

Notes on the Green Credit Statistics Information Disclosure

I. Green Credit Statistics System (GCSS)

In 2013, China Banking Regulatory Commission (CBRC) launched the *Notice of the General Office of CBRC on the Submission of Green Credit Statistics Form* (YINJIANBANFA [2013] No. 185) and the *Notice on the Submission of Green Credit Statistics Form* (YINJIAN TONGTONG [2014] No. 60). These two documents form the Green Credit Statistics System (GCSS). Under GCSS, banking institutions are required to categorize green credit portfolio into two categories, including:

(i) lending to the production and manufacturing end of three “strategic emerging sectors”, i.e. energy saving & environmental protection, new energy, and new-energy vehicles;

and

(ii) lending to projects and services that are energy saving and environmental protection, including 1) green agriculture; 2) green forestry ; 3) industrial energy saving, water conservation and environmental protection; 4) natural protection, ecological restoration, and disaster prevention; 5) resource recycling; 6) waste disposal, pollution prevention and treatment; 7) renewable energy and clean energy; 8) rural and urban water projects; 9) building energy efficiency and green building; 10) green transportation; 11) energy conservation and environmental protection services; 12)) overseas finance projects applying international best practices and standards.

Data collected under GCSS include banking institutions’ outstanding loan balance of green credit, asset (loan) quality and the environmental benefits generated from green credit loans. The GCSS also captures data on banking institutions’ credit exposure to obsolete industrial capacity, as well as to risk on environment and safety issues, to urge banking institutions to improve environment and social (E&S) risk management of their lending.

Under GCSS, CBRC’s regional offices and banking institutions report green credit statistics every six months. The 21 major banks of China including policy banks, state-owned commercial banks, joint-stock commercial banks and postal savings bank are requested to fill and submit the green credit statistics forms (GCSF) to the CBRC head office. At regional level, CBRC local offices are responsible to review the GCSF submitted by banking institutions in its jurisdiction, including policy banks, state-owned commercial banks, joint-stock commercial banks, postal savings bank, city commercial banks, rural commercial

banks, rural cooperative banks, locally-incorporated foreign banks, rural credit unions, financial companies of enterprise group and trust companies. These information is then aggregated, analyzed and reported to CBRC head office. CBRC has developed a special system for collecting and verifying all data. Forms that fail the data verification check will be automatically rejected and prompted for checking and correction. In addition, CBRC requires related banks explain on project types that have abnormal intertemporal increase or decrease, or major deterioration of loan quality. Qualified forms shall be locked by the system to prevent modification of data.

II. Green Credit Performance of Major Chinese Banks

1. Volume of Chinese banks' green credit portfolio has grown steadily. From the end of 2013 to June 2017, the outstanding balance of green credit lending by the 21 major Chinese banks has increased from RMB 5.20 trillion to 8.30 trillion, of which the 12-category energy efficiency and environmental protection lending has increased from RMB 3.69 trillion to 6.53 trillion, and lending to the three “strategic emerging sector” (energy saving and environmental protection, new energy, and new-energy vehicles) has increased from RMB 1.51 trillion to 1.76 trillion. Topping the growth of green credit lending are green transportation, renewable energy & clean energy, industrial energy saving, water conservation and environmental protection projects, both in terms of volume and growth rate.

2. Energy saving and environmental protection loans are demonstrating environmental benefits. As of the end of June 2017, every year, the 12 categories of energy saving and environmental protection loans lending have saved 215 million tons of standard coal, reduced 491 million tons of carbon dioxide equivalent emission, 2.83 million tons of COD, 0.27 million tons of ammonia nitrogen, 4.65 million tons of SO₂, 3.13 million tons of NO_x, and saved 715 million tons of water. CO₂ equivalent reduction achieved is equal to CO₂ emitted by 70,000 Beijing taxis for 336 years, or the same as CO₂ emission reduction by the Three Gorges hydro project for 8.4 years.

3. Energy saving and environmental protection loans have good assets quality with a lower non-performing loan (NPL) ratio. From 2013 to 2016, the NPL ratios of 21 major Chinese banks' loans to projects and services for energy saving and environmental protection are 0.32%, 0.20%, 0.42% and 0.49% respectively. As of the end of June 2017, the aggregate balance of 21 major Chinese banks' NPLs to projects and services for energy saving and environmental protection was 24.17 billion Yuan with a NPL ratio of 0.37%, which was 132% lower than average NPL ratio of 21 major Chinese banks for the same period. The assets quality information for the “three strategic emerging sectors” are not included yet as CBRC currently obtains data for these from a different data source which does not include assets quality.

III. Calculation of Environmental Benefits

Under GCSS, banking institutions are asked to calculate the environmental benefits of each green credit loan based on prudential principles. Basis of calculation include third-party verification report, data provided by the verifiers, project approval documents, project feasibility study reports and environmental impact reports.

The formula is:

$$\text{Annual Emission Reduction of the loan} = \frac{\text{outstanding loan balance of the bank}}{\text{total project investment}} \times \text{annual emission reduction of the project upon completion}$$

The “outstanding loan balance” includes project finance and working capital loans to support the project. To calculate energy saving benefits of a typical energy-saving project, the approval document for the feasibility study will be primary source for reference, followed by Energy Saving Report and then Feasibility Study. To calculate pollution reduction benefits for environmental protection projects, the approval document for environmental impact review report will be primary source for reference, followed by Environmental Impact Report and Feasibility Study.

In case where project documents does not include environmental benefit data, the annex of the GCSS provides formulas, recommended value for key parameters, and calculation tools (in Excel form) for typical energy saving and emission reduction projects. Available formulas include power generation from waste heat and residual pressure, wind power, hydropower, biomass power generation projects, waste water treatment projects, and flue-gas DeSOx and DeNOx projects. These formulas have been tested in numerous projects where calculation results are equal to or slightly less than results included in the project documents.

If it is not possible to obtain environmental benefit data through the above means, banking institutions can choose to only report the outstanding loan balance of green credit without reporting on environmental benefits.