

Climate risk-related disclosures

China Construction Bank (Asia) Corporation Limited (“CCB (Asia)” or the “Bank”) attaches great importance to the impact of climate change by actively establishing effective climate risk management strategies and adopting different measures to deal with climate-related risks. The Bank established the Green and Low Carbon Development and Climate Risk Management Committee (綠色低碳發展和氣候風險管理工作小組) in 2022 to push ahead the implementation of relevant regulatory guidelines and to incorporate climate considerations into business policies, operation and development. Moreover, regulations and China Construction Bank’s policies of carbon neutrality, green operation and green finance are followed and implemented strictly in the Bank’s strategies and business policies.

In terms of corporate governance, the Board of Directors (the “Board”) of CCB (Asia) is supported by the Executive Committee and the Risk Committee in overseeing climate-related issues. The Board is responsible for reviewing the Bank’s sustainability strategies, goals and priorities as well as material sustainability-related policies and the material environmental, social and governance (“ESG”) issues and the related measures, and overseeing the Bank’s sustainability performance. The Executive Committee is chaired by the Chief Executive Officer. Senior management members, including all Executive Vice Presidents serve as members of the Executive Committee. Through the Executive Committee, senior management members take part in preparing and proposing the direction of climate-related development strategies, risks and opportunities and reporting its working progress and performance to the Board.

The Risk Committee consists of four Independent Non-executive Directors (“INEDs”) and a Non-executive Director. Of which, an INED chaired the Risk Committee. All members of the Risk Committee possess the background in finance, accounting and management in banking or financial industry. The Risk Committee is responsible for reviewing and recommending to the Board to approve the establishment of the Bank’s policies related to climate risks, and overseeing its implementation and regularly reviewing the policies to ensure that the Bank’s climate policies have been effectively implemented and met the relevant climate policies and targets at the time being.

The communications of the Board and the abovementioned committees in respect of climate-related issues are conducted via meetings, written resolutions (as required) and/or circulation reports. There were 4 Board Meetings, 16 Executive Committee Meetings and 4 Risk Committee Meetings convened in 2023. The circulation reports of the Risk Committee were submitted once every quarter in 2023.



In 2023, the following issues of climate-related risks and opportunities were discussed and reviewed by the Board and the designated committees:

- Transformation towards green finance and Report on the Development of Green Finance Business of CCB (Asia)
- Strengthen green finance elements in the Business Development Plan
- Set up of working group for low-carbon green development and climate risk management
- Report on Green and Sustainable Banking
- Incorporation of climate risk impacts into the scope of assessment for Internal Capital Adequacy Assessment Process
- Review the annual updates of Policy Paper on Stress Testing and the framework and results of Climate Risk Stress Testing
- Incorporation of a new quantitative climate risk indicator in the risk appetite statement
- Enhanced Competency Framework on Green and Sustainable Finance, and training to staff on current development of green finance and ESG
- Report on climate risk monitoring

To ensure the Board keeps up with the latest trend of climate-related issues, climate competence trainings were provided to ensure that the Board has the necessary expertise and skills to oversee and manage climate-related issues. During 2023, 8.5 hours of climate-related trainings including two webinars were recommended to and four training materials were shared with the Board, the topics of trainings were as follows:

Webinars:

- Understanding ESG disclosures and ESG ratings
- New HKEX climate-related disclosures and the ISSB standards

Training materials:

- 2022 Annual Report and Climate Risk-related Disclosures of CCB (Asia)
- Banks' climate related disclosures (Phase 1 & 2)
- The New ISSB Standards – Implications for Hong Kong
- Get Ready to Implement ISSB's IFRS S2 Climate Standard

The Bank conducted the Board evaluation for 2023. Such board evaluation covered the assessment on areas of the establishment and implementation of climate policy; the setting and development of climate strategy; and the development and performance of risk appetite thresholds.



In terms of climate risk management strategies, the Bank rigorously adheres to and implements the policies of carbon neutrality, green operations, and green finance set forth by regulatory authorities and the head office, and integrates them into the Bank's strategies and business policies. In 2021, the Bank formulated the CCB (Asia) Green Operations Plan (建行亞洲綠色運營方案), which provides a roadmap for green operational measures, objectives, and timelines. This plan also establishes a fundamental framework for conducting assessments of the Bank's pollution gas emissions and greenhouse gas emissions. In 2022, The Bank established the Green and Low Carbon Development and Climate Risk Management Committee (綠色低碳發展和氣候風險管理工作小組) to drive the effective implementation of regulatory guidelines.

The Bank closely monitors the operating environment of the Bank and actively conducts research in the areas of carbon neutrality, ESG and green finance. These researches support the Bank's operational strategies and decision-making in response to climate change, and assess the Bank's competitive position and market standing to explore innovative business opportunities and support clients in the transition to net-zero. The Bank maintains close communication and collaboration with key stakeholders, including the Environment Bureau, the Hong Kong Chinese Enterprises Association, and the Chinese Banking Association of Hong Kong. These engagements facilitate the gathering of valuable insights and opinions from relevant stakeholders.

Moreover, the Bank has conducted bank-wide climate risk stress testing based on the climate scenarios provided by the Network of Central Banks and Supervisors for Greening the Financial System, including the "Orderly transition (Below 2°C) scenario", "Disorderly transition (Delayed transition) scenario" and "Current policies scenario" (collectively "climate risk scenarios"). The Bank assessed how physical risk and transition risk impacts were transmitted to the key risk indicators of credit risk, market risk and operational risk.

For physical risk, the Bank mainly focused on analyzing the impact of increase in average temperature, increase in mean sea level and the rising frequency and severity of extreme weather events to our property-related lending portfolios. For transition risk, the Bank assessed the impact of policy change (e.g., increase in carbon price), low-carbon technological advancements and changes in market sentiment to our portfolios based on the different climate risk scenarios, which include conducting granular assessment of the Bank key portfolios in high carbon-emitting industries. There was no significant impact to the capital adequacy of the Bank under various climate scenarios in the bank-wide climate risk stress testing.

The impact of climate-related risks and opportunities on the Bank's financial planning can mainly be seen on below aspects:

- Expansion of green business: The Bank always keeps up with the trend of the ESG market and implements the green transformation strategy, focuses on products such as green

loans, sustainability linked loans, social responsibility loans, green bonds, etc., and comprehensively enhances its capability on green business. The financial planning has considered growth of green business with resources allocated to support corresponding activities, investment in product innovation to develop potential products and expenses for capacity building by provision of staff training.

- Promote fintech strategy and e-business: The Bank continues to streamline the operational processes, promote the implementation of fintech strategic planning and transformation of retail digitization, enrich the online product system and accelerate the migration of businesses to online platform. The financial planning has considered the above strategic needs with increased resources invested in system development, upgrade of underlying infrastructure and building fintech talent teams.
- Control on operation expenses: The Bank implements stringent control on operation expenses such as printing costs, office supplies and consumables, in order to promote paperless office, and achieve green operation and spare resources for the transition strategy. The Bank has also taken various initiatives to promote saving of energy and costs, green operations and sustainable development.

In terms of risk management, the Bank has recognized the importance of addressing climate-related risks and has taken steps to incorporate them into risk management framework and policies. This includes implementing policies for risk governance that encompasses climate risks, such as Policy for Risk Governance, Credit Risk Management for Climate Risk, Risk Appetite Statement, etc. The Bank has developed green financing related guidelines for green credit identification, assessment and management. Besides, climate risk factor is taken into consideration in Product Memorandum for new products/services assessment and approval. To ensure effective risk management, the Bank implements strategies to identify, assess and manage climate-related risks, covering both physical and transition risks.

As part of the comprehensive climate-related risks management process, it is essential for financial institutions to establish an effective climate risk stress testing program to assess the impacts from the accelerated threat due to climate change. In view of that, the Bank regularly conducts climate risk stress testing and scenario analysis to continually assess how climate-related risks impact our customers and business. Additionally, the Bank actively participated in the 2023-2024 Banking Sector Climate Risk Stress Testing exercise coordinated by the Hong Kong Monetary Authority (“HKMA”). The climate risk stress testing covers both physical risk and transition, evaluating their respective impacts and transmission channels to the key risk indicators of credit risk, market risk and operational risk.

In managing the physical risk, the Bank employs various approaches to address the impacts on credit risk, market risk, operational risk and liquidity risk, as outlined below:



- **Credit Risk:** The Bank regularly conducts assessment on collateralized properties in vulnerable areas of Hong Kong to identify potential physical risks faced by our mortgage portfolios and reports to the management on a quarterly basis.
- **Market Risk:** The Bank has developed a climate risk stress testing methodology for market risk, which is integrated into the institution-wide stress testing framework to include climate risk scenarios.
- **Operational Risk:** In terms of banking business continuity, the Bank regularly analyzes the impact of physical risks on the Bank's operational risks. For example, extreme weather may have a negative impact and damage the Bank's infrastructure.
- **Liquidity Risk:** The Bank recognizes that access to funding sources may be impacted due to physical climate risk drivers, potentially leading to counterparties withdrawing deposits and drawing down credit lines. To actively manage this, the Bank has implemented mechanisms such as early warning indicators to monitor attrition and early withdrawal of deposit, as well as interbank borrowing premium under their contingency funding plans. The Bank also utilizes models to calculate daily Liquidity Coverage Ratio (LCR) and Liquidity Maintenance Ratio (LMR) and forecast future trends, allowing for the detection of significant liquidity drops in the event of deposit withdrawals caused by climate risk hazards on its LCR/LMR ratios, and incorporates risk parameters of the current market into stress tests. The ability to pass the stress test can reflect the bank's resilience to prevalent market risk including climate hazards.

In its management of transition risk, the Bank adopts measures to effectively address and minimize its influence on credit risk, market risk and liquidity risk as below:

- **Credit and Market Risks:** The value of the Bank's portfolio of loan and debt securities is subject to valuation fluctuations due to a variety of factors, including those arising from climate-related risks. In adherence to the guidelines provided by the HKMA, the Bank identifies High Carbon Emission Industries (HCE) that are susceptible to climate change. This identification process is applied to the industry of the borrower company or issuer to categorize holdings associated with climate risk. At the same time, the Bank continues to adopt and optimize the classification definitions of High Carbon Emission (HCE) industries, and monitors the transition risk exposure of its loan and debt securities portfolios on a monthly basis, to ensure that its proportion does not exceed the monitoring indicator threshold.
- **Liquidity Risk:** The Bank conducts on-going monitoring of the impact of climate change on its liquidity position, as well as staying updated on recent developments in market and regulatory requirements. It specifically focuses on monitoring the transition risk arising from climate risk, policy change, technological advancements and changes in market sentiment to detect any potential impact on the Bank's liquidity. The Bank takes note of the regulatory guidelines and ensures that the relevant policies are periodically reviewed to adapt to changing conditions.



The Bank identified these key risks associated with the impact of climate change through a rigorous risk identification process. By integrating these approaches into its regular climate-related risk management practices, the Bank ensures that it is well-prepared to address both physical and transition risks through effective climate-related risk management.

In terms of metrics and targets, the Bank has developed appropriate metrics to assess climate-related risks, including monitoring the collateral value of mortgage portfolios, the loan and bond outstanding balances associated with the seven High Carbon Emission (HCE) industries and the Bank's branches and assets located in vulnerable areas in Hong Kong, etc. By employing these metrics, the Bank gains valuable insights, monitors the potential impacts of climate physical and transition risks on its portfolio, and manages such risks effectively.

The Bank has collected data on energy and recycled materials to calculate the organization's operational carbon emission and plans to conduct carbon audit in 2024 - 2025. Details of operational actions taken are as below:

- Enhance the efficiency of energy: LED lightings with sensors are installed at the staircases and carpark in CCB Centre in 2019. Adjustment of the electricity operation time in the common areas of CCB Centre and CCB Tower, replacement of LED lighting with sensors at the staircases, optimizing the operation time of lighting and air conditioners, and optimizing the operation of the central air-conditioning chiller in CCB Tower were done in 2020-2021. Installation of LED lighting in office areas and installation of HVAC analytics and optimization of chiller plant control system in CCB Centre were completed in 2023. The operational efficiency has been improved.
- Application of renewable energy: The photovoltaic solar panel was installed at the CCB Centre at the end of 2022. It generated about 33,500 kWh of electricity in 2023. It is expected to generate about 32,750 kWh of electricity in 2024.
- System and equipment optimization: (i) Installation and improvement work of variable speed drives of the air-conditioning system are planned for CCB Centre and CCB Tower in 2024. The variable speed drive can automatically adjust the operating speed of the motor or compressor according to the cooling needs and achieve energy saving by effective control and reduction of power consumption of the motor or compressor during operation. (ii) Upgrading work of energy saving motor for fan coil unit will be conducted for office floors of CCB Centre in multiple phases. The motors apply the latest permanent magnet technology and reduce energy consumption by generating magnetic flux when running. (iii) Replacement of LED lighting is planned for CCB Tower in 2024. Upon completion, approximately 630,600 kWh of electricity consumption can be saved annually from 2025 onwards.



- Water conservation: Installation of water-saving valves in the washrooms of CCB Tower and CCB Centre.
- Application of new energy vehicles: A Euro II minibus was replaced by a new Euro IV minibus in 2021. In 2024, a petroleum vehicle was replaced by an electrical vehicle with an estimated energy saving of 20%.
- Zero carbon emissions in transportation: Additional electrical vehicle (EV) chargers were installed in CCB Centre. The number of EV charging parking spaces has been increased by 150% compared with 2021.
- Inspection for carbon emission: Conduct carbon emission audit by independent third party to calculate 2023 carbon emission. Comprehensively review all aspects of the goals and achievements in related fields after implementation of low-carbon operation.

As a result, the public areas of CCB Tower, CCB Centre and Private Banking office at 21/F CCB Tower and Wan Chai Branch have successively obtained the EDGE Certification of Excellence in Design for Greater Efficiencies in 2021-2022. Disclosure of Carbon Emission Certificate issued by Hong Kong Quality Assurance Agency was obtained in early 2023 to recognize the Bank for its disclosure of carbon emission figures.

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