Bank's exclusion list, the Tool categorises the E&S risk of the potential new transaction as Category A, B, or C (similar to IFC Performance Standards categorisation). This categorisation determines whether further E&S due diligence is required from an E&S Champion or the E&S Risk Team. At HSBC, Relationship Managers are responsible for initial E&S assessments to determine whether potential new clients are compliant with HSBC's E&S policies.
- Other EPFIs have integrated E&S screening criteria into standard credit documentation, rather than using E&S-specific tools. ING and Itau BBA have integrated E&S criteria into its standard Know Your Client (KYC) procedures. At JPMorgan, front office staff are required to complete an internal questionnaire (the 'Conflicts Template') for every transaction at an early stage in the transaction process. The Template includes questions intended to identify which transactions need to be reviewed by JPMorgan's E&S Risk Team based on the transaction's industry sector, nature of activities, location, and intended use of proceeds.

2. Review by E&S Champions (where applicable)

As explained in Section 2 (Governance), five of the EPFIs have E&S Champions, who act as an extra 'line of defence' between front office and the E&S Risk Team. In certain circumstances, the E&S Champion is able to provide the necessary E&S advice, and no further E&S review is required. In other cases, the E&S Champion may decide to escalate the transaction to the dedicated E&S Risk Team for further review.

3. Detailed review by E&S Risk Team

Typically, the dedicated E&S Risk Teams will review all transactions that pose higher E&S risk. This usually includes reviewing all project finance transactions, as well as other higher risk transactions depending on the scope of the EPFIs' E&S policies.

4. Approval by credit committee

Based on the results of E&S due diligence, the E&S Risk Team will provide advice to the credit committee (or equivalent credit approval authority) on the E&S risks associated with the transaction and how these should be mitigated. This E&S information is considered by the credit committee together with financial and other considerations in making a decision as to whether to approve the transaction. Although E&S information is only one factor in the credit committee's decision-making process, all EPFIs report that transactions may be declined on the basis of E&S issues alone.

ING's process is noteworthy in that for all high risk transactions, the E&S Risk Team not only assesses E&S risk, but actually takes a decision whether to approve the transaction from an E&S perspective. This decision is binding, and can only be waived by the bank's most senior credit committee or the Executive Board. Similarly at HSBC, Group Sustainability sign-off is required under certain circumstances (i.e. value is greater than US$15 million, the transaction is considered High Risk, and the client is Near Compliant or Non-Compliant with HSBC's policies).

5. Escalation to higher approval authority (where applicable)

At nine of the EPFIs, there is an established process whereby transactions can be escalated beyond the standard credit approval authority for E&S reasons e.g. to the Board of Directors or a senior credit committee. For example:

- At Citi, all Category A transactions require elevated review and approval from senior credit officers ('ESRM Approvers'), which include the Managing Director and Global Head of ESRM. Transactions that pose significant reputational risk may be further escalated to the Business Practices Committee, which includes the bank's CEO and President, for review.
- At Itau BBA, high risk projects are escalated to the Superior Credit Committee of Itau Unibanco Group (which includes the CEO) for approval.
- At Standard Chartered, Category A project finance transactions and potential clients that require further scrutiny are escalated to the Wholesale Banking Responsibility and Reputational Risk Committee (WBRRRC).

16. To what extent have the banks incorporated international norms into their criteria for assessing client and trading E&S risks?

International Norms	ICBC	BoCom	CMB	SPD Bank	Industrial Bank	Bank of Beijing
Equator Principles	✓				✓	
IFC's Performance Standards	✓	✓			✓	
UNEP FI Bank Declaration			✓			
IFC's exclusion lists				✓		
AFD's exclusion lists				✓		
IFC's Environment, Health and Safety Guidelines					✓	
IFC's CHUEE program						✓

Although some of the banks such as Huaxia Bank reported that they have not incorporated international standards into their criteria for assessing client and trading E&S risks, many of the banks including the BOC, ABC and CCB have referred to relevant international standards (in accordance with state policies and standards), particularly standards for assessing risks of overseas projects. For example, ICBC has drawn upon the EPs and IFC's Performance Standards and Environmental Health & Safety Guidelines to improve its green credit categorization standards. It uses these guidelines to fully categorize and manage the environmental risks of all corporate clients. It has also established a company-wide green credit risk monitoring system. The core components of BoCom's green credit identification management system, such as its "three colors and seven categories" system, are in accordance with IFC's performance standards. CMB has adopted the UNEP FI Bank Declaration (the Statement by Financial Institutions on the Environment and Sustainable Development). SPD Bank adheres to IFC and AFD's exclusion lists. Industrial Bank has adopted the EPs, IFC's Environmental and Social Sustainability Performance Standards as well as IFC's Environment, Health and Safety Guidelines. Bank of Beijing has adopted IFC's CHUEE program.

The due diligence conducted by the E&S Risk Team varies depending on the nature of the transaction. EPFIs will conduct due diligence in accordance with standard frameworks where applicable. For example:

- All EPFIs will apply Equator Principles to project finance and project-related finance.
- Citi and JPMorgan both apply the Carbon Principles due diligence process to certain transactions in the US that involve financing coal-fired power plants.
- Standard Bank, Citi and JPMorgan apply the International Hydropower Association Sustainability Guidelines to hydropower transactions.

For transactions where standardised frameworks do not apply, EPFIs have developed their own due diligence processes. For example, where a transaction is perceived to be high risk (e.g. located in a protected or environmentally-sensitive area), an external consultant with relevant expertise may be used (e.g. to conduct E&S impact assessment).

When financing transactions in High Income OECD countries[5], EPFIs generally assess a transaction based on whether it is compliant with local laws, standards, and regulations which generally meet or exceed the requirements of the IFC Performance Standards and Environmental Health & Safety Guidelines.

5. As defined by theWorld Bank Development Indicators Database

17. From which sources (listed in the survey) do the banks obtain information needed for E&S risk due diligence?

Three banks, BoCom, Huaxia Bank and CMB, use all seven sources listed in the survey and all 12 banks use four of the seven sources along with: information that clients provided directly, information on clients already possessed by the banks, information from government agencies such as the China Banking Regulatory Commission (CBRC), People's Bank of China (PBOC) and Ministry of Environmental Protection (MEP), and online information from websites of the clients, media outlets and NGOs. In addition to the three banks mentioned above, CDB, Eximbank, BOC, the Industrial Bank and Bank of Beijing also employ independent third parties to provide due diligence. CDB and ICBC have also used external evaluation tools.

All EPFIs report that they used information provided by clients. Most EPFIs also use third party due diligence providers (e.g. external consultants commissioned to conduct Environmental and Social Impact Assessments (ESIAs) of project finance transactions), and the existing knowledge of bank staff as sources of E&S information.

In addition to the sources of information listed above, both Itau BBA and Standard Chartered have developed E&S questionnaires that clients are required to complete.

	CBD	EXIM	ICBC	ABC	BOC	CCB	BoCom	Huaxia Bank	CMB	SPD Bank	Industrial Bank	Bank of Beijing	Citi	Credit Agricole	HSBC	ING	Itau BBA	JPMorgan	Mizuho	Standard Bank	Standard Chartered
Information provided by clients	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Existing knowledge of bank staff about clients	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Third party due diligence	✓	✓			✓		✓	✓	✓		✓	✓	✓		✓	✓	✓	✓	✓	✓	✓
E&S rating agencies							✓	✓	✓				✓			✓		✓			
Governmental agencies	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	
Internet searches of public information	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	
External assessment tools	✓		✓				✓	✓	✓						✓			✓	✓	✓	
Conduct site visits												✓	✓			✓		✓		✓	
Other																✓	✓	✓		✓	✓

18. Do the banks categorize potential clients and trading based on E&S risk information?

The majority of the banks made clear that they categorize potential clients and trading based on E&S risk information.

- **ICBC**'s green credit categorization system contains four categories (environment-friendly, qualified, to be observed and to be rectified) and 12 levels. ICBC uses this system to categorize all of its loans according to how "green" they are.
- **ABC** lists all clients with serious E&S risks as exiting clients.
- In its Guidelines on Supporting Energy-Saving and Emission Reduction Credit, **BOC** requires that clients and projects be placed into three credit categories. The first category consists of clients and projects that save energy and reduce emissions so are eligible to receive support for additional loans. The second category is for clients and projects associated with high pollution and high energy consumption so are therefore not permitted to increase their loan balances. The last category is composed of clients and projects that have outdated production capacity and are therefore forbidden from receiving loans. BOC provides credit resources to support clients and projects in the first category, while aiming to cut down credit support to those in the latter two.
- **CCB** follows upper and lower stream clients and other enterprises in the same industrial chain as its clients . CCB works actively to prevent the E&S risks of parties closely associated with clients and takes such risks into account in deciding whether to support a loan.
- **BoCom** has established a categorization system that separates credit clients into three major categories (red, yellow and green) and seven sub-categories according to associated E&S risks. The bank has clear standards for categorizing, differentiating and evaluating clients.
- **Huaxia Bank** categorizes potential clients and trading according to the Catalogue for Guidance on Industrial Structural Adjustment as well as a black list of clients with poor environmental performances and early warning information.
- **CMB** classifies the environmental risks of its clients and projects by separating them into "four colors and ten categories." It divides its entire corporate credit business by color into green loans, blue loans, yellow loans and red loans and independently identifies environmentally sensitive project loans.
- **SPD Bank**'s provisional regulations for E&S risk management stipulate that the bank should assess the period of time and degree to which the project would likely impact environment, health and safety. The bank also places projects into three categories according to their potential risks. SPD Bank strives to thoroughly evaluate the project's compliance with national and local regulations, the likelihood that the project could violate industrial regulations, the processes and techniques used as well as factors such as the project's geographic location and employees.
- **Industrial Bank** divides projects that the EPs apply to into three categories: A, B and C. Type A projects are those that may potentially have major, negative, irreversible or unprecedented impacts on the

All EPFIs categorise the E&S risk of project finance transactions as Category A, B, or C in accordance with the Equator Principles/ IFC Performance Standards. Eight of the EPFIs go beyond these requirements to categorise the E&S risk of other types of transactions and/or clients. For example, Citi, Itau BBA, HSBC, and JPMorgan apply EP categorisation to all transactions within the scope of their E&S policies, not just to project finance transactions. ING use certain criteria (including the E&S performance of the client, potential impact on protected areas, and location of the transaction) to give a 'High Risk' or 'Low Risk' E&S rating for all transactions subject to its E&S policy.

In addition to categorising transaction risk, Standard Bank, Standard Chartered and HSBC also categorise the E&S risk of clients. HSBC assesses clients against its E&S policies and categorises them as 'Leaders', 'Compliant', 'Near Compliant' or 'Non Compliant'. Both Standard Bank and Standard Chartered have developed E&S risk assessment tools that use questions relating to a client's operations and its ability to manage E&S risks to categorise the client E&S risk.

Categorisation often plays a role in the escalation process. For example, within ING, only transactions that are categorised as 'High Risk' are escalated to the E&S Risk Team. At Itau BBA, E&S assessments for Category B projects are generally conducted in-house, whereas E&S assessments for Category A projects are conducted by a third party. An exception to this is Citi, where transactions subject to the E&S Policy are reviewed by Citi's dedicated E&S Risk Team to ensure consistency and quality control, regardless of the initial categorisation by front office/E&S Champions.

All EPFIs use screening criteria to identify 'prohibited activities' (i.e. activities associated with an unacceptably high level of E&S risk that the bank is not willing to finance). Common examples of exclusion criteria include activities or clients that:

- May adversely affect internally recognised protected areas (e.g. UNESCO World Heritage Sites[6], areas protected by the Ramsar Convention on Wetlands[7]).
- Violate the UN Declaration of Human Rights and the International Labour Organisation Declaration on Fundamental Principles and Rights at Work (e.g. through use of forced labour or child labour).
- Involve illegal practices (e.g. illegal logging, illegal trade of wildlife products).

6 http://whc.unesco.org/ (accessed 15 June 2012)
7 http://www.ramsar.org/ (accessed 15 June 2012)

environment or society. Type B projects are those deemed to produce less or relatively limited negative impacts on the environment or society, their impacts typically only being local, largely reversible or easily resolved through mitigation measures. Type C projects have very slight to no negative impacts on the environment or society.

- **Bank of Beijing** places loans into three different categories based on their E&S risks. First, it supports loans to industries and projects that are power saving, water saving and effective in comprehensive resource utilization. Examples include the energy-saving projects of IFC, China National Investment and Guaranty Co., Ltd., and the projects that NDRC encourages in the Catalogue for Guidance on Industrial Structural Adjustment. Second, the bank restricts loans to enterprises and projects that consume high levels of energy, produce high levels of pollution, invest blindly, or have overcapacity, outdated capacity or repeated low-quality construction projects. The bank makes clear that it will not provide credit support to projects that NDRC has recently restricted in the Catalogue for Guidance on Industrial Structural Adjustment. Third, the bank will provide necessary credit support to existing projects facing restrictions, but that the government has allowed to be rectified and reformed. Bank of Beijing will also curtail and recover all loans from projects that have been cancelled. When considering loans to projects outside these three categories Bank of Beijing fully takes into account factors such as resource-saving and environmental protection.

In addition to excluding certain activities, Standard Chartered has a list of ‘no go’ clients and ING has a list of ‘ultra-high risk’ countries that it will not finance.

The majority of EPFIs have developed their own exclusion criteria. Standard Bank applies the exclusion policies of development finance institutions (DFIs) such as the IFC and is also developing its own exclusion policy.

Itau BBA and Standard Chartered both have ‘restricted lists’ in addition to their exclusion lists. Transactions that fall within the restricted lists must receive approval from the E&S Risk Team prior to being considered further. Items on restricted lists tend to be environmentally or socially controversial activities. For example, Itau BBA’s restricted list includes transactions that involve production of weapons and munitions as well as native forest harvesting activities.

19. How is information obtained during E&S risk due diligence used in credit approval? For instance, do all new clients and projects need approval from the E&S risks department, or do only specific industries, clients or types of trading require approval? In addition, do E&S risk assessment results influence whether or not credit approval is vetoed?

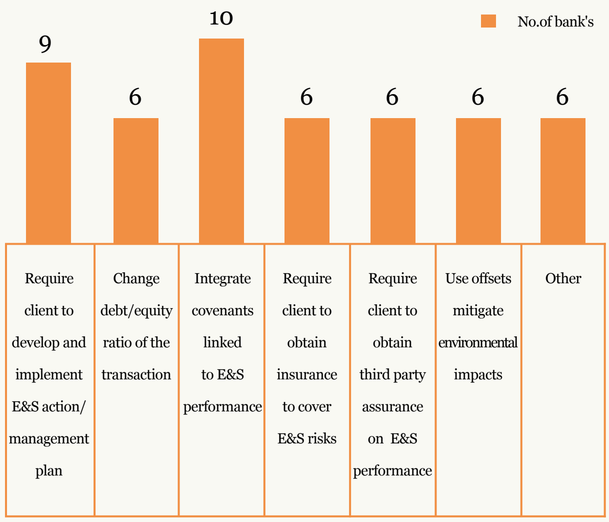
All of the banks use information from E&S risk assessments to veto credit approval and all of the banks state that the “veto mechanism” applies to all credit clients and projects. All new projects and clients must obtain approval documents from the E&S risks department. For example in accordance with the EPs, Industrial Bank performs E&S risk due diligence, reviews all projects involving over up to US$ 10 million of total investment and rejects clients or borrowers that fail to follow E&S policy procedures for implementing the EPs.

All EPFIs consider both transaction and client risk aspects in conducting E&S due diligence for a specific transaction. Six EPFIs have discrete E&S risk management procedures for client acceptance.

EPFIs’ typical approach to E&S assessment of clients is to consider the client’s commitment, capacity, and track record:

- Commitment: How committed the client is to E&S risk management (as demonstrated by the client’s E&S or Health and Safety policies, annual sustainability report, etc.).
- Capacity: Whether the client has the organisational, financial, and technical capacity to manage E&S risks (demonstrated by the client’s environmental management system, approach to staff training and stakeholder engagement, etc.).
- Track record: How the client has performed with regards to E&S issues (e.g. litigation, accidents, regulatory fines, negative attention from the media or NGOs).

20. When E&S risks have been discovered, what measures do the banks take to lower risks?



Ten of the twelve banks said that to lower E&S risks that have been found, they "include E&S performance or compliance requirements in contracts" (one of the six response choices that the banks were given in the survey).

Nine of the twelve banks also said that they "ask the clients to formulate and execute E&S risk management action plans (such as IFC's performance standards or standards used by domestic authorities)."

Half of the banks also reported that to lower risks they "change the debt-to-equity ratio", "demand that the client get an independent third party to ensure E&S performance", "ask the client to insure against potential E&S risks such as through environmental insurance and employee safety insurance" and also ask the client to "take measures to mitigate environmental impact such as carbon neutralization and biodiversity offsetting."

In addition to carrying out the above measures, Eximbank, BOC, CCB, BoCom, Huaxia Bank and Industrial Bank also demand that the client rectify its behavior, freeze unused lines of credit, issue early warnings, adopt restrictions on certain parts of their business, establish credit exit mechanisms, increase asset collateral or take other measures to lower risks.

When E&S risks are identified, EPFIs will implement risk mitigation measures to bring the level of risk exposure down to an acceptable level. All EPFIs report that they would require clients to implement E&S action/management plans, and may also integrate E&S covenants within loan documentation.

The table below summarises the different types of E&S risk mitigation measures that the EPFIs apply.

	Citi	Credit Agricole	HSBC	ING	Itau BBA	JPMorgan	Mizuho	Standard Bank	Standard Chartered
Require client to develop and implement E&S action/ management plan	✓	✓	✓	✓	✓	✓	✓	✓	✓
Integrate covenants linked toE&S performance	✓	✓	✓	✓	✓	✓	✓	✓	✓
Require client to obtain insurance tocover E&S risks								✓	
Require client to obtain third party assurance on E&S performance	✓	✓	✓	✓		✓	✓	✓	✓
Use offsets to mitigate environmental impacts	✓			✓			✓	✓	
Other	✓		✓			✓			

All EPFIs surveyed would decline a transaction if the level of E&S risks were considered to be unacceptably high, and could not be mitigated to an acceptable level. Citi, for example, recently declined proposed dam and power plant transactions in Africa because the transactions would not have met IFC Standards. Credit Agricole declined a project finance transaction that was deemed not to be compliant with Equator Principles and in a development stage too advanced for sufficient remedial action to be taken. None of the EPFIs mentioned they change the debt/ equity ratio on transactions as a means of mitigating risk in transactions.

21. During which of the following decision making processes do the banks take into account conclusions from E&S risk due diligence?

All of the banks use conclusions from E&S risk due diligence in calculating client credit ratings, asset classification, loan loss provisions, write-offs and other important factors. Eight banks use conclusions from E&S risk due diligence to classify and manage credit portfolios/capital allocation, while six banks use the conclusions in loan pricing and five banks use the information in calculating credit trade risks.

Generally, EPFIs are not systemically integrating results of E&S due diligence into the bank's capital management. The EPFIs mentioned a few reasons for this:

- Relevant E&S information is not systematically available.
- Even though there are a number of academic and research studies, the effects of E&S performance on financial and operational performance are not sufficiently understood yet.
- Lack of a 'level playing field' i.e. as it is currently not common across the banking industry to integrate E&S due diligence into capital management decisions such as loan pricing, a bank could make itself less competitive if it is the only one doing this.
- No regulatory requirement to integrate E&S risks into capital management.
- Lack of capacity within capital management functions to measure E&S risks and no commonly accepted methodology.

Although most EPFIs are not using E&S information for capital management decisions, there are a few noteworthy exceptions:

- For example, HSBC uses E&S information for portfolio management purposes by setting thresholds for the number of 'Near Compliant' or 'Non Compliant' clients within its portfolio.
- For project finance transactions, Itau BBA factors the E&S impacts of the project as well as the sponsor's management capacity into the formula used to calculate the credit risk of the transaction. Itau BBA also uses E&S information about clients' activities and management systems when calculating client credit ratings.
- Credit Agricole integrates information from E&S due diligence into credit ratings.
- Another EPFI reported that it has been systematically integrating E&S due diligence into its loan pricing model for a few years.

A few EPFIs (including ING, JPMorgan and HSBC) indicated that they may consider integrating additional capital management measures in future, as E&S impacts on operational and financial performance become more recognised and better understood. For example, the E&S Risk Team at JPMorgan is currently undertaking a detailed review of its Oil & Gas and Mining & Metals portfolios to better understand the relative E&S performance of clients in these sectors.

Monitoring, Reporting and Assurance

22. Do the banks keep record of transactions and clients that have been approved or denied of loans according to E&S risks?

All 12 banks keep a record of transactions and clients that have been approved or denied loans according to E&S risks. Huaxia Bank however specified that while it does not maintain special records or a statistical reporting system on E&S risks, it does keep record of E&S evaluation information for individual credit loans. Industrial Bank also noted that it records relevant information in project examination and approval notices.

Six of the EPFIs surveyed record whether clients/transactions are approved or declined on the basis of E&S issues. This is generally conducted as part of their wider credit risk management processes. Nevertheless, a few banks have indicated that there can be challenges in recording this information. In some instances, it may be more difficult to determine whether a transaction is declined on the basis of E&S issues because there may be other reasons why a commercial team decides not to proceed. Therefore, a few banks have adopted varying approaches to recording details. For example, ING does not record transactions that are declined at a very early stage by commercial teams.

23. How do the banks monitor the E&S performance of clients and transactions in the post-credit stage according to lending documents?

Most banks monitor clients through a variety of post-credit management tools, including regular and ad hoc monitoring. Post-credit monitoring methods include regularly checking the state environmental protection authorities' list of clients punished for violating regulations, improving systems for early warning about environmental risks, carrying out on-the-spot inspections and responding promptly to emergencies. For project financing that the EPs apply to, Industrial Bank focuses on monitoring four key areas: first, it makes sure that E&S risk management obligations are being implemented in accordance with the terms of the contract agreed upon; second, Industrial Bank checks to make sure that project construction and operations comply with government E&S standards as well as industry and loan agreements; third, the bank makes sure that the project developer is in compliance with the EPs' project finance management rules by regularly submitting E&S risk management reports; fourth, Industrial Bank makes sure that the project developer is in compliance with the designated plan of action and requirement to report negative E&S impacts in E&S risk management reports.

EPFIs generally monitor compliance in accordance with E&S covenants on an annual basis. Most EPFIs have compliance and performance monitoring mechanisms to support E&S-related requirements in transactions. This activity is typically undertaken by the portfolio monitoring team, who monitor the covenants and reports from the client. The portfolio monitoring teams are supported by the E&S Team, which provides technical review. At HSBC, audits may also be carried out to check compliance. Clients deemed to be 'Near Compliant' or 'Non Compliant' with HSBC's E&S policies are monitored more closely to ensure they are making sufficient progress towards achieving full compliance with the policies.

The most common approach to managing and mitigating E&S risk issues tends to be a time-bound action plan, which forms a binding covenant of the loan agreement and where compliance is monitored in line with the frequency specified in the loan documentation. At Standard Chartered, there are monitoring requirements added to the facility agreement that require an independent monitoring report to be provided to the bank at an agreed frequency. Any material deviation against the action plan is referred to Standard Chartered's Wholesale Banking Responsibility and Reputational Risk Committee (WBRRRC) which comprises of senior representatives.

It is common for some EPFIs to vary their compliance and performance monitoring efforts depending on the nature of the transaction. For example, in the case of project finance transactions at Citi, E&S covenants are monitored by an independent consultant or internally by the client's environmental team members. In addition, within Citi, portfolio managers conduct annual credit reviews of all transactions, ensuring client compliance with covenants, including those on environmental and social matters. In contrast, ING and Itau BBA adapt their approach depending on the risk level of the transaction. For higher risk transactions, ING and Itau BBA may engage third parties to conduct monitoring and/

or site visits. For lower risk transactions, the E&S Team usually monitor E&S performance in-house and accept documentary evidence to confirm compliance with E&S covenants. Both banks proactively engage with clients, where necessary, to confirm compliance with covenants.

24. Do the banks report E&S risks? What indexes and standards do they use in reporting? Are these reports used only internally or are they also disclosed to the public?

All banks report E&S risks through corporate social responsibility reports or internal reports, which are produced primarily according to national industrial policies and environmental protection laws and regulations. The types of indexes used vary by bank. As for whether these reports are disclosed to the public, while a few of the banks said that they reserve reports that contain information on E&S risks for internal use only, most of the banks said they make such reports public.

More than half of the EPFIs surveyed go beyond the EP Principle 10 requirements for reporting. For example, JPMorgan applies its EP reporting requirements to certain non-project finance banking activities and reports externally on the number of such transactions that receive an E&S risk management review. This includes a breakdown by risk categorisation, industry sector and geographic region. Standard Bank reports on project finance lending and advisory engagements categorised by industry sector, the number of development finance loans categorised by industry sector and risk level, the number of CDM projects, value of spend on energy efficiency and clean energy projects, and the number of employees attending training on its E&S risk appraisal system.

25. Do the banks have internal auditing units to review their E&S risk management systems and performances? What central challenges do the banks face in carrying out internal auditing of E&S risks?

At ABC and Huaxia Bank, internal auditing units do not review E&S risk management systems and performance, while ICBC, BOC, CCB and the Bank of Beijing have established strict E&S risk management auditing and review systems for their clients and projects. Industrial Bank for example has invested substantial resources in internal auditing and conducting professional project assessments. Most of the other banks however primarily focus on compliance review.

The greatest challenges that the banks face in carrying out internal auditing are the high cost of acquiring information on E&S risks and the lack of professional auditors and auditing standards in the E&S risk field.

All of the EPFIs indicate that their E&S risk management performance/systems are audited internally. This is usually undertaken as part of their wider internal auditing programme and typically comprises of a selective review of transactions to ensure due diligence was conducted appropriately and in compliance with relevant policies, including the overarching E&S risk management policy. For example, Itau BBA periodically undertakes internal verification which is conducted by an auditing team from Itaú Unibanco Holding whose task is to evaluate the consistency among the E&S risk policy, the manual for E&S risk analysis, internal controls and activities developed by the E&S Team. In addition, there are internal verification checks conducted by compliance and internal controls teams. Both teams regularly interact with the E&S Team in order to support the development and improvement of procedures and internal controls for E&S analysis.

The two key challenges that have commonly been identified by internal audit teams are (1) A lack of understanding and familiarity of business teams in resolving E&S issues (this is mainly due to the nature of E&S issues as being unquantifiable, non-financial risks) and (2) Difficulties in consistently applying the E&S policies across all business activities. While most EPFIs address the first challenge through capacity building, EPFIs have addressed the second challenge in different ways. For example, ING has integrated E&S assessments into its standard credit approval system to ensure better compliance with its E&S policies. In contrast, Standard Chartered is applying its E&S policies to joint ventures and trading companies on a case-by- case basis.

26. Do the banks obtain independent third-party assurance for their E&S risk management systems? If so, are the assessment results published? If not, why not and do the banks plan to acquire external assurance in the future?

Most banks indicated that they would introduce external assurance when further progress has been made in developing green credit systems and the conditions are right. Huaxia Bank, Industrial Bank and Bank of Beijing have yet to obtain assurance from an independent third party for their E&S risk management systems, although Industrial Bank employs a professional third party auditing organization to carry out E&S risk due diligence for all projects related to the EPs. ICBC, ABC, CCB, BoCom and CMB have invited independent third party assurance to review their annual corporate social responsibility reports. In recent years they have also published the results. After consulting with clients and other banks that it cooperates with, BOC hired a third party to analyze E&S risks for some of its project loans. The results are not typically published.

Five of the EPFIs obtain external assurance of their E&S activities. This usually comprises of a review of selected information including certain metrics reported under the Equator Principles. There is some variation between EPFIs on the scope of this assessment and how they are disclosed. For example, Credit Agricole conducts a review of selected environmental indicators as well as the statement regarding the application of the Equator Principles, and it discloses the results of the external auditor’s report on its website. In contrast, HSBC has engaged an external auditor to review its transactions under the Equator Principles. The statement from the auditors is published in its annual sustainability report. Citi and Mizuho do not undertake any third party assurance of the application of their E&S policies at present although this is currently being considered.

Capacity Building

27. What measures do the banks take to build E&S risk management capacity?

Ten banks provide staff-wide training programs, which typically consist of regular or annual training classes supplemented by online or long-distance education. The banks also usually provide training themselves, only employing external institutions for the supplemental training. Only half of the banks have conducted training for members of the board of directors, the board of supervision and the principle officers.

28. In what areas of capacity training have the banks been successful? What challenges and obstacles have there been?

Most of the banks have disseminated know-how of E&S risks through training programs that have enabled staff to understand and master the green credit business and associated businesses. Some of the banks' central challenges include promoting energy conservation as well as the development of a low-carbon economy and related highly technical fields. The banks also have limited outside resources to draw upon and must pursue green credit without affecting business expansion and profits.

- **ICBC**'s successes: To establish green credit as a core value throughout the bank, ICBC has built a multi-layer, multi-frequency and multi-channel green credit training system using both internal and external resources from management and operations to polices and operational procedures. There are four main parts of ICBC's green credit training system. First, during the annual launch of its green credit policy, the bank organizes several internal video and face-to-face training sessions about green-credit-related industrial policies, internal policies and management requirements. Second, the bank also upon occasion invites experts from regulatory and research organizations such as the MEP, NDRC, the Ministry of Industry and Information Technology and the National Research Center to deliver training to members of the headquarters party committee and green credit team. Third, to bring additional knowledge back to the bank through reports and additional training, the bank actively participates in workshops and trainings organized by international organizations such as WWF, IFC and UNEP FI. Fourth, ICBC provides all employees who monitor environmental risk with training on relevant policies and procedures.
- **SPD Bank**'s successes: Since 2008, SPD Bank has organized more than two bank-wide green finance trainings and workshops. Over 4,000 managers of different levels from the headquarters attended, including project managers, risk control managers, monitoring and evaluation managers as well as client managers. SPD Bank also publishes "Green the Future" twice a week and uses industry hotspot and project information to find new business opportunities, develop new ideas for green finance and enhance cooperation among other banks and enterprises.
- **Industrial Bank**'s successes: (1) Industrial Bank has led a range of initiatives to strengthen capacity building and awareness of key concepts. It has established a training system that will serve

The table below provides an overview of the capacity building activities that have been undertaken by each of the EPFIs:

Capacity building activities	Citi	Credit Agricole	HSBC	ING	Itau BBA	JPMorgan	Mizuho	Standard Bank	Standard Chartered
Training to E&S Risk Team and selected other staff	✓	✓	✓	✓	✓	✓	✓	✓	✓
Classroom-based training	✓		✓	✓	✓	✓	✓	✓	✓
Online/ remote training	✓		✓	✓	✓	✓	✓		✓
Annual/ regular training	✓		✓	✓		✓	✓	✓	✓
One-off training									
Training led internally	✓	✓	✓	✓	✓	✓	✓		
Training led byexternal provider	✓	✓						✓	✓

All of the EPFIs use a combination of online and in-person training methods to raise awareness about E&S issues among their staff. The overall objectives of these initiatives are to:

- Increase the knowledge and awareness of E&S risk issues that can potentially present material credit and reputational risks
- Instil the value of E&S risk management as an integral part of risk management, and
- Familiarise the credit staff with how to apply the relevant E&S policies and procedures.

HSBC offers a diverse range of E&S-related training programmes including a Senior On-boarding Training Programme, Risk Management Programme, and Senior Risk Management Programme. In 2011, HSBC also launched its climate business learning programme, which is a four-day course designed to educate Commercial Banking relationship managers on renewable energy technologies and relevant financing structures.

In-person training is commonly seen by most EPFIs as a very effective training channel - it is more personal than online training, can be tailored to suit the needs and requirements of the audience and, most importantly, it allows for the facilitators to work with participants in a practical manner (e.g. using case study material).

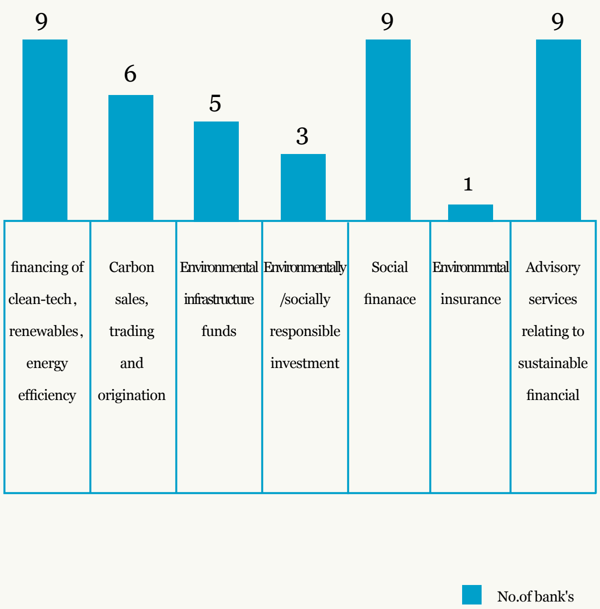
the bank's goals of fostering sustainable development and meeting the needs of both its headquarters and branches. Industrial Bank's initiatives include: philosophical training for management, capacity building at the operational level, improvement of institutions and systems at the headquarters, optimization of branch work processes, providing case studies for key branches to orient themselves to newly established institutions (e.g. Industrial Bank Financial Leasing Co. Ltd.), theoretical training, on-the-spot training, periodically compiling the Bulletin on Equator Principles-Related Work, updating and maintaining the "Sustainable Finance" column on its website, and producing an annual Sustainable Development Report. In 2011 the bank carried out 68 on-the-spot, thematic and on-line training programs as well as field trips, providing 20,783 total training opportunities for its employees. (2) The bank has trained employees through real projects that bring collaboration among the headquarters and branches into full play and promote discussion of the EPs and concept of sustainable development. By the end of 2011, Industrial Bank had conducted training through 25 of these projects, which increased the operational capacity of its branches and widened client acceptance of E&S management. (3) The concepts of green credit and sustainable development are well understood and widely accepted within the bank. (4) The bank has widened exchange and deepened communication with the CBRC, MEP, peer banks in China and NGOs. (5) Industrial Bank carries out wide exchanges with the IFC, WWF, UNEP, Citi, Scotiabank and other foreign banks. Challenges and obstacles that remain include: (1) Further training is still needed to improve the quality of lecturers and training materials and to also better integrate training into business. (2) The effects of training may only begin to become apparent in the long-term since the scope of social risk assessment is so wide. (3) There is a significant lack of professionals that have backgrounds in E&S risk assessment, which limits the bank's professional capability in this area. (4) Mobility is too great among client managers at the primary level. (5) The bank hopes for greater training support from the MEP, CBRC and other relevant authorities.

Some of the EPFIs surveyed work with external parties to support them in capacity building initiatives. For example, in 2011, Itaú BBA promoted a two-day-event in partnership with the IFC. As part of this process IFC members presented the new IFC Performance Standards to key Latin American players, such as developers of projects in the infrastructure sectors, financial institutions, consultants and lawyers. These players were subsequently invited to discuss in roundtables E&S risks and the consideration of IFC Performance Standards in the development of projects in the Energy, Mining, Oil & Gas and Agribusiness sectors.

Online training has the benefit of reaching out to a wider audience. JPMorgan has a Reputation Risk online training module which is mandatory for all 26,000 employees in its investment and global corporate bank business. This online training module plays an integral part in further expanding the bank's employees' understanding of, and commitment to, addressing the E&S risks associated with lending and investment activities.

Sustainable Financial Products

29. What sustainable financial products and services do the banks provide?



Nine of the banks provide "finance for clean technology/ renewable energy/energy efficiency," "social finance (e.g. micro-loans, finance for SMEs and social impact investment" and "advisory services relating to sustainable financial products or services." Six provide "carbon sales, trading and origination" services, and five provide "environmental infrastructure funds". Specifically, CDB, CMB and the SPD Bank provide "environmentally/socially responsible investment services (such as responsible investment funds and a sustainability index)" while so far only BOC provides "environmental insurance" products. CMB and SPD Bank both offer six sustainable products and services, the highest number offered among the eight banks that provide the greatest amount of sustainable products and services. Most banks also provide additional products and services apart from the above seven. SPD Bank for example provides the most comprehensive range of products, offering the following ten in total: IFC CHUEE project financing, AFD energy efficiency loans, ADB building energy-saving financing, energy management contract future earnings right pledge loans, contract energy management factoring financing, CDM financial advisors, international carbon factoring financing, emission rights mortgages, green PE and green debt financing tools.

	Citi	Credit Agricole	HSBC	ING	Itau BBA	JPMorgan	Mizuho	Standard Bank	Standard Chartered
Financing of clean-tech, renewables, energy efficiency	✓	✓	✓	✓	✓	✓	✓	✓	✓
Carbon sales, trading and origination	✓				✓	✓	✓	✓	✓
Environmental infrastructure funds	✓		✓				✓		✓
Environmentally/ socially responsible investment	✓	✓	✓	✓	✓	✓	✓	✓	
Social finance (microfinance, impact investments)	✓	✓	✓	✓	✓	✓	✓	✓	✓
Environmental insurance		✓	✓		✓			✓	
Advisory services relating to sustainable financial products	✓	✓	✓	✓	✓	✓	✓	✓	✓
Other e.g. sustainability equity research		✓	✓	✓	✓	✓	✓	✓	✓

As summarised in the above table, most EPFIs offer six or more such products and services.

Examples of other sustainable financial products and services not listed above include equity research teams focused on sustainable investments at JPMorgan and ING, and HSBC' s Climate Change Index, which lists companies focused on developing solutions to combat the effects of climate change. HSBC also has a Climate Change Centre which is a global research team focused on the implications of climate change for the bank and its clients.

30. Do the banks provide sustainable financial products and services voluntarily or to comply with requirements?

Almost all of the banks provide a majority of their sustainability products and services voluntarily. Some of their sustainability products and services are provided to comply with requirements. ICBC, for example, has made building a green credit bank a long-term development goal to better manage its E&S risks and create an opportunity for bank-wide credit structure adjustment.

In addition to managing the E&S risks associated with lending and investment activities, all EPFIs have identified business opportunities relating to ‘sustainable’ financial products and services.

31. What do the banks do to promote R&D and the development of sustainable financial products and services?

a) Open commitments (for example, pledging to designate a specific credit line for clean energy projects).
b) Business targets.
c) Assessment of staff performance.
d) Additional measures.
Please see infobox 6 on page 28 for more information.

To promote business growth of sustainable financial products and services, Citi, Standard Chartered, and HSBC have all made public financial commitments. In 2007, Citi announced a goal to direct US$50 billion over ten years to activities that mitigate climate change. In 2007, Standard Chartered committed US$8 – 10 billion over five years to financing new renewable energy and clean tech energy projects in Asia, Africa, and the Middle East. Mizuho promotes business growth by having incentives for front officers who have developed corporate customers with an E&S focus. In June 2012, HSBC announced the launch of its Water Programme: a US$100 million, five year partnership with three NGOs (WWF, WaterAid and Earthwatch), that aims to bring safe water and sanitation to a million people, tackle water risks in river basins, and raise awareness about the global water challenge.

The EPFIs are also active in engaging with industry and external stakeholders on sustainable finance issues. For example:

- **ING** has participated in an EP Strategic Review discussion with CBRC, and has also facilitated meetings between NGOs, businesses, and banks to discuss the role of the financial industry in developing sustainable energy and trade.
- **Standard Bank** actively contributes to the development of international climate change policy by engaging with United Nations agencies, the Clean Development Mechanism Executive Board, African governments, and key European government agencies on this issue.
- **Mizuho** has engaged with numerous government authorities, financial institutions, and universities in China in relation to the Equator Principles, and is active in building sustainable lending capacity to banks in the region.

Infobox 6: Chinese banking institutions' promotion of sustainable financial products and services.

a) Open commitments

- **ICBC** provides credit support to green industries and has established clear targets for controlling high-polluting and high-energy-saving industries with over capacity. It also maintains a list of specific project access standards and exiting enterprises.
- **ABC** stipulates in its 2012 Credit Policy Guidelines that it will not engage in outdated capacity projects that fail to comply with industry structure adjustment and development plans or related policies. It will also not engage in projects that are on certain government lists. The bank encourages projects that promote energy saving, emission reduction and the development of environment-protecting technology and will finance demand for such projects from both enterprises and the government. According to its Annual Credit Management Work Deployment report, the percentage of loans the bank has provided to high-polluting and high-energy-consuming industries with over capacity has decreased since the end of last year. Furthermore, ABC plans to expand the quota management industry by continuing to carry out quota management of the real estate, steel and iron and cement industries.
- **BOC** actively supports the development of the clean energy, energy conservation and environmental industries. It also promotes product innovation and works hard to expand the scale of its green credit. For example, ABC designates projects from energy-conserving and emission reduction industries as projects that should have credit that grows faster than average. BOC also strictly controls credit to high-polluting and energy-intensive industries with overcapacity and has made clear that credit for these industries, as a share of the bank's total credit, should further decline. For 2012 the bank aimed to keep the credit line for these industries under 5%.
- **Huaxia Bank** has been working to promote low-carbon finance and green development over the last several years. For example, it has cooperated with the World Bank and AFD to extend loans to a wide range of energy-saving projects and has also supported investment to improve energy conservation at medium and large industrial enterprises.
- **CMB** has committed to direct AFD's 40 million euros of special sub-loan resources to green finance-related projects and companies and will match the sub-loan resources with commercial loans as needed.
- **SPD Bank** works with AFD, IFC and ADB to provide specific credit scale and risk assets to promote the development of green finance. It gives loans to small and medium enterprises with low-carbon and energy-saving services through AFD's green loans, on-lending loans and loss sharing agreements.
- **Industrial Bank** makes businesses that save energy and reduce their emissions a central focus of its credit distribution. Despite credit tension in recent years, the bank has continued to support businesses that save energy and reduce their emissions, for example by eliminating credit limits to branches granting loans to such businesses, which is overall arranged by headquarter, medium and long-term loans proportion and loan-to-deposit ratio management not accounted for branches, capital scale with concessional rates, expanding examination and approval authorities of branches, encouraging regional economic mainstream involvement and regional energy-saving and emission reduction businesses, equipping double line expenses to encourage carbon-finance development and providing specific trainings to all branches for capacity building.
- **Bank of Beijing** regards green credit as a highly important part of its business and has in fact become a vanguard in the green credit field. In addition to calling for the establishment of its own bank-wide green bank brand, it has also been promoting innovation in green finance, such as through the strategic cooperation agreement it signed with the ESCO Committee of the China Energy Conservation Association (EMCA) on April 8, 2011 to jointly build an energy conservation financial service platform. The bank also plans to provide a credit line of 10 billion RMB to EMCA member companies in the next 5 years, which is expected to save 5.6 million tons of standard coal and reduce 14 million tons of CO_2 emissions every year.

b) Business targets

- In its 2011 Outline for Green Credit Construction and Implementation, **ICBC** states its green credit construction strategy, including its basic purposes, principles, implementation points and development direction. In its 2010 report Opinions on Enhancing Green Credit, ICBC also proposes clear targets for the construction of green credit, a green credit performance review index and seasonal performance reviews of its branches.
- **ABC** has established a special division to help the bank promote the development of relevant businesses, more effectively observe relevant policies and intensify product R&D.
- In accordance with regulatory requirements and internal credit policy, **CCB** has actively followed emerging sectors such as the energy conservation, emission reduction, low-carbon economy and clean energy sectors. It aims to provide financial support as well as comprehensive and integrated financial services to high-quality clients in these sectors.
- In its Announcement on Deepening the Green Credit Program (Jiao Yin Ban No. [2011] 268), **BoCom** establishes specific credit growth targets for energy conservation, emissions reduction and environmental protection that apply to all of its branches. Every branch's performance is assessed against these targets at the end of each quarter.
- **Huaxia Bank** has set the following business targets: (1) The World Bank sub-loan resources of 100 billion US dollars will be placed in full and the repaid US dollar-dominated capital will be put back into circulation. (2) The AFD stage II sub-loan resources of 40 million euros will be placed before December 31, 2012 and the repaid euro-dominated capital will be put back into circulation. (3) The bank will observe the World Bank and AFD's requirements for the placement of sub-loan resources and make sure that the resources are directed to technical energy-efficiency renovation and energy-saving projects in fields such as renewable energy, waste power generation, sludge, biomass, construction and transportation.

- **CMB** has taken measures to encourage its branches to lend in green fields. It has also promoted R&D, the application of six special products and the development of a product program dedicated to the 2012 pilot carbon trading system.
- **SPD** Bank has been actively supporting financial innovation that promotes energy conservation and emission reduction. The bank aims to develop a system of innovative green credit products in order to encourage R&D and the development of sustainable financial products. It has already carried out the following projects with international institutions: (1) A total credit line of 60 million euros has been fully placed for the first and second phases of AFD's green credit projects. (2) IFC's energy efficiency loan businesses will be matched with 1 billion RMB of portfolio capital. So far over 34 energy-saving projects have received such loans, totaling to 1.82 billion RMB. These projects are estimated to save 1.17 million tons of standard coal and eliminate 2.88 million tons of carbon emissions annually. (3) ADB's credit business for increasing energy savings will be matched by 600 million RMB of portfolio capital. This project was to be implemented in 2012.
- **Industrial Bank** established China's first institution for sustainable financial businesses in early 2009, the Sustainable Financial Center (which in January 2012 became the Sustainable Finance Division). It is dedicated to financial services that support energy conservation, emission reduction, sustainable development, and professional green finance operations. So far four teams responsible for project finance, carbon finance, market research, technical services and the EPs have been established to build platforms for technical support, product innovation and design, asset management, marketing, business cooperation and transaction services. The teams will provide integrated financial services for the entire energy conservation and emission reduction industry chain. Industrial Bank has also developed credit and technical access standards for specific energy conservation and emission reduction industries. The bank takes a scientific and prudent approach in deepening and gradually standardizing its understanding of different industries. The bank has also established a green credit assurance system to review each green credit project. In addition, it has already carried out a "measurable, reportable and verifiable" assessment of environmental benefits. Furthermore, the bank has improved its credit management system by making sure that each green credit receiving green finance assurance gets marked in the credit system, which enables uniform management and deeper analysis of the bank's green finance businesses. Last, all branches have established teams to coordinate R&S risk management and green financial businesses. They have also appointed dedicated managers to be in charge of green financial products. The Sustainable Finance Division is responsible for setting overall annual targets for the bank's green financial business and delegating sub-targets to each branch.
- **At Bank of Beijing**, the small and medium business department at the headquarters is responsible for promoting the growth of small and medium energy-saving enterprises. It has designated staff at the front, middle and back desks to do so. At the front desk, staff members from the marketing and sales team handle loans for energy-saving and emission-reducing enterprises. Staff members at the middle desk are responsible for pre-examining loans to energy-saving and emission reduction projects and setting up green examination and approval channels to manage risks and improve efficiency. Managers at the back desk are responsible for energy-saving and emission reduction products and providing technical, product, and management support to the front and middle desks. The bank's headquarters are responsible for designing policy that rewards energy-saving and emission reduction loans. In 2011 Bank of Beijing also launched an "energy conservation credit" product to support companies that provide energy conservation services, allotting the credit line of this product to various operating units. A number of Bank of Beijing's branches now also have extensive experience as pilot offices.

c) Assessment of staff performance

- **CCB** has established an effective system for assessing the incentives and disincentives that its credit business creates. It stresses the importance of complying with standards and preventing R&S and other risks in business development.
- **CMB** has rolled out a special program to award individual employees.
- **SPD** Bank has designed policy for its innovative green credit products, which requires client managers to be evaluated based on how well they develop green credit. This policy also incentivizes branches to take greater initiative in business development. This policy however differs from the bank's policy for traditional businesses. The bank's headquarters also provide specific policy guidance and credit and risk assets to support the development of its branches' green credit businesses. To further spur the development of its green credit business, SPD Bank also establishes green channels for credit examination and approval.
- **Industrial Bank** has incorporated a green finance business index into the operational and development plan for its branches. When assessing the performance of its branches' green financial product managers, the bank pays close attention to whether managers have fulfilled specific targets that are outlined in the plan.
- **Bank of Beijing** assigns energy conservation credit targets to specific operating units and gives special awards at the headquarters to encourage the development of energy conservation products.

d) Additional measures

- **ICBC** collaborates with international organizations and transnational banks to learn from their experience with overseas institutions in green credit. ICBC is working to expand the carbon market, strengthen its carbon fund and improve its environmental impact evaluations for financial projects.
- **Huaxia Bank** has carried out special training by province at the branch level on "financing for energy conservation and emission reduction projects," aiming specifically to boost the specialized knowledge and skills of front-desk marketing personnel and lending approval professionals. Training includes explanation

of energy conservation and emission reduction information as well as explanation of local policies formulated by experts from various fields and officials from industry and information technology commissions, development and reform commissions, environmental protection bureaus and other local policymaking agencies. The bank has already carried out this type of targeted training at 18 branches. Last, Huaxia Bank also promotes energy conservation sub-loan projects that it has undertaken for the World Bank and AFD.

- **CMB** has set up special posts both at its headquarters and branches. At its headquarters, teams of experts have been organized for credit management, credit examination and approval, company affairs and international affairs. At the branch level, the bank has established special green financial services teams and appointed green finance representatives to coordinate with specifically designated posts at the headquarters.
- **SPD** Bank was the first commercial bank in China to issue an integrated service work plan for developing a low-carbon economy, namely the Green Credit Comprehensive Service Plan. Through its own innovation and collaboration with other organizations, SPD Bank has developed a series of advanced products for China's financial sector. There are five specific product categories: energy efficiency finance products (for industry and building energy efficiency), clean energy finance products, environmental finance products, carbon finance products and green equipment supply chain finance products. For each of these categories, SPD Bank has already developed and successfully put into operation a host of innovative green credit products. Its green finance products and services cover more than 20 industries including: buildings, municipal administration, power generation, steel and iron, cement, petrol and chemicals, nonferrous metals, coal, cars, building materials, paper, textile, telecommunications, transportation, renewable energy, modern equipment manufacturing, emission rights and carbon trading. SPD Bank's products and services also cover more than 60 types of technologies including: petrol saving and substitution, coal-fired boiler upgrading, utilization of extra pressure and heat, electronic systems and energy saving for power transmission and distribution systems, green lighting, water and exhaust gas stewardship, disposal of solid waste, wind power, hydropower, biomass energy and Ground Source Heat Pumps (GSHP). These energy-saving and emission reduction technologies are mature and provide high economic and social benefits. SPD Bank has also strengthened its evaluation capacity through research and third-party help. In addition, it has established technical evaluation systems for a number of industries. Furthermore, SPD Bank has worked with IFC, AFD and ADB to establish external technical support channels that bring high-quality professional training and technical evaluation support back to SPD Bank. SPD Bank has gained significant insight from its recent experience in these areas, which it uses to guide its professional decisionmaking about technology, the economic feasibility of energy-saving projects as well as its calculations and testing for energy savings and Certification Emission Reduction (CER). SPD Bank has substantially strengthened its green credit technology risk management capacity.
- By the end of August 2012 **Industrial Bank** had extended 200 billion RMB of green finance to almost 4,000 green finance projects through a variety of financial tools. The bank's outstanding green finance total reached 100 billion RMB. Industrial Bank's 37 branches have green finance businesses covering three major areas: the development of a low-carbon economy, circular economy and ecological economy. It has many projects, including a number of key national energy conservation projects related to energy efficiency, the development and use of new and renewable energies, reduction of carbon emissions, sewage treatment, water pollution control, reduction of SO_2 emissions and solid waste recycling. Its projects are all over the country, including in the Yangtze River Delta, Pearl River Delta, Bohai Sea Rim, Northeast China, Central China, Western China and the economic zone on the west coast of the Taiwan Strait. At the end of August 2012, projects supported by Industrial Bank's green financing had an annual capacity to utilize 14.6629 million tons of solid water, save 22.727 million tons of standard coal and 255.7906 million tons of water, as well as reduce CO_2 emissions by 65.0824 million tons, COD by 879,400 tons, ammonia nitrogen by 14.500 tons, SO_2 by 43,600 tons, and nitrogen oxides by 6,900 tons.

Appendix 1:Questionnaire for the Sustainable Lending Policies and Practices of Banks

Section 1: Strategy and policy framework

Sustainable lending strategy

1. What is the bank's strategy/approach to managing environmental and social (E&S) risk in its lending activities?

2. In addition to the Equator Principles, has the bank committed to any other sustainable finance initiatives?
   - ☐ UNEP Finance Initiative
   - ☐ Carbon Principles
   - ☐ Climate Principles
   - ☐ UN Principles for Responsible Investment
   - ☐ Wolfsberg Principles
   - ☐ Other - please specify:

Policies

3. Please describe the bank's sustainability policy/policies for managing E&S risks:
   - ☐ Bank does not have any sustainability policies
   - ☐ Single over-arching policy
   - ☐ Sector/geography-specific policies - please specify:

4. Does the bank publicly disclose its sustainability policies?
   - ☐ Yes
   - ☐ No - please explain reasons for not disclosing:

5. Please explain the scope of the bank's sustainability policies. For example, which types of lending are within scope (e.g. project finance, asset financing, general corporate lending)? Do the policies apply only to lending activities, or do they apply to other products and services?

6. Do the bank's policies cover both environmental and social impacts, or environmental/social only?
   - ☐ Environmental only
   - ☐ Social only
   - ☐ Both environmental and social

7. Do the bank's policies make reference to international standards (e.g. UN Global Compact, ILO Conventions)?
   - ☐ No
   - ☐ Yes - please specify which:

8. Do the bank's sustainability policies apply to "indirect" impacts of its clients (e.g. to clients' supply chains, or to client activities that are not directly financed by the bank)?
   - ☐ Yes
   - ☐ No

Section 2: Governance

Roles and responsibilities

9. Who has ultimate ownership/oversight of sustainability issues within the bank (e.g. Chairman, CEO, Corporate Responsibility Committee)?

10. Who is responsible for approving the bank's sustainability policies, and how often are these reviewed and updated?

11. Are the ratings and remuneration of directors/senior management linked to performance with regards to sustainability? If so, how?

12. Does the bank have a dedicated team, or teams, responsible for assessing potential E&S risk of lending activities? If yes, how many employees work in this team?

- ☐ Yes - specify number of employees:
- ☐ No

13. Does the bank have formal escalation procedures for reviewing and approving E&S risk of potential clients and/or transactions? If so, please describe these procedures. For example, is the approval authority centralised, or is it regional/divisional?

14. Do non-E&S risk specialists (e.g. client relationship managers/ front office staff) have responsibility for assessing the E&S risk of clients and/or transactions? If so, please describe.

Section 3: Procedures and tools

Implementation

15. Please describe the bank's due diligence process for assessing E&S risk in lending activities. In particular:

a) Does the bank use screening criteria (e.g. exclusion lists, "no go" countries, client blacklists) to identify activities it will not finance? If so, please describe these criteria.

b) Does your bank have discrete E&S risk management procedures for client acceptance versus transaction approval?

- ☐ Yes
- ☐ No

c) At what point during the bank's client on-boarding or transaction review process is E&S due diligence conducted?

d) Any other details:

16. In addition to the IFC Performance Standards, does your institution incorporate any other sustainability-related standards or norms into its client and/or transaction E&S assessment criteria (e.g. International Hydropower Association Sustainability Guidelines for hydropower transactions)? If so, please specify.

- ☐ Yes - please specify which standards/norms are applied and how:
- ☐ No

17. Which sources of information does your institution use when undertaking E&S due diligence:

- ☐ Information provided directly by clients
- ☐ Existing knowledge of bank staff about clients
- ☐ External third party due diligence providers
- ☐ E&S rating agencies e.g. MSCI
- ☐ Governmental agencies e.g. banking regulators, environmental protection agencies
- ☐ Internet searches e.g. client's website, information released by NGOs, media
- ☐ External assessment tools
- ☐ Other - please specify:

18. Beyond EP requirements to categorise project finance transactions (as A, B or C), does the bank use E&S information to categorise risk associated with potential clients and/or transactions?

- ☐ Yes - please explain categorisation process:

- ☐ No categorisation beyond EP requirements

19. How is information obtained from the E&S due diligence process integrated into the bank's overall client and/or transaction acceptance processes? For example, do all new clients/transactions require approval from an E&S risk perspective before being accepted, or does this only to certain sectors or types of clients/transactions? Could a client or transaction be declined based on E&S issues alone?

Risk mitigation

20.When E&S risks have been identified, what risk mitigation measures does the bank apply?

- ☐ Require client to develop and implement an E&S management plan and/or action plan (as described in IFC Performance Standard 1)
- ☐ Change debt/equity ratio of the transaction
- ☐ Integrate covenants linked to compliance/performance on E&S issues
- ☐ Require client to obtain insurance to cover identified risks e.g. to cover environmental liabilities and employee health & safety
- ☐ Require client to obtain third party assurance over E&S performance
- ☐ Use offsets to mitigate environmental impacts e.g. carbon offsets, biodiversity impacts
- ☐ Other - please specify:

21. Results of E&S due diligence are factored into decision-making by your institution in relation to:

- ☐ Loan pricing
- ☐ Calculation of transaction credit risk
- ☐ Calculation of client credit rating
- ☐ Asset classification, loss provisioning, and/or bad debt write-off
- ☐ Portfolio analysis and management/capital allocation
- ☐ Other - please specify:

Good practice case studies

22. One of the objectives of this survey is to identify case studies of good practice. For this purpose, could you please provide an example where :

(a) A client/transaction was rejected by the bank due to the associated E&S risks. Please explain the rationale behind this decision and indicate whether there have been any long-term impacts on the bank's reputation or its client relationships.

(b) The bank was able to help improve the E&S performance of a client and/or transaction through its involvement (e.g. by engaging clients on how to improve its policies or systems).

Section 4: Monitoring, reporting, and assurance

23. Does your institution record whether transactions/clients are approved or declined on the basis of E&S issues?

- ☐ Yes
- ☐ No

24. Once a client or transaction has been approved, how do you monitor the E&S performance against covenants agreed in loan documentation?

25. Beyond the basic reporting requirements of EP Principle 10, what additional KPIs/metrics do you capture? Are these metrics reported externally or only for internal management?

26. Does your institution’s internal audit team review the bank’s E&S risk management performance/systems? If yes, can you share key issues/challenges identified by internal audit? If not, why not?

27. Does your institution obtain external assurance on the bank’s E&S risk management performance/systems? If so, are the results of the assurance disclosed publicly? If not, why not? Are there currently any plans to obtain external assurance in future?

Section 5: Capacity building

28. What type of capacity building activities does your institution undertake with regards to E&S risk management:

- ☐ Training to staff in specialist sustainable lending team only
- ☐ Training to all staff
- ☐ Classroom-based training
- ☐ Online/remote training
- ☐ Annual/regular training
- ☐ One-off training
- ☐ Training led internally
- ☐ Training led by external provider

29. What has been most successful in building capacity in the bank? What challenges or resistance has the bank faced?

Section 6: Sustainable financial products

30. Which sustainable finance products/services does the bank offer?

- ☐ Financing of clean-tech/renewables/energy efficiency
- ☐ Carbon sales, trading, and origination
- ☐ Environmental infrastructure funds
- ☐ Environmentally and/or socially responsible investment (e.g. responsible investment funds, sustainability indices)
- ☐ Social finance (such as microfinance, SME financing, rural
- ☐ lending, impact investments)
- ☐ Environmental insurance
- ☐ Advisory services in relation to sustainable finance products/services
- ☐ Other - please specify:

31 Are such products offered to meet regulatory requirements, or are they offered voluntary?

- ☐ To meet regulatory requirements
- ☐ Voluntary

32 What measures has the bank undertaken to promote research and development and business growth of sustainable finance products/services? Please provide details where possible.

- ☐ Public financial commitments (e.g. commitment to certain amount of financing on clean energy products/services) - please provide details/examples:

- ☐ Targets for business units - please provide details/examples:

- ☐ Integration into employee balanced scorecard - please provide details/examples:

- ☐ Other - please provide details/examples:

Appendix 2: Summary of the International EPFIs Environmental and Social Risk Management Measures

Strategy and policy framework

The most ambitious lending strategies are characterised by recognition that E&S risk management is equally about value enhancement and maximising opportunities rather than just managing risk issues. The strategy of leading EPFIs is characterised by a real belief that E&S issues can affect the financial performance of their clients and it is not simply a hygiene issue.

The leading EPFIs have signed up to a number of internationally-recognised E&S standards as well as regional industry-specific initiatives (e.g. the Carbon Principles and Mountaintop Removal Mining guidelines). They are also part of leading industry initiatives such as the UNEP Finance Initiative Working Groups which share industry best practice.

Leading EPFIs have also established an overarching E&S risk management policy. This policy is fully integrated into the wider credit risk management guidelines and procedures to help manage and mitigate E&S and reputational risks. In addition, there is a comprehensive list of relevant sector/issue policies where the EPFIs are involved in financing investments in socially and environmentally sensitive sectors. These policies refer to internationally-recognised standards such as the IFC Performance Standards and EHS Guidelines but also sector- and industry-specific standards and good practice guidelines.

Organization and Management

Commitment to sustainability from the highest levels of authority at the banks (i.e. the Board of Directors) is vital to successful implementation of E&S risk management. In our experience, this is true across all industries, not just financial services. Board-level accountability demonstrates to both internal and external stakeholders that the bank takes sustainability seriously, and ensures that sufficient attention and resource is directed at managing E&S issues.

EPFIs need dedicated E&S Risk Teams with the right experience and expertise to conduct E&S due diligence and undertake E&S risk management. This is particularly important for international EPFIs that finance a range of different sectors and transaction types. EPFIs will also often engage external specialist consultants to review particularly high risk transactions.

E&S Risk Teams are not able to review every potential new client or transaction. EPFIs therefore all rely on front office to identify which transactions/clients pose higher E&S risk and to escalate these for further review. Engagement between front office and E&S Risk Teams is therefore critical to the E&S risk management process.

E&S Champions (i.e. individuals with some E&S expertise that sit within business teams) can act as an extra ‘line of defence’ between front office and the E&S Risk Teams. By deciding which transactions should be escalated, E&S Champions help to ensure that E&S Risk Teams can focus their efforts only on transactions that present significant E&S risk. E&S Champions can also help to ‘embed’ E&S risk management among front office teams by raising awareness of relevant issues. Having E&S Champions does require identifying appropriate individuals within business teams and providing them with sufficient E&S training i.e. a bank needs to be willing and able to invest time and resource into the role.

Procedures and Tools

Generally, we find that E&S risk management processes are most effective when integrated into the bank’s standard credit approval processes. This helps to ensure that E&S considerations are embedded into the bank’s due diligence procedures. It is also important that E&S issues are considered at an early stage in the credit approval process (e.g. at preliminary screening or client on-boarding stages) so that the necessary E&S due diligence is conducted. This will help to avoid transactions being delayed and also ensure E&S issues are integrated into project action/ management plans.

In our experience, it is good practice for banks to assess the E&S risk of a client, as well as the E&S risk specific to the transaction. The ‘commitment, capacity, track record’ approach outlined above is used by industry leaders, and recognises the importance of good E&S risk management within a client in managing project level risks.
When faced with a potential transaction or client that is not fully compliant with E&S policies, banks with more developed E&S risk management approaches will typically try to engage with the client to develop a credible plan towards compliance, rather than declining or exiting the transaction immediately. However, where the client does not demonstrate sufficient improvement, exiting the relationship may be used as a last resort.

In our experience, it is important for banks to actively engage their clients on E&S issues to help clients understand that the E&S due diligence process is about credit enhancement rather than just compliance or risk management. When clients understand this, they often welcome EPFIs’ expertise and advice on managing E&S issues (e.g. developing sound E&S management systems and action plans). The importance of engaging with clients on E&S issues was specifically raised by a few EPFIs (including Mizuho, Itau BBA, and JPMorgan) during our interview process.

Currently, even leaders in E&S risk management are still in the early stages of integrating E&S due diligence information into pricing and capital allocation decisions. However, this is an area that EPFIs may naturally move into in the medium term as they develop a better understanding of the impacts of E&S issues on financial performance and as regulators begin to require banks to assess such risks.

Monitoring, reporting and assurance

The Equator Principles set out standard guidance and requirements for incorporating E&S-related covenants into loan documentation and for monitoring the E&S performance of project finance transactions throughout the life of the loan. However, the EP requirements currently only apply to project finance transactions. Therefore, in our experience, while EPFIs apply a consistent approach to integrating E&S covenants and monitoring E&S performance for project finance, their approach varies much more for non-project finance transactions. This becomes particularly complicated where multiple banks are involved in a transaction (e.g. syndicated loans), or for capital markets transactions. Often in these latter cases, E&S covenants only require the client to comply with minimum legal standards, rather than apply international standards.

Most of the EPFIs surveyed (as well as many other international banks) produce annual sustainability or corporate social responsibility reports. Often these can be quite detailed (over a hundred pages in some cases), with information and case studies reporting on the bank's philanthropic and volunteering activities, operational footprint, and sustainable financial products and services. However, there tends to be less transparency around the bank's E&S risk management policies and activities.

While many EPFIs have integrated E&S due diligence auditing into their standard credit monitoring process, an increase in stakeholder pressure is driving the need for increased transparency and reporting. Some EPFIs are responding to this by starting to going beyond standard Equator Principles reporting requirements and disclosing metrics around the effective application and implementation of their E&S policies. Moreover, leading EPFIs are beginning to obtain external assurance in order to give their stakeholders confidence about the quality of this information.

Capacity building

Our experience of working with leading EPFIs has highlighted that, whilst formal training programmes are important, often the most successful method of capacity building is when E&S Risk Teams constructively engage with business teams on live transactions to understand and manage E&S issues.

In terms of formal E&S training for business teams/front office staff, in our experience, the key areas that participants often find most insightful include:

- An overview of emerging E&S "mega trends" (such as climate change, resource scarcity, and food/water security), as well as an analysis of how these issues affect businesses and the banks that finance them;
- Guidance around the pitfalls and challenges of completing E&S assessments; and
- Real life example of transactions (including details of what remediation actions were taken to manage E&S transactions) and working through practical exercises such as case studies.

In our experience, banks can sometimes find it difficult to devote time and resources for standalone E&S training for staff outside of the E&S Risk Team. Therefore, often E&S training will be integrated into other formal training e.g. as part of standard graduate induction programmes or senior management leadership training.

Another challenge that banks face when providing E&S training is how to train a large number of staff in many different locations. One solution to this is to provide online training (or "e-learning"). Several international banks have started to use e-learning for E&S training, mostly to provide high-level knowledge rather than detailed technical training. However, we are aware of at least one multi-lateral development bank that has recently launched technical e-learning for its staff.

Other challenges cited by some EPFIs with respect to capacity building include:

- Limitations in the E&S Risk Teams' time/resources to engage with colleagues on E&S issues in transactions; and
- Lack of knowledge/understanding by business teams of the importance of E&S risks.

Sustainable Financial Products

Sustainable financial products and services present a real business opportunity for banks (e.g. in renewable energy, clean technology, etc). For example, the low carbon energy market is forecast to reach US$2.2 trillion by 2020[8]. The climate bond market alone is reportedly worth US$174 billion[9].

The Chinese market has already benefited from significant growth in these sectors. According to International Energy Agency, China will be the world's largest energy consumer by 2035.[10] In 2011, China was responsible for almost a fifth of the total investment volume, spending $52 billion on renewable energy[11]. In the same year, China also hosted its 2nd China Low Carbon Economy Forum. This forum aims to study and forecast the developing trend for Chinese and global low carbon cities and low carbon economy, with a view to setting up a platform for the low carbon industry to be more effectively connected with financial capital, to share experiences, and to seize important investment opportunities. The growth in demand for renewable energy is set to continue as this form of energy begins to represent a significant and rapidly growing share of total energy supply.

Investing and lending to 'sustainable' sectors can also be a method of hedging a bank's exposure to more carbon-intensive investments/clients. Moreover, providing sustainable financial products and services demonstrates a bank's commitment to sustainability, and is a way to raise the bank's profile in this area and improve the bank's reputation as a 'green' or 'responsible' institution.

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8. Sizing the Climate Economy, HSBC (2010)
9. Bonds and Climate Change: The State of the Market 2012, HSBC (2012)
10. IEA World Energy Outlook (2011)
11. UNEP Global Trends in Renewable Energy Investment (2012)

Key messages

The EPFIs surveyed in our study demonstrate many examples of leadership and innovation in managing E&S risk of their lending activities. Adopting and implementing the Equator Principles, although an important part of a bank's approach to E&S risk management, is limited in that it only addresses project finance, which often accounts for less than 5% of an EPFI's assets. EPFIs, and other banks, have therefore put in place sector and/or issue-based E&S policies and procedures that cover non-project finance portfolios, such as corporate loans, debt/equity capital markets, and trade finance. Some have also extended their E&S risk management processes to include client and portfolio level assessments. For leaders, E&S risk management is not a "box-ticking" compliance exercise, but is instead focussed on enhancing credit quality and creating value for the client through making more informed decisions.

Another key message relayed by a number of EPFIs is how critical good engagement is to successful implementation of E&S policies and procedures. E&S Risk Teams should actively engage with front office and other business units to help build awareness and capacity in the bank to identify E&S risks and opportunities. Training, particularly workshops using practical case studies, is very effective in building capacity within front office teams. This needs to be supplemented with day to day deal experience, online information/training resources and easy to use assessment tools. In our experience, a solutions-centred approach that equips front office staff with ways to help their clients improve E&S performance builds confidence and relationships; a compliance-based approach creates barriers and mistrust. Banks should also actively engage their clients to demonstrate how improved E&S performance can add value. Often, the EPFIs have found that clients welcome their advice and expertise in managing E&S issues, particularly if it aligns to interaction with other stakeholders, such as investors, regulators, industry associations, and NGOs.

Looking forward

The Equator Principles themselves are set to change in the near future, following their strategic review in 2010-11 and the redrafting of the Principles, expected to be released in 2012 (so called "EP III"). In addition to incorporating the new IFC Performance Standards released in August 2011 (in particular the requirements to obtain free, informed, prior consent of indigenous peoples), EP III will likely include a broadened scope of financial transactions and new guidance on reporting requirements.

Beyond the Equator Principles, EPFIs are continually evolving their E&S risk management practices in order to adapt to changes in industry and financial markets. For example, current topical E&S issues for banks that have received considerable media and NGO attention are shale gas extraction (in particular, concerns around hydraulic fracturing), oil sands extraction, and exploitation of natural resources in developing countries, particularly in Africa. EPFIs are investing time and resources to engage with internal and external stakeholders in order to understand these emerging issues and develop suitable approaches for financing transactions in these sectors.

EPFIs are also increasingly starting to consider how E&S information can be further integrated into their banks' operational and strategic decision-making processes. A few leading banks interviewed in our survey are already factoring E&S performance into credit ratings and loan pricing, although this is far from the market norm given the perceived immateriality of E&S risks on wider capital management and pricing decisions. We anticipate that the trend will continue in this direction as the E&S issues continue to grow in importance on a global scale. Ratings agencies are developing their own models and methodologies to assess E&S risks and incorporate them into ratings, particularly for higher risk sectors. Thus, together with bodies such as the Carbon Disclosure Project and Dow Jones Sustainability Index, and some stock exchanges, the rating agencies are pushing for greater levels of disclosure by companies of E&S performance and how they affect corporate strategy and value. In turn, this is enabling EPFIs to more readily identify and manage E&S risks in their portfolios.

Finally, and although at an early stage, financial regulators are beginning to understand the materiality of E&S risks, both as potential sources of credit or even systematic risk, and in the context of a wider debate on rebuilding trust and reputation.

Appendix 3: International EPFIs Environmental and Social Risk Management Case Study

Case study – Citi

Assessing lending for aluminium smelting in India

In 2011, Citi structured a project finance deal for a $1 billion greenfield development of an aluminium smelter in India, including related infrastructure. The project required the acquisition of 1,500 hectares, the resettlement of 1,400 families, and impacts to native forests.

Citi's E&S Risk Management Unit determined this was a Category A project subject to the Equator Principles, and required a robust Independent Review of the project's environmental and social impacts by a qualified firm acceptable to Citi against IFC Performance Standards and relevant IFC Environmental, Health and Safety Guidelines.

The client was very open and responsive — and was willing to answer any questions the consultant had. Resettlement and land acquisition were largely on track, and no scheduled tribes were affected. Any gaps identified with IFC standards were addressed through the project's Environmental and Social Action Plan, and agreed on by the client.

For example, the Independent Review identified the need for further consideration of the replacement value given to resettled families under the existing project resettlement policy. The project was required to provide additional benefits to resettled families to fill gaps between Indian laws and IFC standards, and to report regularly to lenders on continued progress with resettlement and compensation.

Source: Citi Corporate Responsibility Report 2011

Case study – ING

Applying the Equator Principles to an oil pipeline expansion

Kazakhstan China Pipeline (KCP) owns and operates a pipeline that transports crude oil from Kazakhstan to China. By extending the pipeline by 980 kilometres into the Caspian oil field, the transport capacity could almost be doubled from its original 200,000 barrels a day.

Based on ING's experience in the structured finance of oil and gas projects, it was appointed to help arrange the USD 1.18 billion needed to finance the new section. The deal attracted several prominent Chinese banks.

KCP is jointly owned by China National Petroleum Corporation (CNPC) and KazMunaiGaz, the Kazakh national oil and gas company. Most of the parties involved in the deal had limited experience with the application of the Equator Principles that ING had adopted in 2003. This set of 10 principles is a financial industry benchmark for determining, assessing and managing social and environmental risks.

Using performance standards and guidelines defined by the International Finance Corporation, the Equator Principles are applicable to significant project financings. All such projects are evaluated against the Equator Principles' criteria before they can proceed.

The KCP project was audited by a third-party environmental consultant and, based on their findings, the borrower and ING agreed a process by which the project would comply with relevant material environmental and social standards.

The process of applying the Equator Principles in this case helped raise the environmental and social standards of the borrower and the project. Furthermore, ING was able to share its expertise on the Equator Principles with CNPC and all the participating Chinese banks.

Source: ING Corporate Responsibility Report 2010

Case study – Itau BBA

Applying the Equator Principles in the mining sector

Itaú BBA assessed a project finance transaction in the mining sector categorised as a high socio- environmental risk project due to its location in the savanna lands (Brazil's second most important in biodiversity). Because the project had faults in its environmental licensing process, Itaú BBA proposed the following conditions for financing it:

(i) The conducting of additional studies to identify impacts on the demand for infrastructural services in the communities surrounding the project;

(ii) The conducting of additional studies to identify the impacts on the regularity of downstream river flow; and

(iii) The adjustments of socio-environmental programs' budget.

All conditions were accepted by the client, namely:

(i) A Social Infrastructure Support Program was prepared and its implementation is being monitored under an Action Plan incorporated in the financing agreement;

(ii) A minimum downstream flow from the dam was guaranteed; and

(iii) The budget for implementation of the socio-environmental programs was expanded to include the new programs.

Source: Itau BBA questionnaire (see Appendix)

Case study – JPMorgan
Joint bookrunner for the IPO of a mining company operating in Africa

In 2011, JP Morgan acted as joint bookrunner for the IPO of a company with African assets. The environmental and social due diligence process identified labour, health and safety issues associated with the client's operations. These issues involved risks to employees' health and safety, including long working hours, and attracted media and government attention.

The stock exchange in question, recognizing the potential for these issues to affect the company's performance, specifically asked for JP Morgan's view on the suitability of the assets and company for listing, and its ability to operate according to international EHS standards. On that basis, JP Morgan actively engaged with the company to develop its capacity to operate in line with international EHS standards. This process involved Global Environmental and Social Risk Management Team (GESRM) visiting the relevant assets with an independent consultant to determine the actions needed to address the EHS issues.

The company has welcomed GESRM's support and in the prospectus has committed to implement the independent consultant's recommendations.

Source: JPMorgan Corporate Responsibility Report 2011

Case study – Mizuho
Indonesia's Tangguh LNG Project

Mizuho is currently financing a major LNG development project in Papua Barat, Indonesia together with several international financial institutions. As an Equator Principles adopting bank, Mizuho verified that the project is being conducted with appropriate consideration given to the natural environment and local communities.

A particular point of emphasis was protecting mangrove forests along the shoreline. Mangroves are important not only to protect biodiversity but also to support the local community which relied on mangroves to cultivate shrimp as a source of income. BP, the project operator, established a Biodiversity Action Plan to ensure protection of the mangroves e.g. by using cutting-edge construction methods to minimise impacts.

Another important point was ensuring that local communities shared the benefits of the project. The operators conducted a detailed assessment of local communities before embarking on the project. As a result of the assessment, an action plan for land acquisition and resident relocation was prepared and compensation was provided for building houses and infrastructure. In accordance with the intent of IFC standards calling for relocation compensation, the standard of living of residents has been improved above and beyond prior levels.

As a member of the banking syndicate financing the project, Mizuho continuously monitors implementation of action plans by the project operator. The bank visited the site for inspections from 2007 to 2011 annually, and reviewed semi-annual reports prepared by independent environmental consultants. Mizuho was also heavily involved in discussions with other financing institutions to establish a progressive and innovative framework for assessing and monitoring the project. This framework enabled the project to implement action plans for a natural and social environment from a comprehensive and long term perspective.

Source: http://www.mizuho-fg.co.jp/english/csr/mizuhocsr/calendar/2009/environment/lng.html (accessed 20 June 2012)

Appendix 4: Chinese Banking Financial Institutions Case Study on Implementing Green Credit Policies

(a) Many of the banks have vetoed client or trading credit requests due to E&S risks. Below are specific cases that the banks reported. They were asked to explain their reasons and criteria for vetoing the requests and whether this practice has had long-term impacts on their credibility and relations with clients.

- **ICBC**'s case: A nonferrous metal smelter in Fujian requested loans from ICBC for a nickel alloy project. During the review process, ICBC noticed that the provincial environmental protection bureau had completed the environmental impact assessment for the project, when according to relevant rules the State Environmental Protection Administration should have completed it. In approving the project, the provincial environmental protection bureau had acted beyond its authority. Since the project ultimately failed to meet ICBC's green credit requirements, the bank vetoed credit extension for the project. After the project was completed, it ended up causing severe pollution in the bay where it was located and the media also exposed that the provincial environmental protection bureau involved had acted beyond its authority.
- **ABC**'s case: A chemical company in Anhui requested a loan of 0.2 billion RMB to construct a project that would produce 0.5 million tons of ethylic acid per year. After investigation, ABC found that the ethylic acid market faced overcapacity and that the project also had environmental protection, work safety, industrial, market, and capital monitoring risks. For these reasons ABC rejected the credit request, which has not influenced the bank's reputation. ABC has continued to provide loans to other chemical companies and maintain good relationships with clients.
- **BOC**'s case: BOC suspended a credit request from a city chemical company due to E&S risks. BOC made this decision primarily because the chemical company had launched an ethylene project that the city's residents met with wide opposition. BOC was in the process of initiating the credit when it suspended the company's application for a credit line. The bank later learned that the project had been relocated due to environmental issues. In this case, as in many others, BOC gave up the opportunity to cooperate on a major project in order to adhere to its E&S risk principles. Despite the pressure that BOC's approval department faces in considering major business opportunities, it adheres strictly to its principles on E&S risks, which the bank regards as important in the long run.
- **CCB**'s case: In August 2011, one CCB's branches applied to CCB's headquarters to extend a credit line of 4.2 billion RMB to a nonferrous minerals group for two years. On September 17 major media outlets in China reported that a court ruled that the minerals group and its two subsidiaries had to pay 80,000 RMB compensation to families of victims in a major pollution incident totaling to 1.52 million RMB. After examining the situation in a credit approval meeting at its headquarters, CCB found that the nonferrous minerals group had expanded investment rapidly in recent years, causing a significant amount of investment risks to build up. CCB also found that the group had numerous member enterprises and a complex internal structure, which would make it even more difficult for CCB to control credit risks. In addition, it turned out that the group had experienced successive scandals in the preceding two years and that its subsidiaries frequently had major accidents with widespread, negative impacts. Furthermore, lawsuits over compensation for the accidents had also yet to be concluded because obligations and compensation amounts had still not been finalized. For all of these reasons, CCB ultimately decided to take a prudent approach to controlling credit extension to the group and provided the branch that originally applied for the credit extension with a credit line of 1.9385 billion RMB, keeping the client's loan balance essentially unchanged.
- **BoCom**'s case: One of BoCom's branches in eastern China had a client called CS Cement Company. The amount of energy the company's production lines consumed exceeded 150 kg of standard coal per ton, which was significantly higher than the amount permitted by MIIT in Guiding Opinions on Energy Saving and Emission Reduction in the Cement Industry, 114 kg of standard coal per ton. Since the client did not have any plans to upgrade the equipment or reduce energy consumption, it failed to meet BoCom's E&S risk standards and BoCom's branch placed the company on a list of clients required to reduce and exit their loans. BoCom also demanded for the process to be completed by the end of 2011. Although this resulted in the loss of a client, BoCom improved its credit structure and was able to shift in the direction of its growth model. BoCom expects the benefits of this decision to outweigh the losses in the long run.
- **CMB**'s case: In June of 2009, MEP suspended its review of a large power generation group's hydropower station. This power generation group was one of CMB's clients. The bank halted the extension of additional credit lines to the company and this decision did not affect CMB's credibility. The client expressed full understanding.
- **SPD Bank**'s case: SPD rejected a credit request from an energy and chemical company in Shaanxi due to two main reasons related to E&S risks. First, at that time the industry was facing overcapacity. The domestic supply of methanol exceeded demand and the capacity utilization rate was low. There had also been a gradual release of new and existing methanol capacity. In addition, the low cost of importing methanol was adding to the growth of domestic methanol supply. The oversupply of downstream products such as formaldehyde, dimethyl ether and ethylic acid was also expected to decrease demand for methanol. Second, the methanol project would have produced high levels of pollution and consumed a significant amount of energy, when energy conversion efficiency was already low throughout the industry chain due to limited technology. The amount of energy consumed and CO_2 emitted was also more than ten times the national average. Methanol production also consumes a significant amount of water,

which makes it difficult to balance regional water resources and strengthen ecological protection.

- **Industrial Bank**' s case: Industrial Bank internally approved 22 million RMB of credit to a stone company that was primarily engaged in stone mining, processing and selling. After distributing the loan, the bank investigated E&S risks and found that the stone company' s mining and processing negatively impacted the environment as well as local residents. In order to manage E&S risks, Industrial Bank put the client into a different credit category and launched a plan to address the issues. The bank' s loan balance was 12 million RMB on September 30, 2011. After negotiating with client, Industrial Bank curtailed the remaining credit and received the loan in 2011. The stone company showed understanding and took a series of actions to address its potential E&S risks. Industrial Bank' s decision not only helped the stone company deal with its E&S risks, but also helped the bank manage potential risks to its reputation.

(b) How have the banks helped clients improve their E&S performances? For example, have they provided clients with guidance on how to improve particular policies or systems?

- **ICBC** has actively provided support to a fertilizer company in Shandong so that the company can complete a project to upgrade energy-saving technologies in its ammonia synthesis system. The project can save 217,800 tons of standard coal, recycle 38,500 tons of liquefied methane gas and reduce the company' s total emissions of SO2 and CO2. Using 900 RMB per ton as the approximate current price of standard coal, after completion the project will lower the borrower' s annual costs by nearly 200 million RMB.
- **ABC**' case: In 2012 ABC supported a nonferrous metals group' s zinc smelting and comprehensive resource utilization project. Through the utilization of advanced production technology, the group built a new zinc smelting system with a productivity of 0.11 million tons per year, transformed an old zinc smelting system with a productivity of 0.10 million tons per year and built a new hydrometallurgical zinc slag production system with a productivity of 0.20 million tons per year. The project loan was granted through a syndicate loan and ABC took a 50% share. Once construction has been completed, the project will be able to recycle lead zinc, silver and gas to meet emission standards.
- **BoCom**' s case: BoCom participated in a syndicated loan in 2010 to support a clean energy wind farm project of OLJ, a new energy development company. Based on the designed annual output, carbon equivalent could be reduced by 110,000 tons per year. The company was also eligible to apply for high CDM subsidies. In the end the company took advice from the syndicate to apply for approval, which it successfully obtained. The project won international recognition for its E&S benefits and generated enough income from CDM for the company to repay the loan. The project also consolidated BoCom' s credit safety, producing a win-win situation for both BoCom and the company.
- **CMB**' s case: CMB supported South Cement Company in building a unit of a 9 MW low-temperature waste heat power generation system on a 5,000 T/D new dry process cement production line by using the waste gas and residual heat from the cooling machine and preheater of the kiln. The total investment was 54 million RMB, 40 million RMB of which came from CMB. CMB extended the loan at an interest rate 5% lower than the benchmark as a preferential policy. At that time, CMB regularly provided CDM financial advisory services during the loan period. After the project became operable, annual power generation reached around 70 million degrees, saving electricity costs by more than 40 million RMB (based on the local industrial electricity cost of 0.61 RMB per degree) and reducing energy consumption by about 21,500 tons of standard coal (based on the average coal consumption rate of 349.22 g/kWh) and decreasing CO2 greenhouse gas emissions by about 47,300 tons (compared to the amount of CO2 emissions coal-fired furnaces with the same power generation capacity produce). The deal produced benefits for society as well as good financial returns for the company, contributing to the development of a circular economy.
- **SPD Bank**'s cases: In one case, SPD Bank granted loans of 1.8 billion RMB to a 10 kw offshore wind power project, one of the first offshore wind power projects in China and the first international carbon assets pledged financing business in China. The project could reduce coal consumption by 0.1 million tons and CO2 emissions by 0.2 million tons. In another case in 2010, SPD Bank extended an IFC energy efficiency loan worth 50 million RMB to the XX cement company of Liaoyang. The company planned to build a 9 MW power generation project by using residual heat for a 4,000 T/D clinker cement new dry process production line, saving 1,764 tons of standard coal and 4,656 tons of CO2 per year.
- **Industrial Bank**' s case: Industrial Bank had an airport reconstruction project credit case in which it evaluated potential E&S risks according to the requirements of the EPs, government environmental policies and the Airport Environment, Health and Safety Guidelines. Industrial Bank provided solutions for a number of potential risks including noise control, land acquisition and resettlement compensation, and protection of residents' health and safety. To minimize client E&S risks, Industrial Bank has formulated 14 specific rules such as for environmental protection, special equipment management, construction safety, water and soil conservation, induction training for staff and an internal reporting system.
- **Bank of Beijing**' s case: Bank of Beijing supported a project belonging to a technology company that would increase the energy efficiency of Tsinghua University's heating system. The contract has been carried out in the form of EMC where benefits from energy savings will be shared according to the ratios prescribed in the contract. The project, which is estimated to save 21% to 29% of energy and 30% to 40% of electricity, will substantially reduce pollutant discharges and energy consumption from heating sources. By using mature energy-saving technologies, the company can reduce energy consumption per unit area by 20% in campus buildings and save 12.1 million RMB annually. Total investment amounts to 48.6 million RMB. Bank of Beijing has extended a three-year loan of 34 million RMB to the project.

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RECYCLED

1980

WWF has been the first conservation organisation invited to work in China, in 1980.

1961

WWF was founded in 1961.

10

WWF China is headquartered in Beijing and has 9 field offices across the country.

+100

WWF is the world's largest independent conservation organisation with a global network in over 100 countries.

Why we are here.

To stop the degradation of the planet's natural environment and to build a future in which humans live in harmony with nature.

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CHINA

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