



China CITIC Bank International Limited

中信銀行（國際）有限公司

Task Force on Climate-Related
Financial Disclosure (TCFD) Statement

31 December 2023

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TCFD Statement

The information contained in this disclosure statement is for China CITIC Bank International Limited (“the Bank”) and its subsidiaries (together “the Group”), and is prepared in accordance with the Supervisory Policy Manual GS-1 on Climate Risk Management issued by the Hong Kong Monetary Authority (“HKMA”) with reporting period from 1 January 2023 to 31 December 2023.

PART I: OVERVIEW OF CLIMATE RISK

A. Overview of Climate Risk

Climate risks generally refer to the risks posed by climate change, such as damage caused by extreme weather events or a decline in asset value in carbon-intensive sectors. They are broadly classified into:

Transition risk refers to financial risk created during the process of adjustment towards a lower-carbon economy which can be prompted by, for example, changes in climate regulations, technological innovation, or a change in market sentiment, with the purpose of mitigating and adapting to long-term climate change.

Physical risk refers to the risk that may have a direct impact on the Bank's assets and operation management, including acute climate disasters and chronic climate change. Acute risk refers to the risk caused by sudden catastrophic events, including extreme typhoons, hurricanes, or floods. The risk comes from the weather events themselves and increased severity of these events. Chronic risks refer to risks from longer-term changes in global climate patterns, such as global warming, sea level rise, and ocean acidification.

The Bank manages its climate risks by identifying the transmission path to the inherent risks, including credit, market, operational, legal, liquidity, interest rate, reputation, and strategic risks. The respective risk management functions, including the Risk Management Group (“RMG”), the Controls and Compliance Group (“CCG”), the Financial Management Group (“FMG”), and the CEO Office identify and assess the impact of climate risk for each inherent risk regularly.

The objective of climate risk management is to manage the respective inherent risk profile within the Bank's risk appetite by implementing adequate and effective controls and risk mitigation measures, where appropriate and practicable.

PART II: GOVERNANCE

The Bank has established a clear climate-related governance structure, including oversight at the Board level, and roles and responsibilities at the management level. In order to better carry out climate risk governance, the Bank has developed an internal guideline and updated the corresponding policies, and the senior management has discussed climate-related issues in the reporting period.

A. Governance Structure

The governance structure of climate risk management is divided into three levels:

The Board, who delegates authority to the Credit Risk Management Committee (“CRMC”) to assist the Board in fulfilling its responsibilities regarding climate risk governance, including:

- Oversee the development and implementation of the Bank's climate strategy;
- Review and consider whether and how climate risks should be integrated into the risk appetite framework, and recommend the risk appetite statement to the Board for final approval;

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- Review and approve relevant risk policies related to climate risk, and ensure that those are properly implemented with clear guidance and operating standards;
- Oversee climate risk management information and key initiatives concerning climate-related matters; and
- Ensure that appropriate remedial actions will be promptly taken to address issues of concern when necessary.

The respective Management Level Committees (“MLCs”) authorized by the CRMC or the Chief Executive Officer (“CEO”) to manage daily business and affairs, including the Credit Committee (“CC”), the Market Risk Committee (“MRC”), the Asset and Liability Committee (“ALCO”), the Operational Risk Management Committee (“ORMC”), the New Product Committee (“NPC”), the Compliance and AML Committee (“CAC”) and the Management Committee (“MC”). The responsibilities of the MLCs on climate risk governance will be determined by the transmission path of climate risk and include:

- Oversee the assessment of the Bank’s climate-related risks, resolve climate risk-related matters, and report to the CRMC for approval for any significant issues and necessary risk mitigation measures;
- Review and concur the climate risk identification and assessment results;
- Identify and evaluate climate-related risks and opportunities in the context of the Bank’s strategic objectives;
- Review climate-related risk strategies and consider integrating them into the Bank’s risk appetite for each of the relevant risk areas;
- Approve, or review and concur relevant policies and documents related to climate risk;

The respective Risk Management Functions, including RMG, CCG, FMG, and the CEO Office, are responsible for the execution of climate-related risk management under their respective inherent risk area depending on the transmission path.

B. Internal Guideline and Policy

The Bank has set up its internal guideline, aiming to establish an effective climate risk management framework within the Bank, which clarifies the definition of climate risks, the transmission path of climate risks, the division of roles and responsibility, climate risk strategy formulation process and considerations and the risk appetite of climate risk management.

Based on the principles and framework established by the guideline, the Bank has also reviewed and updated its internal policies to ensure appropriate integration of climate change considerations.

C. Key Climate-Related Issues Discussed in the Reporting Period

The ESG Steering Committee (“Committee”) has been founded to pursue sustainable development and fulfil corporate social responsibilities from the perspectives of the environment, society and corporate governance.

The Committee is a standing committee under the Chief Executive Officer of the Bank. It is responsible for implementing the Board's requirements on ESG-related work and steering the Bank's ESG-related work.

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During the reporting period, meetings were held by the Committee to discuss the key ESG issues, including formulating ESG strategy, promoting and supervising the ESG-related work, and assessing the effectiveness of the ESG-related work.

PART III: STRATEGY

To better facilitate the formulation of climate-related strategy, the bank identified climate-related risks and opportunities to assess its strategic resilience in the face of climate change. On this basis, the bank developed its ESG strategy and launched a series of climate-related initiatives and businesses.

A. Climate-Related Risks

Both transition and physical risk will bring significant impact to business entities, the accumulation of such risks will also bring impact to the financial system. Transition risks will lead to an increase in operating costs and lower profitability for business entities. Physical risks will lead to the direct loss of corporate properties, leading to interruption in business operations. These changes ultimately lead to lower loan repayment ability of business entities and higher pricing of insurance products.

The Bank has identified how physical risk and transition risk are transmitted to traditional financial risks, named Climate Risk Identification Process, with the time horizon and significance of impact being assessed, and the significance of impact on each inherent risk is assessed based on the likelihood of occurrence, the magnitude of impact given occurrence, and the organizational resilience. Annual review of Climate Risk Identification Process in 2023 had been performed and it is concluded that Credit risk would have the highest impact among all inherent risks. Please see below the transmission channels and impacted time horizon of each risk type:

Risk type	Transmission channel	Time horizon¹
Credit risk	Through drivers of both physical risk and transition risk, climate change may reduce the value of collateral, the borrower's repayment ability, as well as the Bank's capability to clear a defaulted loan.	MT - LT
Market risk	The market prices or valuations could be impacted by climate risk factors, either transition risk or physical risk, which may trigger a lower or higher market valuation.	ST - LT
Operational risk	The occurrence of extreme weather events could lead to disruptions to the Bank's operations and its key outsourcing arrangements, resulting in financial losses. Failure of internal adaptation to climate-related policy changes could also pose operational risk.	ST - LT
Liquidity risk	Climate risk may cause the Bank's customers to reduce deposits or increase drawdowns on their credit lines to meet additional expenses in the transition to a low-carbon economy or to meet sudden increases in funding needs following natural disasters.	MT - LT
Interest rate risk	The implementation of carbon pricing mechanism, such as carbon emission trading and carbon taxes, will lead to higher prices for fossil fuel energy, potentially causing inflation in the economy. Consequently, the central bank will need to raise benchmark interest rate to address this inflation.	MT

Footnotes:

1 Short-term (ST): in next 1-2 years; Medium-Term (MT): in next 3-5 years; Long-term (LT): after 5 years

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Legal risk	Business interruptions due to extreme weather events may result in legal liabilities for the Bank. The introduction of climate-related regulatory measures may cause more legal and regulatory compliance costs over climate-risk sensitive investments and business activities.	MT - LT
Reputation risk	The lack of climate awareness may lead to negative public opinion from the market, the public or stakeholders, and ultimately affect the Bank's reputation.	MT - LT
Strategic risk	The Bank may lose its competitiveness and market position due to the lack of climate awareness, for example, failing to respond in a timely manner to changing market conditions, etc.	ST - LT

B. Climate-Related Opportunities

The Bank attaches great importance on sustainable development in its strategy planning. As its Environmental, Social and Governance (“ESG”) strategic objectives, the Bank will promote green and sustainable development by integrating ESG concepts into business and operations.

In addition to standardizing green classification and business operation procedures, green financial businesses will focus on developing innovative green financial products and services to meet the needs and risk preferences of different customers. The Bank will take measures to promote green and low-carbon operations in response to the Hong Kong government’s commitment to achieving carbon neutrality by 2050 and the HKMA’s “Net Zero Transformation Plan.

Green Operation

The Bank has kept to planned and proceed digitalize physical application forms in banking services and also actively motivates existing customers to utilize the digital platforms and brings a “greener” customer experience to our clients.

The Bank has taken an active role in sustainable development with new Tsim Sha Shui ESG flagship Branch has launched in Dec 2023. The renovation has made use of recycled materials with high sustainability, stain-resistant and bacteria-free, e.g. feature wall with Moss, Fabric wall with Maharam. Besides, the installation of solar panel at external wall can promote energy saving and re-use of energy which generated from the panel. Motion sensors have been installed in meeting rooms to save the electricity consumption (will switch off automatically if no one in the meeting room).

By incorporating more elements of green operations into our business, the Bank could achieve greater efficiency and optimize the customer experience.

Sustainable Finance

Personal and Business Banking Group (“PBG”)

For retail customers, the Bank offers green property mortgage loans to promote sustainable finance. The Bank had also distributed ESG funds authorized by Securities and Futures Commission (“SFC”) for customers to take advantage of emerging ESG market trends and the Bank is offering 27 SFC-authorized ESG funds at the end of 2023.

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Wholesale Banking Group (“WBG”)

The Bank has kept expanding the portfolio of sustainable financing solutions with an increasing focus and portion on transition financing tools, such as Sustainability-Linked Loans.

During 2023, the market share of sustainability-linked loans underwritten or participated by the Bank has been recorded a significant increase. According to Bloomberg, the Bank ranked 7th by volume in the 2023 Asia-Pacific (excluding Japan) Sustainability-linked Loan League Table, increased from the 15th in 2022 and the 27th in 2021.

With the experience and reputation accumulated, the Bank was recognized by the market in different sustainable finance awards. In the Hong Kong Green and Sustainable Finance Awards 2023 launched by HKQAA, the Bank was awarded the “Outstanding Award for Green and Sustainable Loan Structuring Advisor (Oil and Gas Industry) – Visionary Sustainability-linked Loan Performance Metrics”. Besides, with the remarkable sustainable loan structure, 7 of the syndicated loans in which the Bank were involved in 2023 were awarded in the Asset Triple A Sustainable Finance Awards 2024.

For next steps, in addition to the Sustainability-Linked Loan financing tool, the Bank will continue focusing on transition financing by gradually expanding to cover designated transition activities. Through these financing activities, we hope to support the low-carbon transition of traditional high-emitted industries under the flag of net-zero globally.

Treasury and Markets Group (“TMG”)

The Bank has actively participated in Green and Sustainability Bonds issuance. As of December 2023, the Bank has participated in 23 Green and Sustainability Bonds issuance with a total amount of approximately USD 7,505 million, with a year-on-year growth of 22.43%. With the Bank’s cotiuous efforts in sustainable finance, in 2023, the Bank was awarded the “Outstanding Award for Green and Sustainable Bond Lead Manager (Financial Holding Industry) - Visionary Green Bond Framework” in the Hong Kong Green and Sustainable Finance Awards 2023 by Hong Kong Quality Assurance Agency (“HKQAA”).

PART IV: RISK MANAGEMENT

The Bank actively manages its exposure to climate risk and its potential impacts. The Bank's management of climate risk is embedded in its overall risk management framework. Based on the transmission path identified from climate risk to inherent risks, different risk management functions would enhance their management approach to identifying, managing, monitoring, and reporting climate risk respectively.

In general, the Bank's process for managing climate risk includes climate risk identification, internal Green Taxonomy, policy review and update, climate risk stress testing, and regular monitoring and reporting of climate risk information.

A. Climate Risk Identification Process

The Bank has established an effective mechanism to identify and assess climate risks in products, businesses, processes, and systems based on the definition and the transmission path from climate risk to the inherent risks, including credit, market, interest rate, liquidity, operational, legal, reputational, and strategic risks.

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During the risk identification and assessment process, transition risk and physical risk scenarios are constructed for each inherent risk. The risk drivers associated with the transition risk scenarios include climate policies, technology, and population sentiment, while the risk drivers associated with the physical risk scenarios include acute physical risk and chronic physical risk. Each type of inherent risk includes the risk scenarios arising from the risk drivers described above. The significance of impact on each inherent risk is assessed based on the likelihood of occurrence, the magnitude of impact given occurrence, and the organizational resilience.

For details of risk identification assessment, please refer to PART III – A. Climate-Related Risks.

B. Green Taxonomy

To better understand and measure our exposures to climate risk, the Bank has formulated its own green taxonomy to classify each transaction into four climate risk levels, with the degree of “greenness” decreasing based on the use of funds and the economic sectors of the facility, borrower, and guarantor. The classification is based largely on the Green Loan Principles, industry energy production efficiency data published by the National Bureau of Statistics of PRC, and the high carbon emission and high pollution industries defined by the Ministry of Ecology and Environment of PRC. The current industry classifications has been enhanced and embedded in the credit processes and systems to enable the Bank to measure its exposures to climate risks aligning to the green taxonomy. With reference to industry best practices and evolving external environment, the Bank would regularly review and implement risk management measures, where appropriate, to manage the exposures from risk concentration to high emission and high pollution industries.

C. Stress Testing

Climate risk stress testing (“CRST”) and scenario analysis are important tools adopted by the Bank to measure and assess the vulnerability and resilience under various short-term and long-term climate scenarios.

After the pilot CRST exercise driven by HKMA conducted in 2021, the Bank has continued to enhance the CRST methodologies. In 2023, the Bank has commenced to conduct the new round of CRST to assess the impact from a set of short-term and long-term climate scenarios, with reference to the HKMA’s guidelines for CRST. The enhanced CRST framework has covered analysis of overall impacts from both the climate risk and macro-economic factors. It considers a range of climate-related factors, including transition risk (e.g. policy changes, market shifts towards low-carbon technologies) and physical risk (e.g. extreme weather events, sea-level rise). The enhancement will be implemented in the CRST which the results will be submitted to the HKMA in 2024.

The transition risk and physical risk impacts as specified in below table are assessed under the CRST.

Transition Risk	The transition towards a low-carbon economy prompted by, for example, changes in climate policies, technological changes such as energy-saving technologies, a sharp decline in renewable energy costs, and/or other factors can transmit and impact various inherent risks such as credit risk and market risk of the Bank.
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Physical Risk	The movement of economic factors, weather events and climate changes would lead to property damages or adverse impact on property prices which may reduce collateral / bank-owned property values and cause operations and business disruptions of the Bank.
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For transition risk, the Bank has methodologies in place to measure and evaluate the impact on credit quality of its counterparties engaging in high carbon-emitting industries under the different transition pathways. For physical risk, the Bank has developed quantitative methods to assess the potential impact on real estate market value and loss driven by business disruptions due to extreme weather incidents and climate changes (e.g. tropical cyclone, heavy precipitation and heatwave). The impacts from climate risks are transmitted into the inherent risks, including credit risk, market risk, operational risk, and etc., faced by the Bank. Impacts from movement of macro-economic factors are also taken into account to analyze the overall impact on the Bank's capital capacity to withstand the climate risks under certain macroeconomic environment.

The Bank will keep abreast of market development and regulatory updates to review the appropriateness of the CRST methodologies.

D. Risk Monitoring

The Bank established risk monitoring mechanism for climate risk related indicators. Based on the taxonomy, quantitative indicators have been set up in risk appetite and credit strategy to monitor and control the credit exposures to high emission and high pollution sectors. The Bank will continuously enhance the climate risk related data collection and review the quantitative indicators to actively manage the climate risk related credit exposures and ensure the amount of exposures to be within the Bank's risk appetite, with reference to industry best practices and regulatory direction in ESG and climate risk management.

PART V: METRICS

As a responsible financial institution, we take our commitment to managing climate-related risks seriously. We aim to mitigate the impact of climate change on our operations and support the transition to a low-carbon economy.

The Bank reported the annual greenhouse gas ("GHG") emissions for 2022 and 2023 and the figures in 2022 are highly impacted due to the reduced business activities during the pandemic. We expect the GHG emissions for the coming years to reveal more normal circumstances with business activities resuming normal.

A. GHG Emissions

The Bank recognizes the increasing needs from relevant stakeholders for transparency regarding climate risk metrics. By disclosing our annual GHG emissions, we are providing our stakeholders with a better understanding of our carbon footprint, and demonstrating our commitment to reducing our impact on the environment.

Table: GHG Emissions, 2022 vs 2023

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	Category	Year 2022	Year 2023	Comparison
Scope I (Direct Emissions)	Mobile Combustion	45.12 tCO2	56.48 tCO2	+25.17%
	Total Scope I	45.12 tCO2	56.48 tCO2	+25.17%
Scope II (Indirect Emissions)	Purchased Electricity	3,488.54 tCO2	3,107.18 tCO2	-10.93%
	Total Scope II	3,488.54 tCO2	3,107.18 tCO2	-10.93%
Paper Consumption		11,377,500 pcs	9,940,000 pcs	-12.63%
Food Waste for TTP			815.7 Kg	N/A

The primary cause of 25% rise in fuel consumption in 2023 as compared with 2022 could be attributed to the conclusion of COVID-19 pandemic, which had resulted in the resumption of normal business operations and social activities, leading to an increase in demand for vehicles for business activities.

To ensure the accuracy of our GHG emissions reporting, we benchmarked global standard *GHG protocol* for GHG calculation and adopted standardized emission factors based on our geographical location and electricity suppliers.

We have also established robust data collection and processing methods to ensure the completeness and accuracy of our GHG emissions data. In 2023, the Bank's Scope 1 emission covers GHG emissions directly generated from mobile combustion. Scope 2 emission covers GHG emission generated through the purchase of electricity for our premises – main offices and branches.

B. Scope III GHG Emissions Data Collection Plan

In order to meet the TCFD disclosure requirements of Scope III GHG emission data, the Bank is currently in preparation for vendor selection process on potential data provider. We are planning to implement the solution and start the data collection before the end of 2024. Upon completion of data collection, the emission for our customers would be available for disclosure purpose such that the TCFD requirements could be fulfilled in the upcoming disclosure in Jun 2025.