

GREEN CREDIT FOOTPRINT OF CHINESE BANKS (2008-2012)

EXECUTIVE SUMMARY



A RESEARCH PAPER BY

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INTRODUCTION

The destruction of the environment is worsening with the energy-intensive development model of modern society reaching a global scale. As a result, modern development has been exceeding the limit of the earth's carrying capacity and the environment is at the edge of collapse.

Banks have become increasingly relevant in respect to their environmental and social responsibility and their capacity of steering economic activities through their credit policies. Under the pressure of the public, NGOs and the government, banks have become aware that their profits may be affected by socially and environmentally irresponsible investments. This pressure has been increasing as people begin to realize that they depend on banks to maximize their personal gain out of savings and interest but they are also concerned whether these maximized gains are acquired at the expense of other people, the society and the environment. Thus, banks have begun to explore new concepts and methods beyond the traditional business management models to avoid such losses to occur.

The key is for banks to explore and discover their potential for creating environmentally and socially responsible business practices and to develop green products and services in order to achieve financial leverage in the regulation of economic activities and lead sustainable development. The combination of these is known as 'green finance' or 'sustainable finance'.

The essence of green finance is to change banks' past corporate philosophy of simple pursuit of profit as the main objective and to use banks' 'powerful' role of controlling capital flows to achieve a positive relation between economic growth and environmental and social sustainability. This is a revolution in the making. However, it is very difficult for banks to reform themselves. At the same time, regulations of the government and public oversight have become necessary measures to make banks accountable to their environmental responsibility.

Since 2007, when China's State Environmental Protection Agency (SEPA), the People's Bank of China and the China Banking Regulatory Commission (CBRC) jointly issued their *Comments on the implementation of environmental policies and regulations to prevent credit risks*, also known as *China Green Credit Policy*, the pressure on the policy level made Chinese banking sector acknowledge its environmental responsibility.

In 2010, a series of policies regulations and guidelines designed to promote the development of green finance was unveiled. In April, the National Development and Reform Commission (NDRC), the People's Bank of China (PBC), the China Banking Regulatory Commission (CBRC) and the China Securities Regulatory Commission (CSRC) issued a *Notice on investment and financing policies and measures to support the development of a circular Economy*; in May, the PBC and CBRC issued their *Notice on the further improvement of support for energy*

conservation and emission reduction industries and the elimination of the lack of capacity in financial services; in June, CBRC published its Guidelines on country-specific risk management of banking and of financial institutions; finally in July, the Ministry of Environmental Protection of China (MEPC) published the Notice on a further strict verification of the environmental protection management system to strengthen the environmental supervision of listed companies.

December 2012 CBRC issued the *Green Credit Directives*, which are elaborating approaches and procedures of green credit. These documents further improved China's green credit policy system and show the government's determination to increase the support for, and supervision over the development of green finance.

Since 2008, Chinese environmental organizations have started to monitor Chinese banks' implementation of green credit. On the one hand, they have been carrying out systematic indicator-based monitoring and recording as well as annual assessments of banks' green credit performance. On the other, in response to China's frequent occurrence of major environmental hazard in recent years, they have been disclosing the banks' violations of the green credit policy and credit verification rules.

In addition, they have established contacts and maintain an active dialogue with enterprises. They show support for extensions of green credit that will benefit a wider range of low-carbon and environmentally friendly 'green' enterprises. They as well publicly expose the financial support to high-pollution and high-energy-consumption enterprises. They urge the banks involved to withdraw or cancel dodgy loans in order to effectively constrain the environmental violation of enterprises and to create a stronger pressure and incentive for them to 'go green'. The present report is an example of Chinese civil society's efforts to promote and monitor the implementation of environmental policies and measures which are governing China's banking sector.

Green Credit Footprints of Chinese Banks is a research report of Green Watershed based on its five years' tracking and monitoring of Chinese listed banks on their implementation of environmental responsible banking.

THIS REPORT IS AIMING AT:

- Recording and assessing banks' environmental performance, therefore using a set of index systems and evaluation methods;
- Providing banks with third party perspectives for their self-evaluation;
- Providing a reference for the government regulatory agencies' decision-making;
- Providing information for the public to understand green credit and to know about banks' environmental performance, and using the civil society's 'supervision' power to promote the development of green finance in China.

CHOICE OF INDICATORS:

The indicators used in this report are based on the indicators used in our previous annual reports Environmental Report on Chinese Banks (2009, 2010, and 2011), and also on the best practices of banking sectors.

Indicator 1: General Framework

Particular attention has been paid to the banks' general framework of green credit. This indicator assesses the banks' overarching institutional design to promote green credit and primarily works to guide their green credit efforts, looking at:

1. whether banks have issued comprehensive regulations and have set a regulation framework in place,
2. whether banks have established a clear guiding ethic, primary principles, development strategy, and mid- and long- term planning of green credit institutional development,
3. whether banks have adopted international binding regulations, and
4. whether banks have declared to adopt and implement international environmental principles and standards.

Indicator 2: strategy and policy

This indicator assesses whether the banks have developed a relevant strategy and policies to implement a green credit policy. First, a responsibility system has to be established with instructions and requirements for the banks' management. It has to specify the internal organizational chart: who within staff is in charge of green credit, and it has to establish an internal monitoring, evaluation and performance system.

Second, the banks are evaluated in terms of their supporting policies to implement green credit. This report evaluates:

1. whether banks have guidance, norms, regulations, standards and implementing measures at a policy level and whether those policies and systems have been carried out in practice;
2. whether banks have specific policies in place targeting certain key sectors;
3. whether banks have a policy to define and select environmentally-friendly sectors and projects and have incentives to encourage and stimulate loans in those fields; and
4. whether banks have policies to withdraw from "high pollution, high energy-consumption, and sectors in excess of capacity.

Indicator 3: Implementation measures

This indicator assesses whether the banks have implementation systems and regulations that safeguard the green credit policy in practice. This will be assessed by looking at:

1. (client categorization and management: whether the banks differentiate in the management between clients that cause different degrees of environmental risk;
2. pre-credit, credit and post-credit management: whether the banks have established and strengthened a complete and detailed implementation system for all the three stages of credit activities and whether the system has been carried out appropriately ;
3. real-time guidance: whether the banks have been monitoring investments during their realization and whether they deliver timely and specific guidance when problems appear;
4. interaction and cooperation with other actors: whether the banks have been, by way of information sharing and joint action, cooperating with banking regulatory agencies, state macro-economy supervisory agencies and other social entities, in order to promote interaction and upward harmonization between green credits and broader strategic development;
5. internal environmental protection: whether the banks have been implementing green credit ethics for their internal management, including creating a green working environment, aiming at the realization of “green offices”, green credit education and training for their staff; and
6. creation of an environment in favor of green credit: whether the banks have been actively carrying out social activities to promote green credit ethics to the public, including public advocacy, outreach to industry peers and clients and communications with international stakeholders.

Indicator 4: withdrawal from high pollution, high energy-consumption industries and investment in environmentally friendly industries

This indicator assesses the amount of bank loans in environmentally friendly industries, in proportion to the total loan, and the amount of loans that have been withdrawn from environmentally unfriendly industries, including its proportion to the total loan.

Indicator 5: environmental information disclosure

This indicator assesses which principles banks are using to compile their CSR Report and whether independent third party verification is included in there, whether banks have established institutionalized procedures for information disclosure, and whether banks have

been disclosing information about high-profile projects that drew wide public attention. This indicator also assesses the quality of banks' regular information disclosure.

Indicator 6: public interaction

This indicator assesses banks' public disclosure and communications policies, including their receptiveness towards public opinions about environmental and social impacts of projects, banks' responsiveness to public criticism including the quality and effectiveness of response, and banks requirements for their clients to have a public disclosure and communications policy in place.

Indicator 7: risk management of overseas investment

This indicator assesses whether banks have integrated applicable international customs, principles and/or standards into their own policy, whether they have been fulfilling such commitment in practice accordingly, whether they have violated law and regulations of a host country, and whether they have caused damaging environmental and social impacts with their overseas investment.

Selection criteria of banks

This report is looking at Chinese listed banks. This selection has been made because first, listed banks own large capital. They are investing in many projects, where-in large amounts of money are involved and their investments are covering broad economic fields. They thus exert strong leverage for economic development and should bear the accompanying environmental responsibility.

Second, the laws and regulations that apply for listed banks comprise more and clearer legal obligations and responsibilities in terms of corporate governance, information disclosure and corporate social responsibilities than non-listed banks. Therefore they should accept more public scrutiny.

Third, the direct stakeholders in the business activities of listed banks present a complex mix of a large number of depositors, borrowers, ordinary investors and shareholders. State-owned listed banks as well deal with tax-payers money so their activities should be dedicated to the interests of the majority of taxpayers.

Finally, in comparison with other banks, the information disclosure process of listed banks is more comprehensive and incorporated. Because of limitations and constraints we faced, while conducting our research, it was more feasible to select listed banks as our study object at this stage.

In total, 16 banks are reviewed in the report, namely:

- Industrial and Commercial Bank of China,

- China Construction Bank, Bank of China,
- Agricultural Bank of China,
- Bank of Communications,
- China CITIC Bank,
- China Merchants Bank,
- Shanghai Pudong Development Bank,
- China Minsheng Bank,
- Industrial Bank,
- China Everbright Bank,
- Pingan Bank,
- Huaxia Bank,
- Bank of Beijing,
- Nanjing Bank
- Ningbo Bank.

Table 1 next page shows each bank's Tier 1 capital and its global and domestic ranking in 2013.

Table 1. Chinese listed banks' global and domestic rankings in terms of Tier 1 Capital

| Bank | Global Ranking | Domestic Ranking | Tier 1 Capital (\$m) |
|---|-----------------------|-------------------------|-----------------------------|
| Industrial and Commercial Bank of China | 1 | 1 | 160,646 |
| China Construction Bank | 5 | 2 | 137,600 |
| Bank of China | 9 | 3 | 121,504 |
| Agricultural Bank of China | 10 | 4 | 111,493 |
| Bank of Communications | 23 | 5 | 57,613 |
| China CITIC Bank | 47 | 6 | 31,171 |
| China Merchants Bank | 50 | 7 | 28,868 |
| Shanghai Pudong Development Bank | 53 | 8 | 27,141 |
| China Minsheng Bank | 54 | 9 | 26,099 |
| Industrial Bank | 55 | 10 | 26,016 |
| China Everbright Bank | 75 | 11 | 17,580 |
| Pingan Bank | 97 | 12 | 12,225 |
| Huaxia Bank | 102 | 13 | 11,362 |
| Bank of Beijing | 105 | 14 | 11,039 |
| Nanjing Bank | 238 | 22 | 3,614 |
| Ningbo Bank | 248 | 24 | 3,482 |

(Data source: <http://wenku.baidu.com/view/c1f2c92790c69ec3d5bb7574.html>)

INFORMATION SOURCES

This report's analysis and assessment is based on information from several sources:

- Information released by the banks, including CSR reports, annual reports and other related reports, as well as information on the banks' website. The contents of information, especially information and data related to the banks' internal operations and project-level data cannot be verified by us. For the majority of the banks' internal policies and measures mentioned in the reports, no specific texts could be found, thus, this report can only collect and quote data and policies which are published by the banks and it relays the responsibility for the authenticity and accuracy to the relevant banks.
- Financial regulatory agency website information
- Bank feedback to a questionnaire. In the process of writing our report, we issued a questionnaire to 16 banks, with the expectation to obtain more direct and complete information and perspectives on the issues covered in the report. Unfortunately, only a few banks replied to the questionnaire. We experienced difficulties tracking down comprehensive information about the banks that did not respond.
- Domestic and international media reports. We collected domestic and international media news coverage of the 16 banks' loans and investment behavior and environmental responsibility performance. However, the media rarely reports about banks' loans and investment on the project level, especially about the financial actors and support behind environmentally unfriendly projects'. Again, we cannot be responsible for the authenticity and accuracy of the reported information, but can provide a reference for the reader.

STRUCTURE OF THE REPORT

- **Introduction.** This section includes background and goals of this report, the evaluation indicator system, the rationale that is behind the selection of the banks evaluated, data sources, structure of the report and acknowledgements.
- **Chapter I International Principles and Standards and China's Green Credit Policy.** There are two parts in this chapter. The first part gives a brief description of important environmental and social principles and standards adopted by international commercial banks, including their main contents, history and updates; the second part provides an overview of the history and current development of China's green credit policy, and Green Credit Guidelines as issued by China's Banking Regulatory Commission (CBRC) in 2012.

- **Chapter II Green Credit Performance of China’s Banking Sector by Indicators.** This chapter is a horizontal comparison and assessment of the overall environmental performance with use of the selected indicators of 16 Chinese listed banks in the last 5 years (2008-2012).
- **Chapter III Green Credit Performance of China’s Banking Sector by Banks.** This chapter is a bank-by-bank evaluation of green credit footprints of the selected 16 banks in the last 5 years (2008-2012).

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CHAPTER I INTERNATIONAL PRINCIPLES AND STANDARDS AND CHINA'S GREEN CREDIT POLICY

INTERNATIONAL PRINCIPLES AND STANDARDS

We selected the following international principles and standards as reference, especially for our analysis of the banks' green credit performance under indicator 1. Due to the scope of this summary, here we only list the title of the principles and standards:

- Carbon Disclosure Project
- Carbon Principles
- Climate Principles
- Extractive Industries Transparency Initiative
- Global Reporting Initiative
- UN Global Compact
- UNEP Finance Initiative
- UNEP Principles for Responsible Investment
- Equator Principles

CHINA'S GREEN CREDIT POLICY

The Chinese government's concern for environmental problems can be traced back to the UN Conference on the Human Environment in Stockholm in 1972 and the subsequent (June 1973) First National Conference on Environmental Protection of China, but it was only in 1981 when the State Council Decision to Strengthen Environmental Protection Work During the Adjustment of the National Economy was released that the formulation of "the use of economic leverage to achieve environmental protection did appear.

In 1983, the Notice about the Regulations on Funding Sources for Environmental Protection mentioned eight channels of environmental protection, the majority of which were related to bank credit practices. The 1992 Ten Countermeasures to China's Environment and Development required 'all levels of government to make greater use of economic instruments for the purpose of achieving environmental protection'.

Subsequently, direct connects between credit and environmental protection policies have been introduced. In 1995, the former State Environmental Protection Administration (SEPA) issued the Notice on the Issue of Credit Policies to Promote Environmental Protection Work. The same year, the People's Bank of China issued the Notice on the Implementation of

Credit Policies and Strengthening of Environmental Protection Work. It explicitly required that at all levels financial institutions:

1. pay attention to the protection of natural resources and environment protection in their lending activity and take into account support for the protection of ecological resources and of pollution prevention during the review process of loan requests;
2. make it a mandatory loan condition that the environmental facility and the overall project have met the San Tongshi policy ('Three Synchronization Policy', also translated as 'Three Simultaneousness Policy') which requires that design, construction, and operation of environmental facilities be coordinated with the design, construction, and operation of the overall project;
3. do not lend to a project or an enterprise that does not comply with environmental requirements and provide active financial support to environmentally friendly industries and products.

However, the subsequent Commercial Bank Law and General Rules on Loans did not reflect those principles.

In 2004, the National Development and Reform Commission (NDRC), the People's Bank of China (PBC), and the China Banking Regulatory Commission (CBRC) jointly issued the Notice on further Strengthening the Industrial and Credit Policies and Inter-department Coordination to Control Credit Risk.

In December 2005, the State Council issued the Notice on the Decision to Implement the Scientific Concept of Development to Strengthen Environmental Protection, which urged all stakeholders involved to establish sound prices, taxes, credit, trade, land and government procurement policy systems conducive to environmental protection. Also, to cut loans to enterprises that do not comply with the national industrial policies and environmental standards, and to provide a strong support for the establishment of a sound credit system that is conducive to environmental protection.

In July 2007, SEPA, PBC and CBRC jointly issued the 'Opinions on the Implementation of Environmental Policies and Regulations to Prevent Credit Risks'. The document requires financial institutions to not give any form of credit support to projects that have not conducted an Environmental Impact Assessment (EIA) or have not passed an acceptance check of the Environmental Protection Facility. It also requires that financial institutions adopt different credit measures to projects of different categories, namely projects that are encouraged by the state, new projects that belong to categories that are restricted and must be phased out, and projects that are restricted but are allowed to be upgraded within a time limit, or projects that are phased out.

With respect to financial regulation, the document requires branches of the PBC to guide and supervise commercial banks' earnest implementation of the national industrial and environmental policies, and to include environmental information in a database about a company's credit record to avoid possible risks. This document further authorizes banking regulatory agencies to supervise if commercial banks comply with environmental law through credit approval review and it authorizes cooperation with environmental enforcement agencies to investigate non-performing loans caused by enterprises' environmental noncompliance.

This so-called China's Green Credit Policy also established an information-sharing mechanism between the environmental enforcement agency and the banking regulatory commission, which requires the former to share information about enterprises' environmental non-compliance, with local branches/offices of PBC, CBRC and financial institutions at the places, where the environmentally non-complying enterprise is registered or located. The latter institutions strengthen risk management based on such information, for when this enterprises' loan is reviewed. However, this information-sharing mechanism does not apply to credit information of non-complying enterprises.

After this document was enacted, the environmental protection departments in more than 20 provinces and cities, including Jiangsu, Zhejiang, Henan, Heilongjiang, Shaanxi, Shanxi, Qinghai, Shenzhen, Ningbo, Shenyang, Xi'an and the local banking regulatory agencies jointly publicized the implementation measures and rules. Furthermore, Beijing municipal government issued Views on the Promotion of the Development of the Financial Sector in the Capital City.

In addition to the Green Credit Policy, the CBRC issued the Notice on Prevention and Control of the Risks of Loans to High-Emission and High-Energy Consumption Industries (July 2007), followed by SEPA's Guide on Verification of Environmental Protection Measures of IPO or Reoffering Listed Companies (October 2007) and CBRC's Credit Guide for Energy-saving and Emission-Reduction (November 2007). The PBC together with CBRC and China Securities Regulatory Commission issued the Guidance on Improving Financial Services to Support Key Industries Development and to Suppress Excess of Capacity in Certain Industries (December 2009). Clearly, these policies are also important parts of China's green credit policy framework.

Moreover, SEPA's Notice on Regulating the Provision of Corporate Environmental Violation Information to a PBC Credit Reference Database (2008) and the Ministries of Environmental Protection of China and the PBC's Notice on the Full Implementation of Green Credit Policy to Further Improve Information Sharing (2009) require the environmental agencies to provide 'corporate environmental law information' to PBC's credit reference system.

In February 2012, CBRC released its Green Credit Guidelines, which made significant progress in green banking in terms of authoritativeness, systematic inclusiveness,

professionalism and operability. This document applies to policy banks, commercial banks and rural cooperative banks, and rural credit cooperatives lawfully incorporated within the territory of China. It states that those financial institutions shall support green economy and strictly control loans to high-pollution, high energy-consumption and industry in excess of capacity. It also requires that they shall effectively identify, measure, monitor and control the hazards and risks on the environment and society that may be brought about by the construction, production and operating activities of banking institutions' clients and key affiliated parties.

The guidelines strengthen the accountability of the board of directors and senior management of financial institutions and they require an enforceable system, procedures and a rigorous implementation in place. Internal controls and information disclosure are also included in the guidelines, with requirements for financial institutions' internal green credit appraisal system, incentive and disciplinary measures, as well as transparency requirements with regard to the green credit strategy, policy and development of green credit businesses. In particular, this document contains a groundbreaking article concerning the environmental and social risk management for overseas projects to which credit will be granted.

Looking at the amount and density of policies, the environmental economic policy in China, including the green credit policy, is progressing. However, a lot of things remain to be improved: The existing policies remain low in the hierarchy of China's legal system and are thus less enforceable and effective; there is much confusion where it comes to the concept of green credit and its statistical validation; performance evaluation standards and sector-specific performance evaluation guidelines that support green credit are still absent; an incentive and subsidy policy is far from sufficient; and the responsibility and public scrutiny system has yet to be established.

Due to these factors, there is still a long way to go for green credit policies in China's to achieve their green aims.

CHAPTER II GREEN CREDIT PERFORMANCE OF CHINA'S BANKING SECTOR BY INDICATORS

INDICATOR 1: GENERAL FRAMEWORK

1.1 Comprehensive regulations concerning framework establishment

The 16 Chinese banks covered in this report vary greatly in regards to the sub-indicator “comprehensive regulations concerning framework establishment”, with the Industrial Bank leading its peers. Since 2008, the Industrial Bank has been integrating the Equator Principles into its operations, and since 2012 it had its own Five Year Green Credit Strategic Planning. This planning, supplemented by its General Risk Management Strategy and eight sub-strategies covering 38 specific working fields including institutional structure, risk management, and corporate culture, has formed the general framework of Industrial Bank's green credit work. During the course of 2012, based on its own Green Credit Guidelines, Outline of the Equator Principles Strategic Planning and an Equator Principles Review, the bank has improved this framework, with a particular focus on the effectiveness of environmental and social risk assessment process, the scope of key indicators, and the innovation of green financial products.

In its Green Credit Implementation Outline in 2011, ICBC clarified the primary aim of its green credit policy. ICBC targets with it its own credit culture, project categorization, policy framework and process management. This outline is able to give a more general guidance to the bank's green credit development.

In 2008, Shanghai Pudong Development Bank, pioneering its peers, released its Comprehensive Financial Service Scheme for Green Credit, followed by a further improvement that led to its CSR Strategic Development Planning 2011-2015 which has been well implemented.

The other 13 banks are lagging behind; some are working on the inception of their green credit policy while others, are not even in their infancy yet, where it concerns social and environmental policies.

Our comments: In short, three attitudes have been observed among the 16 banks towards the establishing of an agreed credit general policy framework: some with devoted efforts; some more with only reactive responses to the regulatory agencies' request; and some with no efforts at all.

1.2 Adoption of international binding regulations

A few Chinese listed banks have adopted international environmental initiatives or principles, including:

- Industrial Banks: UNEP Finance Initiative (2007), Equator Principles (2008), and Carbon Disclosure Project (2008);
- China Merchants Bank: UNEP Finance Initiative (2007)
- ICBC: Carbon Disclosure Project (2008), UN Global Compact (2012)
- Pingan Bank: UNEP Finance Initiative (2010). This bank also signed the Natural Capital Declaration launched by international organizations led by UNEP FI, committing to take natural capital/resource into account in financial decision-making.

In addition, Shanghai Pudong Development Bank states that it is conducting research on the feasibility to adopt the Equator Principles, although it has not joined or signed any international initiative yet.

Our comments: By joining international environmental initiatives or principles, banks impose on themselves obligations to comply with strict standards and they expose themselves to public scrutiny. Chinese listed banks are therefore still cautious to do so in general, with the few exceptions mentioned above, who are setting a good example for their peers.

INDICATOR 2: STRATEGY AND POLICY

Disclaimer: due to the fact that most banks only publish titles of their green policies without policy texts available, we have encountered difficulties in the analysis of their alleged strategy and policies and the validity and accuracy of it cannot be guaranteed.

2.1 Accountability system

According to the information disclosed by the banks, there are two models of green credit management framework in the banks.

- Model 1: the head office manages and coordinates an accountability department and team

Example: Industrial Bank, China Everbright Bank, China Merchants Bank, Shanghai Pudong Development Bank, China Mingsheng Bank.

- Model 2: A designated accountability office in charge of green credit work

Example: ICBC, Bank of Communications.

Our comments: The number of banks that have established a green credit accountability system is small. The Industrial Bank is a pioneer with its four-level green credit accountability mechanism, namely the board of directors, Equator Principles-related work leadership team and CSR leadership team, Sustainable Finance department, and specific environmental officer, as well as five professional teams working on the issue. China Everbright Bank also

identifies clear accountability among the board of directors, senior management, and business department.

2.2 Supporting policies

2.2.1 Regulating policies

In addition to the code of conduct mentioned in the annual reports published by almost all 16 banks, some banks state that they have specific policies to regulate green credit work. These banks include ICBC, China Construction Bank, Agricultural Bank of China, China Mingsheng Bank, China Merchants Bank, Industrial Bank, Shanghai Pudong Development Bank, China Everbright Bank, Beijing Bank, Huaxia Bank, and Pingan Bank. No information has been found publicly available about supporting policies made by the other four listed banks, namely Bank of China, China CITIC Bank, Nanjing Bank, and Ningbo Bank.

Our comments: Regulating policies refer to regulations, provisions, notices, measures, and decisions made by the banks that are generally applicable to and binding on banking business and management. According to banks' information disclosure, three categories of regulating policies can be found as follows:

1. Guiding ethics and principles: Banks that have policies in place of this category are, for instance, ICBC, China Construction Bank, China Mingsheng Bank, and China Merchants Bank.
2. Standards and indicator systems: Banks that have policies in place of this category are, for instance, Agricultural Bank of China, Industrial Bank, ICBC and China Merchants Bank.
3. Regulations and guidance on process and operations: Banks that have policies in place of this category are, for instance, China Construction Bank, Industrial Bank and Huaxia Bank.

Regulating policies are crucial to banks' green credit implementation in that they serve as a bridge between the general framework, development strategy and actual operation. Regulating policies determine the direction of banks green credit practice, and they form the basis of the quality of banks' green credit performance. In our analysis, great differences have been noticed among the banks' regulating policies: China Construction Bank's policies are rather general; Industrial Bank's policies are numerous and have their own particularities; the Agricultural Bank of China and China Everbright Bank have been making progress in developing their own policy system. In contrast, some other banks' policy making is still under-developed with only a few isolated documents about green policy in place. Some of them even have no policies at all.

2.2.2 Sector-specific guiding policies

All the 16 banks differentiate their management of green industries and “high-pollution, high energy-consumption and industries in excess of capacity” by sector categorization. Due to the scope of this summary, the details of each bank’ sector-specific guiding policies are not listed here but you can find them in our full report in Chinese.

Our comments: Differences can be found in the banks’ sector policies in terms of their reach and approach.

Some banks’ policies cover a wide range of sectors. ICBC’s green credit policy, for instance, applies to 54 sectors and China Construction Bank’s policy covers 50, while Bank of China, for instance, only disclosed its policy for three sectors in 2010 and 2012 and the Agricultural Bank of China only six.

The majority of the banks’ policies are targeting “high-pollution, high energy-consumption and industries in excess of capacity”, while a few also include environmental friendly sectors in their policy scope, for example China Mingsheng Bank, Shanghai Pudong Development Bank, Nanjing Bank, and Huaxia Bank. A special case is found in Beijing Bank’s policy making in 2009, which merely mentioned its sector-specific guidance for environmentally friendly sectors and left “high-pollution, high energy-consumption and industries in excess of capacity” unattended.

Looking through the banks’ list of categorized sectors during the five years covered in this research, we found that lists of certain banks remain the same over time, while that of others show changes year by year.

Some banks have made a special list for key sectors in addition to a general list.

It has to be noted that each bank published its list with a different degree of detail, and that sector specific measures also vary significantly. For that reason, we are only able to give a general analysis of the banks’ sector work. For Ningbo Bank, which never published its sector-specific policy, we are not able to make a comment at all.

2.2.3 Incentive policies for environmental friendly loans

The banks encourage loans in environmental friendly industries and projects through the following policy arrangements:

- Making a list of sectors to which borrowing is encouraged, including renewable energy, clean energy, new energy, desulphurization of power plants, forestry and eco-industry, biological breeding, river protection, new material, new medicine, information industry and new energy vehicles, urban sewerage and waste treatment.

- Establishing a special fund to support environmental loans. (Industrial Bank, Beijing Bank and Ningbo Bank).
- Providing quality service for environmental loans (China Construction Bank, Agricultural Bank of China, China Mingsheng Bank, Industrial Bank, Shanghai Pudong Development Bank, China Everbright Bank, Huaxia Bank, and Pingan Bank).
- Developing new green financial products. (Bank of China, Industrial Bank, China Everbright Bank, Shanghai Pudong Development Bank, Beijing Bank, and Nanjing Bank).
- Cooperating with international and foreign financial institutions and introducing external funds. (Huaxia Bank and China Merchants Bank)
- Supporting green projects in high-risk sectors, for which loans are controlled out of environmental concern. (ICBC, Shanghai Pudong Development Bank)

Our comments: All 16 banks have shown willingness to encourage the development of environmentally friendly projects, with more details disclosed about the policies applied by the Bank of China, China Construction Bank, Industrial Bank, China Everbright Bank, Huaxia Bank, Beijing Bank, and Pingan Bank, but relative little information provided by ICBC, Bank of Communication and China Mingsheng Bank.

The ways in which different banks fulfill their commitment vary substantially:

- The Industrial bank allocates a certain quota for environmentally friendly loans, and has created eight modules of environmentally friendly financing;
- In cooperation with the ESCO Committee of China Energy Conservation Association (EMCA), Beijing Bank developed a “energy conservation loan” which allows certificate owners to pledge his/her rights to a future share in the benefit;
- The Pingan Bank has been cooperating with Shenzhen Environmental Protection Bureau;
- Ningbo requires that environmentally friendly loans increase faster than its on average overall loans do;
- The Agricultural Bank of China established a San Zhuan Mechanism (literally translated as “Three Specialties Mechanism”, meaning special marketing, expert service and professional maintenance);
- China Everbright Bank developed the concept of San Ge You Xian (literally “Three Priorities”) for project initiation, project approval, and project operation in new product development. It also introduced the product of “Photosynthesis Power”, which is its definition for a kind of ‘Low Carbon Financial Service’;

- Huaxia Bank submitted advice to local authorities on energy saving and emission reduction by mid- and small- enterprises;
- Shanghai Pudong Development Bank developed five key fields of green credit, namely energy efficiency finance, clean energy finance, environmental protection finance, carbon finance, and green supply chain finance. It as well completed China's first emissions pledge loan.

In addition, Beijing Bank also introduced innovations to its green finance practice in 2012; Nanjing Bank established its own six green finance service modules; China Merchants Bank and Huaxia Bank are both making progress in the field of green finance through international cooperation. ICBC and Shanghai Pudong Development Bank are seeking balance between priority for environmentally friendly sectors and projects and profit increases and risk control.

2.2.4 Disincentive policies to secure their withdrawal from “high pollution, high energy-consumption, and sectors in excess of capacity”

According to the information included in CSR reports and banks' feedback to our questionnaire, the banks have adopted the following measures between 2008 and 2012 to withdraw from “high pollution, high energy-consumption, and sectors in excess of capacity”:

- A no-go policy in case of environmental non-compliance. All the banks except China Mingsheng Bank, Beijing Bank, and Nanjing Bank have adopted this policy according to the banks' information disclosure.
- Strict approval procedure. All the banks except Agricultural Bank of China, Shanghai Pudong Development Bank, Bank of Communications, China Mingsheng Bank, and Ningbo Bank have explicitly stated how they have been applying strict standards for loan approval (to withdraw from environmentally unfriendly fields).
- Loan Quota Management. Seven banks allegedly put quotas on loans in “high pollution, high energy-consumption, and excess sectors in excess of capacity”, namely ICBC, Bank of China, Bank of Communications, China CITIC Bank, China Mingsheng Bank, China Merchants Bank and Ningbo Bank.
- Loan Withdrawal. Six banks, China Construction Bank, Bank of Communications, China Mingsheng Bank, Pingan Bank, Nanjing Bank, and Ningbo Bank, have declared that they have taken concrete measures to speed up withdrawing from environmentally unfriendly fields.

Our comments: In the wake of the strengthened regulation on environmental degradation and industries' excess of capacity, the banks seem to realize the risk of investments in sectors and projects in which environmental problems exist or may occur in the future. Therefore, whether or not out of strong social responsibility, all 16 banks pay much attention

to it. To use “a No go” in case of environmental non-compliance has become an agreed consensus among these banks, although measures to implement this policy differ.

Some banks give priority to “admission control” at the very beginning of the loan approval process. Others see certain sectors as a “no-go area” either following regulatory authorities’ instruction or exerting their own discretion; ICBC carries out a company-by-company screening; Pingan Bank’s policy mentions as a precondition for the investment in ‘high pollution and high energy consumption industries’, that the environmental risk must be appropriately managed and controlled. PBC and CBRC support the ‘good’ ones, while restricting the ‘bad’ ones”; in China CITIC Bank, China Merchants Bank and Ningbo Bank, the approval authority for important loan only rests on the head office of the banks.

Seven banks conduct sector-specific caps on loans.

Six banks published their internal policy on withdrawal from “high pollution, high energy-consumption, and sectors in excess of capacity”.

Huaxia Bank requires that “the bank shall strictly limit loans in those projects under construction in which environmental agencies find excessive discharge, discharge without permits or a noncompliance with permits, or show failure to fulfill the duty of treatment/repair/remedy in a prescribed period of time”. This requirement is least strict compared to other banks’ policies and is not able to provide enough warning to the bank before environmental risk occurs. Beijing Bank and Industrial Bank set a ban on loans to ‘projects beyond the boundary of authorized planning or projects on idle or abandoned land’, which might be driven by the banks’ sense of social responsibility or simply by the obligation to obey order from the government and to avoid certain credit risk.

INDICATOR 3: IMPLEMENTATION MEASURES

3.1 Client categorization and management and pre-credit, credit, and post-credit management.

The Banks carry out client management and credit process management in the following ways:

- Enhancing the basis of management through the establishment of a general policy framework.

Example: China Merchants Bank, Industrial Bank, Nanjing Bank, Huaxia Bank.

- Specifying loan admission control

Example: Bank of China, China Construction Bank, Bank of Communications, China CITIC Bank, China Mingsheng Bank, China Merchants Bank, Industrial Bank, China Everbright Bank, Huaxia Bank, and Nanjing Bank.

- Adopting ‘client list management’ by preparing a list of clients and identifying the different type of environmental risks clients are facing.

Example: ICBC, China Construction Bank, Bank of Communications, China Mingsheng Bank, China Merchants Bank, China Everbright Bank, and Pingan Bank.

- Post-credit tracking and monitoring

Example: ICBC, Bank of China, Industrial Bank, Shanghai Pudong Development Bank, China Everbright Bank, Huaxia Bank, Nanjing Bank, and Ningbo Bank.

- Real-time guidance

Example: ICBC, China Construction Bank, and Industrial Bank

Our comments: All banks have made efforts in this respect, with various innovations: ICBC’s ‘CM 2002 System of Enterprise Environmental Protection Information’, China Merchants Bank’s ‘Risk Quantification Technology’ and “Early Warning and Joint Action between Head Office and Local Branches”, China Construction Bank’s ‘credit business risk monitoring system’, Bank of Communications’ ‘three colors and seven categories’ labeling system and two-dimension loan admission standards, China CITIC Bank’s specified principles for credit to key sectors, China Everbright Bank’s ‘three identifications’, ICBC and China Construction Bank’s real-time monitoring and guiding.

Compared to other banks, Industrial Bank is still one step ahead, with measures covering all phases from preliminary policy-framework building to real-time guidance, improvement of a set of basic rules, adoption of Equator Principles, and emphasis on social impact assessment. Bank of Communications, China Merchants Bank and Pingan Bank are also making progress.

In contrast, very little substantive information has been disclosed by China CITIC Bank, Agricultural Bank of China, Beijing Bank, Huaxia Bank, Nanjing Bank, and Ningbo Bank. For example, in the documents published by Agricultural Bank of China, we only see the statement that they ‘increase loan admission standards, enhance quota control, tighten the approval authority, and adopt a client list management’, but no concrete policy texts can be found.

3.2 Cooperation with relevant social entities

In general, all the banks made use of information data of CBRC, MEP and PBC, with the exceptions of Bank of China, Industrial Bank, China Everbright Bank, and Huaxia Bank, which maintained an pro-active interaction with authorities, media.

3.3 Internal environmental protection

- Internal environmental protection practice

Various examples of internal environmental protection practice can be found in each bank's annual report and CSR report. Most important here is the extent to which the green credit concept is internalized by bank staff and practiced by them in their daily business operation.

- Green credit education and training for bank staff

All the banks except six (China Construction Bank, Bank of China, China Mingsheng Bank, Beijing Bank, Pingan Bank, and Bank of Communications) had internal training activities about green credit.

Our comments: Under this indicator, we find that the banks are almost at a same pace. Many of them are using video conferencing instead of travelling to meetings, greening their building to save energy, moving to paper-free offices, and changing purchasing practices of which all help to significantly reduce the carbon emission of bank office functioning. Internal environmental protection is also achieved through many 'tiny instructions': double-sided printing and reduced-font printing to save paper, maximum air conditioner temperature, automatic power-off, energy-saving lamps and reduced use of the elevator.

Some banks are outstanding: Shanghai Pudong Development Bank links a client manager's green credit knowledge to his/her chances on promotion, Ningbo Bank publishes its energy consumption per employee in the main building of its head office, China Merchants Bank, China Everbright Bank and Beijing Bank promote the green building concept among their staff, China CITIC Bank features green credit in its internal journal, China Merchants Bank organized a 'Green Cooperate Culture Festival', Pingan Bank held an internal competition of "advices of energy-saving".

Compared to its peers, Agricultural bank of China as a major Chinese bank still needs a lot of improvement. In contrast, China CITIC Bank, China Merchants Bank, Industrial Bank, and Shanghai Pudong Bank have stronger policies and measures for green credit training and education.

3.4 Creation of a green credit environment

Our comments: This indicator evaluates the banks performance on public advocacy, outreach to peers, outreach to clients and international communication in terms of green credit practice. It is important that banks not only fulfill their social responsibility in their business, but also actively show their commitment towards green development to gain trust from the society and to accept public scrutiny, which in turn helps banks with their fulfillment of social responsibility.

In 2008, some banks signed a Declaration of Nationwide Joint-equity Commercial Banks on Social Responsibility, which is an important step forward of most of the Chinese listed banks. After the declaration, China Merchants Bank, Industrial Bank, and Shanghai Pudong Development Bank made active efforts to fulfill their commitment. Some other banks also

made progress in public awareness (China Mingsheng Bank), outreach to peers (China Everbright Bank), outreach to clients (Huaxia Bank), and international contacts (ICBC). It is worth noting that Industrial Bank is leading China's banking sector in international cooperation and communication, through its active participation in international events and involvement in the review of international standards on sustainability.

INDICATOR 4: WITHDRAWAL FROM HIGH POLLUTION, HIGH ENERGY-CONSUMPTION INDUSTRIES AND INVESTMENT IN ENVIRONMENTALLY FRIENDLY INDUSTRIES

4.1 Environmentally friendly loans

The majority of the 16 banks, except Nanjing Bank and Ningbo Bank, published some information about their environmentally friendly loans. For details please read our full report in Chinese.

Our comments: After reviewing all the data, we find it is almost impossible to make a comparison among the banks for several reasons. First, banks produce different data according to various standards, including national standards for sector categorization, definitions of what environmentally friendly sectors are by the Green Credit Guidelines released by CBRC, and banks' own standards and definition coming from unknown sources. Second, there are no rules governing the banks on their data publishing and the liability of the data cannot be checked. Third, the banks are left with too much discretion in data publishing in terms of the content and the frequency of publishing.

Based on the limited information, we would conclude that:

- Looking at the amounts of loans, until the end of 2012, six banks have invested relatively heavily in the environmentally friendly field, namely ICBC, China Construction Bank, Bank of China, Agricultural Bank of China, Bank of Communications, and Industrial Bank. Loan/credit balance of each of these six banks exceeded 100 billion RMB.
- Proportionally, ICBC and China Everbright Bank's environmentally friendly loan both accounted for a relatively big percentage (over 10%) of their total loan, while China Construction Bank only 3.37% and Shanghai Pudong Development Bank and China CITIC Bank both less than 2%.
- Most of the banks have reported an increase of loan in the environmentally friendly field, with relatively big growth of about 10-20 billion RMB increase in 2011 or 2012 achieved in ICBC, Bank of China, China Construction Bank, Agricultural Bank of China, Industrial Bank, and China Merchants Bank.

4.2 Environmentally unfriendly loan

Except Nanjing Bank and Ningbo Bank, the banks published some information/data about their investment in environmentally unfriendly activities. For details, please read our full report in Chinese.

Our comments: As in the case of environmentally friendly loans, data provided by the banks did not allow us to make a comparison on their loans in the environmentally unfriendly field, in that since there are no official standards and definition of “high-pollution, high energy-consumption and industry in excess of capacity” yet, the banks enjoyed too much discretion in sector categorization and data producing. For example, some of them only counted “high pollution and high energy consumption industry”, while some others only counted ‘industry in excess of capacity’.

Based on the limited information, we would conclude that:

- From the perspective of amount of loans, until the end of 2012, Bank of China, ICBC and China Merchants bank have invested relatively heavily in the environmentally unfriendly fields, each bank’s loan balance exceeding 100 billion RMB.
- Proportionally, China Merchants Bank’s environmentally unfriendly loan accounted for a relatively big percentage (over 10%) of its total loan, while China CITIC Bank, China Construction Bank and China Mingsheng Bank around 5 %, and ICBC and Bank of Communications both less than 3% allegedly.
- From the perspective of the trend of development, most of the banks have reported a decrease of loans in the environmental unfriendly field, with a relatively big decrease of 19.388 billion RMB in 2012 in China CITIC Bank and 44.427 billion RMB withdrawal from “high-pollution, high energy-consumption and industry in excess of capacity” by Agricultural Bank of China in 2012. Since 2009, the percentage of loans in “high-pollution, high energy-consumption and industry in excess of capacity” allegedly dropped year after year in China Construction Bank and Bank of Communications, while no clear declination has been noticed in Shanghai Pudong Development Bank, China Merchants Bank, China Everbright Bank and Pingan Bank. It has to be stressed that investments in enterprises with low energy consumption and advanced technology and energy-saving and emission-reduction projects can be also shown as ‘high-pollution, high energy-consumption and industries in excess of capacity’ loan due to the underdeveloped data producing of the banks.
- As far as the banks’ attitudes towards information disclosure under this indicator is concerned, there is a broad range. Some of them appear to be openly communicating, some are less whole-hearted, some are active in reporting good news and reticent about reporting the bad, some are half-hearted, some appear to be unconcerned. In our research we found it difficult to compare their performance

in investing in for example, environmental unfriendly fields, but we found it easier to compare their attitude to information disclosure by looking at what they do say in their public documents.

INDICATOR 5: ENVIRONMENTAL INFORMATION DISCLOSURE

5.1 CSR report compiling principles and third party verification

Except the Bank of Communications, Beijing Bank, Ningbo Bank and Industrial Bank, the selected banks followed GRI Sustainability Reporting Guidelines to compile their own CSR reports and also accepted independent accounting firm's third party verification. The Industrial Bank and Ningbo Bank did not accept third party verification, and the Industrial Bank explained that it is still looking for an accounting firm that is able to meet its demand of verification. Beijing Bank's CSR report is made according to certain standards that are only used in China; Nanjing Bank did not indicate in its CSR report which principles it was following.

Our comments: Most of the 16 banks' CSR reports refer to GRI Sustainability Reporting Guidelines as their compiling standards, and they are using third party verification in China. However, it does not mean the banks are in practice taking social responsibility seriously. In China, the third party verification services are still not able to fully safeguard the responsibility in practice. Another caution is that even with the Industrial Bank, which in so many ways is leading its peers in going "green" and being "responsible", has not yet started to have third party verification. Their explanation was that they did not find a third party that is professional enough to give it advice on management. While we as researchers acknowledge that third party verification services in China still need improvement, this argument is not a very convincing one for civil society, particularly because the Industrial Bank is setting an example for other banks in many ways to go 'green' and 'responsible'.

5.2 Information disclosure mechanism

This is a field in which China's banking sector in general needs to make more efforts. Between 2008 and 2012, only six banks disclosed their internal policies on a regular base, namely ICBC, Industrial Bank, China Construction Bank, China Everbright Bank, Shanghai Pudong Development Bank, and Bank of Communications. Ningbo Bank and Nanjing Bank's reports did not touch upon their green credit system. Given that very few banks have established information disclosure mechanisms, in this report when we mention banks' information disclosure mechanism, we may refer to their public statements only.

5.3 Information disclosure on high-profile projects

It is rare that banks disclose information at the project level, and most of the information disclosed is about environmentally friendly projects, instead of controversial deals. The only examples we found about controversial deals are that of ICBC, Agricultural Bank of China and

Shanghai Pudong Development Bank, which withdrew from three controversial domestic projects respectively. No information has been disclosed about bank loans in projects which have caused negative environmental and social impacts.

5.4 Information service

Four banks, ICBC, Industrial Bank, and China Everbright Bank, publicly stated that, if there is a major environmental and social impact/risk involved, the banks will disclose relevant information as much as possible under certain conditions set by the banks.

Our comments: So far, no bank has established a real information public disclosure system, and no bank in its CSR report has achieved comprehensive and neutral information disclosure. Therefore, the banks enjoy too much discretion and the quality of their information disclosure very much depends on the personal willingness of bank staff in charge of this work. Although a few banks are understood to take action on transparency improvement, actual action is still yet to be seen. In reality, the banks often use 'commercial confidentiality' as a shield to avoid disclosing information, but neither the government nor the banks themselves are able to give a definition of 'commercial confidentiality'. Moreover, when the public request of information disclosure is rejected, very few banks ever give an explanation of the rejection.

INDICATOR 6: PUBLIC INTERACTION

6.1 Public evaluation

In recent years, increasing criticism has been heard about some Chinese listed banks' project loans that caused environmental and social damage/risk. Please read our full report in Chinese for details.

Until the publishing of this report, we have not found negative comments on the following banks' project loans: Industrial Bank, Beijing Bank, Shanghai Pudong Development Bank, Ningbo Bank, and Nanjing Bank.

6.2 Banks' feedback to the criticism

Green Watershed, together with other Chinese NGOs, wrote an open letter to the 16 banks asking whether they have loan connections with the chromium pollution which took place in Luliang county, Qujing City, Yunnan Province, China in 2011, and which shocked the whole country. Only Industrial Bank and Shanghai Pudong Development Bank responded in time denying their involvement in this pollution; ICBC later stated that it has cut its financial supply to the polluting companies but did not make this information available to the public in time.

6.3 Dialogue with civil society

Industrial Bank, Shanghai Pudong Development Bank, China Everbright Bank, Pingan Bank and ICBC have started accepting a visit from and a dialogue with Green Watershed together with other Chinese NGOs.

6.4 Influence on clients

Industrial Bank and Pingan Bank requested and helped their clients to pay attention to environmental and social risk of their projects and operation through conditionality in loan contract and advice on risk management.

Our comments: The banks have barely started talking with the public yet. Enjoying their advantageous and powerful status, in general, the Chinese banks do not appear to be concerned about the social impact of their investment, do not pay attention to communications with the public, and do not appreciate public scrutiny. However this situation is irreversibly changing.

It has to be noted that, both at home and abroad, some projects encounter risks even if their EIA has been approved when other social issues are not dealt with appropriately. We have seen an increasing number of examples of this, which not only cause hazard to the society, but also bring big risks to banks. Therefore, social impact assessment is essential to the banks in their future green credit development, which is a key point of green credit in the first place. International standards, Equator Principles for instance, and international best practice have not appeared overnight but been built on hundreds of failures and lessons of other banks which the Chinese banks are able to wisely avoid by learning and following those standards and practices.

INDICATOR 7: RISK MANAGEMENT OF OVERSEAS INVESTMENT

For details of the banks' statement on compliance with international custom, principles, and standards, and law and regulations of host country, as well as controversial overseas projects in which Chinese listed banks are/were involved in, please read our full report in Chinese.

Our comments: Being aware of increasing environmental and social risk in China's expanding overseas investment, the Chinese government is making efforts to strengthen its regulation of the banking sector. Article 21 of CBRC's Green Credit Guidelines (2012) states that "Banking institutions shall strengthen the environmental and social risk management for overseas projects to which credit will be granted and make sure project sponsors abide by applicable laws and regulations on environmental protection, land, health, safety, etc. of the country or jurisdiction where the project is located. The banking institutions shall make promise in public that appropriate international practices or international norms will be followed as far as such overseas projects are concerned, so as to ensure alignment with good

international practices'. In February 2013, MC and MEP jointly released the Guidelines for Environmental Protection in Foreign Investment and Cooperation.

Nevertheless, there is no information showing that the banks have established environmental and social risk management, or an accountability mechanism for overseas investment. In contrast, criticism about negative environmental and social impact due to the lack of such a mechanism is very often heard.

In fact, the main reason that Chinese overseas projects are being condemned, interrupted, and even cancelled is not that Chinese investors did not comply with the law and policy of host countries, but that environmental and social damage still occurred while the local regulations were obeyed. Therefore, compliance with local regulations is not enough. For Chinese overseas investors to fulfill their responsibility and avoid risk, international custom, principles and standards have to be also strictly adhered to. However, the banks are lagging behind.

SUMMARY OF CHAPTER II:

In the past five years, China has witnessed important progress in green credit. Green credit policy and practice have been introduced, the concept of green credit has been understood by Chinese decision-makers and Chinese bankers, an enabling environment in favor of green credit is emerging, more and more banks have joined the institutional innovation and international advocacy, supporting policies have been improved, and banks' attitude towards information disclosure and public scrutiny has been changing.

However, problems cannot be underestimated. We have observed significant imbalance in the development of green credit in China. When external pressure is strong enough (for example, withdrawal from 'high-pollution, high energy-consumption and industry in excess of capacity') or when obstacles are relatively weak (for example, internal environmental protection practice and green credit environment creation), the banks easily make progress. When external pressure is weak (for example, institutional framework establishment, international initiative adoption, and accountability mechanism development), progress is harder to achieve. In addition, information disclosure and public scrutiny are still the 'sickness' that the banks try to conceal for fear of treatment. The fundamental reason is that the internal incentive of the banks is still insufficient. In other words, green credit is not the banks' own need yet. This also explains the increasing gap among the 16 banks during these five years in terms of their green credit performance.

China has opened its door to green credit and is on its way towards a green future. We do not expect change to happen overnight, but we do hope that this march can be as short as possible to meet the real needs.

CHAPTER III GREEN CREDIT PERFORMANCE OF CHINA'S BANKING SECTOR BY BANKS

This chapter assesses the performance of each bank for each of the seven indicators. For further details about each bank's performance under each indicator, please read our full report in Chinese.

ICBC

ICBC started its green credit practice earlier than most of the other banks and has been quite active on that. Apart from implementing the government's green credit policy, the bank has started developing its own strategic goal, development direction, credit culture, assessment mechanism, and capacity building, and is actively taking part in international advocacy, it pays attention to accountability and rule-making. In practice, it has been making efforts in supporting policy-making, categorization management, process management, product and service innovation, pre-credit, credit and post-credit management, and real-time guidance. It has also achieved quite a bit on internal environmental protection and green credit environment creation.

However, it scores below expectation where it concerns information disclosure and public communication. Compared to its massive expansion abroad, its risk management is underdeveloped, which has given rise to various conflict and problems.

BANK OF CHINA

As stated in its CSR report, the bank's green credit strategy is 'to integrate the government's environmental law and policy and concept of cooperate environmental protection into the bank's credit policy, regulations and process'. However our research indicates that the bank shows insufficient initiative itself. Moreover, the bank has not fully implemented the government's regulations and orders especially in regard of the withdrawal from "high-pollution, high-energy consumption and industries in excess of capacity", public advocacy, information disclosure and public communication. As far as its overseas investment is concerned, lack of scrutiny and insufficient self-discipline lead to poorly regulated practice of the bank. There still remains an obvious gap for the bank to close, especially taking into account its status as an important international financial actor.

CHINA CONSTRUCTION BANK

The bank did not disclose its general green credit framework. Neither did it adopt any binding international regulations. Fortunately, it started to lay the foundation of its green credit development by making some regulating rules, and it established sector categorization

and real-time guidance. The bank conducts real time monitoring for the environmentally sensitive sectors (for example papermaking) and clients by making use of a credit risk monitoring system (CRMS) and quarterly notification of credit and a risk monitoring report every ten days. However, progress on information disclosure and public communication is still yet to be seen, and its overseas investment management is very weak.

AGRICULTURAL BANK OF CHINA

The bank did take some action regarding green credit that is worth mentioning. It developed its Procedure on CDM Consultation Business and ‘Three Specialties’ mechanism; its Social Responsibility Indicator System is a unique innovation among Chinese listed banks judged by the information disclosed so far, although its implementation in real practice is still yet to be seen.

However, the bank’s information disclosure is still a problem. For example, although the controlling of loans in “high-pollution, high-energy consumption and industries in excess of capacity” is a mandatory requirement of the central government and a routine work for which information is easy to collect, the bank did not provide much valuable information to the public. Neither did it on other important issues. It is partly because the bank is reluctant about information disclosure, but the lack of green credit practice itself can be another important reason. In short, as far as its green credit performance is concerned, the bank is obeying the government’s order.

BANK OF COMMUNICATIONS

The bank set a good example for its peers by covering various environmental and social issues and the whole banking process in its green credit framework. However, it is a pity that the bank has not adopted any international binding regulations. The bank did a good job in policy making, green office and public advocacy, while it still needs to speed up on outreach to peers, clients and international communication. Moreover, loan data are not fully disclosed in its annual report, although the report is informative on some other matters; the bank is still conservative about information disclosure and public communication; and it needs to pay greater attention to environmental and social impact of its overseas investment given the increasing criticism that has been heard.

CHINA CITIC BANK

The bank appears to have gained its own understanding about green credit. This effort can be seen from its compiling of its book Equator Principles: Best Practice of Sustainable Development of Banking Sector on which it has shared its opinion with peers both at home and abroad. However, the bank’s green credit in practice is not as good as it is in its book: our research indicates that the bank is not innovative enough; it did not make substantial progress on information disclosure, public communication, and responsible overseas

investment. In short, the bank is still conservative about fulfillment of social responsibility, which may hinder it from gaining growth opportunities in the long run competition.

CHINA MINGSHENG BANK

Although the bank released some internal guiding opinions on green credit, it does not have a general framework to govern the whole practice. It treats green credit as part of social responsibility and trains its staff under this ethic, which is a good start towards further understanding of green credit at a higher level in the future. Furthermore, it has made improvement on an accountability mechanism establishment between 2009 and 2011; the bank's general regulatory policy is satisfactory and its policy about loan admission and 'Three Synchronizations' are quite implementable, while its sector-specific guidance and incentive policy still need to be strengthened. Information about loan withdrawal and environmentally friendly loans is not sufficiently disclosed; and there is no management on overseas investment yet. In short, the bank mainly aims at obeying the government's order and does not have its own initiatives.

CHINA MERCHANTS BANK

The bank's information disclosure is quite sufficient, which provides us with a clear picture of its green credit performance. It has released a comprehensive framework on green credit year by year, while the quality of its sector-specific guidance and incentive/disincentive policy are among the average; internal environmental protection can be a highlight of the bank. The bank has a relatively high loan balance in "high-pollution, high-energy consumption and industries in excess of capacity", but its active data publication is appreciated. However, disclosure on negative news and public communication are still most in need of improvement. The bank also needs to pay more attention to social impact of overseas investment. In short, the bank is able to make progress on green credit as long as it keeps pro-active in this respect.

INDUSTRIAL BANK

The bank makes efforts on green credit out of its sense of social responsibility and risk, which allows it to lead China's banking sector in this sense. Its overarching framework includes general strategic planning and eight sub strategies, and active participation in international binding regulations, which efficiently govern the whole green credit development of the bank. Under this framework, it has established a green credit implementation hierarchy comprising general leadership, specialized departments, and professional teams, which ensure a strong enforcement. The bank is also successful in green credit training, policy making, green financial product innovation, public advocacy and international communication and cooperation. However, although it is actively pursuing to meet the international standards in information disclosure and public communications, we

believe it is a missed opportunity that the bank's CSR report has not been subject to third party verification yet.

SHANGHAI PUDONG DEVELOPMENT BANK

The bank's green credit efforts started earlier than most of its peers. It did some profound work to establish its green credit framework, but it has not joined international initiatives and until now did not disclose its accountability system. The bank's 'ten initiative products' and emission trading financial service are unique; its specified loan admission standards and introduction of emission-reduction projects into loan-restricted sectors are valuable attempts of combining responsibility with profit. The bank is also active in public advocacy but seems less reluctant to have a dialogue with civil society. In short, the bank has built a good foundation to build further improvements on.

CHINA EVERBRIGHT BANK

As a listed bank, the bank is still young, and its creativity in green credit framework building is very limited. Therefore, it is quite practical of the bank to set as a target to 'translate the government's green credit policy into the bank's own internal policies at the various levels', and it has taken some concrete efforts thereof. The bank's information disclosure about responsibility allocation is very detailed, and policy-making is also a focus of the bank. Apart from announcing to be China's first 'carbon neutral bank', the bank launched other green credit initiatives and is active in public advocacy. However, it is still in great need of improvements regarding its information disclosure, although it was quite cooperative in responding to our questionnaire in 2012. In short, the bank is trying to improve itself in the implementation of the government's policy.

BEIJING BANK

In our assessment, the bank's CSR report does not follow the requirements of the GRI Sustainability Reporting Guidelines to the extent many of the other banks have. Thus it was difficult to find the meaningful information in the report with the exception that some information about incentive policies and internal environmental protection is provided. The bank does not publish on policy and measures with regard to the "high-pollution, high-energy consumption and industries in excess of capacity", which is the key of other banks' information disclosure. Given this lack of disclosure, we have no way to learn about the real performance of the bank, but on the other hand it does tell us about the pessimistic attitude of this bank towards green credit.

HUAXIA BANK

In general, the bank's green credit performance is among the average. Only its international cooperation on environmentally friendly projects receives above average attention. However, although it published quite a bit on environmentally friendly loans, since

information about loan control in “high-pollution, high-energy consumption and industries in excess of capacity” is hard to find in its report, the bank seems to be selective where it concerns its information disclosure. This is also true for its information disclosure at the project level. In short, the bank performs insufficiently in its green credit policy implementation.

PINGAN BANK

The bank showed its willingness of promoting green credit by joining UNEP FI, but we do not see much determination when we look at its efforts with regard to a strategy, a responsibility system and its policy making, although some progresses have been observed in certain specific areas. The bank published data about internal environmental protection, but is a bit silent about environmentally unfriendly loans. Still, it is appreciated that the bank requests its clients to communicate with affected communities and shows a willingness to have a dialogue with NGOs.

NANJING BANK

The bank is found to merely repeat the government’s policy and slogans, and its green credit policy and measures are basically conceptual instead of concrete rules. Its CSR report did not refer to any guidelines and it is silent about any important issues, with the exception of mentioning automation improvement. We are not able to decide whether the bank is not willing to communicate with the public about green credit or it simply has not achieved enough.

NINGBO BANK

The bank stated that it will support energy saving and emission reduction and will phase out outdated production capacity, but its policy and measures are merely general conceptual instead of workable rules. It did not publish any data at all about environmentally friendly and unfriendly loans, nor does it have any information disclosure policy, or public communications policy. In short, the bank’s CSR report did not report anything substantial about CSR.

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