

# Hengfeng Bank Reporting and Self-Assessment for Principles for Responsible Banking (PRB) in 2023

## 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, which currently has 333 branches nationwide, including nineteen primary branches, one direct branch, 2 franchised institutions, 38 second-level branches, 273 sub-branches and branch offices. Hengfeng Bank also has a fund operation center, an institution dedicated to private banking, a wholly owned financial management subsidiary, and five rural banks. By the end of this reporting period, the total asset of the bank is CNY 1439.71 billion, an increase of 8.12% from last year. During the 2023 reporting period, the British Banker magazine ranked Hengfeng to be the 119<sup>th</sup> among the "Top 1000 Global Banks in 2023". Hengfeng Bank has also received the following rewards: the "Enterprise Digital Finance Best Comprehensive Strength Award", "Jiefu Award", "Bank's Financial Management Subsidiary Social Responsibility Award", "Small and Medium-sized Banks Digital Intelligence Innovation Pioneer", "ThePaper.cn 2023TOP Financial List" and "Annual Digital Financial Service Award" and other honorary titles. Our bank also won the local "Shandong Social Responsibility Enterprise" for four consecutive years.

As a comprehensive financial institution, Hengfeng Bank has a diversified business portfolio. Our bank primarily engages in Corporate Banking, Retail Banking, and Interbank business. Among them, our Corporate Banking business mainly consists of

### Reference

2023 Annual Report of Hengfeng Bank Co., Limited. P87, P8-9

<p>corporate financing services, institutional financing business, inclusive finance business, trading business, investment banking business and asset management business; our retail banking business includes personal loans, debit and credit card operations, and private banking services; our inter-bank business includes inter-bank finance business, capital market business and asset custody business.</p> <p>At the end of the 2023 reporting period, our bank possesses 5.99 million retail banking customers and more than 30,000 corporate clients, an increase of 8.72% and more than 20% over the previous year respectively. In addition, under our strategic vision of “Quant-leap to First-tier Digital Agile Bank,” the number of mobile banking users reached 3.31 million.</p> <p>Industry wise, in 2023, our loans were granted to the following industries: water conservation, environment, and public facilities management industries (16.67%); leasing and commercial services (26.31%); real estate (7.70%), manufacturing (7.39%), wholesale and retail (6.47%); and construction (8.57%). Segmented by regional distribution, the overall regional structure of our bank is relatively stable, mainly distributed in the Yangtze River Delta, the Bohai Sea and other economically developed regions. By the end of the reporting period in 2023, the Yangtze River Delta and Bohai Rim region accounted for 68.72% of the total loans (the Yangtze River Delta (36.83%) and Bohai Rim region (31.80%)). In addition, the western region accounted for 15.82% of loans, the head office, the central region, and the Pearl River Delta region accounted for a relatively small proportion of our credit business.</p>	<p>2023 Annual Report of Hengfeng Bank Co., Limited P28-37</p> <p>2023 Annual Report of Hengfeng Bank Co., Limited. P24-25</p>
<p><b>Strategy alignment</b></p> <p><b>Does your corporate strategy identify and reflect sustainability as strategic priority/ides for your bank?</b></p> <p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>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.</p> <p><b>Does your bank also reference any of the following frameworks or sustainability regulatory reporting requirements in its strategic priorities or policies to implement these?</b></p> <p><input type="checkbox"/> UN Guiding Principles on Business and Human Rights</p> <p><input type="checkbox"/> International Labour Organization fundamental conventions</p> <p><input type="checkbox"/> UN Global Compact</p> <p><input type="checkbox"/> UN Declaration on the Rights of Indigenous Peoples</p> <p><input type="checkbox"/> Any applicable regulatory reporting requirements on environmental risk assessments, e.g. on climate risk - please specify which ones: -----</p>	

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

☒ None of the above

## Response

Hengfeng Bank takes "Quant-leap to First-tier Digital Agile Bank" as its strategic vision, takes "Towards progress, towards well-being, towards beauty" as our mission, takes being an environmental friendly bank as our goal, and actively explores and adopts green operation measurements. Hengfeng recognizes and gives high regards to the United Nations Sustainable Development Goals (hereinafter referred to as the "SDG"), the Paris Agreement, China's "Dual Carbon Goal" as well as high-quality green development concept. We believe our mission and vision are highly aligned with the SDG and the content and spirit of the Paris Agreement, to break down, we believe the strategic alignment is embodied in the following aspects:

First, our bank focuses on the strategic vision of "Quant-leap to First-tier Digital Agile Bank", actively takes responsibilities of the national "Dual Carbon Goal" and put into practices. The concept of being energy-saving, carbon efficient, environmentally friendly, and sustainable has established and carried through. The bank also focuses on establishing a green brand image by supporting green industries, expanding the green customer base, promoting green products, and creating green processes. Hengfeng bank determines to seize the market opportunities and strives to build the reputation of being a green bank that is widely recognized by customers and the market. Hengfeng also adheres to the development of green finance as a long-term strategy, improves the top-level design, and establish the green finance "Roadmap" in seven areas during the "14th Five-Year Plan" period. During the 2023 reporting period, the "Green Finance (Carbon Finance) Policy Guidelines" and the "Hengfeng Bank 2023 Green Finance Work Plan" were formulated, in which content includes integrating indicators such as the increase and growth rate of green finance management business into the KPI of relevant functional departments and branches, to promote the high-quality development of green finance. These actions are aligned with the following SDGs:



## Links and references

Environmental, Social and Governance (ESG) Report of Hengfeng Bank Co., Limited (2023) P9-13

2. Hengfeng takes core strategy of technological innovation and digital transformation as the starting point to guide our users' digital transformation and low carbon lifestyle transformation. we have developed and implemented enterprise-level mobile banking projects. We developed more than ten user-friendly daily-life digital services such as digital UnionPay, mobile phone bill payments services, and guide users to use on the online transactions to reduce travel carbon emissions through our payment reduction activities. Besides, we also strengthen paperless publicity efforts, by releasing product and activity information through mobile banking, WeChat public accounts, online banking, and other channels, to promote paperless lifestyle. Through all the endeavors mentioned above, we realized 96.25% electronic reconciliation recovery rate. We believe these actions are aligned with the following SDGS:



3. Our bank serves people's livelihood and contributes to rural revitalization. We helped rural revitalization and urban governance work and achieved an increase of 28.71% in the balance of agriculture-related inclusive loans in 2023 compared with the beginning of the year.

4. We also attach great importance to small and micro inclusive finance. By the end of 2023, the balance of inclusion-purpose small and micro loans has increased by 23.69% compared with the beginning of the year, and the interest rate has decreased by 38BP compared with 2022, reducing the financing costs of small and micro enterprises by more than 60 million yuan. In addition, fees related to these financial inclusive loans have been borne or reduced by more than 12 million yuan in total. The collective initiatives have benefited more than 23,000 small and micro customers.

5. We actively participate in community construction and focus on financial services for senior citizens. We promote "Hengai Home" in more than 300 sub-branches, construct dedicated service areas for the elderly which services focus on customer pension planning. Through the creation of "Yueheng Suixiang" elderly customer service platform, we launched a trail project in six branches, aiming to better serve senior customers, from "products, activities, rights and interests, tools, teams, enterprises, cooperation platforms" and other seven aspects. The above three points of

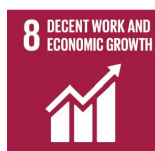
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actions are aligned with the following SDGs:



6. We care for employees' wellness. We take initiative to ensure the welfare of our employees and especially on the capacity building. To showcase some of our milestone during 2023 reporting period: we develop 1,073 online courses during the reporting period, achieve 87.09 hours of online learning per capita, and realize 100% of employees' training coverage. More specific details could be found in our 2023 ESG report. These actions are aligned with the following SDGs.



7. We pay attention to the reduction of emissions and pollution on the operation level. The Bank strives to reduce energy consumption within the scope of operations and avoid resource waste and environmental pollution by reducing operational waste emissions, strengthening hazardous waste management, reducing waste, promoting green official travel and implementing green office management in a timely manner. These actions are aligned with the following SDGs.



8. We value clients' data security protection and have formulated "Data Security Management Measures" aiming to effectively protect customer privacy. These actions are aligned with the

following SDGs:



## 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 regularly<sup>1</sup> and fulfil the following requirements/elements (a-d)<sup>2</sup>:

**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.

<sup>1</sup> 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.

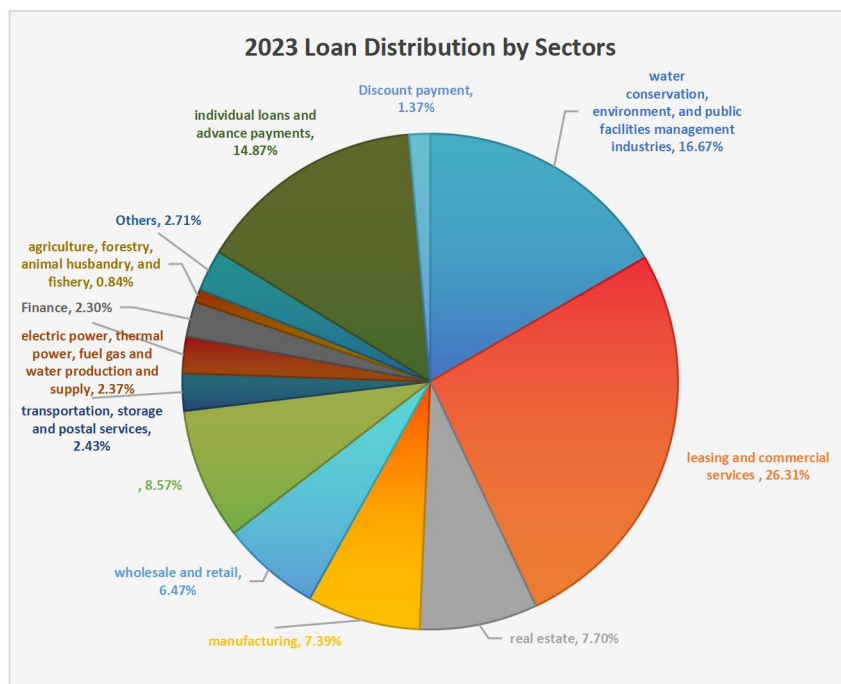
<sup>2</sup> Further guidance can be found in the [Interactive Guidance on impact analysis and target setting](#).

<p>Response</p> <p>We used UNEP FI tool and conducted the impact analysis covering the bank's corporate and personal loans and advances payments in 2023, which accounted for 98.63% of Hengfeng Bank's total loans volume and 55.65% of our total assets. As one of China's 12 national joint-stock banks, Hengfeng Bank's services and clients are mainly geographically distributed in China. The bank's portfolio is dominated by traditional commercial bank lending business, while adhering to our development strategies and thriving to become a comprehensive financial institution that possess "investment bank + commercial bank" and "financing + consulting " business model. Compared to the Bank's first PRB report in 2022, we additionally included personal loans and individual advances payments in this year's impact analysis, which accounted for 14.87% of the Bank's total loans.</p> <p>It worth mentioning that considering the fact that investment banking services and other businesses do not contribute as heavy to our portfolio, and the statistical caliber of other portion of portfolio is different from that of lending business. In that sense, our impact analysis will mainly consider our commercial lending business including corporate lending and individual lending.</p>	<p>Links and references</p> <p>2023 Annual Report of Hengfeng Bank Co., Limited. P23-26</p>
<p><b>b) Portfolio composition:</b> 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</p> <p>i) by sectors &amp; industries<sup>3</sup> for business, corporate and investment banking portfolios (i.e., sector exposure or industry breakdown in %), and/or</p> <p>ii) by products &amp; services and by types of customers for consumer and retail banking portfolios.</p> <p>If your bank has taken another approach to determine the bank's scale of exposure, please elaborate, to show how you have considered where the bank's core business/major activities lie in terms of industries or sectors.</p>	
<p>Response</p> <p>In 2023, the industry distribution of our loans is as follows: the total corporate loans are 680.35 billion yuan, in which composition water conservation, environment, and public facilities management industries (16.67%); leasing and commercial services (26.31%); real estate (7.7%), manufacturing (7.39%), wholesale and retail (6.47%); and construction (8.57%), electric power, thermal power, fuel gas and water production and supply (2.37%); agriculture, forestry, animal husbandry, and fishery (0.84%), and others (2.71%). Individual loans and advance payments totaled 12.81 billion yuan, of which 8.00% were housing loans, 3.68% were business loans, 2.71% were consumer loans and 0.48% were credit card</p>	<p>Links and references</p> <p>2023 Annual Report of Hengfeng Bank Co., Limited. P24</p>

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



loans.

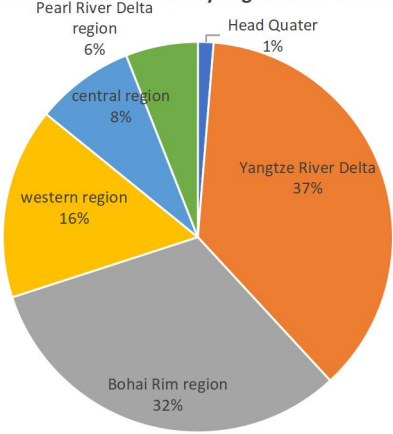


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Regional distribution of our lending portfolio is as follows: the Yangtze River Delta (36.83%) and Bohai Rim region (31.89%). In addition, the western region accounted for 15.82% of loans, the head office, the central region, and the Pearl River Delta region accounted for a relatively small proportion of our credit business.

The geographic distribution of Hengfeng Bank's corporate loans and advance payments are distributed solely within China, specifically, 36.83% in the Yangtze River Delta region, 31.89% in the Bohai Rim region, 15.82% in the western region, 8.18% in the central region, and 5.98% in the Pearl River Delta region.



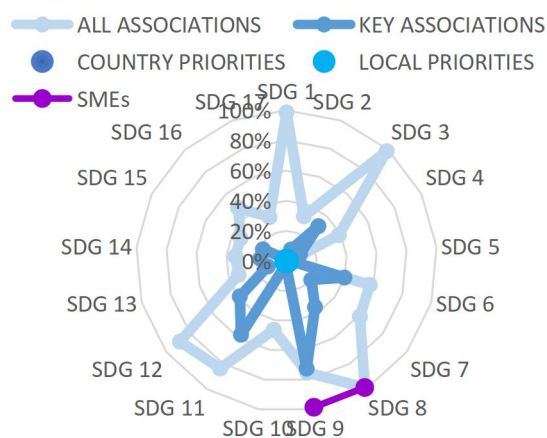
<p style="text-align: center;"><b>2023 Loan Distribution by Regional Distribution</b></p>  <table border="1"> <caption>2023 Loan Distribution by Regional Distribution</caption> <thead> <tr> <th>Region</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Yangtze River Delta</td> <td>37%</td> </tr> <tr> <td>Bohai Rim region</td> <td>32%</td> </tr> <tr> <td>western region</td> <td>16%</td> </tr> <tr> <td>central region</td> <td>8%</td> </tr> <tr> <td>Pearl River Delta region</td> <td>6%</td> </tr> <tr> <td>Head Quater</td> <td>1%</td> </tr> </tbody> </table>	Region	Percentage	Yangtze River Delta	37%	Bohai Rim region	32%	western region	16%	central region	8%	Pearl River Delta region	6%	Head Quater	1%	<p>As for non-performing loans (NPLs): If segmented by product type, the NPL rate in 2023 is 1.8% for corporate and 1.4% for personal loans. By region: the NPL rate in 2023 is 1.73% in the Pearl River Delta region, 0.28% in the Bohai Rim region, 4.51% in the western region, 2.25% in the central region, and 1.73% in the Yangtze River Delta region.</p>
Region	Percentage														
Yangtze River Delta	37%														
Bohai Rim region	32%														
western region	16%														
central region	8%														
Pearl River Delta region	6%														
Head Quater	1%														
<p><b>c) Context:</b> 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?<sup>4</sup> Please describe how these have been considered, including what stakeholders you have engaged to help</p> <p>This step aims to put your bank's portfolio impacts into the context of society's needs.</p>															
<p><b>Response</b></p> <p>In considering the challenges and priorities related to sustainable development, Hengfeng Bank takes China's Sustainable Development Strategy and national dual carbon goal as the highest guidance and priority, while integrate characteristics and structure of the Bank's business, and stakeholders' interests. To properly identify the current context and priorities, we have sought input and suggestions from various stakeholders including regulators, shareholders and consumers, industry experts, and related international organizations.</p> <p>Hengfeng Bank aims to actively implement the overall deployment of the national "14th Five-Year Plan", fulfills the concept of "clear water and green mountains are gold hills and silver mountains" in the report of the 20th National Congress of the Communist Party of China, takes stakes in our major national climate strategies and "Dual Carbon Goal" work tasks, and contributes to the high-quality development transformation</p>	<p><b>Links and references</b></p> <p>Environmental, Social and Governance (ESG) Report of Hengfeng Bank Co., Limited (2023) P17</p>														

<sup>4</sup> Global priorities might alternatively be considered for banks with highly diversified and international portfolios.

<p>of the real economy.</p> <p>At the same time, the Bank actively exchanges and cooperates with regulatory authorities, industry peer groups and international organizations, including the United Nations Environmental Programme, and maintains active communication with various stakeholders in the industry by organizing and forum meetings.</p>	
<p>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)<sup>5</sup>? Please disclose.</p>	
<p>Response:</p> <p>Through the third edition of UNEP FI impact analysis tool, combined with the bank's credit issuance data by region and industry in 2023, the current impact areas of the Bank's industry involving positive contributions include: availability, accessibility, affordability, quality of resources and services (water, health and sanitation, economy), circular economy (concentration of resources, waste), and socio-economic (strong institutions, peaceful and stable healthy economic infrastructure, socio-economic integration); The main SDG targets involved are: SDG3 (Good Health and Well-being), 6 (Clean Water and Sanitation), 9 (Industrial Innovation and Infrastructure), and 11 (Sustainable Cities and Communities).</p> <p>In terms of negative impacts, based on the impact analysis tool results, the bank mainly deals with potential negative impacts on sustainable development, including biodiversity and ecosystem health, integrity and personal safety, climate stability and est. In terms of the SDG targets, the potential negative impacts include: SDG8 (Decent Work and Economic Growth), 10 (Reducing Inequality), 11 (Sustainable Cities and Communities), 14 (Life Below Water), 15 (Life on Land), and 16 (Peaceful, Justice and Strong Institutions).</p> <p>One thing to be highlighted: our bank newly included individual loans and advance payments in this year's impact analysis, thus the overall impact field is slightly different from that in 2022. In addition, because our statistical caliber is the Industrial classification for national economic activities (UNSD:2006, International standard industrial classification of all economic activities, NEQ), while the ones that is related the most in the impact analysis tool is the ISIC international classification standard. As the result, some of the minor categories have statistical caliber differences. It may lead to unavoidable statistical noises that might slightly affect the analysis results.</p>	<p>Links and references</p> <p>2023 Annual Report of Hengfeng Bank Co., Limited. P23</p>

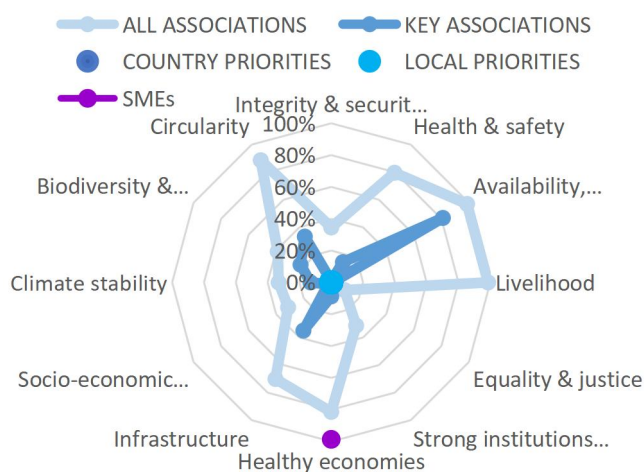
<sup>5</sup> To prioritize the areas of most significant impact, a qualitative overlay to the quantitative analysis as described in a), b) and c) will be important, e.g. through stakeholder engagement and further geographic contextualisation.

## POSITIVE IMPACTS SDGs



*\*the dots do not represent a value. They only show if a SDG is a priority in the country/locations (based on data in the Context Module).*

## POSITIVE IMPACTS Impact areas



**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.

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>Based on ample discussion and study, combined with the UNEP FI impact analysis tool, we have identified our key priorities as <b>Green Finance with main focus on Climate Change Mitigation and Financial Inclusion</b>.</p> <p>In terms of green finance, we select the amount of capital invested in green assets as the outcome level indicator, and total emission reduction drove from Hengfeng's financial instruments (currently mainly from PBoC's Carbon Emission Reduction Facility (CERF), and green bond) as impact level indicator. We shall regularly measure the amount of carbon emission reduction loans invested in green finance through instruments such as CERF and green bonds to assess the impact of the Bank's activities on climate change mitigation and used the end of 2022's data as the baseline data as mentioned in previous PRB report of ours.</p> <p>Considering that "availability, accessibility, affordability, resources and service quality" are key associations from our impact analysis, we are set to promote financial inclusion to our clients and identify empower the accessibility, availability, and affordability of finance as the second impact indicator. The bank selects the growth rate of inclusive loans, using the overall average growth rate of other loans as benchmark, and the total financial inclusion purpose assets holding as the second performance indicator.</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?<sup>6</sup>**

Scope:	<input checked="" type="checkbox"/> Yes	<input 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

<sup>6</sup> 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.

Performance measurement: <input checked="" type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No	
<p><b>Which most significant impact areas have you identified for your bank, as a result of the impact analysis?</b></p> <p>Climate change mitigation, climate change adaptation, resource efficiency &amp; circular economy, biodiversity, financial health &amp; inclusion, human rights, gender equality, decent employment, water, pollution, other: please specify.</p> <p><b>How recent is the data used for and disclosed in the impact analysis?</b></p> <p><input checked="" type="checkbox"/> Up to 6 months prior to publication</p> <p><input type="checkbox"/> Up to 12 months prior to publication</p> <p><input type="checkbox"/> Up to 18 months prior to publication</p> <p><input type="checkbox"/> Longer than 18 months prior to publication</p> <p>Open text field to describe potential challenges, aspects not covered by the above etc.: (optional)</p>	
<p><b>2.2 Target Setting (Key Step 2)</b></p> <p>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.</p> <p>The targets<sup>9</sup> 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:</p> <p><b>a) Alignment:</b> which international, regional or national policy frameworks to align your bank's portfolio with<sup>10</sup> 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.</p> <p>You can build upon the context items under 2.1.</p>	
Response	Links and references
Our bank will follow the overall deployment of the national 14th	

<sup>9</sup> 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.

<sup>10</sup> 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.

<p>Five-Year Plan with full conviction, attaches great importance to the Chinese concept of "Clear Waters and Green Mountains are Gold and Silver Mountains", and actively execute on the bank's strategic vision of "Quant-leap to first-tier digital agile bank" and the mission of "towards progress, towards well-belling and towards beauty". In addition, our bank has been actively participated in the United Nations Principles for Responsible Banking. We recognize the concept of sustainable development and is willing to take responsible and make our positive contributions.</p> <p>We will continue to take our responsibilities as an enterprise, responding to China's national "Dual Carbon Goal", and implementing the relevant contents of the United Nations Paris Agreement consistently.</p> <p>The bank attaches importance to green finance, digital transformation, inclusive finance, especially agriculture-related financial support, while serving people's well-being, with the focus on financial services on senior citizen, protecting employees' well-being and capacity building. The bank also actively participated in community construction and other actions. We believe the above actions are highly aligned with the following United Nations Sustainable Development Goals: 1 (No Poverty), 3 (Good Health and Well-being), 4 (Quality Education), 5 (Gender Equality), 6 (Clean Water and Sanitation), 7 (Affordable Clean Energy), 8 (Decent Work and Economic Growth), 9 (Industry, Innovation and Infrastructure), 10 (Reduced Inequalities), 11 (Sustainable Cities and Communities), 12 (Responsible Consumption and Production), 13 (Climate Action), 16 (Peace, Justice and Strong Institution) and 17 (Partnerships to the Goals).</p> <p>In terms of setting goals, the bank develops green finance and focuses on the increase of green financial assets to help achieve the goals of the Paris Agreement, which is highly consistent with Goal 13 (climate change) of the United Nations Sustainable Development Goals (SDGS). In addition, taking into account factors such as investment portfolio, overall strategy and the priority of national sustainable development goals, our bank has decided to set inclusive finance as the second performance indicator in 2023. Financial inclusion aims to make the financial system more inclusive and is highly aligned with SDG 3 (Good health and well-being), SDG 10 (reducing inequalities) and SDG 16 (peaceful, just and inclusive societies) of the United Nations Sustainable Development Goals (SDGS)</p>	<p>2023 Annual Report of Hengfeng Bank Co., Limited. P6-9</p>
<p><b>b) <u>Baseline:</u></b> 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.</p> <p>You can build upon the performance measurement undertaken in 2.1 to determine the</p>	

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:

Impact area	Indicator code	Response
Climate change mitigation	...	
	...	
	...	

Impact area	Indicator code	Response
Financial health & inclusion	...	
	...	
	...	

In case you have identified other and/or additional indicators as relevant to determine the baseline and assess the level of alignment towards impact driven targets, please disclose these.

#### Response

With reference to and continuation of the 2022 report, the bank uses the following indicators to set targets and assess progress:

Impact area	Response
Climate change mitigation	Provided CNY767 million in loans for projects in key areas of carbon emission reduction.
	Driving 907,079.40 tons of CO <sub>2e</sub> in carbon emission reduction.

#### Links and references

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Financial health & inclusion	<p>In 2023, the balance for inclusive loans towards small and micro size entities of the whole bank increased by 23.69% compared with the beginning of the year, which is higher than the average growth rate of all other type of loans within the bank.</p> <p>By the end of 2023, the balance of inclusive loans towards small and micro size entities (the assessment caliber of the State Financial Supervision and Administration) is 50.33 billion yuan.</p>	Hengfeng Bank Co., Limited (2023) P13
<p>Our bank takes the indicator shown above as the baseline, to be noted baseline year for financial health and inclusion is the data from 2023, since the target is newly raised during 2023 reporting period.</p>		

**c) SMART targets** (incl. key performance indicators (KPIs)<sup>11</sup>): 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	Links and references
<p>Taking into account to national strategy, Hengfeng Bank's internal Green Finance Development Implementation Opinions (2021-2025), and the impact analysis results and etc., with comprehensive consideration, the Bank has set the following targets for green finance and inclusive finance:</p> <p><b>Green finance:</b> 1. The total amount of green assets held exceeds 80 billion yuan.</p> <p>2. Cumulatively drive more than 6 million tons of CO<sub>2e</sub> to the society through financial instruments.</p> <p><b>Inclusive finance:</b> 1. The growth rate of inclusive finance loans exceed the average growth rate of all loans.</p> <p>2. The balance of financial inclusive loans exceeded 60 billion yuan before 2025.</p>	

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

**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 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	Links and references
<p><b>Green Finance</b></p> <p>Since the last reporting period, to actively seek progression of the Bank's green finance and carbon emission reduction development goals, the Bank has formulated the "Hengfeng Bank 2023 Green Finance Work Plan" (later referred to as the "Action Plan") and the "Green Finance (Carbon Finance) Policy Guidelines" in 2023. The action plan specified and quantified 2023 goals in green finance field, including improving the green credit identification system, establishing ESG risk management system, increasing asset investment, strengthening industry research capabilities, etc. Meanwhile, the green Finance Committee was set up under the senior management to support the development of green finance business of the bank.</p> <p>Other specific measures taken is shown below:</p> <p>In order to implement the contents and objectives of the action plan in 2023, focusing on 2023's key action priorities such as improving the internal green finance overall management system, accelerating green finance brand building, we established the internal consultation mechanism, set up special working groups, organized dedicated discussions and initiated pilot projects and etc. Through cross-department coordination, we thrived to make solid progress on our actions. Indicators such as the increment and growth rate of green finance business have been included in the KPI assessment of relevant functional departments and branches. Collective efforts between direct and sub-branches have been encouraged, helping first-level branches to meet green finance targets and KPIs.</p> <p>Since 2022, we have incorporated green finance and ESG management into the credit granting process management and formulated the Green Credit Policy Guidelines. During 2023 reporting period, in order to further align our priority sustainable goal with our digital development strategy, strengthen our ability to digitally identify green enterprises and green projects, and improve the efficiency of green financial services, we initiated green quantitative and qualitative analysis system. This new green project identification system shall improve the accuracy of identification of green projects, prevent human judgmental errors, effectively guarantee the flow of green funds to green</p>	<p>Environmental, Social and Governance (ESG) Report of Hengfeng Bank Co., Limited (2023) P10-34</p>

<p>projects, and minimize relevant risk exposure.</p> <p>The first green finance bond was issued during 2023, with a scale of 7.50 billion yuan and a coupon rate of 2.83%.</p> <p>We actively hold and participate in green finance related exchanges and seminars, value capacity building and R&amp;D ability improvement. During the reporting period, the bank achieved fruitful research results, among which "Enterprise Green Development Rating System and Practical Application" won the first prize of the final group of the 11th "Payment and Clearing Cup" Green Payment Competition in Shandong Province, and our "Research on Carbon Finance Innovation under the Background of Green Economy" won the excellent final work of Shandong Federation of Social Sciences in 2023. "Leveraging Transition Finance to Support Traditional Industry Transformation Path along Yellow River" won the third prize of Shandong Province 2022 Annual Key Project for Financial Institutions.</p> <p>Hengfeng Bank explored and practiced climate and sustainability risk management, monitor climate risks and avoid negative impacts, we started to construct ESG risk management system in 2023. The current ESG risk management system covers ESG rating, post-loan monitoring, rating warning and other functions. Third-party data providers were involved to acquire comprehensive enterprise multi-dimensional information, in support of the acquisition of ESG information acquisition in the process and early warning-signal sending. Through our supporting system, we manage to realize customer risk classification management, dynamic monitoring, and evaluation. The evaluation results play important role in customer's credit evaluation process.</p> <p>Actively participated in the climate risk stress test organized by the People's Bank of China to assess the potential impact of the "Dual Carbon Goal" target transition on our bank's credit assets.</p> <p>We also explored green supply chain financing business, promoted green supply chain management of enterprises through financial means, reduce the risks caused by environmental problems from upstream and downstream enterprises, and help improve the environmental benefits of enterprises.</p> <p>Supported just transition of the traditional carbon intensive industries such as steel, thermal power, and chemical industries, and strengthened supporting instruments for energy-efficiency-improvement projects while keeping attention on transition risks exposure.</p>	<p>Environmental, Social and Governance (ESG) Report of Hengfeng Bank Co., Limited (2023) P28 , P70-74</p>
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<p><b>Financial Inclusion</b></p> <p>In terms of inclusive finance, Hengfeng Bank has always been committed to aspects like serving people's livelihood, rural revitalization, urban construction, and governance, and has a solid business foundation in the related business practice.</p> <p>In 2023, the balance of inclusive small and micro loans of the whole bank increased by 23.69% compared with the beginning of the year, which was higher than the average growth rate of all loans of the whole bank. Inclusive-purpose small and micro loans (the assessment caliber of the State Financial Supervision and Administration) by the end of 2023 a total of 37.21 billion yuan was lend in the year, with a year-end balance of 50.33 billion.</p> <p>We focus on key customer groups such as customers from advanced manufacturing, specialized and special innovative manufacturing, rural revitalization, high-quality small and micro enterprises, self-employed customers. Based on target customer images, we strive to improve and optimize our dedicated products to accurately serve customers' demand. Meanwhile, we continuously attach high importance to product innovation, focus on building the "good housing and fast loan", "good garden and fast loan", "fast loan with good collateral" and "good business and fast loan" of the "Hengfeng Hao fast" inclusive financial product brand. Relying on the digital platform, we aim to build an "online + offline" and "standardized + non-standardized" financial inclusion product system. Relying on regional competitive strength, accurate scenarios discovery, strengthen channel cooperation, we strive to meet the diversified financial service demands and promote sustainable development for our dedicated inclusive-related customers.</p>	<p>Environmental, Social and Governance (ESG) Report of Hengfeng Bank Co., Limited (2023) (2023) P31, P47</p> <p>2023 Annual Report of Hengfeng Bank Co., Limited. P29</p>
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Self-assessment summary			
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...			
	... first area of most significant impact: ... (please name it)	... second area of most significant impact: ... (please name it)	(If you are setting targets in more impact areas) ...your third (and subsequent) area(s) of impact: ... (please name it)
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 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

## 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 2<sup>nd</sup> 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	Links and references
<p>The way we measure our yearly progress is strictly in accordance with the requirements of the Notice of the People's Bank of China, and the relevant statistics and disclosure work are subject to public supervision.</p> <p>Since setting the bank's first quantitative index in 2022, the Bank has actively promoted relevant work. As of the issuance of the report, the Bank has supported a total of four clean energy projects in line with the People's Bank of China's carbon emission reduction facility (CERF) policy in 2023, with a total loan amount of 259.28 million yuan. The annual carbon emission reduction driven by these projects is 32,824.25 tons of CO<sub>2e</sub>. Since the support of the CERF, the bank has in total supported 13 low-carbon projects make loan of 1,026,713,500 yuan, driving cumulatively 939,903.65 tons of CO<sub>2e</sub>.</p> <p>In addition, our bank issued its first green financial bond in 2023, among which seven projects are carbon reduction projects that bring quantifiable emission reduction, involving a total of 3.30</p>	<p>Hengfeng Bank Co., LTD. Third quarter 2023 Carbon Emission Reduction Facility (CERF) information disclosure report</p>

<p>million tons of CO<sub>2e</sub>.</p> <p>In other aspects, as of the end of the reporting period, the balance of green loans in our bank reached 60.84 billion yuan, with a growth rate of 36.35%, higher than the 31.70% growth rate of green credit balance of twenty-one major banks in China disclosed by the Financial Supervision Administration. The investment bank of Hengfeng underwrote five green bonds worth 840 million yuan during 2023, which is a breakthrough improvement. We successfully issued our first sustainable linked medium-term notes with a total issuance amount of 1 billion yuan. In addition, we explored to construct green supply chain. By launching “Hengrong E” products, we provided green supply chain services for enterprises with our integration model of “green finance + supply chain finance”.</p> <p>Since our target related to financial inclusion is newly set in 2023, we will disclose the progress of target implementation in next year's report.</p>	<p>Assurance report on the use of funds raised by Green Finance Bonds of Hengfeng Bank Co., Limited</p>
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### 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 customers<sup>12</sup> 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 activities<sup>13</sup>. 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).

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

Response	Links and references
<p>Hengfeng bank has established a green finance credit products system, including 8 basic products (working capital loans, project financing, pre-project loans, merger and acquisition loans, debt financing instruments, debt financing, equity financing services, trade financing), eight featured products (carbon asset pledge financing, pollution rights pledge financing, contract energy management financing, energy conservation and emission reduction financing, clean energy financing, environmental governance financing, environmental facility financing, structured financing), five dedicated financial service solutions (county photovoltaic financing service solution, new energy vehicle financial service solution, waste and sewage treatment industry financial service solution, rail transit financial service solution, and carbon trading financial services scheme). Through establishing special approval channel and providing a series beneficial measure such as: allocating dedicated capital, providing internal interest rate reductions and etc., the supporting system for our green finance system has been strengthening. By the end of the supporting period, the balance of our bank's green credit reached 60.84 billion yuan, with a growth rate of 36.35%, higher than the 31.7% growth rate of average of twenty-one major banks in China disclosed by the Financial Supervision Administration.</p> <p>Actions to encourage customers to implement sustainable measures during the 2023 reporting period are summarized below:</p> <ol style="list-style-type: none"> <li>1. Together with Weihai City, we held a green finance exchange forum, discussed with more than 100 stakeholders, including regulators, industry experts, scientific research institutions, well-known enterprises, etc., to jointly help Weihai City, Shandong Province, to participate China green finance reform and innovation pilot (GFRIP) program, and also announced our carbon neural sub-branch project in Weihai.</li> <li>2. Promoted credit granting policies in key identified green areas. Focusing on clean energy, environmental protection, green building, green transportation and other dedicated subdivide industries and markets, we formulated comprehensive financial service guidelines and make clarification of the focus of each branch and increase targeted supports. Meanwhile, actively explored innovative business models and financial instruments to drive sustainable development. For example, we developed a digital identification system for green credit, actively implemented the application of CERF, issued sustainable linked medium-term notes, explored green supply chain finance, which won the "Best Supply chain Finance Bank" award of the 13th most trusted financial Service provider of Chinese economic and trade enterprises (Golden Trade Award).</li> </ol>	<p>Hengfeng Bank Co., Limited. Social Responsibility Report (2021) P60-66</p> <p>Environmental, Social and Governance (ESG) Report of Hengfeng Bank Co., Limited (2023) P9-12</p>



<p>3. Hengfeng Bank identified a List of Key Enterprises in Green Finance, covering industrial chain customers in photovoltaic, wind power, energy storage and other segments, guiding branches to provide precise conduct recommendations. Strengthen the "dedicated service team mechanism" construction, promote the service quality and efficiency. More than ten industry green financial product guidelines were compiled, such as electrochemical energy storage, charging pile, Waste-to-energy plants, in which contains contents such as market development trends, target customer group, and key points of project delivery.</p> <p>4. At the same time, we actively communicated and cooperated with customers, carried out innovative product such as SLB, "Forest rights + carbon sink", green loans dedicated to agricultural industry, "Hong Kong Cloud Warehouse" collateral financing, "Hengrong E" and etc.</p> <p>Financial Inclusion</p> <p>1. Our bank adhered to and acted on the national "agriculture, rural areas and farmers" policies, actively sank services to rural areas, and leveraged on our "one circle, one chain and one platform" as the starting point to push up the inclusive agricultural loans. At the end of the reporting period, the balance of all-caliber agriculture-related loans was 159.48 billion yuan, an increase of 19.48% compared with the beginning of the year, and inclusive related agriculture-loans increased by 2.48 billion yuan compared with the beginning of the year, with growth rate of 28.71%.</p> <p>3. We strengthened lending support for county urbanization. During 2023 we formulated a list of twenty-seven pilot counties, focused on the resource endowment and functional positioning of these counties, and provide dedicated financial lending supports. As of the end of the reporting period, our county-level urbanization financing balance increased by 163.94% from last year.</p>	<p>Environmental, Social and Governance (ESG) Report of Hengfeng Bank Co., Limited (2023) P31</p> <p>2023 Annual Report of Hengfeng Bank Co., Limited, (2023) P29</p>
<p><b>3.2 Business opportunities</b></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>	

Response	Links and references
<p>Hengfeng Bank joined the Carbon Neutral Coalition, and actively participated in the preparation process of the national carbon trading market as a board member.</p> <p>At the strategic level, it's mentioned that we aim to build a brand image as a green bank, support the green industry, expand green customer base, promote green products, channel more capitals to the environmentally friendly industries, seize the "carbon peak, carbon neutral" market opportunities, and strive to create a widely recognized brand reputation. In that sense, we are aspiring to grasp the "carbon peak, carbon neutral" trillion seize market opportunity, build a pentagonal product matrix around "finance, investment, supply-chain, inclusion, and carbon reduction", make efforts to expand the depth and scope of our business. The ongoing projects includes 1. seeking growth points in carbon finance market; 2. promoting eco-environment-oriented development mode (EOD) service solutions; 3. expanding cooperation on carbon trading platforms; 4. trying to innovate special products using blue carbon assets as collateral, carbon credit enhancement guarantee. Business models such as "carbon sink + carbon insurance" and "carbon ticket + insurance guarantee" have been developed or are being explored.</p> <p>Our bank also steadily expands product types during the reporting period. Our bank is actively adopting new green finance products on the market. Based on traditional credit products, innovative green credit products such as emission rights mortgage (ERM), energy saving and emission reduction loans, and sustainable linked loans have been adopted and utilized by our bank. Meanwhile, to fully guide our internal staff as well as our clients and help them to better understand our bank's innovative products and its use cases, we formulated comprehensive service program such as the "County Distributed Photovoltaic Product Service Manual", "Wind Power Industry Comprehensive Financial Service Manual", and "EOD Project Comprehensive Financial Service Manual" as guidance for internal employees.</p> <p>We Introduced of ESG, green finance related wealth management products in private banking business, landing more than 4.70 billion yuan of related financial products. We also actively took a stake in the green supply chain finance area. By building and launching a digital green supply-chain platform "Hengrong E," we have been explored "green finance + supply chain finance" new business model.</p> <p>In terms of inclusive finance, we have linked our bank's inclusion finance strategy and launched innovative financial products such as SLL, "forest rights + carbon sink" green loans and other initiatives to benefit our clients in agriculture. Loans to small and micro enterprises and specialized and special new enterprises</p>	<p>Environmental, Social and Governance (ESG) Report of Hengfeng Bank Co., Limited (2023) P9-12, P70</p> <p>Environmental, Social and Governance (ESG) Report of Hengfeng Bank Co., Limited (2023) P29</p> <p>2023 Annual Report of Hengfeng Bank Co., Limited, P2,</p>

<p>have increased by more than 20%.</p> <p>To highlight one of our newly developed servicing products in the area of promoting financial inclusion. Our "Golden Garlic Plate" is an innovative product which was carried out after patient customer engagement and precise demand analysis. Our "Golden Garlic Plate" has been successfully selected as a typical use case of China Banking Association 2023 Inclusive Finance. The product provides omni-channel financial service throughout whole industry chain of "planting - acquisition - warehousing - processing - trade." By involving and integrate the whole customer journey, we provided comprehensive services including "village bank" convenient settlement, policy guarantee sub-insurance, and agricultural products warehouse receipt pledge. "Golden Garlic Plate" help with financial efficiency and support the transformation of the garlic production industry in local area. By the end of the reporting period, we have issued loans of 331 million yuan for the customers in the garlic industry chain of Jinxing County, benefiting more than 180 households of various credit entities, with a loan balance of 122 million yuan, and effectively help income growth of garlic farmers.</p>	P30-33
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## 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 groups<sup>14</sup>) 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.

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

Response	Links and references
<p>The Bank attaches great importance to stakeholder communication, we have been actively expanded communication channels, and fully listens to the opinions and suggestions of stakeholders. Our major stakeholders are identified as 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 from stakeholders, our bank has effective communication channels and provides timely response and measures.</p> <p>During the 2023 reporting period, we our stakeholder consultation measures could be summarized as follows:</p> <p><b>With the government and regulatory agencies:</b> actively participated in the drafting of the standards of Enterprise ESG Evaluation System led by the China Enterprise Reform and Development Society. Participated in the climate stress test organized by the PBoC; In the green Bank evaluation conducted by the China Banking Association, our score rate in centralized management, policy and system construction, capacity building, due diligence, post-loan management, information disclosure and other aspects has improved significantly, with an increase of 1.76 points compared with the previous evaluation, and was awarded the title of "Advanced Unit of Green Bank Evaluation" and other honors.</p> <p><b>With shareholders and investors:</b> Our bank has incorporated green finance into the governance framework, the board of directors are in charge of formulating green finance strategy for the year, the senior management set annual targets on important sustainable development issues such as green finance according to the strategy, and the Board of Supervisors oversight the implementation of relevant work; During the reporting period, the Board of Directors reviewed or heard four ESG related matters and reported the relevant content issues at the general meeting of shareholders.</p> <p><b>Customers and consumers:</b> The bank actively communicates with customers and consumers, conduct green financial product, make innovation based on consumer demand. To provide an example, during the reporting period, we developed a digital platform to help green project and green company precise identification. Through digitized and standardized review process, we were able to identify environmentally friendly projects effectively, reduce the identification error due to human ability difference, boost identification efficiency and reduce the identification periods. Through operation process, we promoted paperless, digital and intelligent operation model to reduce energy use and waste of resources. Within our private banking</p>	<p>Environmental, Social and Governance (ESG) Report of Hengfeng Bank Co., Limited (2023) P9-21, P67</p> <p>2023 Annual Report of Hengfeng Bank Co., Limited. P33</p>

<p>department, we promoted charitable donations under the family trust business, implemented a new model of "finance + charity", linked between finance and charity to bring additional positive impacts.</p> <p><b>Supplier Management:</b> According to the "Hengfeng Bank Centralized Procurement Management Measures" and "Hengfeng Bank Supplier Management Measures (2020 edition)", we adopt the principles of fairness, openness, competition, and efficiency, in terms of supplier selection and management. We have been promoting the concept of green procurement, conducting dynamic, classified, and scientific supplier management measure. To bring our green concept to the whole supply chain and encourage sustainable operation, under the same conditions, we will prioritize to suppliers who are sustainably managed, energy efficient, environmentally friendly, and socially responsible.</p> <p><b>Partners:</b> We leverage opportunities of participating industry forums, to share our green finance development practices, listen to expert opinions, and learn from other financial institutions' experience. In addition, we also participate in international sustainable development actions, and fulfill our social responsibility.</p> <p><b>Employee:</b> During the reporting period, we have focused on the following two areas. First area was energy conservation, consumption reduction, emission reduction and waste reduction in the operation stage of our bank. We encouraged all of our employees join the journey with us. In addition, we strengthened the recovery and recycling of harmful substances, guide employees to reduce food waste, promote green business travel, practice green office management and digital office, establish green data centers, and accurately improve the overall energy efficiency of our bank. Second, we paid great attention to staff training, internal capacity building and other related work.</p>	<p>Environmental, Social and Governance (ESG) Report of Hengfeng Bank Co., Limited (2023) P9-21, P25-29,20</p>
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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

Since becoming a signatory, the governance structure encouraged by Principle of Responsible Banking is gradually embedded in our board of directors and senior management governance structure.

#### Board of directors

Focusing on implementing the major policies from the Party Central Committee and fulfilling social responsibilities, board of directors undertake the ultimate responsibility of ESG management, develop ESG-related strategies, identify, evaluate, and manage ESG risks, opportunities and impact building. During 2023 reporting period, board of directors' review or hear and approve four ESG-related matters. The Strategy and Innovation Development Committee under the Board of Directors is responsible for reviewing, approving ESG and other developmental strategies and policy papers while monitor and evaluate action plan implementation process; The Risk Management and Consumer Protection Committee is responsible for reviewing, revising and continuously monitoring the Bank's economic, environmental and social risk strategies, systems operation and other related exposures.

#### Senior management

Business Innovation and Management Committee (including the Financial Inclusion Committee and the Green Finance Committee) is set directly under the senior management team. The committee shall formulate ESG related work targets, implement economic, environmental, and social responsibilities in various forms, supervise and promote relevant departments of branches, subsidiaries, and head office to implement specific work tasks. Under the senior management level, the Green Finance Committee is set up to coordinate and promote the related work of green finance, responsible for the construction of the green finance system and mechanism, and formulate relevant supportive policies to promote the healthy development of our green finance business development and expansion. In addition, the committee shall also supervise and evaluate the green finance development strategy, implement the strategic plan, and

#### Links and references

Environmental, Social and Governance (ESG) Report of Hengfeng Bank Co., Limited (2023) P6, P20

2023 Annual Report of Hengfeng Bank Co., Limited. P55-56, P66



<p>regularly review the progress report. During the 2023 reporting period, three meetings were held to review and promote more than twenty projects related to green finance.</p> <p>Board of supervisors</p> <p>Supervise the performance of the board of directors and senior management work related to ESG task implementation, investigate, and listen to relevant work and reports, and put forward supervision opinions and suggestions. During the 2023 reporting period, a total of four investigations were carried out, involving 20 branches. 21 supervision suggestions were put forward. Effective supervision on ESG related aspects such as corporate governance and inclusive finance were be reassured by board of supervisors.</p> <p>During the 2023 reporting period, the directors of the Bank participated in special lectures and training on subjects including ESG evaluation and development trend, anti-money laundering regulatory situation and performance requirements. The board also successively conducted seven surveys and interviews, including visits to peers, seminars, and field investigations. Their work has provided sufficient foundation and important support for scientific decision-making by the Board of Directors.</p>	
<p><b>5.2 Promoting a culture of responsible banking:</b></p> <p>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).</p>	
<p>Response</p> <p>As one of the earlier signatories of the join-stock commercial bank in China to sign the PRB, we took advantages and actively participated in the meetings and activities held by UNEP. After learning from the international experience, we were set to take our part. Since 2021, we highly promoted the sustainable culture, and thrived to form a responsible banking culture within our bank. Measures we have conducted including differentiated performance assessment and training capacity buildings. Examples of measures and initiatives are listed below:</p> <p>Training and communication:</p> <p>Together with Weihai City, we held the Green Finance Exchange seminar, during which we invited more than one hundred important stakeholders such as regulators, industry experts, researchers from scientific research institutions and well-known enterprises leaders to jointly explore the path of green finance practice and help Weihai City create a national green finance</p>	<p>Links and references</p> <p>Environmental, Social and Governance (ESG) Report of Hengfeng Bank Co., Limited (2023) P53</p> <p>Environmental, Social and Governance (ESG)</p>





laundering work.

#### Employee behavior management

Our bank has conducted measures to clarify employees responsibilities and code of conduct. We have managed to consolidate responsibilities layer by layer, and continuously improve employees' ability to proactively discover employee behavioral risks. In 2023, we optimized employees' intelligent monitoring system for abnormal behavior, put into operation of twenty-five monitoring models, and continued to enrich the means of investigation. We also carried out in-depth special inspection of employee behavior management, regularly carried out warning education activities, and deepen the employees' compliance awareness. The "offline grid" and "online intelligent" employee behavior management model has been initially established, the employee behavior management mechanism has been continuously optimized, the number of system warnings and the number of abnormal behaviors reported have continued to decline, and the quality and efficiency of employee management has continued to improve, maintaining zero new major industry cases for six consecutive years.

#### Compliance culture construction

During the reporting period, we carried out the "Year of Enhancing Constant Compliance Culture" activity, selected key areas such as credit business, inter-bank business and counter business, purchased online courses and forwarded to the whole bank. More than 10,000 people have learnt and participated in after-training tests. The special exam of "Professional Ethics and Code of Conduct" was conducted with a total of 11,211 participants. We also promoted the construction of compliance culture bases, built or upgrade 62 compliance culture bases, organized the selection of 3 head office level and 6 branch level compliance demonstrative branches, and selected 6 excellent compliance works for display in the whole bank.

#### Institutional construction

We combined the internal and external business environment outlook, clarified the overall tone and preference of this year's risk metrics based on last year's performance, formulated the 2023 Risk preference Statement, and monitored the preference indicators on the quarterly basis. Hengfeng Bank issued the 2023 Risk Policy Guidelines, covering our basic business strategy, risk policy, portfolio management policy, professional risk management policy, industry credit-granting policies, customer risk policy and product risk policy, covering nine major professional risks and twelve types of business, and make clear of the direction for business development. Ninety-two risk quota indicators have been set covering credit risk, market risk, liquidity

<p>risk, information technology risk, etc., which should be regularly monitored. Timely measures were taken to control the over-quota indicators. Risk system and standardize the risk management process has been formulated and contiguously improved.</p> <p>Senior management training</p> <p>During the reporting period, the board of directors participated in special lectures and trainings on ESG evaluation and development trend, anti-money laundering regulatory situation and other related topics, and successively conducted 7 surveys and interviews, including visits to peers, seminars and field investigations. Senior management focused on the implementation of major central policy decisions and deployments, including ways to serve high-quality development, government debt and small and micro business development, disposal of non-performing assets, and industrial clusters with local characteristics. Senior management's works laid a solid foundation and provided important support for scientific decision-making by the Board of Directors.</p>	<p>2023 Annual Report of Hengfeng Bank Co., Limited. P55-56</p>
<p><b>5.3 Policies and due diligence processes</b></p> <p>Does your bank have policies in place that address environmental and social risks within your portfolio?<sup>15</sup> Please describe.</p> <p>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.</p>	

<sup>15</sup> 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 references
<p>Hengfeng Bank regularly conducts climate risk stress tests (organized by PBoC) and risk exposure investigation, and incorporates environmental and social classification risk management into the whole lending process.</p> <p>Specific measures done during 2023 is listed as follow:</p> <p>Constructed ESG risk management system in 2023 reporting period. To improve ESG risk management capabilities, we built ESG risk management systems covering ESG rating, post-loan monitoring, rating warning and other functions, and cooperated with third-party data providers to make full use of multi-dimensional data information. ESG risk early warning function was newly developed to help identify risks in a timely measure. We also managed to realize customer risk classification and dynamic monitoring function and take the evaluation results as important evidence for customer rating and other related process. Regularly participate in the climate risk stress test organized by the PBoC to assess the potential impact of the "Dual Carbon" target transition on our bank's credit assets.</p> <p>We always keeping our focus on financial technological innovation and digital transformation, and always relies on digital technology to carry out our green finance initiatives. We constantly strengthen technology empowerment and improve the efficiency of green financial services. Our "Green Credit Identification System" is now able to automatically tag green projects, based on the policies and standards related to green finance. In addition, our system also enabled automatic calculation and generation of green project's quantitative environmental benefit reports including ones with emission reduction effects, minimizing the workload of manual judgment during each process, and realizing higher accuracy.</p>	<p>Environmental, Social and Governance (ESG) Report of Hengfeng Bank Co., Limited (2023) P15-17, P74</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

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

☐ 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

Our annual report (2023 Annual Report of Hengfeng Bank Co., LTD) and the Assurance report on the use of funds raised by Green Finance Bonds of Hengfeng Bank Co., LTD were assured by independent assurers.

##### 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 analysis<sup>16</sup>, target setting<sup>17</sup> and governance structure for implementing the PRB)? Please describe briefly.

<sup>16</sup> 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

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

Response	Links and references
<p>In the coming year, Hengfeng Bank will continue to make efforts towards our goals in green finance and financial inclusion, and contribute to the sustainable development of society. Specifically, we will continue to strengthen the top-level design of our green finance strategic road map, accelerate institutional connection, improve our digital green finance platform, keep focus on key areas, clarify the market position, and enrich the product package in accordance with the "Hengfeng Bank Green Finance Development Implementation Opinions (2021-2025)" plan. We would also keep improving financial service capabilities, climate risk awareness, risk control capabilities, supporting resources. Besides, we are planning to establish the assurance system, optimize resource allocation, provide incentive mechanism, strengthen capacity building, and enhance our brand image in the sustainable finance area.</p>	<p>Hengfeng Bank issued the Green Finance Development of Hengfeng Bank Opinions (2021-2025) Notice P1-17</p>

## 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:

- |  |  |
|--|--|
| <input type="checkbox"/> Embedding PRB oversight into governance                               | <input checked="" type="checkbox"/> Customer engagement    |
| <input type="checkbox"/> Gaining or maintaining momentum in the bank                           | <input checked="" 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 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"/> Assurance                         |
|  | <input type="checkbox"/> Prioritizing actions internally   |

☐ Setting targets

☐ Other: ...

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