

Notice of the China Banking Regulatory Commission CBRC on Issuing the *Green Credit Guidelines*

CBRC local offices, policy banks, state-owned commercial banks, joint-stock commercial banks, financial assets management companies, the PSBC, provincial rural credit unions, as well as all trust firms, enterprise group finance companies and financial leasing firms directly regulated by the CBRC:

To implement the macro adjustment policies provided for in the *Integrated Working Plan of the State Council for Energy Conservation and Emission Reduction during the 12th Five-year Period* and the *Comments of the State Council on Strengthening Environmental Protection Priorities*, and to follow the requirements of matching supervisory policies with industrial policies, the CBRC has formulated the *Green Credit Guidelines* for the purpose of encouraging banking institutions to, by focusing on green credit, actively adjust credit structure, effectively fend off environmental and social risks, better serve the real economy, and boost the transformation of economic growth mode and adjustment of economic structure. The *Guidelines* are hereby printed and issued for implementation.

Banking supervisory authorities should forward the *Notice* to local banking institutions and urge them into implementation.

Feb. 24, 2012

The China Banking Regulatory Commission

<http://www.cbrc.gov.cn/EngdocView.do?docID=3CE646AB629B46B9B533B1D8D9FF8C4A>

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Green Credit Guidelines

Chapter I. General Rules

1. The Guidelines are developed on the basis of the *Banking Industry Regulation and Administration Law of the People's Republic of China* and *Commercial Banking Law of the People's Republic of China*, with a purpose to promote green credit growth among banking financial institutions.

2. The Guidelines apply to policy banks, commercial banks, rural cooperative banks and rural credit unions established within the People's Republic of China (hereafter referred to as banks).
3. Banks shall promote green credit as a strategy, support economy to grow in a green, low-carbon and recycled model through business innovation, manage environmental and social (E&S) risks, improve banks' own E&S performances, and in doing so optimize credit structure, improve services and contribute to the transformation of economic growth pattern.
4. Banks shall effectively identify, assess, monitor, control or mitigate E&S risks in business operations, develop E&S risk management systems, strengthen credit policies and processes that are related.

E&S risks as used in the Guidelines refer to potential impact and risks brought to the environment and communities by banks' clients and their primary supply chains through construction, production and operational activities, which include such E&S issues as energy consumption, pollution, land, health, safety, resettlement, eco-system protection, climate change, etc.

5. China Banking Regulatory Commission (CBRC) is responsible for the supervision and administration of banks' green credit operations, and E&S risk management.

Chapter II Organizational Structure: Roles and Responsibilities

6. Banks' Board of Directors or Council shall promote concepts related to green credit including resource efficiency, environmental protection and sustainable development, emphasize banks' role in contributing to the comprehensive, balanced and sustainable social and economic development, and develop a sustainable business model that allows win-win for banks and the society at large.
7. Banks' Board of Directors or Council is responsible for defining its green credit growth strategy, approves banks' green credit targets and reports that are developed by senior management, monitors and evaluates banks' implementation of the green credit growth strategy.
8. Banks' senior management shall, following decisions made by the Board or Council, develop green credit targets, establish mechanism and processes, clarify responsibilities and jurisdictions, conduct internal control and performance

evaluation, provide annual report on green credit performances to the Board or Council, and report to regulators.

9. Banks' senior management shall identify a senior manager and a department to lead and manage green credit related work and provide necessary resources. If necessary, a cross-function green credit committee may be established to coordinate.

Chapter III Policies and Capacity Building

10. Banks shall develop and improve policies, systems and procedures for E&S risk management, identify business focus and priority sectors for green credit investment in accordance with national environmental laws and regulations, sector guidelines and sector-specific entry policies. For sectors that (i) fall into restricted category and subject to national control; or (ii) have major E&S risks, banks shall develop specific credit guidelines, implement a differentiated and dynamic credit policy and put into a risk exposures control system.
11. Banks shall develop a client E&S risk rating standard to assess and categorize clients' E&S risks. The assessment and categorization results shall become important basis for clients rating, credit approval, portfolio management and exit decisions. In addition, based on such results, banks shall take different risk management measures during the 3 checkpoints of the lending cycle (due diligence, credit review and portfolio review), and in loan pricing, setting of risk-adjusted return target and allocation of economic capital.

Banks shall develop a list of clients with major E&S risks. Such clients shall be requested to develop and implement action plans for major risks involved, put in place comprehensive and effective stakeholder communication mechanism and seek risk mitigation measures, for example through a third party sharing of potential environmental risk.

12. Banks shall create a mechanism that encourages green credit innovation. Banks shall promote innovation in green credit business process, products and services under the premises of effective control of risks and sound commercial viability.
13. Banks shall improve E&S performances of its own operations, put in place relevant systems, emphasize green credit awareness raising, standardize business conducts, promote green office and improve resources efficiency.

14. Banks shall strengthen capacity building on green credit, develop and improve green credit business definition, categorization and statistics, improve relevant credit management system, enhance green credit training, recruit and train specialized staff. If necessary, banks may use qualified and independent third party for E&S risk assessment, or other professional service providers for effective outsourcing services.

Chapter IV Lending Process Management

15. Banks shall strengthen due diligence. Banks shall determine scope of E&S risk due diligence based on sectors and geographic features of clients or their projects, to ensure a comprehensive, thorough and detailed assessment. If necessary, banks may seek support from qualified and independent third party and relevant regulators.
16. Banks shall conduct stringent compliance review on clients. Banks shall develop a compliance documents list and a compliance risk review list on E&S aspects based on sector-specific features of clients, ensure that documents and permits submitted by clients are compliant, effective and complete, ascertain that clients have sufficient understanding and effective monitor and control over risks identified and are compliant in essence.
17. Banks shall strengthen credit approval management. Banks shall determine sound credit approval authorization and procedures based on the nature and severity of E&S risks faced by clients. Credit to clients with non-compliant environmental or social performances shall not be approved.
18. Banks shall improve loan agreements to urge clients to improve E&S risk management. For clients that involve major E&S risks, loan agreements shall request clients to provide E&S risks reports, contain client representations and warranties on improving E&S risk management, design covenants so that clients shall be subject to lender supervision, and provide remedies for banks in case of any breach by client on E&S aspects.
19. Banks shall strengthen loan disbursement management. Clients' management of E&S risk shall become an important basis for banks to make decision on loan disbursement. Throughout the project cycle, including project design, preparation, construction, completion, operations and closure, E&S risk assessment shall be checked systematically. In case of major potential risks, banks may hold or even terminate disbursement of funds.

20. Banks shall strengthen portfolio management. Banks shall develop and implement specific portfolio management measures for clients with major potential E&S risks. Banks should closely follow national policies' impact on clients' operational performances, maintain active monitoring and analysis, and make timely adjustment to risk categorization of assets, loan provisioning and loss write-off. Banks shall develop and improve an internal reporting and accountability system for major client E&S risks. In case of major E&S issues, banks should take measures in a timely manner and report to regulators on potential risks that banks are exposed to.
21. Banks shall strengthen E&S risk management for proposed overseas projects, ensure project sponsors are compliant with local environmental, land, health and safety laws and regulations in the project country or region. Banks shall publicly commit to adopt relevant international best practices or standards for the proposed overseas project, ensure the proposed project is consistent with international best practices in essence.

Chapter V Internal Management and Information Disclosure

22. Banks shall include green credit performances as part of internal compliance review, organize regular internal audit on green credit performances. In case of major issues identified in such reviews, banks shall follow relevant accountability regulations.
23. Banks shall develop effective green credit performance evaluation, incentive and penalty system, ensure that incentive measures are in place and implemented, and that green credit is effectively implemented.
24. Banks shall disclose green credit strategy and policies, and green credit implementation status. With regard to credit information involving major E&S risks, banks shall disclose information as required by laws and regulations and subject themselves to market and stakeholder supervision. If necessary, banks may engage qualified and independent third party to conduct evaluation or audit on banks' fulfillment of E&S responsibilities.

Chapter VI Supervision and Inspection

25. CBRC shall strengthen coordination with other regulators, establish and improve a long-term information sharing mechanism, improve information services, and provide banks with timely updates on relevant E&S risks.

26. CBRC shall strengthen offsite supervision and administration, establish and improve offsite control indicators, strengthen monitoring and analysis of E&S risks that banks are facing, provide timely guidance to banks to enhance risk management and adjust investment direction. In pursuance to the Guidelines, banks shall conduct comprehensive evaluation on green credit performances at least twice a year and file self-evaluation reports to CBRC.
27. For on-site inspections, CBRC shall take into full consideration of E&S risks that banks face, define scope and requirement for such inspection. Regions or banks with outstanding E&S risks shall be covered by specific inspection and be requested to take improvement measures based on inspection results.
28. CBRC shall strengthen guidance provided to banks to conduct self-evaluation on green credit performances, fully assess banks' green credit results based on offsite monitoring and on-site inspections, and use such results as important basis for regulatory rating, licensing, senior management performance evaluation in accordance with relevant laws and regulations.

Chapter VII Supplementary Provisions

29. The Guidelines shall become effective as of the date of promulgation. Township and village banks, loan companies, rural cooperatives and non-banking financial institutions may use the Guidelines as a reference for implementation.
30. The Guidelines shall be construed by CBRC.