



Technical Advisor

**sustainable finance**

## FT SUSTAINABLE BANKING AWARDS 2009

### Emerging Markets Sustainable Bank of the Year

The **Emerging Markets Sustainable Bank of the Year Award** recognises emerging market banks that have shown excellence in creating environmental, social and financial value across their operations.

In this category, there is one overall winner and also prizes for **regional leadership** covering Asia, Africa/Middle East, Eastern Europe, and Latin America.

#### **Who is eligible?**

This award is open to all emerging markets financial institutions involved in the provision of banking services, including commercial and investment banks, private banks, cooperatives and development finance institutions. Subsidiaries of multinational entities can enter, as long as their operations and decision-making are fully localised and their approach to sustainability is independently executed. Emerging markets banks may also apply for the Sustainable Bank of the Year Award.

#### **What is the entry submission process?**

Please complete this form and email it as an attachment to [sustainablebanking@ft.com](mailto:sustainablebanking@ft.com). The initial submission process is focused solely on this entry form. No further materials should be emailed or mailed at this time. **The deadline for applications is March 13, 2009.** Applicants may be asked to provide additional information at a later date to aid the decision-making process.

#### **What is the judging process?**

Up to three entrants will be short-listed in each regional category in April 2009. A winner and a runner-up will be announced at the FT Sustainable Banking Awards ceremony in June 2009. The best of the regional winners will win Emerging Markets Sustainable Bank of the Year.

## CONTACT INFORMATION

|                     |   |
|---------------------|---|
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### 1. SUMMARY OF STRATEGIC APPROACH

Please summarise the bank's overall sustainability approach, e.g. financing of renewables, Bottom of the Pyramid finance, environmental and social risk management -- identifying the main environmental, social and governance (ESG) benefits resulting. (400 words max)

#### **Summary of approach:**

The Industrial Bank (IB) has long upheld a commitment to sustainable financing. The Bank's corporate governance is guided by the fundamental principles that it should put scientific developmental approaches into practice, that it should fully comprehend the inherent connection between a bank's social responsibilities and its sustainable development, and that it should seek out ways of fulfilling these responsibilities in order to achieve harmony between man, nature, the environment and society. Under the guidance of these principles, sustainable development has become a fundamental part of the Bank's strategic vision. The Bank has made a commitment to support sustainable enterprises and provide finance to projects that do not harm our planet. The notion of sustainable development has become an inseparable part of the Bank's daily operations.

The Industrial Bank has specifically defined its "responsibilities in regard to the environment and resources" through a special social responsibility model. The Bank believes that it has a responsibility to promote harmony between man and nature. This means bringing the pivotal role that a bank plays in the allocation of social resources into full play and exerting its influence to support the conservation of natural resources and environmental protection.

To enhance its capacities in the management of environmental and social risks and standardize and systemize its mechanisms of management, the Bank has formulated Policies on the Management of Environmental and Social Risks. These policies have effectively redefined the way that the Bank manages environmental and social risks. Specifically, the policy addresses guiding principles, mission statements, commitments, organization arrangements and financial credit systems in this regard. This acts as a solid foundation on which further enhancements to the Bank's system of social and environmental management can be made.

On the basis of these strategic and managerial arrangements, the Bank's senior management went a step further by committing itself to the adoption of the Equator Principles. This move came after the Bank had already signed the UNEP FI Declaration. With this, the Industrial Bank became the first financial institution in China to commit itself to the Equator Principles. This was a landmark event for the participation of Chinese financial institutions in international environmental and social standards. The vision that the Industrial Bank has for carbon finance is to become a channel for the trading of China's carbon assets. It will seek to advance CDM in China through the provision of specialized financial services, and will also offer dedicated financial services in fields such as energy efficiency, reduction of GHG and sulfur dioxide emissions and watershed management.

**Summary of key sustainability benefits:**

| Environmental  | Social  | Governance  |
|--|---|---|
| <input checked="" type="checkbox"/> Energy saving<br><input checked="" type="checkbox"/> Water use reduction<br><input checked="" type="checkbox"/> Waste management<br><input checked="" type="checkbox"/> Climate change<br><input checked="" type="checkbox"/> Biodiversity conservation<br><input type="checkbox"/> Other<br><i>please describe:</i> | <input checked="" type="checkbox"/> Bottom of the Pyramid<br><input checked="" type="checkbox"/> Disadvantaged communities<br><input checked="" type="checkbox"/> Women<br><input checked="" type="checkbox"/> Poverty reduction<br><input type="checkbox"/> Other<br><i>please describe:</i> | <input checked="" type="checkbox"/> Revenue transparency<br><input checked="" type="checkbox"/> Management systems<br><input checked="" type="checkbox"/> Institution building<br><input type="checkbox"/> Other<br><i>please describe:</i> |

**2. IMPLEMENTATION: HOW DO YOU IMPLEMENT THIS STRATEGY?**

Please describe in detail the following elements of your institution’s approach for implementing this strategy.

**BUSINESS PRINCIPLES:** What overall business principles has the institution adopted?

| Business Principle  | Comment (30 words max in each case)   |
|---|---|
| UNEP-FI Declaration <input checked="" type="checkbox"/>       | In October 2007, IB officially signed the <i>Statement of Financial Institutions on Environment and Sustainable Development</i> to join the UNEP FI campaign.   |
| Equator Principles <input checked="" type="checkbox"/>        | On October 31, 2008, IB made a public commitment to adopt the Equator Principles, thus becoming the first “Equator Bank” in China.  |
| Global Compact <input type="checkbox"/>                       |   |
| Carbon Disclosure Project <input checked="" type="checkbox"/> | In 2008 and 2009, IB submitted information demands to CDP for two consecutive years and had the honor of being invited to write the foreword for the first <i>China Report on Disclosure Projects of Carbon Information</i> (2008). |
| Other <input checked="" type="checkbox"/>                     | In September 2008, IB took the lead in the issuing of the <i>Declaration of National Joint-stock Commercial Banks on Social Responsibility</i> , which was signed by 13 domestic joint-stock commercial banks.                      |

**SPECIFIC POLICIES:** What specific aspects below are addressed in your corporate policies and standards relating to sustainability? Please describe.

| Policy | Comment (30 words max in each case) |
|--------|-------------------------------------|
|        |                                     |

|  |  |
|--|--|
| <p><b>Risk Management</b></p>                    | <p><input checked="" type="checkbox"/> IB specifically formulated <i>Policies on the Management of Environmental and Social Risks</i> to define its guiding principles, mission statements, commitments, organization and financial credit policies in the management of environmental and social risks. Risk management processes cover the following aspects:</p> <ol style="list-style-type: none"> <li>1. During pre-loan research, based on the complexity of the clients' credit business, two <i>Due Diligences on Environment and Society</i> are carried out at different levels, including on-site survey by client managers at one level and an examination by IB technicians or the specialists and consultants employed by IB at another level.</li> <li>2. IB implements national green-credit policies in the review and approval of loans and has formulated detailed guidelines for credit business in major industries to thoroughly assess the environmental issues of projects and enterprises. Projects that fail to meet environmental protection requirements can be vetoed with a single opposing vote.</li> <li>3. In the approval process of loan-release, IB carries out strict review on the projects to be provided with a loan in line with approval requirements on environment and society.</li> <li>4. IB implements name list management of clients and projects and especially values entry and tracking of environmental and social information markers.</li> <li>5. IB implements post-credit management measures and tracks projects to identify environmental and social problems in a timely manner. This gives the Bank good control over credit risks.</li> <li>6. Through two-party loan agreements, IB confirms clients' obligations in regard to compliance commitments, action plans and social and environmental assessment.</li> <li>7. In project finance, IB urges clients to fulfill relevant obligations in line with the Equator Principles.</li> </ol> |
| <p><b>Sustainable Business Opportunities</b></p> | <p><input checked="" type="checkbox"/> We promise to abide by environmental and social guidelines and launch specific financing products in this context. In many regions, this has helped us to develop new business. New businesses include:</p> <ol style="list-style-type: none"> <li>1. New energy finance: by the end of 2008, IB had provided over CNY 20 billion in loans to aid the development and utilization of wind energy, hydropower, biomass energy, geothermal energy resources and a number of other clean energy projects. These projects have contributed to an annual reduction of at least 10,000,000 tons of CO<sub>2</sub> in China. Most of these loans were granted over the last two years after the Bank began to carry out its core businesses in line with the principle of sustainable development.</li> <li>2. Finance for the purpose of energy conservation and emissions reduction: This new mode of business was launched in 2007. In less than two years, project loans granted have exceeded CNY 3 billion and led to annual reductions of 13,731,000 tons of CO<sub>2</sub> emissions and annual conservation of 3.244.200 tons of standard</li> </ol>  |

|                                    |                                     |  |
|------------------------------------|-------------------------------------|--|
|                                    |                                     | coal.  |
| <b>Environmental protection</b>    | <input checked="" type="checkbox"/> | IB's <i>Access Standard for Credit Business</i> and credit approval system both explicitly define that a loan may be granted only when relevant approvals for environmental protection have been obtained by the loan project. Restrictions are placed on projects and industries that may cause environmental problems.   |
| <b>Human rights</b>                | <input checked="" type="checkbox"/> | Of all fundamental human rights, the right to a good education and a high quality of life are most closely linked to people's everyday concerns. In this regard, we have not only improved our ability to secure these rights for people, but have also set a good example for other financial institutions in doing so. This has made us able to share our experiences in improving human rights in China with other banks. IB is enhancing the quality of life of millions of people through project finance, the mode with which we are most familiar. This is something that we are proud of.  |
| <b>Climate change</b>              | <input checked="" type="checkbox"/> | <p>As the world's second largest carbon emitter, China is facing a huge challenge: how can the living quality of the country's 1.3 billion people be improved whilst at the same time ensuring low-carbon economic growth? IB is the first bank in China to formulate special financing services oriented towards combating climate change. It has an earmarked credit quota for such services.</p> <p>The Bank also established special positions for experts on sustainable products. These experts play a leading role in the securing of clean development mechanism (CDM) projects and transactions.</p> <p>Loans are only granted to those that can prove to us their proficiency in the use of facilities and applied technologies in an environmentally friendly manner.</p> |
| <b>Forestry</b>                    | <input checked="" type="checkbox"/> | In order to meet relevant environmental and social standards stipulated by the World Bank Group, we have explicitly defined the following item in our credit policy: enterprises engaged in commercial deforestation in tropical rain forest areas are not eligible to obtain loans from our bank.   |
| <b>Child labour</b>                | <input checked="" type="checkbox"/> | We explicitly specify in our loan policies that: under no circumstances will loans be granted to enterprises that use forced labor or exploit labor. By monitoring risks on a day-to-day basis, we are able to promptly recover loans from questionable enterprises.   |
| <b>Predatory lending/sub prime</b> | <input checked="" type="checkbox"/> | Our credit policies prohibit the provision of loans to enterprises engaged in hunting.   |
| <b>Indigenous Peoples</b>          | <input checked="" type="checkbox"/> | In regions where ethnic minorities constitute the major part of the local populace, the Bank demands that its local branches offer   |

|                                |                                     |   |
|--------------------------------|-------------------------------------|---|
|                                |                                     | equal job opportunities to minorities. Equal treatment is given in project guarantee and certain branches provide bilingual services, such as the Urumchi branch. |
| <b>Defence</b>                 | <input checked="" type="checkbox"/> | The Bank never provides loans to those who deal in firearms or arms sales.  |
| <b>Water</b>                   | <input type="checkbox"/>            | None  |
| <b>Forestry</b>                | <input checked="" type="checkbox"/> | Mentioned above.  |
| <b>Cultural property</b>       | <input type="checkbox"/>            | None  |
| <b>Other (please describe)</b> | <input type="checkbox"/>            | None  |

**ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT PROCEDURE:** Please describe a typical project finance or corporate finance transaction, illustrating the roles of key team members. (400 words max)

The following is a brief description of a typical IB loan transaction:

Client Manager A assesses a loan for a hydropower project which has a total investment of CNY 65 million. By using advanced turbines, the hydro company in question is seeking to improve hydropower efficiency, realize the production of clean energy and reduce the emission of greenhouse gases per unit of power generated. The implementation of this project will play a significant role in reducing greenhouse gas emissions as the project aims to generate electricity by utilizing natural water resources. Upon completion, the project will be able to generate 204.7 million KWh of electricity every year. Moreover, the generation process is pollution free and beneficial to the environment. The project will be able to reduce the consumption of 77,000 tons of standard coal that would be consumed by a coal-fired power plant and cut emissions of CO<sub>2</sub> by 210,000 tons.

The process of project evaluation is as follows:

First, Project Manager A examines the client's scope of business and documentation, and then follows this up with a field visit. The Project Manager conducts interviews with both the CFO and the CEO, and concludes that they will have the capacity to strictly observe the laws and regulations related to society and the environment. Following this, Project Manager A starts to process the loan.

Project Manager A contacts sustainable products experts and consults them on the relevant technical issues concerning the loan. This has to be done because Project Manager A must make sure that the loan falls into the category of energy efficiency, and that he can use the amount of energy consumed and CO<sub>2</sub> emitted in the production of one ton of coal as the baseline for the evaluation.

After this, Project Manager A consults with technical engineers, who green-light the feasibility research report for the project to demonstrate to the Project Manager that the project utilizes renewable resources and is beneficial to the environment. The technical engineers must also demonstrate that the project's impact on the water quality and atmosphere and noise pollution are within acceptable parameters and that damaged vegetation and soil runoff will be able to be

restored or controlled after control measures have been implemented. Other matters requiring confirmation include limited change in water quality during water impoundment and operation, limited populace to be relocated and lands to be submerged and limited impact to the environment arising from the resettlement of the local populace.

Project Manager A then conducts an on-site due diligence survey where the project is located. The survey covers technical, commercial and financial issues regarding the project. On this basis, Project Manager A compiles an investigation report in which he suggests that a loan of CNY 65,000,000 be granted to the client.

In line with credit procedures, this report is then submitted to an IB credit analyst. The analyst conducts a thorough examination of the project in accordance with the management measures for credit approval operation. A major matter to be verified is whether or not the project conforms to all of the relevant policies on environment and society. During this process, the credit analyst presents Project Manager A with certain questions that must receive satisfactory answers. Upon this, the analyst submits the report to the officials at the credit approval department for final approval. After approval has been granted, the project loan enters the release phase.

During the construction period, Project Manager A pays monthly visits to the client and checks whether or not the relevant regulations are being abided by. Two months after the production line has formally begun operation, Project Manager A conducts another investigation. The client will be required to submit to IB its financial statements and the relevant documents regarding its adherence to certain social and environmental issues on a quarterly basis.

**CAPACITY BUILDING:** How has your organisation built capacity to manage sustainability issues? Please describe specialist hires and/or groups who have received sustainability training. (400 words max)

1. In regard to organizational structure: IB has established a leadership group for equator principle work and a leadership group for social responsibility work, both of which are headed by the chairman of the board. A leadership group for sustainable banking business that is headed by the Bank president has also been established. These groups actively focus their work on the sustainable development of the Bank. Moreover, a sustainable finance division and a center for sustainable finance have also been set-up, both of which manage environmental and social undertakings and sustainable finance.

2. In regard to internal training: IB places great emphasis on the improvement of its employees' professional skills. A variety of trainings have been introduced, including self-learning, internal training, lectures from external experts and IB symposiums. These steps are designed to increase awareness and understanding of sustainability among employees.

3. The status of sustainability training is as follows:

(1) In 2008, Chinese and foreign experts from a number of organizations such as the Ministry of Environmental Protection of the PRC, China Banking Regulatory Commission, National Development and Reform Commission, International Finance Corporation (IFC), Citibank, Barclays Bank, Mizuho Corporate Bank, Itaú BBA and World Wildlife Fund (WWF) were invited to provide a variety of training courses to staff at all levels in the Bank on topics such as sustainable development, the Equator Principles and environmental and social risk management. Through these courses, staff at IB developed a much deeper comprehension of the fundamental ideas and concepts behind the Equator Principles.

(2) Great importance is attached to promoting the concepts of sustainable finance and environmental and social responsibilities among board members. Through their decision-making authority, these concepts are then conveyed down through the bank and guide credit and risk

management work.

(3) IB has held a number of forums on the financing of sustainable energies throughout the Bank. Training and discussions on clean development mechanisms, energy conservation and emissions reduction, carbon footprints, sustainable development and low-carbon economic growth have been organized for management and client managers.

(4) Through numerous seminars on social responsibility and sustainable finance that have been held in the Bank, the IB board office has made efforts to spread the concepts of social responsibility and sustainable growth.

(5) The human resources department places an emphasis on providing new and existing employees with training in regard to environmental and social risks. A special emphasis is placed on developing staff's capacities in internal environmental management and environmental and social risk management.

**RESOURCES:** Please describe the sustainability resources available within the bank (e.g. renewables specialists, environmental and social risk managers, micro-credit specialists, sustainability learning specialists, carbon credit expertise). (400 words max)

In its 20 year history, the Industrial Bank has always committed a great deal of human resources to sustainable finance. This in turn brings about more sustainable resources that will be essential in the long-term growth of the Bank:

1. Full-time officials for review and approval have been appointed at head office, credit approval centers and in branches. They make use of their professional financial knowledge and awareness of environmental and social issues to maintain strict control over IB projects and clients.

2. IB is dedicated to putting together a top-class team of personnel in environmental and social risk management. To this end, it has actively employed environmental and social specialists to work for the Bank. These specialists are experts in environmental law, environmental engineering, biology, construction and law. This way, controls on environmental and social risks related to IB credit business are further strengthened through the monitoring of how loans are used, surveys after credit has been granted and the management of problematic credit.

3. In operation department, dedicated product managers are charged with the design and development of finance products related to sustainable development and facilitating their realization.

4. IB is currently engaged in the development of a mechanism for specialist evaluation. This entails bringing together specialists in industry, environment and society both within and beyond the realm of banking to form a specialist database. At the same time, evaluation work procedures for specialists to follow in the appraisal of environmental and social risks are being developed. These measures will constitute a unique sustainable resource that can serve the Bank's operations.

5. The Bank's sustainable finance center includes a specialist consultation committee. The members of the committee are based in professional technical advisory organizations, and include experts from government regulatory departments, engineering technicians, legal experts, financial professionals, IB researchers and product managers. The specialist consultation committee provides council and design advice for new products and complex projects from the perspectives of policy, professional skills, law, finance and financing arrangement. It provides the heads of the sustainable finance center with professional council that is used as a basis in decision making.

**INCENTIVES:** Are there specific incentives for sustainability performance? (400 words max)

IB is currently in the process of establishing internal mechanisms for the assessment and stimulus of sustainable development. Factors such as the implementation, performance, social effects and development scale of sustainable finance will be incorporated into assessment standards. The allocation of related resources will also be optimized so that business modes like energy-saving project loans and project finance under the Equator Principles are supported by preferential policies. These incentive mechanisms will directly propel the Bank's business in the direction of sustainable development. Meanwhile, the Bank has also designed a rating system which allows client managers to calculate the amount of carbon emissions cut by the granting of each loan. Project managers that make outstanding contributions to carbon emission reductions through the issuing of loans are rewarded with pay rises and promotions.

Middle management, client managers, product specialists and credit analysts that demonstrate excellent leadership qualities and creativity in the process of environmental and social risk management are rewarded.

IB's human resources department has also organized competitions for carbon-footprint energy-saving. In these competitions, employees are challenged to find ways of saving energy and other resources as they perform their daily duties. The winners are given cash prizes or other prize bundles, such as additional paid leave.

**STAKEHOLDER ENGAGEMENT:** Please list the stakeholders with whom the bank engages in communicating and reviewing performance (e.g. raters, analysts, NGOs). (400 words max)

Presently, stakeholders with whom we communicate and assess the status of implementation include:

1. Government: we have put an emphasis on establishing and maintaining sound working ties with government supervision authorities and public service agencies at different levels. They are kept up to date on the status of operations and the impact that they might have.
2. Shareholders: the Bank lays stress on the development of internal systems and the enhancement of corporate governance mechanisms. A sound system for information disclosure management has been developed and new means by which contact between shareholders and the Bank can take place are always being explored. This ensures that the rights of investors to obtain information from the Bank are fully respected. As the market changes, more channels for interaction between the Bank and its shareholders are actively sought, which objectively convey the Bank's investment values, help to develop harmonious relations with investors and contribute to the Bank's image as an open and responsible member of the capital market.
3. Clients: we define our mission as "providing sincere services and prospering together". This philosophy constitutes the purpose for the continuation and growth of the bank. In 2005, the Bank officially launched its "Five Star Guide" service system for online banking, making it the first commercial bank to define service processes, service standards and service norms for internet banking in China.
4. Cooperation partners: The Bank vigorously implements a blue sea strategy. It lays stress on cooperating with partners in ways that are mutually beneficial and improving the basis for cooperation. Through the inter-bank collaboration platform launched by the Bank, the Industrial Bank and other finance institutions such as trust, fund and insurance companies have been able to pool resources and benefit from each others' strengths.
5. Personnel: we emphasize mechanisms for interaction with personnel. Personnel are provided with information on corporate operations and development through the work system, meetings and training. Likewise, a number of mechanisms for personal to make their feedback and opinions known have been established. such as a labor union. provision of the President's e-mail

address and an online forum.

6. Communities: utilizing outlets, community promotion and corporate visits, the Industrial Bank's 400 or so institutions have established mechanisms for close communication with communities neighboring bank branches and projects.

7. Rating Agency: our policy of seeking the potential for growth that lies in sustainable development has been met with widespread market recognition. Rating agencies have also realized the Industrial Bank's sound credit. On December 17, 2007, the Industrial Bank was rated by Fitch.

8. NGOs: IB has established long-term cooperative mechanisms with the WWF. The Bank has a policy of maintaining close ties with domestic and foreign NGOs, and particularly with those that are located in close proximity to the Bank's projects. NGOs have functioned as a consultant for project design and impact mitigation, a channel for negotiations with sensitive groups and an associated planner.

9. Media: the actions and achievements of the Industrial Bank in sustainable finance have been highly rated by foreign and domestic media. The Industrial Bank has been hailed "The Forerunner of China's Green Credit" in the press. Over the past two years, over 300 foreign and domestic media organizations have given coverage to the Industrial Bank's contributions to sustainable development.

**MONITORING AND REPORTING:** How do you monitor and report on performance for key stakeholders? (400 words max)

1. Periodic Reports & Provisional Reports: the Bank has formulated *IB Measures on Information Disclosure Management*, in which the disclosure time, format and content of periodic reports such as annual reports, interim reports and quarterly reports have been specified in detail. Moreover, the Bank also promptly publicizes provisional reports on certain major issues and events that could have a relatively large impact on the trading prices of the Bank's securities and derivative products. With these reports, the public (including stakeholders such as shareholders, clients, communities and NGOs) has access to Bank information, including information about sustainable finance, on an equal and timely basis.

2. Monitoring Reports: in line with the requirements of the regulatory authorities, the Industrial Bank provides a variety of monitoring reports concerning corporate governance, development of internal controls, scientific development and risk management on a regular or non-regular basis. Information about internal management and business expansion is reported to the authorities promptly, accurately and comprehensively.

3. Equator Principles Report: in accordance with the requirements of the Equator Principles, the Bank will publish an Equator Principles report in the period from October to December every year. The report discloses the development of project finance in the year in question as well as experiences gained in the process of adopting the Equator Principles.

4. Social Responsibility Report: the Industrial Bank believes that, for a bank, the nature of social responsibility is to establish a mutually beneficial relationship and common prosperity with society, the environment and other interested parties. Therefore, IB attaches great importance to the fulfillment of its social responsibilities. It publishes the *IB Report on Social Responsibility* on an annual basis, which divulges the progress, systems, practice and outcomes of social responsibility fulfillment.

5. Environmental & Social Performance Report: IB provides its investor the IFC with the *Environmental and Social Performance Report* on an annual basis. The report offers an account of the Bank's measures and achievements in environmental and social risk management.

6. Enterprise-wide Risk Management Report: in order to implement enterprise-wide risk management and enhance risk monitoring and control, the Bank has formulated a system for enterprise-wide risk management reporting on the basis of the *Principles for Credit Risk Management* issued by the Basel Committee on Banking Supervision and the requirements of Chinese regulatory authorities, This system requires that operational administrations and departments at all levels submit *Risk Management Reports* in line with specified content, times, frequency and channels. Reports show the results of qualitative and quantitative evaluations of risks under each body's area of administration. They highlight the carryover effects of risk management and control measures adopted. Reports provide management with timely, comprehensive and accurate information on risks and support administrative decision making. At the same time, reports provide effective support for the monitoring of day-to-day operational management and rational performance assessment.

**SCOPE OF APPLICATION:** To what extent is the institution's sustainability approach mainstreamed across key business lines and geographies? Please appraise the current level of implementation, commenting frankly on both gaps and successes. (100 words max for each section)

|   |   |
|---|---|
| <p>Percentage of 2008 business volume in sustainable businesses (including renewables, Bottom of the Pyramid finance, carbon markets, etc.)</p> | <p>Of the CNY 2.6 billion in project loans for CHUEE granted by the Bank in 2008, loans for new energy projects accounted for 30%, loans for renewable energy accounted for 20% and loans for technological renovation leading to energy conservation accounted for 30%.</p>  |
| <p>Historic growth rate of sustainable business volume</p>  | <p>From January to December 2008, loans granted amounted to CNY 2,641,260,000, an increase of 298.38% over the same period in the previous year. The loan balance at the end of the period reached CNY 3,092,290,000, an increase of 366.4% over the same period in the previous year.</p>  |
| <p>Strategic plan for growth of sustainable business lines</p>  | <p>The Industrial Bank carries out its sustainability policies according to the characteristics of different regions: for regions where ethnic minorities represent the major part of the populace, the Bank highlights issues related to the local indigenous population. For mountainous regions, the Bank puts an emphasis on forest</p> |

|  |  |
|--|--|
|  | <p>retail clients engaged in such projects have been developed. The Bank's measures on environmental and social risk management have gradually been incorporated into retail business.</p> <p>In inter-bank business, the Bank emphasizes enhanced survey, review and monitoring of project-related environmental and social risks in syndicated loans, and seeks to deepen its cooperation with companies that meet the requirements for green securities.</p> <p>In August 2007, the Bank launched the first written proposal on the social responsibility of enterprises among the listed companies in Fujian Province, which was universally accepted. In June 2008, the Bank played an active role in the "Social Responsibility Year of Fujian Banking" launched by the Fujian Regulatory Bureau of the China Banking Regulatory Commission. Through the event, the Industrial Bank promoted the concepts of environmental and social risk management to more of its peers.</p>  |
| <p>Level of application of environmental and social risk management across key geographies</p> | <p>Based on the different developmental characteristics and industry focuses of different regions in China, the Bank has formulated diverse systems and modes of risk management:</p> <p>In eastern regions, owing to the relatively developed economy, the higher requirements for monitoring and more recognition in industries, the branch establishments of the Industrial Bank consequently implement sound measures for the control of environmental and social risks. Importance is attached to the monitoring and management of the systems of environmental and social management, pollution and labor issues that are implemented in enterprises.</p> <p>In central and western regions, owing to the fact the economy lags behind the east and that there is a stronger demand for development, the branch establishments of the Industrial Bank prioritize the balancing of economic growth and environmental protection. In line with the macro controls of the central government, a focus is placed on issues such as water resource conservation, forestation, cultural heritage and indigenous populations.</p> |

**FUTURE STEPS:** Are there any enhancements to the institution's approach or desired next steps that would add further value? (400 words max)

IB believes that its strategy of seeking future development through sustainability is a sound one. Over the past few years, the Bank's sustainable finance has brought about benefits in a number of aspects. The Bank firmly believes that sustainable finance can only be considered to be truly sustainable once a mature model has been set-up that pegs financial gain and impacts to society and the environment together. To guarantee the true sustainability of sustainable finance, a mode that can mutually benefit three parties must be found. To this end, the measures to be taken by the Bank are as follows:

1. Fine tuning systems and management according to the Equator Principles, conscientiously implementing the Principles and fulfilling relevant obligations. This is the Bank's top priority after

adopting the Equator Principles. The Bank has made considerable progress in the formulation of standards for risk categorization, the development of mechanisms for evaluation by experts, the formulation of enforcement rules for industries and the design of credit business procedures. In the nine months ahead, the Bank will continue to fine tune the systems and management arrangements mentioned above and move closer to its goal of building an internationalized model for environmental and social risks.

2. Enhancing capabilities in environmental and social management through various channels. In risk management, the Bank has established a system of compliance management, which functions as a platform for information gathering, resource sharing, business operations and testing reports. In the next stage, IB will add management modules for environmental and social risks to this platform and develop managerial tools for environmental and social risks. This will allow for the computerized operation and management of businesses under the Equator Principles.

3. Improving effective cooperation and cohesion in all aspects of social responsibility work and enhancing the overall value of the company. The Bank places great emphasis on the total fulfillment of its social responsibilities, and has taken comprehensive action in regard to services, products, communities and management. In the future, to aid the improvement of environmental and social risk management, the Bank will further strengthen the effectiveness of cooperation in all areas of work, enhance the modes by which responsibilities are fulfilled and results are gained and establish an image as a responsible bank that demonstrates the unique traits of IB.

4. Continuing to develop sustainable finance vigorously. By developing sustainable finance products and carbon finance business, the Bank has responded to calls to support energy conservation and emissions reduction through financial innovation. This move is a perfect example of how a bank can fulfill its social responsibilities through its commercial behavior. Consequently, IB has established the nation's first sustainable operation organization, increased the input of credit resources and earmarked a dedicated credit quota. It is estimated that sustainable businesses will account for 25% of the growth of the Bank's business in the future.

### 3. BUSINESS RESULTS: WHAT ARE THE MAIN BUSINESS RESULTS YOU'RE YOUR SUSTAINABILITY APPROACH?

Please describe concrete benefits your institution has achieved or aims to achieve through implementation of its sustainability strategy, e.g. "Employees: 78% of bank staff indicate that the bank's social and environmental policies are a factor supporting their choice of the bank." Please select N/A (not applicable) to denote any business lines or benefits not relevant to the bank. (200 words max for each section)

#### BUSINESS GROWTH

**New sectors:** Winning market share in new sectors, e.g. renewables (if yes, please indicate volume as a percentage of total business).

YES/NO  /  N/A

IB is widely recognized as the leading "green bank" in China, which means that it is considerably further ahead of other commercial banks in supporting energy efficiency, emissions reduction, renewable resources and the application of various clean technologies. To illustrate this with an example concerning energy conservation and emissions reduction: in just over a year, the Bank has supported 86 projects with loans of CNY 3.3 billion. This is three times the total of similar loans issued by other domestic commercial banks in the same period.

Likewise, both the buyers and sellers of CERS have been highly satisfied with the cooperation with client managers on the IB side in carbon transactions. For the buyers and the sellers in carbon transactions, IB has already become their first choice.

**Corporate clients:** Differentiating the bank for corporate clients through new products and services, e.g. carbon credits.

YES/NO  /  N/A

In 2007, IB successfully launched CHUEE, and followed this up by becoming the first bank in China to announce its commitment to the Equator Principles in 2008. These are two of the most influential events that have occurred in the domestic banking industry over the last two years.

With this, IB has separated itself from its counterparts through its commitment to sustainable finance and low-carbon economies. Meanwhile, IB took the lead among its peers by being the first bank to set-up up a specialized operation institution for sustainable finance and launch carbon finance business. These distinctions are helping IB to win more corporate clients operating in the fields of carbon finance and sustainable energy efficiency, and are allowing the bank to develop new areas of growth.

**SME clients:** Differentiating the bank for SME clients through new products and services, e.g. cleaner production, energy efficiency financing.

YES/NO  /  N/A

CHUEE offered by the IB are tailor-made for most SME clients. Specifically, IB has made specialized service designs that cater to the different characteristics of SME clients by improving credit approval processes, risk management processes and loan guarantee processes.

**Retail clients:** Winning credit card and checking account clients through sustainability.

YES/NO  /  N/A

Since March 2007, the Bank has launched 86 new projects in the fields of energy efficiency, renewable energy, emissions reduction, purification technologies and sewage treatment. The organizers of these projects all chose the Industrial Bank as their sponsor bank and account bank. A number of new clients put it clearly, "we have chosen the Industrial Bank as our main cooperative bank because the Industrial Bank knows more about our business than other banks do, and it is easier for us to obtain energy-efficiency loans from the Industrial Bank".

Additionally, the Bank's credit card center has a long standing commitment to guaranteeing quality, controlling risks and building brands. The center has managed to integrate client demands into product innovation, and by capitalizing on close cooperation with China UnionPay and the abundant experience of its foreign strategic investor the HSB, has managed to launch a series of top class credit cards within a relatively short period of time and at relatively low cost in comparison to its peers. In 2008, IB issued China's first patriotism-themed credit card, known as the "China Heart" Card, which was accompanied by a charity program called "China Heart". The Bank believes that much good can be done by linking credit card issuing and transactions with charity foundations for the alleviation of poverty.

**Wholesale/project finance clients:** e.g. positioning the bank as lead arranger capable of handling complex transactions.

YES/NO  /

N/A

In 2007, IB provided the Jinan Laiwu Steel Group Co., Ltd with a wholesale loan for energy efficiency, at the same time, IB provided loans for eight different energy efficiency projects in the Group. This provided a solution to the complicated issue of securing loans faced by the client.

**Asset management:** Gaining asset management funds, or enhancing fund performance through sustainability.

YES/NO  /

N/A

IB is currently in the final stages of negotiations with several private funds. These funds intend to commission IB to manage their clean energies assets. To a large extent, this is due to recognition of IB's professional capabilities and experience in the provision of finance in similar fields.

**Insurance:** Providing sustainability-related insurance products.

YES/NO  /

N/A

**Microfinance:** Providing access to under-banked groups.

YES/NO  /

N/A

The following are areas outside of traditional banking. Some are new areas of business (such as clean energies) while others are related to financial revenue (such as loans to alleviate poverty)

- Financing for energy efficiency and the reduction of emissions
- Student loans
- Loans for ethnic minorities
- Small secured-loans to unemployed people;
- Loans to alleviate poverty

**Private banking:** Attracting high net worth individuals through sustainability differentiation.

私人银行：通过有区别的可持续政策，来吸引高收入的个人客户

YES/NO  /

N/A

IB has worked out development programs for private banking. By integrating high-income individual client resources, designing specifically targeted service content and integrating sustainable finance products and concern for the environment and society therein, the Bank is attracting more attention and recognition and maintaining the sustainability of its services.

**Housing finance:** Providing sustainability-related housing finance products.

YES/NO  /

N/A

Since 2007, IB has granted additional loans of CNY 100-million. These loans have been used for the purchase of energy-efficient light bulbs, the use of geothermal energy to heat communities, the renovation of old buildings and the installation of solar power equipment in colleges and universities. These buildings have become much more energy-efficient as a result.

**NGOs:** Maintaining the bank's trust and reputation with local and international NGOs.

YES/NO  /  N/A

IB strongly believes in maintaining sound ties with NGOs on an equal basis, and is currently making efforts to establish a rational, long-acting and far-ranging platform for communications therewith. So far, IB has established long-term cooperative mechanisms with the World Wildlife Fund (WWF). The two parties have carried out in-depth cooperation in regard to management tools for environmental and social risks, credit processes, expert evaluation mechanisms and training.

In July 2008, in the selection of the 2007 China's Best Bank sponsored by the *Economic Observer*, eight domestic NGOs, including the Green Watershed and Friends of Nature, independently granted IB the Innovation Award for Green Banking. This was the first ever award for green banking and green finance in China, and had ground-breaking significance for the involvement of financial institutions such as banks in environmental protection.

In addition, IB has strengthened ties with NGOs such as Friends of the Earth and Carnegie Endowment for International Peace Foundation by taking part in symposiums and forums both in China and overseas.

**Government regulators:** Enhancing relations with regulators.

YES/NO  /  N/A

The Equator Principles is an action guide for the management of environmental and social risks in project finance by financial institutions. It is also an important standard for China to reference when formulating green credit policies. The Industrial Bank IB has, therefore, maintained close contacts with the regulatory authorities, including the Ministry of Environmental Protection, the China Banking Regulatory Commission and the People's Bank of China, particularly in the aspects of information communication, training and specialist knowledge exchanges. Mechanisms for the regular exchange of work reports have also been established. These exchanges have done a great deal to help the Bank increase its efficiency and accuracy.

In September 2008, IB provided assistance to CBRC in the holding of a nation-wide training program on credit for energy conservation and emissions reduction. Specialists from the Ministry of Environmental Protection, National Development and Reform Commission, IFC, Citibank, Barclays Bank, Itaú BBA, China Construction Bank and the Industrial Bank were invited to give training on energy conservation and emissions reduction, the Equator Principles and sustainable finance to over 100 financial institutions in domestic banking from all over the country. This was the first training and promotional program about the Equator Principles organized for domestic financial institutions. The results were highly positive.

In addition, IB has participated in training and conferences on information sharing between banks and the department of environmental protection, the sustainable development of the banking industry and green credit. Such events were organized by the Ministry of Environmental Protection, the People's Bank of China, CBRC, and the Fujian Banking Regulatory Bureau.

IB has been praised at many forums and conferences by government departments for its contribution to energy efficiency and sustainable finance. IB was also invited by CBRC to act as a member of the discussion group for the energy conservation and emissions reduction of Chinese banking and participate in the research and development of finance in this area.

**International financial institutions** (e.g. IFC, EBRD, EIB): Gaining access to long-term capital or investment.

YES/NO  /  N/A

Over the past two years, the WBG and ADB have provided IB with medium and long term loans of more than USD 50 million. These loans support IB's finance in the field of sustainable development.

**Analysts/raters:** Gaining positive ratings/evaluations from raters based on criteria such as asset quality, earnings growth potential, etc.

YES/NO  /  N/A

On December 17, 2007, IB was rated by Fitch. This demonstrated that the Bank's policy of seeking potential for growth in sustainable development has been met with widespread market recognition. This has been conducive to the enhancement of the bank's credit rating.

**Institutional investors:** Attaining a corporate governance premium in shareholder valuation.

YES/NO  /  N/A

In 2007, IB was successfully listed on the Shanghai Stock Exchange, breaking two records at the same time: the largest subscription amount and the highest issue price for bank stocks. In August 2007, IB was granted with the Best IR Award for 2007 IPO in the *3<sup>rd</sup> China Selection of Best Investor Relations Management*; and in that November, IB received the Golden Tripod Award at the *3<sup>rd</sup> Annual Conference of China Security Market*.

During this period, IB remained committed to its principle of being responsible and providing shareholders with stable returns and value increases. This approach attracted more corporate and private investors with strategic vision into the ranks of the Bank's shareholders. In 2007, IB's earnings per share reached CNY 1.75, representing an increase of 84.21% over the previous year and 87 times more than the share value when the bank was founded. Also, the amount of dividends was CNY 1.6 billion, with dividends to be distributed witnessing a significant growth of 23%.

It was on the strength of its outstanding profitability that IB was named among the *2007 China Top 100 Listed Companies in Value* and was commended for *Best Return on Equity in Mainland China* in the *2008 Rankings of Competitive Strength for Asian Banks*. This was the second year in a row that the Industrial Bank came before other domestic banks in terms of earnings. On June 16, 2008, IB was entered into the "SSE Corporate Governance Index" of the Shanghai Stock Exchange; on November 30, 2008, IB was awarded three prizes in the appraisal of China investor relations, namely, the runner-up of Top 100 for China Investor Relations, the Contribution Award of Best Social Responsibility and the Best Communications Award. On December 16, 2008, IB was granted IR Certificate of Excellence by the renowned publication *IR Magazine*.

**Socially responsible investors:** Attracting investment from socially responsible or mainstream investors.

YES/NO  /  N/A

In 2003, IB successfully introduced three foreign strategic investors, namely, HSB, IFC and GIC. IB set new records in the Chinese commercial banking industry at the time for the largest number foreign investors introduced at once, the highest proportion of foreign shareholders and the highest

premium multiple. The event was hailed in the international media as a symbol that the Chinese financial industry was upping the pace of its opening-up to the outside world. These three foreign strategic investors, all being internationally reputed financial institutions, boast a wealth of practical experience in corporate governance and sustainable finance. Full-scale strategic cooperation between the parties has significantly boosted IB's innovation and development in many fields, such as corporate governance, internal control, administrative accounting, credit card business, loans for energy conservation and emissions reduction, social responsibility and sustainable finance.

**Media:** Enhancing the brand value of the franchise.

**YES/NO**  /  **N/A**

Media in China and abroad have given widespread coverage to IB's work in sustainable finance, and the Bank has been hailed "The Forerunner of China's Green Credit"

In February 2008, a total of 22 media organizations covered the signing of the second phase of CHUEE between the Industrial Bank and the IFC. These reports gave a great deal of praise to the program.

From October 2008 onwards, nearly 200 foreign and domestic media organizations have reported that the Industrial Bank will adopt the Equator Principles. News media that have covered the story include CCTV, First Finance TV, the Xinhua News Agency, Securities Times, China Securities Journal, China Business News, Financial Times, People's Daily Online, Xinhua Net, Caijing.com.cn, Sina, Sohu, Netease, Hexun, Hong Kong Commercial Daily and AFX News.

In November 2008, the biomass power generation project declared by the Bank was awarded "Top 10 Green Credit Projects" in the appraisal of green credit projects "Green Finance Forum" that was co-sponsored by the 21<sup>st</sup> Century Business Herald and the Financial Research Center of the 21<sup>st</sup> Century Academy.

Over the past two years, the efforts that IB has made in sustainable development have been covered by a total of 332 international and domestic media organizations.

**Employees:** Attracting and retaining quality employees.

**YES/NO**  /  **N/A**

IB realizes the importance of people, and especially the recruitment of top class personnel. From the end of 2005 to the end of 2008, the number of employees at the Bank increased by 95% to reach a total of 20,000. Of these employees, personnel with master's degrees or higher accounted for 10% and those with a PH.D degree totaled at 47. Moreover, the rate of employee turnover continues to drop as the Bank grows.

In 2008, given demands in environmental and social risk management, IB recruited professionals from a number of fields, including environmental law, environmental engineering, biology and architecture. A team of internal specialists was thus established to enhance the level of specialization in the Bank's environmental and social risk management.

Such high-quality growth results from IB's focus on sustainable development. In the orientation of IB's development, scientific development has been stressed; in development modes, importance has been attached to the development of innovative sustainable finance products; in the recruitment and training of the employees, accurate matching of ability and position is emphasized so that the initiative and creativity of employees may be brought into full play. Thus, sound opportunities for personal development are given to employees and the Bank's sustainable growth can be achieved. This is a mutually beneficial relationship.

**Facilities management:** Increasing efficiency and reducing operating costs including initiatives such as carbon neutrality.

YES/NO  /  N/A

IB is committed to becoming a resource-saving bank:

1. In internal management: IB has formulated programs for resource conservation and environmental protection. These programs encourage employees to increase their awareness of energy conservation and be more aware of the resources that they use during their routine work. Measures include using less water, electricity and office supplies, printing on both sides of paper sheets, double-sided photocopying, use of digital documents only and turning-off of computers, printers and water coolers at the end of shifts. Moreover, energy-saving products are vigorously advocated, appliances that require large amounts of power are limited and leaving lights on is prohibited. In many branches, heating equipment powered by geothermal resources has been provided. Concepts of energy conservation and environmental protection are part of daily operations in the Bank.

2. An operation model for energy conservation and environmental protection has been established in the Bank. The Bank began work on an automated office system in the year 2000 which covers the head office, branches and sub-branches. The system means that official documents can be processed online and that no paper is required. In 2002, IB began to promote video conferencing and long-distance training throughout the Bank. In 2003, an IP telephone system was completed, and around 9,000 IP telephones are in use throughout the bank. In 2006, a mobile office system was officially launched, and in 2008, a mobile phone office system was also officially launched that can handle documents anytime and anywhere. This has led to significant improvements in service efficiency.

3. Monitoring and encouragement of energy conservation and minimum consumption have been emphasized. At present, the overwhelming majority of employees have begun to use business cards made of reproducible paper. IB also offers cash incentives for employees who use public transport to travel to work instead of driving their own cars.

**Other business results:** Please provide additional details as appropriate.

YES/NO  /  N/A

#### (OPTIONAL) WHY SHOULD YOUR INSTITUTION WIN THIS AWARD?

Please provide up to three reasons why your institution should win the Emerging Markets Sustainable Bank of the Year Award for 2009. (4 pages maximum)

1. IB regards sustainable development as a major part of its strategy. It is the first bank in China to establish a specialized management and operation institution for sustainable finance.

As the first commercial bank in China to place a focus on energy conservation, emissions reduction and the promotion of green credit, the Industrial Bank is demonstrating to the world that the key to globally sustainable development lies in ensuring that the planet, the people and corporations can benefit on a mutual basis. Sustainable development is the guideline of corporate governance and one of the strategic goals of the Bank. In the course of development, IB has adopted a scientific outlook on development and

deepened its comprehension of the relationship between the social responsibilities of a bank and its own sustainable development. A variety of ways have been sought out to fulfill these responsibilities and thereby achieve harmony between man, nature, environment and society.

In the *Annual Report of Social Responsibility* published by the Bank, IB has specifically defined its “responsibility for environment and resources” through a special social responsibility model. The Bank believes that the responsibility that it assumes for the environment and resources lies in promoting harmony between man and nature. This includes bringing the pivotal role that a bank plays in the allocation of social resources into full play and exerting its influence to support the conservation of natural resources and environmental protection. In regard to environmental responsibility, IB, by adhering to the concept of new finance, has taken the initiative in providing energy efficiency loans as it pursues the fulfillment of its social responsibilities and the establishment of a harmonious society. It has accumulated project resources in energy conservation and client resources in the form of environmental-friendly enterprises, and through financial tools such as loans, encourages its clients to conserve resources. The Bank encourages other parties to increase their awareness of social responsibility, show concern for energy conservation, emissions reduction and environmental protection, fulfill their obligations to the environment and resources and constantly expand the connotations and modes of the social responsibilities that enterprises assume. In the regard to social responsibility, IB upholds the belief that the commercial activities of a company must be accountable to both society and the nation. The Bank actively participates in social causes and supports charity and welfare programs at various different levels over a huge scope. IB actively provides the public with information regarding finance, and by integrating resources in financial products, technologies, education and training with community and welfare activities, has established partnerships with clients and various social groups. At the same time as expanding channels for exchanges, providing capital security, saving costs and improving service quality, IB promotes the sound and harmonious development of society. It has realized an organic bind between economic gain and social gain, and through this, has secured more opportunities for its own commercial growth.

In regard to management systems, IB fully implements a “green credit” environmental policy. It has formulated access provisions for the credit businesses of major industries which integrate elements such as environmental protection and observance of environmental laws into the evaluation and approval of credit for enterprises and the subsequent performance monitoring. For projects that fail to meet the requirements of environmental protection, a system in which a single opposing vote can veto the project is implemented. Through dynamic tracking, monitoring, feedback and analysis, IB are kept up to date of the environmental and social status of funded clients and other factors which may give rise to environmental or social problems. The total amount of credit input is rationally managed and after-credit management of key projects is intensively monitored.

In order to fulfill the strategic objectives mentioned above, the Bank has established a specialized management organization. This is the first organization of its kind in China. It is a sustainable finance division which is responsible for heading-up work in the management of environmental and social risks and a sustainable finance center which is responsible for carbon finance, energy efficiency finance and environmental finance.

(1) The primary functions of the sustainable finance division: mainly from a managerial

perspective and on the basis of the Equator Principles and domestic norms, it focuses on fulfilling the responsibilities of the office of the leading group for the Equator Principles. It is responsible for working out policies for environmental and social risk management in the Bank, upgrading measures to guard against risks, formulating internal management systems and operation processes conforming to the requirements of the Equator Principles, organizing and monitoring the dynamics of domestic and foreign policies on environment, organizing and working out mechanisms for IB internal environmental work and social specialist evaluation, managing specialist resources, organizing and inviting experts from IB or other organizations to provide training on the management of environmental and social risks and sustainable finance, compiling regular reports conforming to the requirements of the Equator Principles and other reports related to sustainability and organizing and completing external liaison work with interested parties, including domestic and foreign monitoring bodies, IFC, the equator banks, and NGOs.

(2)The primary functions of the sustainable finance center: formulate development programs for business from the perspectives of operation, management and marketing coordination, establishing operating management systems, operating mechanisms and mechanisms on risk control, carrying-out market research, product development, market promotion and market coordination for sustainable finance businesses, providing support for sustainable finance businesses from the perspective of technical services, managing relations with clients and cooperative institutions as well as service quality and heading-up risk control, monitoring and assessment of IB sustainable finance businesses

With these specialized institutions for management, IB has gained both a clearer understanding and enhanced control of management and development planning in sustainable finance. They play a significant role in taking the Bank's level of internationalization, standardization and sustainability to a higher level.

2. IB is the first Equator bank in China. It is leading the way in the management of environmental and social risks in the domestic commercial banking industry.

The Equator Principles refer to a set of standards created by the international financial sector for the judgment, evaluation and management of environmental and social risks in project finance. They are regarded as a part of the principles for sustainable finance and a set of concrete actions by which international financial institutions practice the social responsibilities that enterprises are expected to assume. The tenet of sustainable finance that the Principles advocate matches the development strategies that IB has always adopted. In this sense, the adoption of the Principles can be seen as the further integration and improvement of IB's sustainable financial systems. The Principles are important for the IB as it seeks to deepen and widen the fulfillment of its social responsibilities. On October 31, 2008, IB held a press release conference in Beijing to announce its commitment to the Equator Principles. With this, IB became the first Equator Bank in China.

Moreover, IB is the first Chinese bank that has simultaneously participated in the three major international actions regarding environment and society, namely the acceptance of the Equator Principles, the signing of UNEP-FI Declaration and participation in the Carbon Disclosure Project (CDP).

With regard to internal management systems, IB is one of the first banks in China to have

formulated policies on the management of environmental and social risks. These policies define the guiding principles, guidelines and programs for the Bank's management of environmental and social risks. By standardizing guidelines, statements and commitments in the management of these risks and by positioning and planning the organizations and credit systems for sustainable development, these policies will fundamentally enhance the Bank's risk management capabilities and improve standardized management. Through the implementation of the policies, IB will pay more attention to environmental and social problems that arise from credit businesses. It will strive to develop finance businesses in a way conducive to the environment and society, expand business in accordance with the concept of sustainable development and place equal emphasis on economic gain and social responsibility.

It is these beliefs and efforts that have driven the Industrial Bank forward. In the 2007 Sustainable Banking Awards, IB was nominated for both the Emerging Market Sustainable Banking Award and the Sustainable Deal Award, and was the runner-up of the Sustainable Deal Award. So far, it is the only Chinese financial institution to have won this honor. In 2008, IB was once again nominated for the 2008 Emerging Market Sustainable Bank. In July 2008, in the appraisal of 2007 China's Best Bank sponsored by the *Economic Observer*, eight domestic NGOs independently granted IB the title of Innovation Award for Green Banking. This was the first ever award for green banking and green finance in China, and had ground-breaking significance for the involvement of financial institutions such as banks in environmental protection.

3. In regard to developing sustainable finance products, IB has achieved three "firsts" in China.

As an important country in the emerging market, the 1.3 billion Chinese people are yearning for a higher quality of life. This is only possible if the rapid economic development seen in China at present can be sustained over a long term period. However, such high-speed growth should be achieved using as little carbon as possible. That is to say, the improvement of people's living quality should be achieved in a harmonious way, and the balance between economic growth and the environment should be maintained. In other words, harmony between economic development and the sustainability means harmony between human beings. If this cannot be done, our common home the planet Earth will suffer irreversible damage from global warming. For a financial institution, IB undertakes to finance enterprises engaged in sustainable development projects and in its routine work, perform its obligations by low-carbon means.

(1) IB was the first Chinese bank to carry out CHUEE and has gained tremendous success in this area.

In May 2006, an innovative mechanism for the division of loan principal was developed by the Industrial Bank and the IFC which allowed the Bank to launch the China Utility-based Energy Efficiency Finance Program (CHUEE). This was the first project of its kind in China. In 2008, a phase II cooperation agreement was signed. By the end of December 2008, IB had provided CHUEE loans totaling at CNY 3.3 billion. The projects financed can realize an annual conservation of 3,244,200 tons of standard coal and cut annual CO<sub>2</sub> emissions by 13,731,000 tons.

(2) IB is the first Chinese bank to advance into the field of carbon finance, which further expands CHUEE loans into integrated carbon finance services.

To respond to an international trend to combat climate change and a national trend in energy conservation and emissions reduction, IB, on the basis of its successful finance business in CHUEE, has obtained the first-mover advantage and extensive market impact in the field of CHUEE and succeeded in the establishment of a sound social image. Following this, IB seized the opportunity to enter the field of CDM (carbon transactions). A typical case is a project in which IB financed a company in Shenzhen engaged in marsh gas recycling in its refuse landfill. This project has achieved balance between corporate economic benefits and environmental benefits. The successful operation of project finance means that IB has become the first bank in China that is able to expand CHUEE loans into the field of carbon finance.

(3) IB is the first Chinese bank to launch an entire range of specialized products for sustainable finance in the field of climate change, and has worked out long-term development objectives.

IB has set-up an institution especially for carbon finance. This is the Bank's first trial in carbon finance. Through active probing therein, IB has realized the leap from energy efficiency finance to carbon finance and environmental finance. Moreover, IB is actively involved in emission trading, and has preliminarily developed two product series targeted at the buyers and the sellers of carbon transactions. Being the first bank in China to become involved in carbon transactions has further shown how IB, by seizing historic opportunities in which the whole world is combating climate change and the government is advocating energy conservation and emissions reduction, has opened up new markets, fully exposed new business opportunities and made efforts to carry out integrated operations.

In regard to development objectives, IB has a large number of product series, deposit projects and business modes. Before 2010, the Bank's carbon finance businesses will focus on CHUEE finance businesses and agency businesses for carbon purchases. Management and services for carbon turnover guarantee, collection charges for CDM funds, transaction finance services and equity investment in renewable resources are also to be developed. From 2010 to 2012, IB will, by focusing on agency businesses in carbon purchase, transaction finance services, other finance services related to carbon transactions and equity investment businesses in renewable resources, keep on expanding into new fields, extending product chains and uncovering new areas in which to increase profitability.

In regard to sustainability, IB will continue to focus on various resources, strengthen organization safeguards, enhance internal management and vigorously promote the integrated development of sustainable finance business. First-mover advantages will be transformed into sustainable competitive advantages, which will be consolidated, retained and built up with prominent features. A dominant brand will be established, management and marketing systems will be optimized and an efficient, professional service team created. Additionally, IB will continue to strengthen and improve systems for the management of environmental and social risks, CHUEE finance, carbon finance, and energy management and services. By means of systematic integration, resource allocation, information communication, operation exchange and project cooperation, IB will improve its capabilities in internal management and promote the understanding and learning between international institutions. By acquiring advanced management concepts, transaction conventions and financial tools, it will make greater efforts to uncover more

and more sustainable business opportunities and profit modes.

The Industrial Bank has enormous respect for the concepts of sustainable development advocated by the Financial Times and IFC. It also admires the efforts that these two institutions have made in the promotion of sustainable development. The Industrial Bank regards the Sustainable Banking Awards as the highest honor in sustainable banking. IB will, with strict adherence to the requirements listed in the application materials, improve its management capabilities and enhance its capabilities in business development. As a bank comes from the emerging market, who regards sustainable development as a major part of the strategy, the Industrial Bank believes that as the efforts that it has made make it eligible to receive this year's Emerging Markets Sustainable Bank Award.