

Hengfeng Bank Reporting and Self-Assessment for Principles for Responsible Banking (PRB) in 2022

Principle 1: Alignment



We will align our business strategy to be consistent with and contribute to individuals' needs and society's goals, as expressed in the Sustainable Development Goals, the Paris Climate Agreement and relevant national and regional frameworks.

Business model

Describe (high-level) your bank's business model, including the main customer segments served, types of products and services provided, the main sectors and types of activities across the main geographies in which your bank operates or provides products and services. Please also quantify the information by disclosing e.g. the distribution of your bank's portfolio (%) in terms of geographies, segments (i.e. by balance sheet and/or off-balance sheet) or by disclosing the number of customers and clients served.

Response

Hengfeng Bank is one of China's 12 national joint-stock commercial banks, with 322 branches nationwide, including 19 primary branches and one branch directly under the head office. It has a fund operation center, an institution dedicated to private banking, and a wholly-owned subsidiary, HF Wealth Management Co., Ltd. Hengfeng Bank has established five rural banks. As of the end of the reporting period, the total assets of the bank were CNY 1,331.595 billion, up by 9.39% year on year. It rose to the 122nd in the Top 1000 World Banks 2022 of the British magazine *The Banker*. It has received the Innovator in the Digital Transition, the Innovation Pioneer in the Digital and Intelligent Transition of Small and Medium-sized Banks, the Excellent Case of the Digital Transition in the Banking Industry, and other awards.

In 2021, our loans were mostly granted to the following industries: water conservation, environment, and public facilities management industries (17.77%); leasing and commercial services (16.45%); real estate (8.46%); manufacturing (8.18%); wholesale and retail (7.13%); and construction (7.03%). By region, our loans were mostly granted to: the Yangtze River Delta (39.11%), the Bohai Sea Rim (26.83%), and western China (17.68%).

In 2022, our loans were mostly granted to the following industries: water conservation, environment, and public facilities management industries (17.15%); leasing and commercial services (23.01%); real estate (8.17%), manufacturing (7.62%), wholesale and retail (7.01%); and construction (8.53%). By region, our loans were mostly granted to: the Yangtze River Delta (36.23%), the Bohai Sea Rim (30.28%), and western China (17.19%).

Our bank has established a green financial credit product system. By 2021, we issued 27 green bonds worth over CNY10.8 billion and raised CNY2.362 billion in ESG wealth management. By 2022, our green credit balance was CNY44.6 billion. By 2022, HF Wealth Management holds 14 green bonds with a balance of CNY600 million and have issued

Links and references

P15,P61, Corporate Social Responsibility Report of Hengfeng Bank Co., Limited (2021)

P22-24, 2022 Annual Report of Hengfeng Bank Co., Limited

P4,P10-14, Environmental, Social and Governance (ESG) Report of Hengfeng Bank Co., Limited (2022)

Note: Hengfeng Bank adjusted its CSR report to ESG report in 2022, while the data collection period is consistent.

5 green-themed products, raising CNY4.8 billion. Our bank has also been actively engaged in green practices such as clean energy, ecological conservation, environment improvement and green transportation.

Additionally, our bank consciously fulfills social responsibility in business activities. We develop financial inclusion, with the balance of inclusive loans reaching CNY26.702 billion in 2021 and CNY40.689 billion in 2022. We support micro, small, and medium-sized enterprises (MSMEs), with the balance of loans to MSMEs reaching CNY388.156 billion in 2021 and CNY410.514 billion in 2022. We support rural revitalization, with the balance of agriculture-related loans reaching CNY127.020 billion in 2021 and CNY136.837 billion in 2022.

Strategy alignment

Does your corporate strategy identify and reflect sustainability as strategic priority/ies for your bank?

Yes

No

Please describe how your bank has aligned and/or is planning to align its strategy to be consistent with the Sustainable Development Goals (SDGs), the Paris Climate Agreement, and relevant national and regional frameworks.

Does your bank also reference any of the following frameworks or sustainability regulatory reporting requirements in its strategic priorities or policies to implement these?

UN Guiding Principles on Business and Human Rights

International Labour Organization fundamental conventions

UN Global Compact

UN Declaration on the Rights of Indigenous Peoples

Any applicable regulatory reporting requirements on environmental risk assessments, e.g. on climate risk - please specify which ones: -----

Any applicable regulatory reporting requirements on social risk assessments, e.g. on modern slavery - please specify which ones: -----

None of the above

Response

Our bank practices the Sustainable Development Goals (SDGs), the Paris Agreement, and the philosophy that “lucid waters and lush mountains are invaluable assets.” We prioritize developing green finance in implementing the new development philosophy and boosting high-quality development. In May 2021, Hengfeng Bank successfully held the Carbon Neutrality Summit Forum in Jinan, and released the Green Finance Action Plan of Hengfeng Bank (2021-2025). With 27 measures in eight categories, including improving the top-level design, policy system, and product system, we have established a green finance roadmap during the 14th Five-Year Plan period, which focuses on seven areas: clean energy, green and intelligent manufacturing, environmental remediation, rural revitalization, green construction, green transportation, and carbon finance. By providing financing support, establishing dedicated institutions, and joining the PRI and the PRB, we practice the ESG concept and improve our green finance planning. In 2022, we released the Plan of Hengfeng Bank for Constructing and Implementing Green Finance Demonstration Sub-branches.

Links and references

P55-57, Social Responsibility Report of Hengfeng Bank Co., Limited (2021)

P20,P28, Environmental, Social and Governance (ESG) Report of Hengfeng Bank Co., Limited (2022)

Our bank thoroughly implements the decisions of the Central Committee of the Communist Party of China (CPC) and the State Council on 3060 Carbon Peak and Neutrality . We have incorporated the ESG concept into our plan during the 14th Five-Year period. In the Opinions of Hengfeng Bank on Developing and Implementing Green Finance (2021-2025), we define the overall requirements, targets, directions, and measures for Hengfeng Bank’s five-year development of green finance. We require the whole bank to commit to serving the national green development strategy and low-carbon development goals and explore a green financial system with Hengfeng Bank’s characteristics.

Principle 2: Impact and Target Setting



We will continuously increase our positive impacts while reducing the negative impacts on, and managing the risks to, people and environment resulting from our activities, products and services. To this end, we will set and publish targets where we can have the most significant impacts.

2.1 Impact Analysis (Key Step 1)

Show that your bank has performed an impact analysis of its portfolio/s to identify its most significant impact areas and determine priority areas for target-setting. The impact analysis shall be updated regularly¹ and fulfil the following requirements/elements (a-d)²:

a) Scope: What is the scope of your bank's impact analysis? Please describe which parts of the bank's core business areas, products/services across the main geographies that the bank operates in (as described under 1.1) have been considered in the impact analysis. Please also describe which areas have not yet been included, and why.

<i>Response</i>	<i>Links and references</i>
<p>Our bank is primarily engaged in Corporate banking, Retail banking, and Interbank business. Specifically, they include: Corporate banking business, Institutional banking business, Inclusive Finance Business, Trading Banking Business, Investment Banking Business, Asset Management Business, Personal Customer Management, Personal Consumer Loan, Wealth Management, Debit/Credit Card Business, Financial Institution Business, Financial Market Business, and Asset Custody Business. We provide products and services in carbon finance, clean energy, rural revitalization, green building, green transportation, environmental remediation, and green and intelligent manufacturing. In green finance and other key areas, we have a large balance of corporate loans. In financial inclusion, we have created a series of financial product brands and built a financial product system.</p> <p>We use the UNEP FI tool to analyze our bank's corporate loan and advance portfolio in 2022, which covers 81.73% of our bank's total loans. We identify the significant impact areas from the following sectors: water conservancy, environment, and public facility management (17.15%); construction (8.53%); real estate (8.17%); and manufacturing (7.62%).</p> <p>According to our bank's loan distribution by region, the major regions of operation considered in the impact analysis are: the Yangtze River Delta (36.23%), the Bohai Sea Rim (30.28%), and western China (17.19%).</p>	<p>P41-50, 2021 Annual Report of Hengfeng Bank Co., Limited</p> <p>P22-23,P37, Environmental, Social and Governance (ESG) Report of Hengfeng Bank Co., Limited (2022)</p> <p>P23,P26-37, 2022 Annual Report of Hengfeng Bank Co., Limited</p>

b) Portfolio composition: Has your bank considered the composition of its portfolio (in %) in the analysis? Please provide proportional composition of your portfolio globally and per geographical scope

- i) by sectors & industries³ for business, corporate and investment banking portfolios (i.e. sector exposure or industry breakdown in %), and/or
- ii) by products & services and by types of customers for consumer and retail banking portfolios.

If your bank has taken another approach to determine the bank's scale of exposure, please

¹ That means that where the initial impact analysis has been carried out in a previous period, the information should be updated accordingly, the scope expanded as well as the quality of the impact analysis improved over time.

² Further guidance can be found in the [Interactive Guidance on impact analysis and target setting](#).

³ 'Key sectors' relative to different impact areas, i.e. those sectors whose positive and negative impacts are particularly strong, are particularly relevant here.

elaborate, to show how you have considered where the bank’s core business/major activities lie in terms of industries or sectors.

<p>Response</p> <p>Our bank’s loan distribution by industry is as follows. In 2021, it was composed of water conservancy, environmental and other public facilities (17.77%); leasing and commercial services (16.45%); real estate (8.46%); manufacturing (8.18%); wholesale and retail (7.13%); construction (7.03%); transportation, storage and postal services (2.27%); electric power, thermal power, fuel gas and water production and supply (1.85%); finance (1.33%); agriculture, forestry, animal husbandry, and fishery (1.19%). In 2022, it was composed of leasing and commercial services (23.01%); water conservancy, environmental and other public facilities (17.15%); construction (8.53%); real estate (8.17%); manufacturing (7.62%); wholesale and retail (7.01%); transportation, storage and postal services (2.28%); finance (2.28%); electric power, thermal power, fuel gas and water production and supply (1.92%); agriculture, forestry, animal husbandry, and fishery (1.05%).</p> <p>In terms of non-performing loans (NPLs), by product types, the NPL ratio was 2.65% for corporate loans and 1.06% for personal loans in 2021. It was 1.98% for corporate loans and 1.31% for personal loans in 2022.</p> <p>In terms of market risks, the group’s market risk capital was CNY1.346 billion at the end of the 2021 reporting period, with a capital ratio of 1.31%. Major risk positions include CNY23.618 billion worth of bond exposure in the trading book and USD175 million worth of bankwide foreign exchange net exposure. Because of the large proportion of bond investments, fluctuations in interest rate risk had a significant impact on the returns of our bank’s funding business. The basis point value of CNY-denominated bonds in the trading book was CNY7.7647 million and the income of all assets in the trading book registered CNY935 million. At the end of the 2022 reporting period, the group’s market risk capital was CNY1.148 billion, with a capital ratio of 1.0%. The major risk positions were trading book bond business exposure of CNY28.459 billion and bank-wide net foreign exchange exposure of USD89 million. The basis point value of CNY-denominated bonds in the trading book was CNY6.0908 million and the income of all assets in the trading book registered CNY790 million.</p>	<p>Links and references</p> <p>P53, 2021 Annual Report of Hengfeng Bank Co., Limited</p> <p>P23, P40-43, 2022 Annual Report of Hengfeng Bank Co., Limited</p>
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c) Context: What are the main challenges and priorities related to sustainable development in the main countries/regions in which your bank and/or your clients operate?⁴ Please describe how these have been considered, including what stakeholders you have engaged to help inform this element of the impact analysis.

This step aims to put your bank’s portfolio impacts into the context of society’s needs.

<p>Response</p> <p>When considering the challenges and priorities related to sustainable development, our bank actively implements the overall deployment of the 14th Five-Year Plan and practices the philosophy that “lucid waters and lush mountains are invaluable assets” from the report to the 20th National Congress of the CPC. We implement major national strategies</p>	<p>Links and references</p> <p>P23-34, P58, Social Responsibility Report of Hengfeng Bank Co., Limited (2021)</p>
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⁴ Global priorities might alternatively be considered for banks with highly diversified and international portfolios.

and tasks for 3060 Carbon Peak and Neutrality and support the high-quality development of the real economy. We focus on the harmony between humanity and nature in planning our bank's development in line with national strategies .

Our bank thoroughly observes the requirements of the national "1+N" policy framework (overall planning plus multiple supporting measures) for 3060 Carbon Peak and Neutrality . We implement the Working Guidance for Carbon Dioxide Peaking and Carbon Neutrality in Full and Faithful Implementation of the New Development Philosophy and the Action Plan for Carbon Dioxide Peaking Before 2030. We are actively engaged in the ten major actions for peaking carbon dioxide emissions and contribute financial forces to 1) green and low-carbon energy transition; 2) energy saving, carbon emission mitigation and efficiency improvement; 3) peaking carbon dioxide emissions in industry sector; 4) peaking carbon dioxide emissions in urban-rural development area; 5) promoting green and low-carbon transportation; 6) promoting circular economy in carbon mitigation purpose; 7) advancing green and low-carbon technology innovation; 8) consolidating and enhancing carbon sink; and 9) green and low-carbon society.

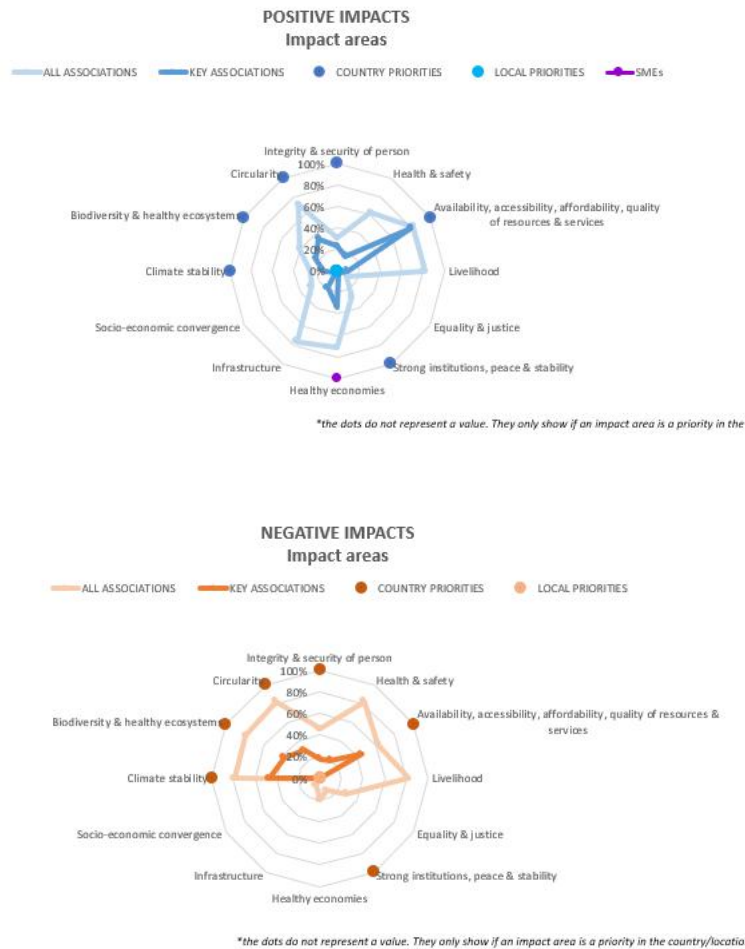
In analysis and decision-making, our bank responds to national policies and carefully studies the Implementation Plan for Synergetic Control of Environmental Pollution and Carbon Emissions and industry policies. In our operation and investment activities, we embed the principles of "highlighting synergies, strengthening prevention and control from the source, optimizing technology roadmaps, emphasizing on mechanism innovations, and encouraging pilot implementation." We strive to achieve an all-win situation for in environmental, climate, and economic benefits. At the same time, our bank collects and discloses indicators such as carbon emission reduction brought by our green operations and green financial services as per the Notice of Issuing the Implementation Plan for Establishing and Improving the Measurement System for 3060 Carbon Peak and Neutrality Standards. Based on this, our bank takes green finance as a long-term development strategy. We continuously improve our financial services and build a product and service system with core advantages. Based on the institutional arrangements, we contribute to the implementation of national development strategies and economic development across the board with policy guidance and business innovation. The national regional policies involved in this drive include the Outline of the Yellow River Basin's Ecological Protection and High-quality Development Plan, the Outline of the Plan for Coordinated Development for the Beijing-Tianjin-Hebei Region, and the decision to stabilize economy. Based on this, our bank has developed and issued many service schemes, including the Financial Service Scheme for the Integrated Development of the Yangtze River Delta, the Credit Authorization Guidelines in western China, the Action Initiative for Building a Green Bank to Support Carbon Neutrality, the Green Credit Policy Guidelines, the Manual of Integrated Financial Services for the Wind Power Industry, and the Manual of Hengfeng Bank of Integrated Financial Services for EOD Projects.

P21-22, P32-43,
Environmental, Social
and Governance (ESG)
Report of Hengfeng
Bank Co., Limited
(2022)

Based on these first 3 elements of an impact analysis, what positive and negative impact areas has your bank identified? Which (at least two) significant impact areas did you prioritize

to pursue your target setting strategy (see 2.2)⁵? Please disclose.

Response



Links and references

P23, 2022 Annual Report of Hengfeng Bank Co., Limited

Using the UNEP FI impact analysis tool (Version 3), based on our bank’s statistics for 2022, our bank considers that the areas in which the industry makes positive impacts include: availability, accessibility, affordability, quality of resources & services (water, healthcare & sanitation, finance); circularity (resource intensity, waste); healthy economies (flourishing MSMEs) . Areas preliminarily identified as potentially involving negative impacts or risks include: availability, accessibility, affordability, quality of resources & services (culture & heritage); climate stability; biodiversity & healthy ecosystems . (Due to the fact that the statistical method is according to Chinese Industrial classification standard (GB/T 4754-2017), the actual negative impacts involved may be not as serious as the results of the impact tool.)

Climate change mitigation is the key impact area prioritized in progressing target-setting strategies.

d) For these (min. two prioritized impact areas): Performance measurement: Has your bank identified which sectors & industries as well as types of customers financed or invested in are causing the strongest actual positive or negative impacts? Please describe how you assessed the performance of these, using appropriate indicators related to significant impact areas that apply to your bank’s context.

⁵ To prioritize the areas of most significant impact, a qualitative overlay to the quantitative analysis as described in a), b) and c) will be important, e.g. through stakeholder engagement and further geographic contextualisation.

In determining priority areas for target-setting among its areas of most significant impact, you should consider the bank's current performance levels, i.e. qualitative and/or quantitative indicators and/or proxies of the social, economic and environmental impacts resulting from the bank's activities and provision of products and services. If you have identified climate and/or financial health&inclusion as your most significant impact areas, please also refer to the applicable indicators in the [Annex](#).

If your bank has taken another approach to assess the intensity of impact resulting from the bank's activities and provision of products and services, please describe this.

The outcome of this step will then also provide the baseline (incl. indicators) you can use for setting targets in two areas of most significant impact.

Response	Links and references
<p>In line with China's goals of 3060 Carbon Peak and Neutrality and relevant principles, our bank takes the CO₂ equivalents (CO₂e) of carbon emission reduction (primarily concerning the carbon-reduction supporting tool of the People's Bank of China (PBOC) at present) as an impact-level indicator and the amount of funds invested in green assets as an business-level indicator. We regularly measure the amount of carbon emission reduction loans in green finance and the amount of CO₂ equivalents of carbon emission reduction driven by these loans. We use this methodology to assess the impact of our bank's activities on climate change mitigation and to effectively measure the performance. Our bank's major business market is China.</p> <p>Through further impact analysis of the industry concentration of loans, our bank considers that the industries with a significant impact on climate change are in order as follows: water conservancy, environmental and other public facilities; construction; real estate; and manufacturing.</p>	<p>P23, 2022 Annual Report of Hengfeng Bank Co., Limited</p>

Self-assessment summary:

Which of the following components of impact analysis has your bank completed, in order to identify the areas in which your bank has its most significant (potential) positive and negative impacts?⁶

Scope:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> In progress	<input type="checkbox"/> No
Portfolio composition:	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> In progress	<input type="checkbox"/> No
Context:	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> In progress	<input type="checkbox"/> No
Performance measurement:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> In progress	<input type="checkbox"/> No

Which most significant impact areas have you identified for your bank, as a result of the impact analysis?

Climate change mitigation, climate change adaptation, resource efficiency & circular economy, biodiversity, financial health & inclusion, human rights, gender equality, decent employment, water, pollution, other: please specify

Climate change mitigation

⁶ You can respond "Yes" to a question if you have completed one of the described steps, e.g. the initial impact analysis has been carried out, a pilot has been conducted.

How recent is the data used for and disclosed in the impact analysis?

- Up to 6 months prior to publication
- Up to 12 months prior to publication
- Up to 18 months prior to publication
- Longer than 18 months prior to publication

Open text field to describe potential challenges, aspects not covered by the above etc.:
(optional)

2.2 Target Setting (Key Step 2)

Show that your bank has set and published a minimum of two targets which address at least two different areas of most significant impact that you identified in your impact analysis.

The targets⁷⁸⁹ have to be Specific, Measurable (qualitative or quantitative), Achievable, Relevant and Time-bound (SMART). Please disclose the following elements of target setting (a-d), for each target separately:

a) Alignment: which international, regional or national policy frameworks to align your bank's portfolio with¹⁰ have you identified as relevant? Show that the selected indicators and targets are linked to and drive alignment with and greater contribution to appropriate Sustainable Development Goals, the goals of the Paris Agreement, and other relevant international, national or regional frameworks.

You can build upon the context items under 2.1.

<i>Response</i>	<i>Links and references</i>
We believe that the overall deployment of the 14th Five-Year Plan, the philosophy that “ lucid waters and lush mountains are invaluable assets, ” and the goals of 3060 Carbon Peak and Neutrality , are aligned with the United Nations SDGs and the Paris Climate Agreement.	P53-55, Social Responsibility Report of Hengfeng Bank Co., Limited (2021)

b) Baseline: Have you determined a baseline for selected indicators and assessed the current level of alignment? Please disclose the indicators used as well as the year of the baseline.

You can build upon the performance measurement undertaken in 2.1 to determine the baseline for your target.

A package of indicators has been developed for climate change mitigation and financial health & inclusion to guide and support banks in their target setting and implementation journey. The overview of indicators can be found in the [Annex](#) of this template.

If your bank has prioritized climate mitigation and/or financial health & inclusion as (one of) your most significant impact areas, it is strongly recommended to report on the indicators in the Annex, using an overview table like below including the impact area, all relevant indicators and the corresponding indicator codes:

<i>Impact area</i>	<i>Indicator code</i>	<i>Response</i>
<i>Climate change mitigation</i>	...	
	...	
	...	

<i>Impact area</i>	<i>Indicator code</i>	<i>Response</i>
<i>Financial health & inclusion</i>	...	
	...	
	...	

In case you have identified other and/or additional indicators as relevant to determine the baseline and

⁷ Operational targets (relating to for example water consumption in office buildings, gender equality on the bank's management board or business-trip related greenhouse gas emissions) are not in scope of the PRB.

⁸ Operational targets (relating to for example water consumption in office buildings, gender equality on the bank's management board or business-trip related greenhouse gas emissions) are not in scope of the PRB.

⁹ Operational targets (relating to for example water consumption in office buildings, gender equality on the bank's management board or business-trip related greenhouse gas emissions) are not in scope of the PRB.

¹⁰ Your bank should consider the main challenges and priorities in terms of sustainable development in your main country/ies of operation for the purpose of setting targets. These can be found in National Development Plans and strategies, international goals such as the SDGs or the Paris Climate Agreement, and regional frameworks. Aligning means there should be a clear link between the bank's targets and these frameworks and priorities, therefore showing how the target supports and drives contributions to the national and global goals.

assess the level of alignment towards impact driven targets, please disclose these.

Response

Our bank’s most significant impact area is climate change mitigation. The assessment indicators for the business include the amount of special support for green finance, the percentage of green assets, the percentage of green wealth management products, the amount of special support for climate financing, and the amount of carbon emission reduction. We choose the following indicators to set target and measure our progress:

Impact Area	Indicator Code	Response
Climate change mitigation	A 3.1	Provided CNY767 million in loans for projects in key areas of carbon emission reduction
	A 4.1	Driving 907,079.40 metric tons of CO ₂ e in carbon emission reduction

Our bank takes the 2022 data for the above two indicators as the baseline for climate change mitigation.

As of the end of 2022, the balance of the bank’s agriculture-related loans was CNY136.837 billion, with a growth rate of 8.61%. The balance of inclusive agriculture-related loans was CNY8.654 billion, an increase of CNY2.954 billion or 51.82% from the beginning of the year.

Links and references

P55, Social Responsibility Report of Hengfeng Bank Co., Limited (2021)

P20,P24,P43, Environmental, Social and Governance (ESG) Report of Hengfeng Bank Co., Limited (2022)

c) SMART targets (incl. key performance indicators (KPIs)¹¹): Please disclose the targets for your first and your second area of most significant impact, if already in place (as well as further impact areas, if in place). Which KPIs are you using to monitor progress towards reaching the target? Please disclose.

Response

In terms of climate stability, our bank sets climate change mitigation as its first target for the year, and carbon emissions reduction as key indicator.

In the Opinions of Hengfeng Bank on Developing and Implementing Green Finance (2021-2025) and the Environmental, Social and Governance (ESG) Report of Hengfeng Bank Co., Limited (2022), we set our bank’s targets during the 14th Five-Year Plan period. By 2025, our bank plans to provide no less than CNY300 billion in green finance support and no less than CNY200 billion in climate finance support, which is expected to help society reduce carbon emissions by more than 10 million metric tons. We will steadily increase the proportion of green finance in the bank’s assets and build a green-finance-brand bank that is widely recognized by customers and the market. Upholding the concept of low carbon, we will develop green and low-carbon finance, we will build 100 green finance demonstration sub-branches and promote the transition to digital and agile banking. In that way, we will embed the concept of low carbon and environmental protection into our business development.

Links and references

P55, Social Responsibility Report of Hengfeng Bank Co., Limited (2021)

P20, Environmental, Social and Governance (ESG) Report of Hengfeng Bank Co., Limited (2022)

d) Action plan: which actions including milestones have you defined to meet the set targets? Please describe.

Please also show that your bank has analysed and acknowledged significant (potential) indirect

¹¹ Key Performance Indicators are chosen indicators by the bank for the purpose of monitoring progress towards targets.

impacts of the set targets within the impact area or on other impact areas and that it has set out relevant actions to avoid, mitigate, or compensate potential negative impacts.

Response

Our bank grants carbon-reduction loans to eligible carbon-reduction projects with the support of the carbon-reduction supporting tool in accordance with the PBOC's regulations. Additionally, we disclose to the public the number of carbon-reduction projects supported by our institution with the carbon-reduction support tool, the amount and weighted average interest rate of carbon-reduction loans, and the annual carbon-reduction volume driven by carbon-reduction loans, as required. In 2022, Hengfeng Bank granted CNY767.4335million in carbon-reduction loans to 12 projects with a weighted average interest rate of 3.60%, which drove 907,079.40 metric tons of CO₂e in carbon reduction in the year. The carbon-reduction loans were dedicated to key areas such as clean energy, energy conservation, environmental protection, and carbon-reduction technologies to contribute to the goals of 3060 Carbon Peak and Neutrality. Among the projects, the ones with the best performance in carbon reduction are: the energy storage system research and development (R&D) and industrialization project of China Power Energy Storage, the new energy photovoltaic (PV) development project in the Liaocheng High-Tech Zone, and the PV-storage-integrated construction project in Tianyuan District, Zhuzhou.

To strengthen green governance, implement the green financial planning as soon as possible, mitigate climate change, and contribute to the goals of 3060 Carbon Peak and Neutrality, our bank has developed the following five targeted action plans. 1) Hengfeng Green Financing Facilitator. It meets customers' green financing needs, provides financing solutions for green upgrading projects, enriches environmental equity financing tools, and innovates green financial products. 2) Hengfeng Green Investment Facilitator. It provides a high-quality investment service system for the upgrading and development of green industries and issues low carbon funds, green technology funds, blue bonds, carbon neutrality bonds, and transition bonds to support capital development in green industries. 3) Hengfeng Green Supply Chain Facilitator. It provides customers with a sound financial service system for the upstream and downstream of the green supply chain; offers financing products for green agriculture, PV loans, and agriculture-beneficial e-commerce loans; and supports personal green consumption. 4) Hengfeng Green Inclusion Facilitator. It builds an inclusive retail product system around the green ecology and low-carbon lifestyles and deeply integrates the green finance concept with supply chain financial services. 5) Hengfeng Green Intelligence Facilitator. It provides intelligent support for customers' green low-carbon development through financing & intelligence integration, think tank support, consulting services, and emission reduction roadmaps. In addition, we will proceed with advanced ESG research and develop the Green Degree indicators and green indices.

Our bank has incorporated green finance and ESG management into the whole-process management of our credit authorization business. We have developed classified environmental and social management standards, with which we classify our credit customers according to their environmental risks to track and monitor them. Our bank has developed *Green Credit Policy Guidelines*, in which we define the support direction and key areas of green credit. We prioritize supporting the green transition & upgrading and climate transition of

Links and references

P56, Social Responsibility Report of Hengfeng Bank Co., Limited (2021)

P21-23, Environmental, Social and Governance (ESG) Report of Hengfeng Bank Co., Limited (2022)

Carbon-Reduction Loan Information Disclosure of Hengfeng Bank Co., Limited for the Fourth Quarter of 2022

<p>heavy-pollution and high-emission industries and focus on enterprises with leading energy-efficiency and carbon-reduction technologies, improved production efficiency, and reduced energy consumption. At the same time, we increase our support for green transition and upgrading projects in traditional manufacturing industries. Specifically, we provide financing services such as financing linked to carbon emissions and carbon trading and energy efficiency loans for industrial energy efficiency transitions in traditional industries (such as electric power, steel, non-ferrous metals, petroleum and petrochemicals, and chemical). Our bank has also incorporated green finance indicators into the assessments of relevant functional departments and branches and set green credit an important indicator in the OKR assessment of branches. In this way, we guide and incentivize the head office-branch collaboration to increase green credit allocation, green financial bond underwriting, and green financial products.</p>	
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<h3>Self-assessment summary</h3> <p>Which of the following components of target setting in line with the PRB requirements has your bank completed or is currently in a process of assessing for your...</p>			
	... first area of most significant impact: climate change mitigation <i>(please name it)</i>	... second area of most significant impact: ... <i>(please name it)</i>	<i>(If you are setting targets in more impact areas) ... your third (and subsequent) area(s) of impact: ... (please name it)</i>
Alignment	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No
Baseline	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No
SMART targets	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No
Action plan	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> In progress <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No

2.3 Target implementation and monitoring (Key Step 2)

For each target separately:

Show that your bank has implemented the actions it had previously defined to meet the set target.

Report on your bank's progress since the last report towards achieving each of the set targets and the impact your progress resulted in, using the indicators and KPIs to monitor progress you have defined under 2.2.

Or, in case of changes to implementation plans (relevant for 2nd and subsequent reports only): describe the potential changes (changes to priority impact areas, changes to indicators, acceleration/review of targets, introduction of new milestones or revisions of action plans) and explain why those changes have become necessary.

Response

To measure our bank's progress in implementing the targets, our bank has designated the Corporate Finance Department to implement and monitor the targets. A detailed implementation plan will be developed this year.

We strictly follow the Notice of the People's Bank of China on Matters Concerning the Launching of the Carbon-Reduction Supporting Tool to assess and disclose our progress and subject to public scrutiny.

Links and references

Carbon-Reduction Loan Information Disclosure of Hengfeng Bank Co., Limited for the Fourth Quarter of 2022

Principle 3: Clients and Customers



We will work responsibly with our clients and our customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations.

3.1 Client engagement

Does your bank have a policy or engagement process with clients and customers¹² in place to encourage sustainable practices?

Yes In progress No

Does your bank have a policy for sectors in which you have identified the highest (potential) negative impacts?

Yes In progress No

Describe how your bank has worked with and/or is planning to work with its clients and customers to encourage sustainable practices and enable sustainable economic activities¹³. It should include information on relevant policies, actions planned/implemented to support clients' transition, selected indicators on client engagement and, where possible, the impacts achieved.

This should be based on and in line with the impact analysis, target-setting and action plans put in place by the bank (see P2).

Response

Our bank has established a green financial credit product system, including eight basic products (working capital loans, project financing, pre-project loans, mergers and acquisitions (M&A) loans, debt financing instruments, debt financing, equity financing services, and trade financing), eight special products (carbon emission rights-pledged financing, pollution discharge rights-pledged financing, contract energy management financing, energy conservation and emission reduction financing, clean energy financing, environmental management financing, and structured financing), and five financial service schemes (the financing service scheme for county-wide PV, the financial service scheme for electric vehicles, the financial service scheme for the waste and sewage treatment industries, the financial service scheme for rail transportation, and the financial service scheme for carbon trading). As at the end of the reporting period, the balance of our bank's green credit was CNY44.6 billion, with a balance growth rate of 87.39%. In the PBOC's green credit business bulletin of 24 major banks for 2022, our balance growth rate ranked 2nd among national joint-stock banks.

By 2021, we had issued a total of 27 bonds with an issuance size exceeding CNY10.8 billion. In the 2022 reporting period, we underwrote CNY970 million in green bonds, up by 21.25% from 2021. Those bonds were used to support low-carbon transportation, clean energy equipment manufacturing, ecosystem conservation and restoration in the Yangtze River Basin, and green infrastructure

Links and references

P60-66, Social Responsibility Report of Hengfeng Bank Co., Limited (2021)

P22-28, Environmental, Social and Governance (ESG) Report of Hengfeng Bank Co., Limited (2022)

¹² A client engagement process is a process of supporting clients towards transitioning their business models in line with sustainability goals by strategically accompanying them through a variety of customer relationship channels.

¹³ Sustainable economic activities promote the transition to a low-carbon, more resource-efficient and sustainable economy.

upgrading. As at the end of 2022, the balance of our proprietary investment green bonds (according to PBOC statistics) totaled CNY2.74 billion, an increase of 151.4% year-on-year. As at the end of 2022, HF Wealth Management had issued five green-themed products in total, raising CNY4.8 billion. In terms of net worth products, it held 14 green bonds with a balance of CNY600 million.

In addition, we work closely with our clients to promote sustainability in clean energy, ecological conservation, environmental protection, environment improvement, green transportation, and other green practices.

In the area of carbon reduction, during the 2022 reporting period, our bank approved a total of 32 clean energy projects in line with the PBOC's carbon-reduction re-lending policy, with a total approved amount of CNY20.895 billion. Among these projects, 12 have received the loans, driving 907,079.40 metric tons of CO₂e in carbon reduction. Those projects include the first loan for a wind power project and the first carbon-reduction loan for the wind power project of Datang (Qiubei) New Energy Co., Ltd. in Qiubei County, Wenshan Prefecture, Yunnan Province.

In the area of clean energy, as at the end of the reporting period, our bank had established credit partnerships with eight state-own power enterprises with a total credit amount of CNY72 billion. We signed strategic partnership agreements with State Power Investment Corporation Limited (SPIC) and Three Gorges Group, Sichuan Energy Investment Co., Ltd. (TGSCEI) to boost the development of clean energy. Specifically, we signed a strategic partnership agreement with SPIC in July 2022. Oriented by jointly creating a new pattern of green development in general, we are launching a comprehensive and in-depth partnership around six emerging industrial sectors, namely, zero-carbon transportation, green power conversion, collaboration with key accounts, distributed smart grids, clean heating in northern China, and energy-ecology integrated development. Our bank will give full play to our advantages in financial services and continue to increase credit investment. We will provide SPIC with professional and comprehensive financial services and jointly contribute to the goals of 3060 Carbon Peak and Neutrality .

In the area of ecological conservation and environmental protection, our bank closely monitors ecosystem restoration projects in China's major rivers and lakes such as the Yangtze River, the Yellow River, Lake Tai and Lake Erhai. We strongly support the ecological construction and water quality improvement of the Yangtze River and Yellow River. We also provide financial support for urban and rural sewage and waste treatment, soil pollution treatment and remediation, urban and rural appearance management, and landscaping. In 2021, we issued a total of CNY7.636 billion in loans to the area of ecological conservation and environmental protection.

In the area of green transportation, our bank supports transportation projects in Shanghai, Nanjing, Suzhou, Kunming, and many other places, providing green capital support through the whole process from transportation planning and construction to operation and maintenance. In 2021, we issued a total of CNY2.249 billion in loans to the rail transportation sector.

In the area of environmental remediation, our bank continuously strengthen financial support for rural ecological restoration, waste and

<p>sewage treatment infrastructure, green agriculture, and ecological tourism. In 2021, we issued a total of CNY5.320 billion in green loans to the areas of rural revitalization.</p>	
<p>3.2 Business opportunities</p> <p>Describe what strategic business opportunities in relation to the increase of positive and the reduction of negative impacts your bank has identified and/or how you have worked on these in the reporting period. Provide information on existing products and services , information on sustainable products developed in terms of value (USD or local currency) and/or as a % of your portfolio, and which SDGs or impact areas you are striving to make a positive impact on (e.g. green mortgages – climate, social bonds – financial inclusion, etc.).</p>	
<p><i>Response</i></p> <p>Our bank has joined the China Carbon Neutral Action Alliance as a board member and been actively engaged in the preparation of the national carbon trading market.</p> <p>Our green bonds are focused on the energy-efficiency retrofits, clean energy, and green building sectors, including the projects of low-carbon transportation, clean energy equipment manufacturing, conservation and restoration of the Yangtze River Basin ecosystem, and green upgrading of infrastructure. We issued four green bonds in 2022, totaling CNY50.77 billion. The projects we engage can cumulatively reduce carbon dioxide emissions by about 3.914 million metric tons, save 1.502 million metric tons of coal equivalents, and reduce nitrogen oxide emissions by 858.3 metric tons and respirable particle emissions by 139.4 metric tons in a year.</p> <p>In terms of financial inclusion, our balance of inclusive micro and small loans was CNY26.702 billion in 2021 and CNY40.689 billion in 2022. We have reduced charges and made concessions totaling CNY19.6710 million in our financial inclusion business.</p>	<p><i>Links and references</i></p> <p>P32,P58,P61, Social Responsibility Report of Hengfeng Bank Co., Limited (2021)</p> <p>P102, 2021 Annual Report of Hengfeng Bank Co., Limited</p> <p>P7, P22-26,P37, Environmental, Social and Governance (ESG) Report of Hengfeng Bank Co., Limited (2022)</p>

Principle 4: Stakeholders



We will proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society's goals.

4.1 Stakeholder identification and consultation

Does your bank have a process to identify and regularly consult, engage, collaborate and partner with stakeholders (or stakeholder groups¹⁴) you have identified as relevant in relation to the impact analysis and target setting process?

Yes In progress No

Please describe which stakeholders (or groups/types of stakeholders) you have identified, consulted, engaged, collaborated or partnered with for the purpose of implementing the Principles and improving your bank's impacts. This should include a high-level overview of how your bank has identified relevant stakeholders, what issues were addressed/results achieved and how they fed into the action planning process.

Response

Our bank values communication with stakeholders and actively expands communication channels to fully listen to their opinions and suggestions. Our major stakeholders are governments and regulators, shareholders and investors, customers and consumers, employees, suppliers and partners, the environment, and society. In response to the different expectations and demands of each party, our bank has effective communication channels and provides timely response and measures.

During this period, our bank joined the Carbon Neutrality Action Alliance as a board member and signed the Joint Declaration of Banking Sector to Support Biodiversity Conservation. We established credit partnerships with eight state-own power enterprises and signed strategic partnership agreements with SPIC and TGSCEL.

Our bank observes Principle 4 when facing the demands of responding to climate change, developing green finance, practicing green operations, and boosting the development of a green and low-carbon economy. We implement energy saving and emission reduction policies, host forums and conferences, collect and disclose environmental data, develop business pricing strategies, and launch green public welfare campaigns and green finance promotion. Through these channels, we strengthen our ESG management, innovate our green financial products and services, set up green offices, and perform green procurement. We have developed the Green Degree indicators, launched a green index, and established a green finance index R&D center. During the reporting period, our bank joined hands with Southwestern University of Finance and Economics (SWUFE) and China Chengxin Indices to establish a Green Finance Index R&D Center. The center leverages SWUFE's advantages in green finance and asset management research, the business practice of HF Wealth Management, HF Private Banking, and China Chengxin Indices in green finance, and try to contribute

Links and references

P13, Social Responsibility Report of Hengfeng Bank Co., Limited (2021)
P7-8, P23-25 Environmental, Social and Governance (ESG) Report of Hengfeng Bank Co., Limited (2022)

¹⁴ Such as regulators, investors, governments, suppliers, customers and clients, academia, civil society institutions, communities, representatives of indigenous population and non-profit organizations

to ESG investment and green asset allocation.	
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Principle 5: Governance & Culture



We will implement our commitment to these Principles through effective governance and a culture of responsible banking

5.1 Governance Structure for Implementation of the Principles

Does your bank have a governance system in place that incorporates the PRB?

Yes In progress No

Please describe the relevant governance structures, policies and procedures your bank has in place/is planning to put in place to manage significant positive and negative (potential) impacts and support the effective implementation of the Principles. This includes information about

- which committee has responsibility over the sustainability strategy as well as targets approval and monitoring (including information about the highest level of governance the PRB is subjected to),
- details about the chair of the committee and the process and frequency for the board having oversight of PRB implementation (including remedial action in the event of targets or milestones not being achieved or unexpected negative impacts being detected), as well as
- remuneration practices linked to sustainability targets.

Response

Our bank has established a green management system. In terms of policies and systems, we have developed the Green Credit Policy of Hengfeng Bank, the Marketing Guidelines of Hengfeng Bank for Green Debt Financing Instruments for Non-financial Enterprises, and other systems. With these systems, we embed green credit management in all aspects of customer access, due diligence, examination and approval, charging off review, and post-credit-granting management. In terms of organization and leadership, we have set up an internal management structure of “Board of Directors - senior management - Green Finance Committee - Green Finance Center - branches.” We have also set up green credit research and credit approval teams. They enable our bank to practice innovation in review and approval efficiency, loan size, and risk control and asset allocation, improve green credit response and professional research capabilities, and build a green financial service system. In terms of assessments and incentives, we include the growth rate of green credit and the non-performing ratio in the annual assessment. We explicitly require that the growth rate of green credit shall not be lower than the growth rate of corporate loans of the bank, and the non-performing ratio of green credit shall be lower than the NPL ratio of the bank. In terms of work plans, we have developed the Opinions of Hengfeng Bank on Developing and Implementing Green Finance (2021-2025), proposing 27 measures in eight categories, including improving the top-level design, policy system, and product system.

Links and references

P57, Social Responsibility Report of Hengfeng Bank Co., Limited (2021)
P6,P20, Environmental, Social and Governance (ESG) Report of Hengfeng Bank Co., Limited (2022)

5.2 Promoting a culture of responsible banking:

Describe the initiatives and measures of your bank to foster a culture of responsible banking among its employees (e.g., capacity building, e-learning, sustainability trainings for client-facing roles, inclusion in remuneration structures and performance management and leadership communication, amongst others).

Response

We vigorously promote the concept of sustainable development throughout the bank and strive to develop a culture of responsible banking. Our measures include differentiated assessments, education, and training etc.

Our bank has included the green credit growth rate and the non-performing ratio in the annual assessments, included green financial indicators in the assessments of relevant functional departments and branches, and set green credit as a key indicator in the OKR assessments of branches. By the end of the reporting period, we held 2,363 internal control compliance education and training sessions for a total attendance of 241,000. We conducted 13 risk screening, and 100% of the identified risks were addressed. We have built a “light” mobile learning and training platform to facilitate the learning of green finance, digital transition, and marketing management for all employees at the bank. By 2022, the average hours of online learning per employee at the bank were 125. In the Account Manager Lecture on Green Finance, we invited external experts such as the director of the Center for Green Finance Research of Tsinghua University and the lead author of the energy development plan of Shandong Province during the 14th Five-Year Plan period to give offline lectures. We have published "Green Finance Learning Column " on mobile learning and training platform, uploaded courses such as Introduction to the Green Finance Business and launched the Green Finance Knowledge Assessment. Up to now, the total attendance of the courses by the employees at the bank is more than 11,000. We organized and launched a monthly campaign dedicated to green finance learning, in which we invited industry experts to lecture on “How banks can tap into the blue ocean of green finance” and “Green finance and its outlook against carbon neutrality” and hosted a knowledge contest on green finance. The campaign saw more than 6,000 participants in the learning.

Links and references

P57, Social Responsibility Report of Hengfeng Bank Co., Limited (2021)

P14,P22,P64, Environmental, Social and Governance (ESG) Report of Hengfeng Bank Co., Limited (2022)

P36, 2022 Annual Report of Hengfeng Bank Co., Limited

5.3 Policies and due diligence processes

Does your bank have policies in place that address environmental and social risks within your portfolio?¹⁵ Please describe.

Please describe what due diligence processes your bank has installed to identify and manage environmental and social risks associated with your portfolio. This can include aspects such as identification of significant/salient risks, environmental and social risks mitigation and definition of action plans, monitoring and reporting on risks and any existing grievance mechanism, as well as the governance structures you have in place to oversee these risks.

¹⁵ Applicable examples of types of policies are: exclusion policies for certain sectors/activities; zero-deforestation policies; zero-tolerance policies; gender-related policies; social due diligence policies; stakeholder engagement policies; whistle-blower policies etc., or any applicable national guidelines related to social risks.

Response	Links and reference
<p>Our bank conducts regular climate risk stress tests and risk screening. Moreover, we have incorporated the standards for classified environmental and social management and environmental and social risk management into the whole credit granting process.</p> <p>Our bank regularly participates in climate risk sensitivity analysis by PBOC to assess the potential impact of the transition to 3060 Carbon Peak and Neutrality on our bank's credit assets. The results of the 2022 test showed that under stress scenarios, credit risk in the petrochemical, chemical, and power industries increased but the overall impact of climate-related risk on capital adequacy was manageable. In 2022, we conducted 13 risk checks, and 100% of the identified risks were addressed.</p> <p>Our bank has integrated environmental and social risk management into the whole business process and integrated green finance and ESG management into the whole process of the credit granting business. We have developed standards for classified environmental and social management. Pre loan materials for credit granting must include the customer's environmental information. During the lending process, the customer's environmental and social risk assessment reports must be presented. After the loan is issued, we regularly check the environmental protection information disclosed by credit systems and regulatory authorities. We conduct post-loan tracking of records of customers' environmental misconduct and urge them to rectify the issues in a timely manner.</p>	<p>P57,P59, Social Responsibility Report of Hengfeng Bank Co., Limited (2021)</p> <p>P14,P20-21, Environmental, Social and Governance (ESG) Report of Hengfeng Bank Co., Limited (2022)</p>

Self-assessment summary

Does the CEO or other C-suite officers have regular oversight over the implementation of the Principles through the bank's governance system?

Yes No

The Board of Directors monitors and makes decisions on the implementation of the Principles when it comes to significant matters such as ESG reporting, target setting, and disclosure of key information.

Does the governance system entail structures to oversee PRB implementation (e.g. incl. impact analysis and target setting, actions to achieve these targets and processes of remedial action in the event targets/milestones are not achieved or unexpected neg. impacts are detected)?

Yes No

Does your bank have measures in place to promote a culture of sustainability among employees (as described in 5.2)?

Yes In progress No

Principle 6: Transparency & Accountability



We will periodically review our individual and collective implementation of these Principles and be transparent about and accountable for our positive and negative impacts and our contribution to society's goals.

6.1 Assurance

Has this publicly disclosed information on your PRB commitments been assured by an independent assurer?

Yes Partially No

If applicable, please include the link or description of the assurance statement.

Response

Links and references

6.2 Reporting on other frameworks

Does your bank disclose sustainability information in any of the listed below standards and frameworks?

- GRI
- SASB
- CDP
- IFRS Sustainability Disclosure Standards (to be published)
- TCFD
- Other:

Response

Links and references

6.3 Outlook

What are the next steps your bank will undertake in next 12 month-reporting period (particularly on impact analysis¹⁶, target setting¹⁷ and governance structure for implementing the PRB)? Please describe briefly.

Response

Links and references

6.4 Challenges

Here is a short section to find out about challenges your bank is possibly facing regarding the implementation of the Principles for Responsible Banking. Your feedback will be helpful to contextualise the collective progress of PRB signatory banks.

What challenges have you prioritized to address when implementing the Principles for Responsible Banking? Please choose what you consider the top three challenges your bank has prioritized to address in the last 12 months (optional question).

If desired, you can elaborate on challenges and how you are tackling these:

¹⁶ For example outlining plans for increasing the scope by including areas that have not yet been covered, or planned steps in terms of portfolio composition, context and performance measurement

¹⁷ For example outlining plans for baseline measurement, developing targets for (more) impact areas, setting interim targets, developing action plans etc.

- | | |
|--|--|
| <input type="checkbox"/> Embedding PRB oversight into governance | <input type="checkbox"/> Customer engagement |
| <input type="checkbox"/> Gaining or maintaining momentum in the bank | <input type="checkbox"/> Stakeholder engagement |
| <input type="checkbox"/> Getting started: where to start and what to focus on in the beginning | <input type="checkbox"/> Data availability |
| <input checked="" type="checkbox"/> Conducting an impact analysis | <input type="checkbox"/> Data quality |
| <input checked="" type="checkbox"/> Assessing negative environmental and social impacts | <input type="checkbox"/> Access to resources |
| <input checked="" type="checkbox"/> Choosing the right performance measurement methodology/ies | <input type="checkbox"/> Reporting |
| <input type="checkbox"/> Setting targets | <input type="checkbox"/> Assurance |
| <input type="checkbox"/> Other: ... | <input type="checkbox"/> Prioritizing actions internally |

If desired, you can elaborate on challenges and how you are tackling these: