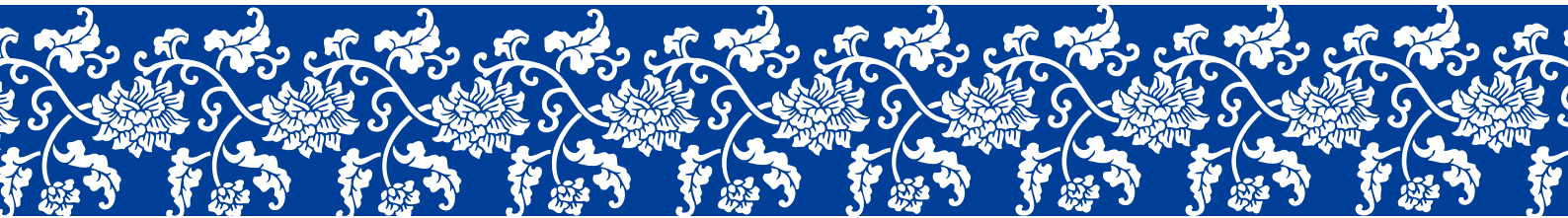




兴业银行股份有限公司  
INDUSTRIAL BANK CO.,LTD.

# Green Finance, Better Tomorrow

—— The Equator Principles Annual  
Implementation Report of  
Industrial Bank (2008-2009)





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# The Equator Principles



## What are the Equator Principles?

The Equator Principles are a voluntary set of internationally advanced environmental and social risk management standards and also a financial industry benchmark for determining, assessing and managing social and environmental risks in project financing. Furthermore, the Equator Principles were formulated to advance the sustainable development of the financial industry, providing international financial institutions with a framework within which to fulfill their social responsibilities.

According to the Equator Principles, a financial institution shall categorize projects into Category A, Category B and

Category C based on the magnitude of their respective potential environmental and social impacts. Environmental and social reviews of different levels are conducted on projects depending upon their respective risk levels, based on which EPFIs require the borrowers to prepare an "Action Plan" and to include the same in the relevant borrowing contracts. The Equator Principles also emphasize continuous monitoring of the construction and operation of relevant projects over the life of the loan, and require EPFIs to make disclosure of their implementation status of the Equator Principles.

## Where are the "Equator Principles" from?

The "Equator Principles" were originally known as "Greenwich Principles". In order to establish a unified environmental and social risk management benchmark in the banking industry, a meeting, led by Citigroup and attended by nine then famous banks including ABN Amro Bank, Barclays and German Bank WestLB as well as the International Financial Corporation (IFC), was convened in Greenwich, near of London, in February 2003. In view of the fact that the meeting was convened in Greenwich, which is crossed by the prime meridian, circled the globe the financial industry benchmarks were named the "Greenwich Principles" at the meeting.

When public comments were sought for the "Greenwich Principles" after the meeting, an NGO forwarded a proposal to change the name of the "Greenwich Principles" to the "Equator Principles". At the 3rd "Greenwich Principles" meeting held in Dusseldorf, Germany in May 2003, the attending bank representatives concurred unanimously that the financial industry benchmark should be a global

initiative, not just a Northern Hemisphere one. As the equator seemed to represent that balance perfectly, the "Greenwich Principles" were renamed the "Equator Principles", which they are still called today.

On June 4, 2003, 10 leading banks from 7 countries, including ABN Amro Bank, Barclays and Citigroup, announced that they would adopt the Equator Principles.

From February to June 2006, following the IFC's review and updating of Performance Standards, the EPFIs revised the Equator Principles, transforming the Equator Principles from an industry method to an industry benchmark.

In November 2005, the Nedbank Group of South Africa became the first EPFI in Africa. On October 31, 2008, Industrial Bank became the first EPFI in China. As of December 31, 2009, a total of 68 financial institutions globally have committed to the adoption of the Equator Principles.

## What is the Scope of the Equator Principles?

- New project financings with total project capital cost of US\$10 million or more
- Project financings covering expansion and upgrade of an existing facility where changes in scale or scope may result in significant environmental and/or social impacts, or significantly change the nature or degree of an existing impact.
- Project finance advisory activities

## How do the Equator Principles Affect Borrowers and the Community?

The Equator Principles provide systematic and scientific tools for EPFIs to carry out assessment, management and monitoring of environmental and social risks during the construction and operation of financing projects, and for lenders to help borrowers establish sound and effective internal environmental and social risk management systems to ensure that the relevant projects will not create irreversible negative impacts on labor safety, the environment, local communities, biodiversity or cultural heritage. Furthermore, EPFIs will not provide financing support to projects where

the borrower will not or is unable to comply with EPFIs' respective social and environmental policies and procedures that implement the Equator Principles. Therefore, while striving to enhance their own risk prevention capability, EPFIs also help improve the environmental and social risk management of borrowers. The combined efforts of EPFIs and their borrowers will help to ensure that the environment and public interests are suitably protected and to promote the sustainable development both in local communities and across the country.

The Equator Principles' major effects on borrowers, projects, the community and financial institutions are as follows:

On borrowers	On projects	On the community	On financial institutions
Assist borrowers in establishing and improving internal environmental and social performance management systems.	Effectively identify and manage environmental and social risks of the projects to ensure the long-term stability of economic benefits.	Improve both ecological and cultural environment of the community.	Allocate financial resources in a more efficient manner.
Provide borrowers with easier access to the recognition of international financial institutions and a larger space for development.	Improve the technology by adopting best practices of international peers in the industry.	Improve labor conditions.	Enhance EPFIs' risk prevention capability, moving from "avoiding loss" to "creating value".
Require borrowers to comply with China's environmental policies and regulations to reduce policy risks.	Improve the comprehensive utilization rate of resources and reduce the environmental and social performance costs of projects.	Promote the economic development of the community.	Develop and innovate premium financial products and enhance brand value, thereby enhancing EPFIs' professional capacities to achieve long-term development.
Improve borrowers' comprehensive competitiveness and promote sustainable development.	Assist projects in fostering a good relationship with the communities where they are located, so as to enhance brand recognition and build "green" brands.	Bring on spill over effects to other business fields in the community.	Increase EPFIs' market share and expand into international financial markets.
			Clarify and adopt criteria to facilitate EPFIs' fulfillment of their social responsibility and to improve their social reputation.
			Complete EPFIs' business restructuring and transformation of their profitability mode.

# Leading Environmental and Social Risk Management Practices



As one of China's earliest commercial banks to be concerned about energy conservation and emission reduction and advocating green credit, the Bank, by adhering to the Scientific Outlook on Development and making social responsibility and sustainable finance its core philosophies and values, has become committed to the adoption of the Equator Principles, introduced energy efficiency financing, and actively developed the carbon finance business and sustainable financial products at multiple levels. The Bank also determined to make its "Green Bank" brand bigger and stronger and to enhance its core competitiveness for long-term sustainable development by providing excellent financial products and services and to exert its influence in support of social, economic and environmental sustainable development.



On June 4, 2009, the Bank was nominated as "Sustainable Bank of the Year" and "Emerging Markets Sustainable Bank of the Year", and won the "Emerging Markets Sustainable Bank of the Year (Asia)" in the selection of " FT Sustainable Banking Award 2009" jointly created by the Financial Times (UK) and IFC, becoming the first Chinese bank who was nominated in this competition for three consecutive years and awarded twice. In this picture, our Vice President, Mr. Kang Yukun, on behalf of the Bank, received the award from Mr. Lars Thunell, the EVP & CEO of IFC.

## Environmental and Social Risk Management System

### Environmental and Social Risk Management Policy

The environmental and social risk management statement of the Bank: The Bank will continue to focus on environmental and social issues in the credit business, to develop its finance business by an approach "beneficial" to both the environment and the society, to guide its business development according to the concept of sustainable development, and to persist in its pursuit of the balance of economic benefits and corporate social responsibility.

The Bank undertook to fulfill the following environmental and social responsibilities:

- To strictly abide by the relevant laws and regulations in China pertaining to the environment and the society and to carry out its business legally.
- To loan in those sustainable projects identified as beneficial to solving economic, environmental and social risks, to advocate actively for ecological protection, ecological construction and green industry finance, and to continuously improve its financial instruments.
- To actively help those business partners that hold the same view on sustainable development while undertaking to solve their environmental and social related issues, and to provide related financial products and services, including assisting its customers to improve their environmental and social management systems and to provide retail customers with environment-friendly finance and investment products.
- To strive to build a conservation-oriented bank, to promote energy conservation and emission reduction in internal management, and to promote awareness of environmental and social risks within the corporate culture.
- To closely follow and continuously improve all environmental and social risk management measures, and conduct regular reviews and revisions based on the changing external conditions and information, and to ensure the full applicability of the Bank's environmental and social management system.

### Standards Applicable to Environmental and Social Risk Management

The standards applicable to the Bank's environmental and social risk management include the following aspects:

- External standards: the laws and regulations on environment, health, safety and other bank credit standards in the PRC, including related laws, regulations, rules and other regulatory documents.
- Internal standards: the internal credit guidelines, risk management system, operational procedures and internal management standards of the Bank on the environment, health and safety issues.
- Special standards: the "Equator Principles" and its "Performance Standards" and "Environment, Health and Safety Guidelines".

## Environmental and Social Risk Management Process

Environmental and social risk management process of the Bank's credit business

Management phase	Management process
<b>Pre-disbursement investigation</b>	<ul style="list-style-type: none"> <li>To require a full investigation and comprehensive evaluation on the environmental and social performance of clients and their projects.</li> </ul>
<b>Access threshold for credit business</b>	<ul style="list-style-type: none"> <li>To develop credit business access criteria for major industries and to enhance industry classification management.</li> <li>To adopt "Environment-One-Vote Veto" system, to carry out full assessment on environmental issues, and firmly refuse to grant credit to environmental non-compliance projects.</li> <li>To no longer provide any credit support to projects that have failed to pass the EIA approval or inspection and acceptance of environmental protection facilities.</li> </ul>
<b>Loan disbursement review</b>	<ul style="list-style-type: none"> <li>To carry out loan project reviews to ensure that projects meet required lending criteria in areas such as environmental standards and assessment reports.</li> </ul>
<b>Post-disbursement management</b>	<ul style="list-style-type: none"> <li>To manage customers and projects by applying the "name list system management mode" and to require input and management of environmental and social information identifiers.</li> <li>To strengthen post-disbursement environmental and social risk monitoring, dynamic tracking, feedback and analysis, and to promptly detect and deal with any risk pre-warning signals.</li> <li>To prepare to gradually press for recovery of all loans on those existing projects found to have environmental non-compliance or pollutant discharged exceeding stipulated levels upon the post-disbursement inspection.</li> </ul>

For those project financings applicable to the Equator Principles, in addition to strict compliance with the aforesaid environmental and social risk management processes, other procedures such as categorization, due diligence on environmental and social risks, compliance undertakings for environmental and social risks, preparation of action plans and other processes will also be required to be added under these principles, the particulars are detailed in the section on "Practice" in this report.

## Organizational Structure for Environmental and Social Risk Management

Administrative bodies	Environmental and social management responsibilities
<b>Board of Directors</b>	To decide overall strategy and the basic system.
<b>Senior management</b>	To formulate the environmental policies and operational guidelines.
<b>Environment officials</b>	To coordinate all environmental and social risk management-related works.
<b>Credit business-related departments in Head Office and branches</b>	To perform environmental and social risk management work according to the prescribed standards.
<b>Sustainable Finance Division in Head Office</b>	To take the lead in management of environmental and social risks and to promote the construction of sustainable finance.

## Operations of Environmental and Social Risk Management

Operation mode	Specific measures
<p><b>Strengthening the full-range monitoring on credit flow</b></p>	<ul style="list-style-type: none"> <li>● To adopt "Environment-One-Vote Veto" system as the access threshold for credit business for projects that failed to meet environment requirements.</li> <li>● To require projects comply with the national "Energy Conservation and Emission Reduction" requirements, and to add other specific assessments and demonstration requirements such as project market prospects, economic benefits, energy conservation and environmental protection.</li> <li>● To strictly regulate the industry access standards and to classify the credit business industry selection as follows: <ul style="list-style-type: none"> <li>★ For new projects, taking the state's industrial policies as a yard stick, to no longer provide any credit support to those classified under the restriction and elimination categories within the state's industrial policies.</li> <li>★ For project financing, deny credit to those with no approval from the environmental authorities.</li> <li>★ For projects completed and in normal operation but classified under the elimination category, prohibit all forms of additional credit; for projects already granted credit, to take measures to gradually recover that credit; for existing production capacity classified within restriction category and belonging to a state-authorized enterprises which take measures to upgrade within a given period, to cautiously support these projects with close monitoring on their industrial upgrading conditions.</li> </ul> </li> <li>● To require credit review functions to pay close attention to the following social issues: <ul style="list-style-type: none"> <li>★ For projects requiring financing that are involved in demolition and resettlement issues, to generally reject credit applications where demolition and resettlement process disputes have occurred.</li> <li>★ Pay particular attention to labor problems within enterprises and deny credit support to the applicants involved in such disputes.</li> </ul> </li> <li>● To strengthen post-loan monitoring on environmental and social risks, the specific measures include: <ul style="list-style-type: none"> <li>★ Pay attention to potential risks in "Two Highs" industries (high energy consumption and high pollution emissions), to issue risk tips, and to take proactive and targeted measures to control total invested credit.</li> <li>★ To establish a risk warning mechanism, to strengthen post-loan management and double-line post-loan checks, and to establish a regional risk pre-warning mechanism.</li> <li>★ To conduct routine monitoring and risk investigation on "Two Highs and One Resource" (high energy consumption, high pollution and resource-oriented enterprises) loans on a regular basis, and to take measures, such as lower risk classification ratings, providing sufficient loan reserves, prompt and proactive withdrawal from projects according to their project's risk profiles.</li> </ul> </li> </ul>
<p><b>Concerning about information collection and management</b></p>	<ul style="list-style-type: none"> <li>● To make full use of the "Information Disclosure System" of the China Banking Regulatory Commission and the environmental information issued by national ministries as the decision-making reference for credit review and approval.</li> <li>● To regularly update the information on the environmental black list, to set up different business handling permissions within the credit management system, to restrict credit support to companies on the black list; to conduct special post-loan inspections to blacklisted enterprises, and urge enterprises to rectify and comply, and to decisively withdraw from projects that fail to meet rectification conditions.</li> </ul>

Operation mode	Specific measures
<b>Strengthening internal capacity building</b>	<ul style="list-style-type: none"> <li>● To enhance training related to sustainable finance, to enhance the employees' environmental and social risk management capabilities and upgrade our risk management levels</li> </ul>
<b>Paying attention to the building of the public exchange mechanism</b>	<ul style="list-style-type: none"> <li>● To help clients enhance their environmental and social risk awareness, and to provide them with solutions for all their environmental and social issues.</li> <li>● To establish an information disclosure and customer complaints mechanism, to enhance public communications through publicity and training, public service activities, etc., and to increase the public awareness and acceptance of environmental and social risk management.</li> </ul>
<b>Establishing the information disclosure system</b>	<ul style="list-style-type: none"> <li>● To constantly improve the information disclosure system, and effectively improve the quality of that information.</li> <li>★ To disclose to investors all major operational and management information (including environmental and social risk management) through periodic reports (such as annual reports, interim reports and quarterly reports) and reports on major issues in accordance with the laws and regulations.</li> <li>★ Corporate Social Responsibility Reports: To disclose on an annual basis the processes, systems, practices and outcomes of the Bank's fulfillment of its social responsibilities, and to propagate the Bank's philosophy of social responsibility and sustainable financial innovation practices.</li> <li>★ The annual reports of the Equator Principles: To disclose the Bank's implementation of the Equator Principles during the year in accordance with the requirements of the Equator Principles.</li> <li>★ Environmental and Social Performance Reports: To regularly disclose the management measures and business results of the environmental and social risk management within the Bank.</li> </ul>
<b>Strengthening the internal environmental management</b>	<ul style="list-style-type: none"> <li>● To encourage employees to establish a scientific awareness of energy conservation, to promote the use of energy conservation products, propagate the concepts of energy conservation and environmental protection, and to strengthen environmental management. The specific measures include:</li> <li>★ To formulate "Administrative Measures on Office Energy Conservation" in order to encourage employees to establish scientific views towards energy conservation.</li> <li>★ To improve working efficiency in various ways, such as office automation systems, video conferencing, remote training and mobile office systems, etc.</li> <li>★ To strengthen the supervision and encouragement of energy conservation activities.</li> </ul>

# Industrial Bank's Equator Principles Implementation System



## **Our Implementation Principles**

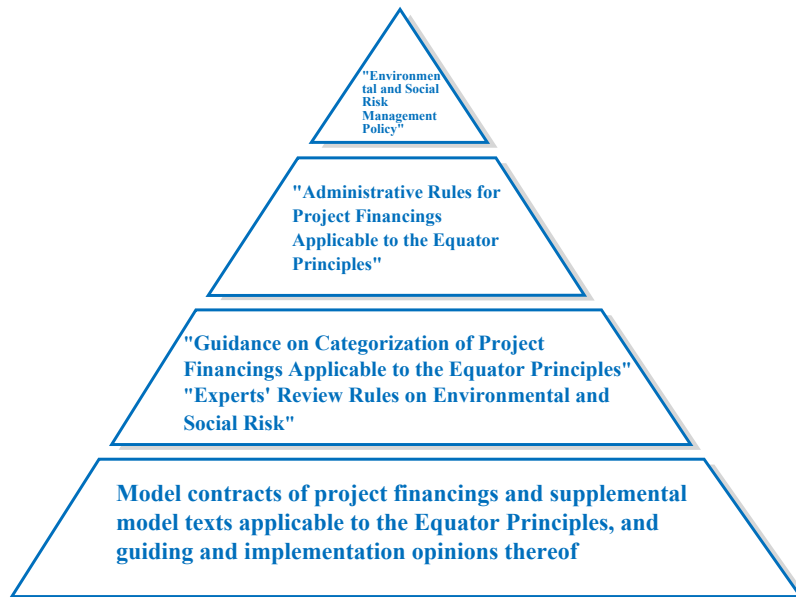
Industrial Bank is applying the Equator principles to applicable project financings under the principles of law-compliant operation, risk under control, centralized management, segmented operation, standardized work process and promotion of sustainable development.

## **Our Organizational Framework**

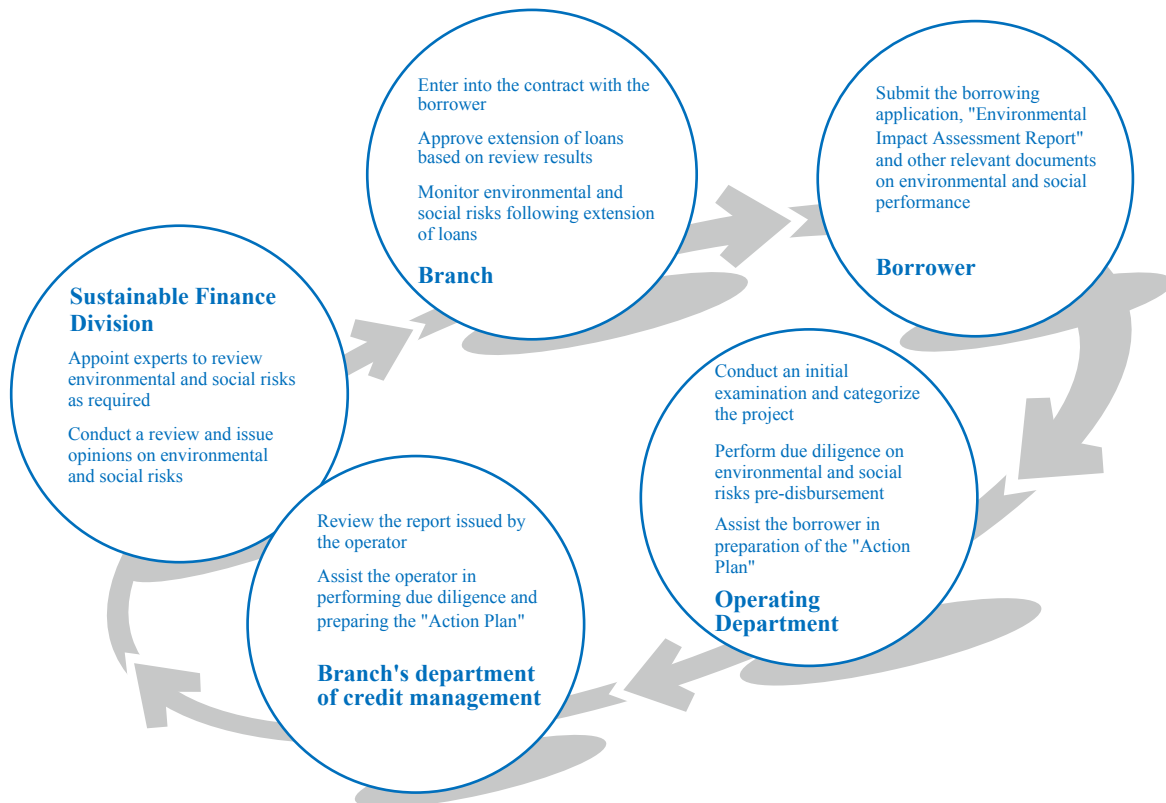
Industrial Bank has established the Equator Principles Working Group for the compliance with Equator Principles. The Working Group is headed by Gao Jianping (Chairman) and includes Li Renjie (President), Kang Yukun, Chen Dekang, Jiang Yunming, Lin Zhangyi (all being our Vice Presidents), Tang Bin (Secretary to the Board of Directors) as its team members. Furthermore, eight departments of the Bank have been involved in this Working Group, such as the Planning & Financial Department, Risk Management Department, Credit Control Department, Legal and Compliance Department, Corporate Finance Department, VIC Department and Office of the Board of Directors. The Equator Principles Working Group Office is located at Sustainable Finance Division, Legal and Compliance Department. In addition, we designate the sustainable financing function responsible for their own environmental and social risk management in each our branches.

The headquarters' Sustainable Finance Division, in charge of the overall environmental and social risk management and made up of five members specialized in various fields including legal, financing, biotechnology, environmental engineering, was established to perform the duties of the Equator Principles Working Group office, formulate our environmental and social risk management policies and systems, prepare the implementation plan of the Equator Principles, and take charge of the promotion, communication and liaison work of our sustainable financing business, in order to provide guiding opinions to its operating arms with respect to the development of sustainable financing business.

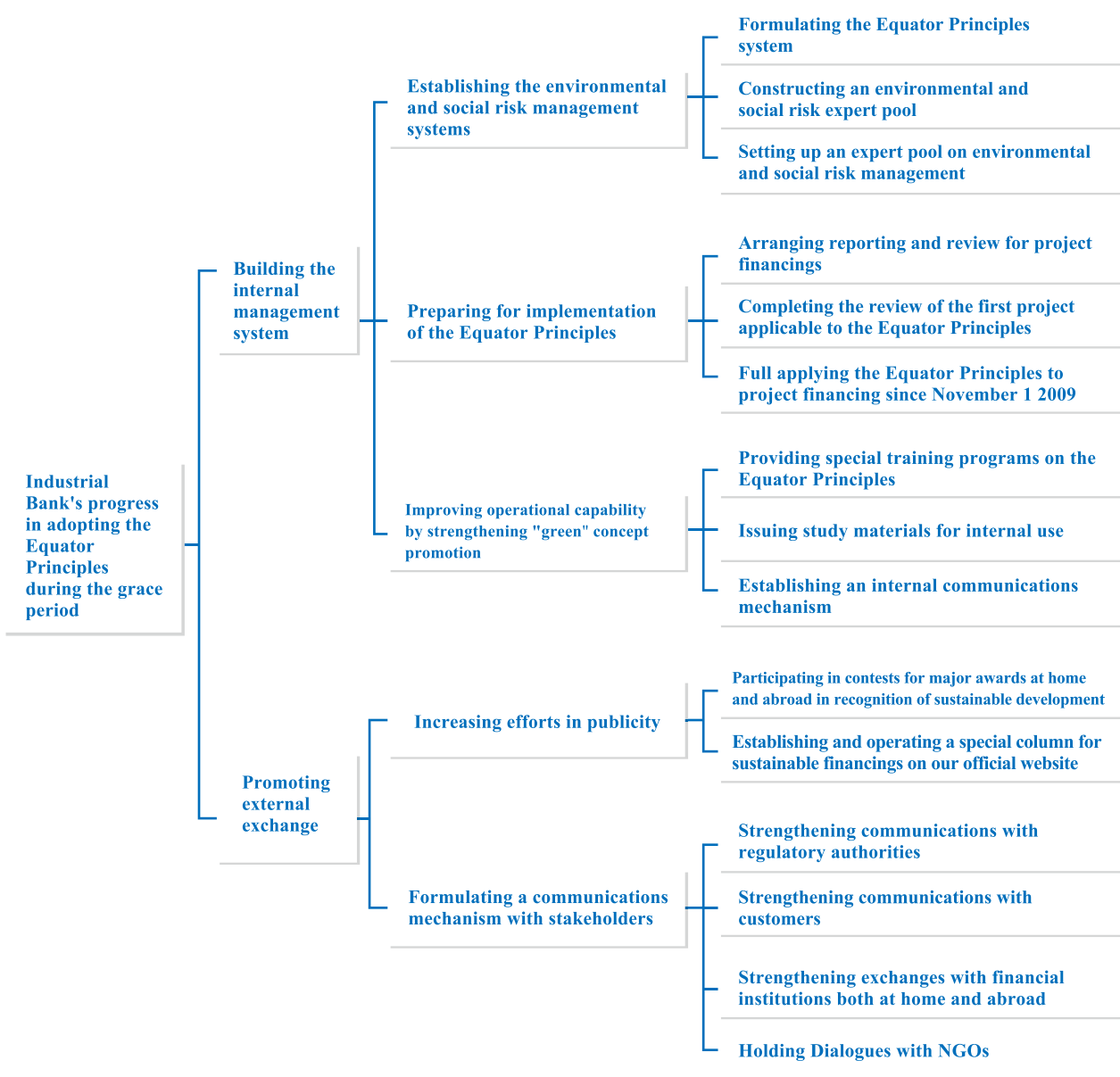
## Our System Diagram



## Environmental and Social Risk Management Flowchart for Project Applicable to Equator Principles



## Industrial Bank's Work Progress during the Grace Period after Adopting Equator Principles



**Commitment to our customers:**

We cherish our relationships with our customers, as we acknowledge it is fundamental that banks and enterprises work towards win-win situations.

We are innovative and professional, as we are one of the first banks studying the Equator Principles and the first EPFI in China.

We are developing in a comprehensive manner, as we participate in the practical environmental and social performance management of projects and jointly assume risks with our customers.

**Feedback from our customers:**

We trust Industrial Bank as it practically fulfils social responsibility through business operations.

We recognize the need to implement the Equator Principles, as the concepts and approaches outlined in the Equator Principles are in line with our ultimate goal of sustainable development.

We take the initiative in response to the macro environment to continuously promote the common benefits and interests of enterprises, the environment and the community.

## Industrial Bank's Implementation Status of Project Financings Applicable to the Equator Principles in 2009

According to the Equator Principles Secretariat, there is a one-year grace period after a financial institution agrees to adopt the Equator Principles, which is intended for the financial institution to build an internal system and to enhance its capabilities in accordance with the requirements of the Equator Principles. During the grace period, we began to assume the environmental and social risk management work of some projects in accordance with the Equator Principles following the completion of our internal system building during

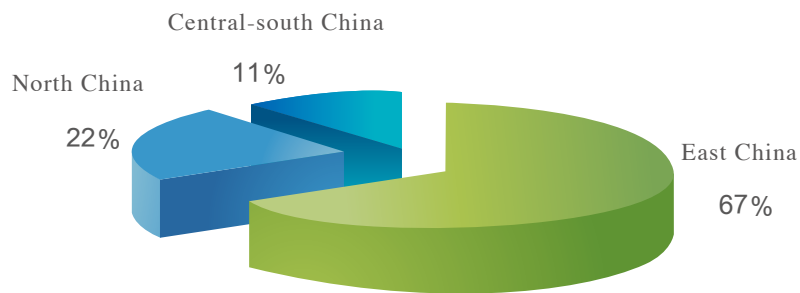
the one-year grace period.

As of December 31, 2009, after due review and analysis, the Bank confirmed there were nine project financings applicable to the Equator Principles, of which one project financing had completed extension of the loan, with the project progress of the remaining set forth below:

### Progress of Industrial Bank's Project financings applicable to the Equator Principles in 2009

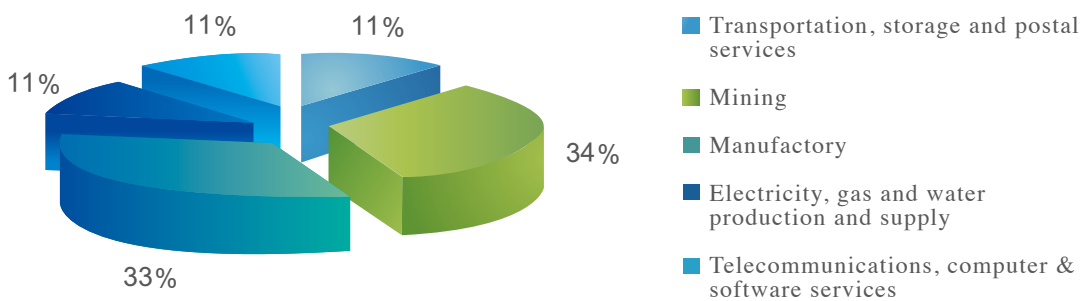
Category of project	No. of projects with applicability determination and categorization completed	No. of projects under due diligence	No. of projects with loan(s) granted	Total project capital cost (RMB billion)
A	1	1	0	2.404
B	5	1	1	3.898
C	0	0	0	0

**Progress of Industrial Bank's Project Financings Applicable to the Equator Principles in 2009 (by geographical location)**



(Note: North China includes Beijing, Tianjin, Shanxi, Hebei; East China includes Shanghai, Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi, Shandong; and Central-south China includes Henan, Hubei, Hunan, Guangxi, Guangdong.)

**Industrial Bank's Project Financings Applicable to the Equator Principles in 2009 (by industry)**



## Case 1: Fujian Huadian Yong'an Power Generation 2×300MW Expansion Project, the First Equator Principles project in China's banking industry

### Brief Introduction of the Project

Located in Yong'an City, Fujian Province, Fujian Huadian Yong'an Power Generation Co. Ltd. (hereinafter referred to as "Yong'an Huadian") is a medium-sized power generation company in Fujian with an installed capacity of 350MW. As its power generating units were outdated and of low efficiency, Yong'an proposed a 2×300MW expansion project in 2009 in response to the State's industrial policy of "Developing generating units with large capacity and cutting generating units with small capacity", which is formulated to gradually re-engineer and phase out heavily polluting equipment with a low resource utilization rate. The project is among the prioritized power generation construction projects in Fujian Province, and is designed to reduce the emission of sulfur dioxide and nitrogen oxide by employing circulating fluidized bed boiler combustion technology for in-furnace desulfurization. After completion, the project is expected to reduce soot emissions by 1,530 tonnes and sulfur dioxide emissions by 12,245 tonnes per annum respectively, which is of great significance to the improvement of local air quality, mitigation of acid rain, and enhancement of the quality of forest products.

### ■ Factors we considered

- To observe the Equator Principles by carrying out environmental and social risk assessments, reviews and monitoring.
- To communicate with customers in a comprehensive and multi-level manner to interpret the Equator Principles and bring about a consensus.

### ■ Actions we took

- Categorized the project to Category B based on the magnitude of its potential environmental and social impacts, by reference to the industry to which the project belongs and the environmental and social sensitivity in the project-affected community.
- Appointed a third party to perform due diligence on environmental and social risks prior to the grant of credit.
- Assisted the borrower in preparation of an "Action Plan" of strong feasibility and easy monitoring,

which contained 17 action initiatives including establishment of a social and environmental management system, preparation of employees' occupational safety and operating manuals, more stringent control over production dusts (such as coal dust, dirt dust and limestone dust produced from the desulfurization system), assessment of livelihood impacts on farmers whose lands were to be take over for use in the project, and assessment of current conditions of the relocated enterprises and their employees in the project-affected area.

- Conducted an environmental and social risk review based on the due diligence.
- Entered into the contract in compliance with the "Action Plan" and the related environmental and social risk management requirements, to be observed and fulfilled by the borrower within the agreed timeframe.
- Monitored environmental and social risks subsequent to extension of loans by conducting inspections on a quarterly basis.

## ■ Benefits to the environment and the society

Being one of the prioritized power generation construction projects in Fujian Province, the project is designed to reduce the emissions of sulfur dioxide and nitrogen oxide by employing circulating fluidized bed boiler combustion technology for in-furnace desulfurization, which is of great significance to the improvement of local air quality and mitigation of acid rain.

### **Improvement in environment:**

- The project is anticipated to reduce soot emissions by 1,530 tonnes after re-engineering per annum.
- The project is expected to reduce sulfur dioxide emissions by 12,245 tonnes after re-engineering per annum.
- With the plant drainage system designed and constructed under the principle of "Water-sewage separation and rainwater-sewage separation" in position, all industrial wastewater and domestic sewage will be recycled rather than be discharged.

### **Benefits to the borrower's management:**

- Established environmental and social assessment and management systems.
- Improved occupational safety mechanisms and pollution prevention and abatement mechanisms.
- Facilitated sound communications mechanism with the community by balancing the interests between the community and the project.

### **Benefits to the society:**

- The new plant location will be one kilometre away from the nearest community after inauguration of the expanded project. The borrower's daily operations will not result in a significant impact on the neighbouring communities as the new project is to take better safety and protection initiatives.
- Issues regarding relocation compensation have been properly resolved and no dispute or litigation has been involved.
- Employment for local residents was created by the borrower's project.

### ■ Positive significance

- The borrower's awareness of and sensitivity to risk identification and risk elimination have been enhanced.
- The borrower's environmental and social risk management has been strengthened.
- Triple benefits - environmental, social and economic - have been achieved.

### ■ Feedback from the borrower

*"With the characteristics of the core and hub of modern economy, Commercial banks are required to assume greater environmental and social responsibility. After our research and investigation, we recognized that the most responsible banks are those which have adopted the Equator Principles and incorporated environmental and social risk management as an integral part of risk management into their own daily operation and business management. Therefore, Yong'an Huadian is very much in line with Industrial Bank with respect to fulfillment of social responsibility."*

—— Mr. Huang Biaobin, General Manager of Fujian Huadian Yong'an Power Generation Co., Ltd.

### ■ Project experience

- The Bank attached great importance to positive communications and interactions with our customers.
- The Bank stressed the provision of training and guidance programs to our branch staff, and endeavoured to fully capitalize on our value-added environmental and social risk management tools.
- The Bank introduced external experts on a timely basis depending on the complexity of the project and the phase of internal capacity building.
- The Bank endeavored to combine our concept of sustainable development with the environment and social risk management of the project, in an effort to create a win-win sustainable business model.

## Case 2: the Dock Project of Quanzhou Shipyard Co., Ltd.

### Brief Introduction of the Project

Quanzhou Shipyard Co., Ltd. intended to build a 300,000-tonne repair and maintenance dock on the mountain bedrock. This project involved a requisition of land and the relocation of 375 families residing therein. There is approximately 300-400 meters in straight-line distance between the proposed dock and the nearest community, which is one of the newly established settlement areas for the relocated residents after the commencement of construction of the project. This project is well regulated in terms of environmental, social and security management, and a series of standardized documents covering safety management, human resource, environmental monitoring, training and emergency pre-proposal have been formulated.

### ■ Actions we took

- Categorized the project to Category B based on the magnitude of its potential environmental and social impacts, by reference to the industry to which the project belongs and the environmental and social sensitivity in the project-affected community as well as the environmental and social issues arising from the construction of the project, including labor and working condition, pollution prevention and abatement, household resettlement, and biodiversity conservation.
- Appointed a third party evaluation firm to perform on-site due diligence on environmental and social risks prior to the grant of credit.
- Assisted the borrower in preparation of a feasible "Action Plan" containing 20 action initiatives including improvement of the social and environmental management systems, strengthened training and supervision of waste separation and hazardous waste management, monitoring of contractors' emergency drills carried out on a regular basis, periodic visits to the project-affected communities and with relocated persons, and implementation of the relevant compensation and resettlement initiatives for affected fishermen.
- Conducted an environmental and social risk review based on the on-site investigation and due diligence.

### ■ Feedback from the borrower

Inspired by the environmental and social risk management concepts under the Equator Principles, the project owner commissioned an external auditing firm to help formulate the corporate internal environmental and social auditing systems in order to manage environmental and social performance (for instance, attaching great importance to the selection of suppliers), and manage corporate environmental and social risks by preparing an Action Plan.

### ■ Project experience

The Bank's positive communications and scientific operation was invited and led to a thorough understanding of the Equator Principles on the part of the borrowers, based on which the borrower has committed to the improvement of its environmental and social risk management.



# Industrial Bank and Stakeholders



## Active Participation & Exploration on the Sustainable Development of China's Banking Industry

The "Opinions on Implementing Environmental Protection Policies and Rules and Preventing Credit Risks", jointly promulgated by MEP, the People's Bank of China and China Banking Regulatory Commission on July 12, 2007, emphasizes close coordination of environmental management and credit management and has unveiled the prelude to "Green Credit Policy".

The Chinese Government's proposal that the carbon emission per unit GDP be reduced by 40% to 45% between 2005 and the end of 2020 promises huge potential for the development of sustainable finance in China. We are proactively implementing the nation's green credit policy and publicizing and applying sustainable financing in several ways:

- In June 2008, we were invited to multi-level and multi-perspective summits as a member of "China's Green Credit Policy Visiting Delegation to the U.S.", which included MEP, the People's Bank of China(PBC), the China Banking Regulatory Commission(CBRC), China Development Bank(CDB) and Industrial and Commercial Bank of China(ICBC), to hold discussions with international organizations, international financial institutions and the U.S. government on the exploration of methods, theoretical concepts and practical experiences in the promotion of the green credit policy in China.
- In September 2008, we assisted the CBRC in organizing the "Energy Conservation and Emission Reduction Credit Business Training Program". At this training program, the domestic and international environmental and social risk management experts gave lectures to more than 300 high-level representatives from local CBRC offices and domestic banks and advised financial institutions on the establishment of environmental and social risk management systems, with aiming to enhancing the trainees' understanding of the risks associated with energy conservation and emission reduction credit business.
- In March 2009, Mr. Hua Bing, General Manager of our Legal and Compliance Department was invited to attend the "Environmental and Social Risk Management" training course organized by the CBRC and IFC in Beijing, where Mr. Hua shared with other financial institutions our experiences in adoption of the Equator Principles and promotion of sustainable development.
- In May 2009, at the invitation of IFC, we attended the "China's Green Credit Policy Seminar" held in Washington as a member of the Chinese visiting delegation to the U.S., which included the CBRC, the MEP, and the Export-Import Bank of China(China Eximbank).

## Sharing Sustainable Financing Experiences with Domestic Peers

In order to facilitate the development of domestic financial institutions' sustainable financing business, we have been earnestly studying the good practices used by other financial institutions in the promotion of green credit policies and sustainable financing while sharing our own experience and insights obtained in our practice, thereby making a joint contribution to the gradual application of international standards in China and the formulation of a benchmark for sustainable financing in line with the actual conditions of China's banking industry.

Since July 2008, we have been carrying out exchanges with a group of large- and medium-sized domestic financial institutions such as ICBC, China Construction Bank (CCB), CDB and Shanghai Pudong Development Bank (SPD Bank) on various topics including adoption of the Equator Principles and implementation of green credit policies and sustainable financing.

- In July 2008, we conducted exchanges with ICBC's "Green Credit Delegation" on the promotion of sustainable financing practices and processes in the domestic banking industry and both banks' experiences in the implementation of green credit policies.
- In September 2008, Mr. Hua Bing, General Manager of our Legal and Compliance Department was invited to attend the "Energy Conservation and Emission Reduction Credit" training course organized by the CBRC to give a presentation about our practices and experience in extending energy conservation and emissions reduction credit and promoting the development of sustainable financing services.
- In May 2009, Mr. Tang Bin, our Board Secretary, was invited to the corporate social responsibility seminar for listed companies organized by the Shanghai Stock Exchange, where he explained our innovative business model designed to fulfill our social responsibilities in a presentation called "Fulfilling Obligations When Making Profits: Industrial Bank's Understanding of and Commitment to Social Responsibility".
- In October 2009, a delegation with members from the public relations office, the strategic development department, the general risk management department, and the corporate and investment banking departments of SPD Bank visited us and consulted with us about the adoption of the Equator Principles and our experience in doing so.
- On October 19, 2009, Mr. Hua Bing, General Manager of our Legal and Compliance Department, was invited to deliver a speech on our experience in adoption of the Equator Principle at the "Special Training Program on Social Responsibility" organized by the CDB.
- In November 2009, Mr. Tang Bin, our Secretary to the Board of Directors, was invited to attend the "Low-carbon Economy and Financial Innovation Forum" sponsored by the Chinese Academy of Social Sciences. Mr. Tang disseminated our knowledge and shared our practices in supporting the low-carbon economy through financial innovation in a presentation titled: "Golden Opportunities from Green Finance: Financial Innovation Drives the Low-carbon Economy".
- In December 2009, at the invitation of the China Network Center of the UN Global Compact, Mr. Hua Bing, General Manager of our Legal and Compliance Department, shared our sustainable development concepts and practices with major domestic financial institutions by making a presentation at the "Social Responsibility Report and Seminar on the Sustainable Development of China's Banking Industry".

## Exploring Best Practices Together with International Peers

In order to promote cooperation under the backdrop of global sustainable development, and seize opportunities to develop internal management systems by sharing international best practices, particularly in the area of "green banking," the Bank is committed to more and more active, extensive and exhaustive external communication. The Bank conducted exchanges with famous financial institutions such as IFC, Mizuho Corporate Bank, Citibank, Barclays Bank, Itaú Unibanco Holding B.A., JP Morgan, Sumitomo Mitsui Banking Corporation, the Standard Bank Group and other international organizations including the United Nations Environment Programme in order to borrow sustainable management best practices from around the world.



In May 2009, Mr. Gao Jianping, Chairman of the Industrial Bank was invited to lead a delegation to Mizuho Corporate Bank in Japan to exchanges views with Mr. Yasuhiro Sato, President of Mizuho Corporate Bank on such topics as the corporate governance of modern banks, the strategic transformation of business structures, sustainable finance, and the management of environmental and social risks, seeking to learn from the experience of international peers and further strengthen business co-operation between the Bank and foreign banks.

■ In March 2008, Mr. Hua Bing, General Manager of our Legal and Compliance Department, held discussions with Ms. Motoko Aizawa, the then Director of the Policy and Standards Division under the Environment and Social Development Board of International Finance Corporation (IFC), over how to apply for the Equator Principles programme. They also established a permanent learning and exchange mechanism for implementing the Equator Principles.

■ In April 2008, Mr. Hua Bing met with Mr. Roberto

Dumas Damas, the chief representative of the Banco Itaú BBA S.A. Shanghai Representative Office, for talks on how to promote the Equator Principles at commercial banks in emerging markets.

■ In April 2008, Mr. Hua Bing held a talk with Mr. Osamu Odawara, the Head of the Sustainable Development Department at Mizuho Corporate Bank regarding the Industrial Bank's adoption of the Equator Principles.



In May 2008, Mr. Kang Yukun, Vice President of the Industrial Bank was invited to lead a delegation to Banco Itaú BBA S.A. in Brazil to exchange views over the adoption and implementation of the Equator Principles and the management of environmental and social risks.



In June 2009, by invitation, the Bank took a five-week course on the Equator Principles at Mizuho Corporate Bank in Japan to learn best practices in adopting and implementing the Equator Principles as well as managing international project finance from leading EPFIs. The Bank's delegation also visited the headquarters of Sumitomo Mitsui Banking Corporation in Japan and exchanged views on the philosophy and practice of the Equator Principles.

- In August 2009, Mr. Tang Bin, Secretary to the Board of Directors, was invited by National Australia Bank (NAB) in Australia to deliver a presentation titled "Promoting Sustainable Development Through Financial Innovation" on our philosophy and practice concerning energy conservation and emission reduction, environmental finance and sustainable development of the banking industry.



In October 2009, Mr. Li Renjie, President of the Bank, attended the UNEP FI 2009 Global Roundtable, at which he delivered a keynote speech titled "From Experimentation to Organizational Transformation".

- In October 2009, Mr. Li Renjie, President of the Bank, held talks with Itaú Unibanco Holding S.A. (the largest bank in South America) and the Standard Bank Group (the largest bank in Africa) concerning the Equator Principles and sustainable finance.

## Helping Emerging Markets to Develop Sustainable Finance

In recent years, experience and achievements that the Bank has gained in implementing the Equator Principles, energy conservation loans, emission reduction project loans and green loans attracted the great attention of the peers in emerging markets. In 2009, the Bank went abroad to start exchanges with other banks in emerging markets to share our achievements and practices concerning sustainable finance. These efforts were intended to foster sustainable development in emerging markets by leveraging the experiences of the Bank.

- In March 2009, at the invitation of IFC, Mr. Tang Bin, Secretary to the Board of Directors, attended the "International Symposium on Risks Management – Achieving Sustainable Development" held in Vietnam, at which he delivered a keynote speech and received a favorable response. After the meeting, he was invited to hold an exchange session on sustainability together with Sacombank and to present our experience and practice in this area.
- In August 2009, the Vietnamese Green Credit Delegation, comprised of the State Bank of Vietnam, the Ministry of Natural Resources and Environment, the Ministry of Finance, the Ministry of Industry and Trade, the Ministry of Planning and Investment, the Economic Commission under the National People's Congress of Vietnam and major commercial banks, visited the Industrial Bank, for inspection and exchanges on the practice of green credit and the Equator Principles.



## Holding Dialogues with NGOs to Seek Extensive Co-operation

The Bank has always attached great importance to co-operation and communication with non-governmental organizations (NGOs) at home and abroad, and has established good relationships with NGOs in order to explore coordinated efforts for sustainable development.

Currently, the Bank has exchanges with several institutions including the World Wide Fund for Nature (WWF), the BankTrack, the Green Watershed and other NGOs at home and abroad. We take all kinds of views and voices from NGOs seriously and work with NGOs with a view to raising the Chinese public's environmental awareness and fostering the sustainable development process through concerted efforts.

The Bank has built a strong communications channel with the WWF in exchange for expert, technical and platform support for our sustainable finance programmes.

- The Bank invited WWF experts to offer training on the Equator Principles, advice on establishing the system and processes related to the Equator Principles, and on the implementation of the Equator Principles.

sustainability and learn best practices for sustainable finance from around the world.



- The Bank was invited to attend the "Finance, Environment and Development Forum", "Low Carbon Business Innovation Forum" and other activities organized by the WWF, to present our experience and achievements in developing

- In November 2009, the Bank sent personnel to receive a course on environmental and social risk management in developed countries in Europe, which was initiated by China Eximbank and organized by the WWF, to broaden our understanding and management of environmental and social risks.



On 3 December 2009, Mr. Hua Bing, General Manager of our Legal and Compliance Department, representing the Bank, received the award of the "Merit Conservation Supporter" from Mr. Dermot O'Gorman, the Chief Representative of WWF (China).

- In January 2008, the Bank became a signatory investor of CDP, the first one of its kind in China.

- In October 2008, the Bank was honored by being asked to write a preface to the CDP 2008 China Report. The Bank has also made carbon disclosure by submitting the CDP questionnaire in 2009.

# Appendix



## Major Events in Sustainable Development of Industrial Bank (2008-2009)

### Corporate Governance

- On March 18, 2008, at the 7th meeting of the Sixth Board of Directors, the "Outline of the Comprehensive Businesses Plan of the Industrial Bank" was approved, which further defined the overall objective, basic principles and major measures for comprehensive operation, reflecting the Bank's intention to standardize and push forward the comprehensive operation gradually.
- On June 28, 2008, at the 5th meeting of the Sixth Board of Directors, the Proposal for Adopting the Equator Principles was unanimously approved.
- On July 17, 2008, the Bank established the Equator Principles Working Group for the compliance with Equator Principles. The Working Group is headed by Gao Jianping (Chairman) and includes Li Renjie (President), Kang Yukun, Chen Dekang, Jiang Yunming, Lin Zhangyi (all being our Vice Presidents), Tang Bin (Secretary to the Board of Directors) as its team members. Furthermore, eight departments of the Bank have been involved in this Working Group, such as the Planning & Financial Department, Risk Management Department, Credit Control Department, Legal and Compliance Department, Corporate Finance Department, VIC Department and Office of the Board of Directors. The Equator Principles Working Group Office is located at Sustainable Finance Division, Legal and Compliance Department.
- On July 30, 2008, the Bank formulated the overall plan for the Bank's operation after adoption of the Equator Principles, focusing on the current targets and based on the division of labor and cooperation between various departments.
- On August 1, 2008, the Bank submitted the proposal for adopting the Equator Principles to the CBRC.
- On October 31, 2008, the Bank held a press conference in Beijing, announcing adoption of the Equator Principles, and thus becoming the first EPFI in China. This signaled that the Bank is a pioneer among the domestic commercial banks in terms of introducing internationally advanced mode, strengthening the environmental and social risk management and promoting the scientific and sustainable development.

## Buildup of Internal Capability

- On December 22, 2009, the Bank held the "Ceremony and Press Conference on the First Equator Principles Project of China Banking Sector" in Yong'an, Fujian province, and formally announced the completion of the first project applicable to the Equator Principles.

## External Exchanges

- On March 18, 2008, Mr. Hua Bing, General Manager of our Legal and Compliance Department met with Ms. Motoko Aizawa, the Head of the Policy and Standards Unit of Environmental and Social Development Board of IFC, in Beijing for a talk on specific issues on the adoption of the Equator Principles.
- On April 2, 2008, Mr. Hua Bing, General Manager of our Legal and Compliance Department had an in-depth discussion in Shanghai with Mr. Roberto Dumas Damas, Chief Representative of Banco Itaú BBA S.A. - Shanghai Representative Office, over the Equator Principles.
- On April 18, 2008, Mr. Hua Bing, General Manager of our Legal and Compliance Department had a discussion in Shanghai with Mr. Osamu Odawara, Head of the Secretariat Office of the Sustainable Development Department of Mizuho Corporate Bank, which is the bank member of Equator Principles responsible for the daily affairs related to the Equator Principles in Asia Pacific

Region, on issues related to the Bank's application for adopting the Equator Principles.

- On May 20, 2008, Mr. Kang Yukun, Vice President of the Bank, was invited and led a delegation to attend an Equator Principles Conference specially organized for the Bank by the IFC in the U.S. The two parties discussed issues related to the adoption and implementation of the Equator Principles and the environmental and social risk management associated with investment projects.
- On May 27, 2008, Mr. Kang Yukun, Vice President of the Bank, was invited and led a delegation to visit Banco Itaú BBA S.A. The two parties discussed specific issues related to the adoption and implementation of the Equator Principles.
- In June 2008, Mr. Hua Bing, General Manager of our Legal and Compliance Department, was invited to join "the China's Green Credit Policy U.S. Survey Group" consisting of the MEP, the PBC, the CBRC, the CDB and the ICBC, and attend a multi-level and multi-angle high level dialogue with international organizations, international banks and the U.S. government, to explore the promotion methods, theoretical basis and practical experience of green credit policy in China.
- On September 25, 2008, the "2008 National Conference of Presidents of the Joint Stock Equity Commercial Banks in China", jointly organized by the Bank and the People's Government of Guangxi Autonomous Region, was grandly opened

in Nanning. The "Social Responsibility Statement of the Joint Stock Commercial Banks in China" was signed at the conference. Mr. Li Renjie, President of the Bank, delivered a speech at the conference titled "Embedding social responsibility in profitability - Understanding and Practice of Social Responsibility – with Examples Taken from the Energy Efficiency Financing and the Comprehensive Service Solution, Bank-to-bank Platform of Industrial Bank".

- On October 24, 2008, the Bank hold the symposium on "Opportunities and Challenges Facing the Bank in Adopting the Equator Principles" in Beijing to invite officials from the NDRC and representatives from our top ten customers.
- In March 2009, Mr. Tang Bin, Secretary to the Board of Directors, was invited to attend the "International Symposium on Risk Management– Achieving Sustainable Development" in Vietnam, and delivered a key note speech; after that, he attended an exchange session on sustainable finance organized by Sacombank to introduce the experience and practices of the Bank in relation to sustainable finance.
- On March 26-27, 2009, Mr. Hua Bing, General Manager of our Legal and Compliance Department, was invited to attend the "Environmental and Social Risk Management Training Course" jointly organized by MEP and

the IFC in Beijing and delivered a keynote speech titled "The Adoption and Implementation of the Equator Principles".

- On May 8, 2009, Mr. Gao Jianping, Chairman of the Bank, was invited to lead a delegation to visit Mizuho Corporate Bank in Japan, and had a business talk with its President, Mr. Yasuhiro Sato, about the Equator Principles, inter-bank cooperation and the environmental and social risk management.
- In May 2009, Mr. Tang Bin, Secretary to the Board of Directors, was invited to attend the "Symposium on the Social Responsibility of Listed Companies" organized by the Shanghai Stock Exchange, and presented the innovative business mode by which the Bank fulfilled its social responsibility with a speech titled "Embedding social responsibility in profitability - the Industrial Bank's Understanding and Practice of Social Responsibility".
- On May 19-20, 2009, Mr. Hua Bing, General Manager of our Legal and Compliance Department, was invited to attend the "Finance, Environment and Development Forum" jointly sponsored by the Policy Research Center for Environment & Economy, MEP, the Energy Research Institute of NDRC, the Finance Research Institute of People's Bank of China and the WWF China, and delivered a speech titled "The Industrial Bank's Adoption & Implementation of the Equator Principles and the Progress".

## External Comments

■ *"Industrial Bank is the first bank in China to announce the adoption of the Equator Principles, a critical move to demonstrate China's domestic banks' image of "sustainable bank" in the international arena."*

—— Quoted from the article "Equator Principles: A Benchmark of Project Financing for Commercial Banks —— Inspiration from the Termination of the Project SakhalinII" jointly contributed by Chen Sheng from the Policy and Regulation Department of the China Banking Regulatory Commission and Feng Shouzun from the Planning & Development Department of China CITIC Bank, [www.xinhuanet.com](http://www.xinhuanet.com), June 1, 2009

■ *"This is an important step represented by a non-governmental force's participation in the promotion of the concept of "green" banks. It is a huge honor and responsibility to the award winner. The judging panel expects China Industrial Bank can continue its innovation and build up a model green bank in China."*

—— Yu Xiaogang, Director of "Green Watershed", a non-governmental organization.

■ *"Industrial Bank's adoption of the Equator Principles is an important move with symbolic significance. It conveys a positive signal to China's whole banking industry that commercial banks, which carry a significant weight in the financial industry, have gradually realized that more social responsibility should be assumed and there is a feasible way to fulfill it: to adopt advanced financial technologies to control high energy consumption and high pollution and ultimately to achieve sustainable development of the society. Thus, with its success on developing the first financial product on energy conservation and emission reduction in China's banking industry, Industrial Bank has become the pioneer and promoter of "Green Credit", and has been continuously exploring green finance business in depth ever since."*

—— Quoted from China Business News, August 13, 2008

- *"Among the banks engaged in the implementation of the Green Credit Policy, the experience of Industrial Bank is unique. We see more and more financial institutions in China showing their interest in following Industrial Bank to adopt higher environmental and social standards."*  
——Commentated by Michael Ipson, IFC country manager of China and Mongolia, quoted from Directors & Boards, August 21, 2009
  
- *"Today, Industrial Bank made a public commitment to the adoption of the Equator Principles, which have been formulated to ensure environmentally friendly projects with appreciation potential but also with difficulty in provision of sufficient pledges are granted loans by offering a standardized risk monitoring system to banks around the globe."*  
——Quoted from "Industrial Bank to Adopt Equator Principles", XINWEN LIANBO, CCTV, October 31, 2008
  
- *"Industrial Bank's decision to adopt the Equator Principles illustrates how Chinese companies*

*can increasingly take on a leadership role in the global economy. It is also a good example of how cooperation between the World Bank Group and China can yield benefits for people inside China and beyond."*

——Commentated by Robert B. Zoellick, World Bank Group President, quoted from Securities Daily, November 3, 2008

- *"Financial institutions like HSBC and the Industrial Bank of China have signed up to the Equator Principles on project finance, because they know investments that harm the environment or vulnerable groups also reduce investor and customer confidence."*  
——Quoted from "Obama's China Moment" by Joshua Wickerham, China representative of Accountability, an international, non-profit research organisation, quoted from China Dialogue, November 16, 2009



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