

2023 TCFD Report

Bank of Communications (Hong Kong) Limited

(Incorporated in Hong Kong with limited liability)





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About This Report

Bank Profile

Founded in 1908, Bank of Communications Co., Ltd. (hereinafter referred to as "the Head Office") is one of the banks with the longest history.

Established in January 2018, Bank of Communications (Hong Kong) Limited (hereinafter referred to as "Bank of Communications (Hong Kong)", "the Bank") is a wholly-owned subsidiary of Bank of Communications Co., Ltd. incorporated in Hong Kong. Bank of Communications (Hong Kong) is the largest overseas banking institution of Bank of Communications, providing diversified financial services to corporations and individuals.

Leveraging on the rich financial services experience and extensive network coverage of the Head Office and its subsidiaries in the Mainland and Hong Kong, and together with the subsidiaries of the Head Office in Hong Kong, Bank of Communications (Hong Kong) has formed a full-service, integrated business system that includes retail and private banking, corporate banking, financial markets and trustee. Recently, Bank of Communications (Hong Kong) has extensive network all over Hong Kong, offering both corporate and personal banking customers comprehensive corporate financial and wealth management services through more than 40 outlets, 90% of which are equipped with BComBEST Services Centres, a private banking centre and 7 Business Services Centres in Hong Kong.

Reporting Scope

This report is based on the Bank, part of the content is disclosed in accordance with the Head Office and Bank of Communications Co., Ltd. Hong Kong Branch.

The report covers the period from 1 January 2023 to 31 December 2023. Unless otherwise stated, the data disclosed in the report are compiled by internal system of Bank of Communications (Hong Kong) Limited and monetary amounts are in Hong Kong dollars.

Principles

This report has been prepared in accordance with the Financial Stability Board's "Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)" and the Hong Kong Monetary Authority's (HKMA) "Supervisory Policy Manual" Module GS-1 "Climate Risk Management", covering the Bank's governance, strategy, risk management and disclosure of climate-related risks.

In case of any discrepancy in the contents of the report, the Chinese version shall prevail.



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Preface

With the increasing frequency of climate-related events, climate change has become a global issue. In September 2020, President Xi Jinping officially announced that China will strive to achieve carbon peak by 2030 and carbon neutrality by 2060, which has indicated the direction of China's sustainable economic development and low-carbon transition of society. The establishment of the "1+N" policy framework for carbon peak and carbon neutrality has also provided clear guidance for comprehensively promoting decarbonization actions.

Following the publication of the first "Hong Kong Climate Action Plan 2030+" in 2017, the Hong Kong Special Administrative Region (HKSAR) Government actively responded to the national strategic requirements on climate change and published the "Hong Kong Climate Action Plan 2050" in October 2021, which has outlined the action plans for promoting carbon emission reduction and carbon neutrality in Hong Kong. It has also proposed the medium-to-long-term decarbonization targets of a 50% reduction in total carbon emissions before 2035 compared with the level in 2005 and carbon neutrality before 2050, as well as four decarbonization strategies of "Net-zero Electricity Generation", "Energy Saving and Green Buildings", "Green Transport" and "Waste Reduction", which has specified the key tasks of carbon emission reduction.

Leading by the national strategic requirements of "carbon peak and carbon neutrality" and the HKSAR Government's 2050 carbon neutrality action plan, the Bank has taken the initiative to serve and integrate into the overall national sustainable development, implement the Head Office's climate-related objectives of "by 2025, the balance of green loans shall not be less than RMB800 billion, striving to reach RMB1 trillion". The Bank has made green a defining feature of business development, consistently improved the service level of green finance, seized the opportunities of green financial innovation, and created the characteristics of a green financial enterprise. By enhancing the green financial system, expanding the green financial market and enriching the green financial products and services, the Bank has steered the resources to green and low-carbon fields and provided diverse financial support for the corporate green transition.

The Hong Kong Green and Sustainable Finance Cross-Agency Steering Group has announced that relevant sectors must disclose their climate-related information in alignment with TCFD recommendations by 2025. The Bank has well understood that climate change is posing great challenges to social stability and economic progress, affecting production, operation, technology research and development, etc. in all aspects and at multiple levels, by which the risks may be transmitted to financial institutions and induces material financial risks. In order to strengthen the top-down design, reinforce climate risk management, and enrich the form of climate-related information disclosure, the Bank analysed and disclosed its own practices in response to climate risk and green investment concept by four dimensions: Governance, Strategy, Risk Management, Metrics and Targets, referring to the requirements of the Module GS-1 "Climate Risk Management" in the "Supervisory Policy Manual" issued by HKMA, and the climate change-related information disclosure framework formulated by TCFD.

In the future, the Bank will continue to shoulder the mission and task of promoting the green economy development, consolidate the green finance strategy, cultivate the green financial market and support the low-carbon transition of real economy. The Bank will also consistently boost the disclosure of climate-related information in the financial sector so as to fulfil its responsibility in the development of green finance.

01 Governance

To serve the national strategy of "carbon peak and carbon neutrality" and implement the concept of green development, the Head Office has actively taken measures to identify and address financial risks arising from climate change, explicitly incorporating climate and environmental risks into its comprehensive risk management system, and has officially become a supporting institution for TCFD. The Bank has followed the governance mechanism of which the Head Office takes comprehensive leadership, the Board of Directors makes strategic decisions, the Board of Supervisors supervises according to law, and Senior Management is authorised for operations, to monitor, evaluate, and manage climate-related risks and opportunities, integrating climate-related factors into strategic planning. The Bank formulates and implements policies related to green finance, while simultaneously enhancing the professional and managerial capabilities of management and staff in addressing climate change, thus building an image of a green bank.

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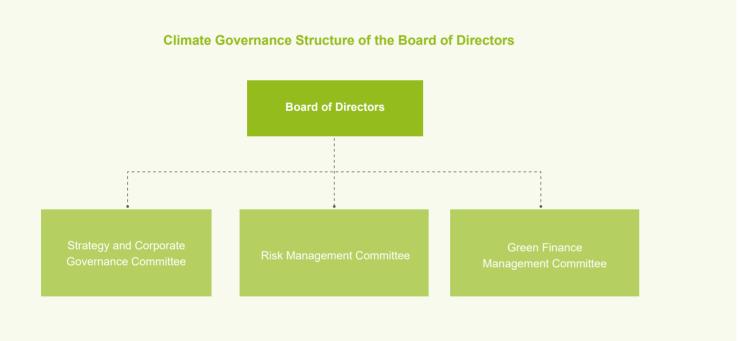


Board of Directors

The Bank has attached great importance to the great challenges brought by climate change to financial institutions. It continuously improves its climate governance system, aiming to construct a governance system that is scientific, robust, and effective.

The Board of Directors undertakes ultimate responsibility for business management as the top decision-making body for the Bank's risk management and green finance. The main responsibilities of the Board of Directors include supervising the formulation and implementation of the Bank's climate-related development strategies, policies and regulations as well as targets and plans, regularly reviewing the results of identifying and monitoring climate-related risks and opportunities, and promoting the improvement of the Bank's green financial system. During the process of formulating major strategies and related policies for the identification and management of climate risks and opportunities, establishing a comprehensive risk management system, overseeing capital utilization and asset allocation, innovating and developing business, and monitoring the implementation of strategies and execution of various tasks, the Board of Directors have incorporated green finance-related issues into consideration.

In order to clarify the Board of Directors' assignment of responsibility for climate-related issues, strengthen the management and supervision process of the Board of Directors, and improve the climate governance system at the board level, the Board of Directors has established and authorised the Strategy and Corporate Governance Committee, the Risk Management Committee (hereinafter referred to as the "RMC"), and the Green Finance Management Committee (hereinafter referred to as the "GFMC") to perform relevant duties.



Strategy and Corporate Governance Committee

The Strategy and Corporate Governance Committee established by the Board of Directors is primarily responsible for reviewing and supervising the overall strategy and development plan of the Bank, and assisting the Board of Directors in providing strategic and corporate governance guidance to the Bank. The members of the Strategy and Corporate Governance Committee include the Chairman of the Bank, executive directors, and non-executive directors. Regular meetings are held to review major strategic and corporate governance matters or documents of the Bank and report them to the Board of Directors for deliberation.

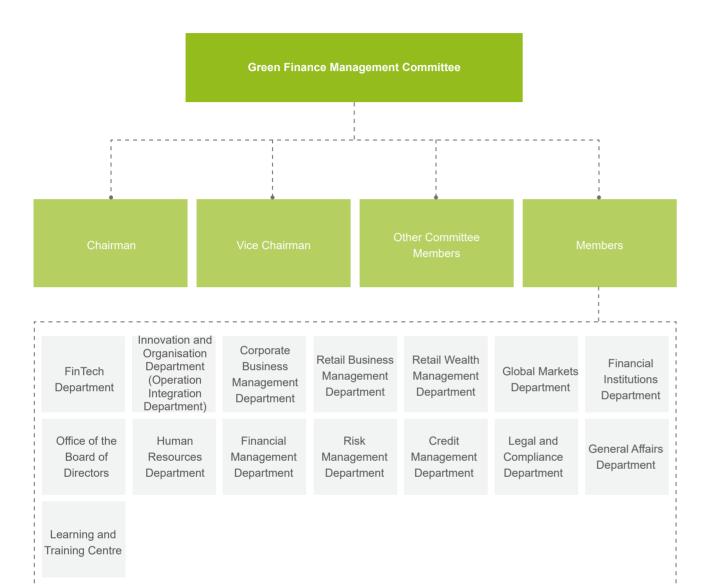
Risk Management Committee

The "RMC" is directly managed by the Board of Directors and holds at least one meeting every quarter. The "RMC" is composed of independent non-executive directors, of whom the Chairman is elected by the Board. The "RMC" is responsible for monitoring various risks, including but not limited to credit risk, market risk, operational risk, interest rate risk, liquidity risk, legal and compliance risk, strategic risk, reputation risk, climate risk, and any other material risks which may arise from time to time. In addition, the "RMC" takes on a monitoring role and is responsible for assisting the Board of Directors in monitoring and supervising the Bank's risk strategies, risk appetites, risk structure, capital adequacy and liquidity adequacy.

Green Finance Management Committee

The Bank has established the "GFMC" at the board level to promote the establishment and improvement of the green financial system, accelerate the formulation of the Bank's green finance objectives and strengthen green finance management.

The "GFMC" is chaired by the Chief Executive. To advance green finance management, the "GFMC" monitors and supervises the Bank's green finance management, convening regular or irregular meetings to collectively review and evaluate various objectives, action plans, as well as major issues and topics related to environmental, social, and governance risks. In principle, at least one full meeting is convened annually. The primary responsibilities of the "GFMC" include formulating and promoting the implementation of the Bank's green finance management objectives and action plans, in accordance with the green finance development strategies determined by the Board of Directors and local regulatory requirements in Hong Kong. Additionally, it oversees the planning and advancement of institutional mechanisms for green finance, reviews and decides on green finance-related policies and important systems, regularly assesses the status of green finance governance and development, tracks the achievement of major regulatory indicators, and makes timely strategic adjustments based on actual conditions.



The "GFMC" convened one meeting in April 2023. The main focus of work during the reporting period is as follows:



Reviewed and approved the establishment of the green finance brand of the Bank;

Reviewed the report on the compliance with green finance regulations;

Be Informed of the progress of green finance business development and the report on climate risk management.

Senior Management

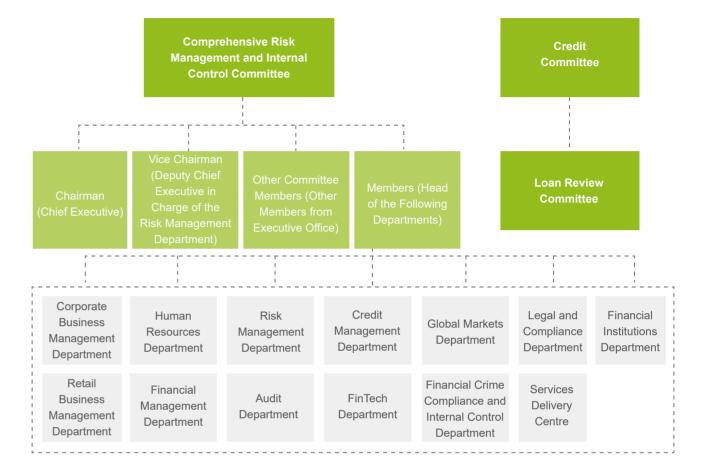
The Senior Management is responsible for coordinating the departments of the Bank to jointly execute the climate risk and green finance-related policies approved by the Board of Directors, implement the climate action plans formulated by the Board of Directors, and achieve the climate-related targets set by the Board of Directors. In addition, the Senior Management regularly reports the project progress to the Board of Directors and board-level committees to assist in evaluating climate-related management performance and monitoring the achievement of climate-related targets.

To strengthen the responsibilities of supervising risk management, the Bank has established the Comprehensive Risk Management and Internal Control Committee (hereinafter referred to as the "CRMICC") and the Credit Committee (hereinafter referred to as the "CC") at the Senior Management level. The "CRMICC" collectively supervises and evaluates various major risks, including climate risks defined by the HKMA, and discusses significant matters related to risk management through quarterly meetings. The "CC" holds two meetings annually to review the current credit granting strategy. The climate risk factors include the distribution of green loans, the proportion of loans in industries with higher climate risks, and the direction of credit granting development of green finance.

The "CRMICC", authorised by the "RMC", is chaired by the Bank's Chief Executive Officer, with the Deputy Chief Executive Officer in charge of the Risk Management Department serving as the vice chairman, and all other members of the General Manager Office serving as committee members. The duties of the "CRMICC" include determining the Bank's risk control objectives, overall risk strategies, management policies, procedures and measures for internal controls based on the risk management strategies and overall policies determined by the Board of Directors. It also takes responsibility for coordinating the planning and promoting the construction of comprehensive risk management and internal control system, and supervising and guiding each business line and department to effectively implement risk management strategies, the requirement of risk appetites and risk limits, and optimising internal controls. The "CRMICC" reviews the set-up, monitoring procedures, and the implementation status of risk appetites, risk limits and key risk management indicators. The "CRMICC" is also responsible for approving results of major risk identification and assessment, reviewing control measures for significant risk scenarios, etc., and regularly reporting management situations on various risks and submitting relevant reports to the "RMC" for review and approval.

The "CC" is specifically responsible for formulating and adjusting credit asset management policies and credit deployment, receiving guidance from the "RMC", and reporting its work to it. The main focus of the "CC" is on providing strategic-level guidance on credit asset management, including target formulation, indicator setting, coordination, promotion, review, evaluation, and monitoring of progress and effectiveness. It does so through its specialised Loan Review Committee (hereinafter referred to as the "LRC"), which is responsible for conducting loan reviews for large credit exposures. The "LRC" is a standing credit review organisation led by the "CC". When conducting large credit review activities, if a customer is recognised to have a higher climate risk exposure, the relevant risks will be analysed in greater depth.

Organisational Structure of Comprehensive Risk Management and Internal Control Committee and Credit Committee



Reporting procedure on climate-related issues:

The Bank regularly reports or submits reports on climate-related risks and green finance to the "RMC" and "GFMC" and asks for their approval or decisions on other major issues and topics relevant to climate-related risks and green finance.

When a climate risk event occurs or a climate risk regulatory standard is issued, the "RMC" and "CRMICC" will timely report in regular meetings and continuously review the project outcomes. If the situation is urgent or there are multiple departments involved in the topic, the Bank will hold a "GFMC" meeting to invite all the relevant departments to participate in the discussion.

Human Resource Management

Remuneration Policy

To encourage all levels to value climate-related issues, promote the formulation, implementation and monitoring of climate-related strategies and targets, the remuneration policy of the Bank has stated its consistency with the climate risk management strategy. By integrating the climate considerations into the remuneration system, the Bank promotes the involvement of all employees in climate related projects.

During the reporting period, the Bank continued to include "e-Diversion Rate" and "e-Coverage Rate" as assessment criteria in the performance evaluation of relevant members of the General Manager Office

During the reporting period, the Bank incorporated "supporting the Bank's climate risk management strategy and relevant business or projects during the reporting period" into the performance assessment of staff members (including heads of departments)

Employee Development

To ensure that the Board of Directors, Senior Management and relevant staff are promptly informed of the latest information on climate-related issues and have a comprehensive understanding of the development of climate-related issues globally, nationally, and regionally, the Learning and Training Centre held approximately 70 training courses on climate risk and ESG management during the reporting period. The following table lists some of the training courses held during the reporting period. Through these diverse training sessions, the Bank further strengthened its top-down design in climate risk and ESG, enhanced employees' professional skills and capabilities, and promoted the improvement of its climate governance system.

Excerpts from Climate Risk and Green Finance-related Training and Lecture Activities Held in 2023

Training Participants	Training Course Titles
	Regulatory Compliance Requirements from HKMA
	Planning for Net-zero Transition
- 0	Innovative Practices in the Banking ESG Field and Major Opportunities for Green Finance Development
	Creating a Pathway to Advancement: Empowering Enterprises for the Future
Board of Directors	Hong Kong Institute of Certified Public Accountants (HKICPA) Annual Auditing Update Conference 2023 – A New Era of Sustainability and Technology
	HKIB Annual Banking Conference 2023
	Induction Training for Newly Appointed Board Members: Introduction to Risk Management Regulatory Policies
	Induction Training for Newly Appointed Board Members: Introduction to Other Regulatory Compliance Requirements
2 %	Regulatory Compliance Requirements from HKMA
	Climate Change Risk Management
Sonior Management	Planning for Net-zero Transition
Senior Management	Innovative Practices in the Banking ESG Field and Major Opportunities for Green Finance Development
	Hong Kong Institute of Bankers (HKIB) Annual Banking Conference 2023
<u> </u>	Overview of Sustainability and its Relevance to Banking
	Equal Opportunities Ordinance and Environmental Policies
All Employees	Climate Risk Management in Banking
	Basic Concepts of Greenhouse Gases and Fundamentals of Quantitative Data Collection
	Implication of ESG and Climate Risk to Banks
00	Climate Change Risk Management
[年]	Environmental, Social and Governance (ESG) Performance Evaluation
Designated Employees	ESG Fund Selling
	European Union Carbon Border Adjustment Mechanism (EU CBAM)
	Green Certification and Green Securitisation
	ECF-Green and Sustainable Finance (Module 1 and 2)

02 Strategy

Focusing on the issues of climate change and following the strategic deployment of the Head Office, the Bank has integrated green and low-carbon concepts into its corporate strategy. On top of strengthening the top-down design of green finance, the Bank has comprehensively built a green financial system and constructed a high-quality service platform for green finance. In order to expand the impact of green finance, the Bank has increased the development of green bonds, carbon finance, and other financial instruments. Moreover, the Bank has paid close attention to the green and low-carbon transition of the real economy, supported renewable energy, clean production, and ecological restoration projects, etc., to promote the whole society to take resolute steps towards the goal of sustainable development.

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Consolidate the Keystones of Green Development

In response to the national climate target of "carbon peak and carbon neutrality", the Head Office has constructed a "2+N" green finance policy system, providing directional deployment for the high-quality development of green finance and high-quality service to support the national "dual carbon" strategy goals across the entire bank. The Bank actively engages to accomplish the climate change-related objectives set by the Head Office, adhering to the requirements of the "Outline of the Development Plan of Bank of Communications Co., Ltd. for the 14th Five-Year Plan Period (2021-2025) (Revised in 2022)" to anchor its business development in green. The Bank continues to explore green, low-carbon, and sustainable business models to offer customers comprehensive green financial services.

• The Head Office's "2+N" green finance policy system

The "2" represents two top-down design documents: the "Green Finance Policy of Bank of Communications Co., Ltd." and the "Action Plan of Bank of Communications for Carbon Peak and Carbon Neutrality Goals"

The "N" represents various specialised green finance policies, mainly including organisational structure, business management, supporting tools, segmented industries, product integration, policies related to credit approval, assessment and evaluation etc.

Under the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era and based on its reality, the "Action Plan of Bank of Communications for Carbon Peak and Carbon Neutrality Goals" defines the targets and priorities for the Bank in developing green finance to support China's dual carbon goal. It encompasses 16 specific action items, including optimising the credit structure and facilitating the green and low-carbon transition of the energy sector. It sets forth the Head Office's targets for 2025, 2030, and 2060. By 2025, the total balance of green loans is projected to reach at least RMB800 billion, with efforts made to reach RMB1 trillion.

The Bank relies on five key pillars of green development, accelerating the development and application of green financial products and services. By referring to relevant standards such as the "Common Ground Taxonomy" for sustainable finance, the Bank promotes green finance projects to enhance the quality of green finance development. It delves deeper into both domestic and international green finance markets to support the transition and upgrading of the real economy, striving to become a model enterprise in green finance at the national level.

Five Key Pillars of Green Development

Integrating green finance into the entire governance process

- Clarify the requirements for climate and environmental risk assessment in credit evaluation
- · Avoid involvement in overseas new coal-fired power projects

Directing funds towards green areas

- · Develop green credit vigorously
- Tilt resources towards enterprises or projects with low pollution and low energy consumption appropriately

Strengthening and enriching the green product portfolio

- Expand existing advantages in green deposits, green bond issuance, and other products
- Enhance research and innovation in green products

Expanding green finance market business

- · Learn from experiences in green bond investment
- · Actively participate in overseas green finance markets

Building a green finance brand image

- Enhance the promotion of highlights in green finance business
- Strive to become a green representative in the financial industry



Enhance the Resilience of Green Strategy

The Bank adheres to the guidance of the Head Office and considers green finance as a long-term development strategy. Firstly, at the business development level, the Bank has been making appropriate credit granting, preventing and controlling risks to realise the progression of green finance in coverage and quality. While developing its business, The Bank continues to enhance its ability to prevent ESG risks, climate risks and other emerging risks and incorporate ESG risk management requirements into the comprehensive risk management system. Secondly, in terms of industrial investment, the Bank supports the green and low-carbon transition of traditional industries as well as the development of green industries, serving for the establishment of a modernised industrial system. In terms of innovation and leadership, the Bank promotes innovation in systems, mechanisms and products and services, and continue to unleash new momentum for green development.

In accordance with the requirements of the Head Office and the Senior Management, the Bank incorporated climate-related issues into financial planning and deployment. By collecting budgeting information from various frontline units on climate-related risks and opportunities, and strengthening communication with them or relevant departments, the Bank conducts a comprehensive assessment of asset portfolios and business nature of its customers. These factors are then taken into consideration for future asset allocation and financial compliance rate as part of its financial planning. At present, the Bank defines significant financial impact as a percentage of its asset size and annual income.

In the future, the Bank will continue its regular review on the relevance and importance of climate risks, progressively advance the development of Expected Credit Loss (hereinafter referred to as "ECL") models. Furthermore, the Bank will utilise scenario analysis tools to comprehensively assess, manage, and supervise climate-related risks, deeply analyse the impact of climate change on business activities. At the same time, the Bank will also continue to review the consistency between corporate strategic planning and global, national, and Hong Kong's low-carbon transition pathways, enhance its capabilities to manage and respond to climate risks, strengthen the resilience of green development strategies, and continuously empower green development strategies.

Lead the Low-carbon Transition for Clients

In response to climate change, accelerating the green and low-carbon transition of the whole society and optimising investment of the resource in the green sectors are important strategic directions of the Bank. The Bank has supported the green and low-carbon industries underlying the real economy to help the national economy circulate, offered more favourable interest rates to clients who launch green projects, and enhanced the green credits for industrial energy conservation and emission reduction retrofit projects.

Integrate Climate Change into Corporate Strategic Planning

Business Operation

Promote the implementation of energy-saving measures throughout the bank to create an image of low-carbon operation

R&D Investment

Increase the research and development (R&D) capital investment to develop and enrich the product category and service range of green finance



Value Chain

Increase the proportion of green assets progressively

Actions for Climate Change

Improve the support for green projects (especially for carbonnegative projects)

Through research on climate-related risks and opportunities faced by clients in different industries, and understanding the emission reduction trends of policies and markets in the future, the Bank continues to provide valuable advice to clients on exploring low-carbon transition directions, and assists and encourages clients to establish climate-related goals and action plans by developing relevant businesses and products. During the reporting period, the Bank and Bank of Communications Co., Ltd. Hong Kong Branch jointly launched "ESG deposits", making it one of the financial institutions in Hong Kong to pioneer such deposit services. Meanwhile, the Bank has been seeking to incorporate more green elements at the product level, actively assisting retail clients in adopting a greener, healthier, and more sustainable lifestyles. This includes meeting the financial consumption demands of retail clients transitioning towards green and low-carbon living by providing unique financial services such as green time deposits, green mortgages and brokerage of Hong Kong government green bonds. The Bank also regularly reviews the development strategy of green loans in the "CC", report the balance of green loans, and encourage business departments to increase investment in green loan-related businesses.

Deposit Business

During the reporting period, on the basis of existing green deposits, the Bank added "Sustainable Development Elements" and launched the independently third-party certified "Green and Sustainable Development Deposit Scheme". The funds raised would be used for financing and/or refinancing green and sustainable development-related projects.

nciples 2023 7.13 billion	
	48.88%
inked Loan	54 12%
0.41 51111011	04.1270
15.54 billion	100.00%
	8.41 billion

In July 2023, the Bank was honoured with the "2023 ABF Wholesale Banking Awards-Hong Kong International Green Finance Initiative of the Year" award by the well-known financial magazine "Asian Banking and Finance". In the same year, in December, it was awarded six awards by HKQAA for the "Hong Kong Green and Sustainable Finance Awards 2023", fully demonstrating the Bank's leading professional capabilities and extensive market influence in the field of green finance.



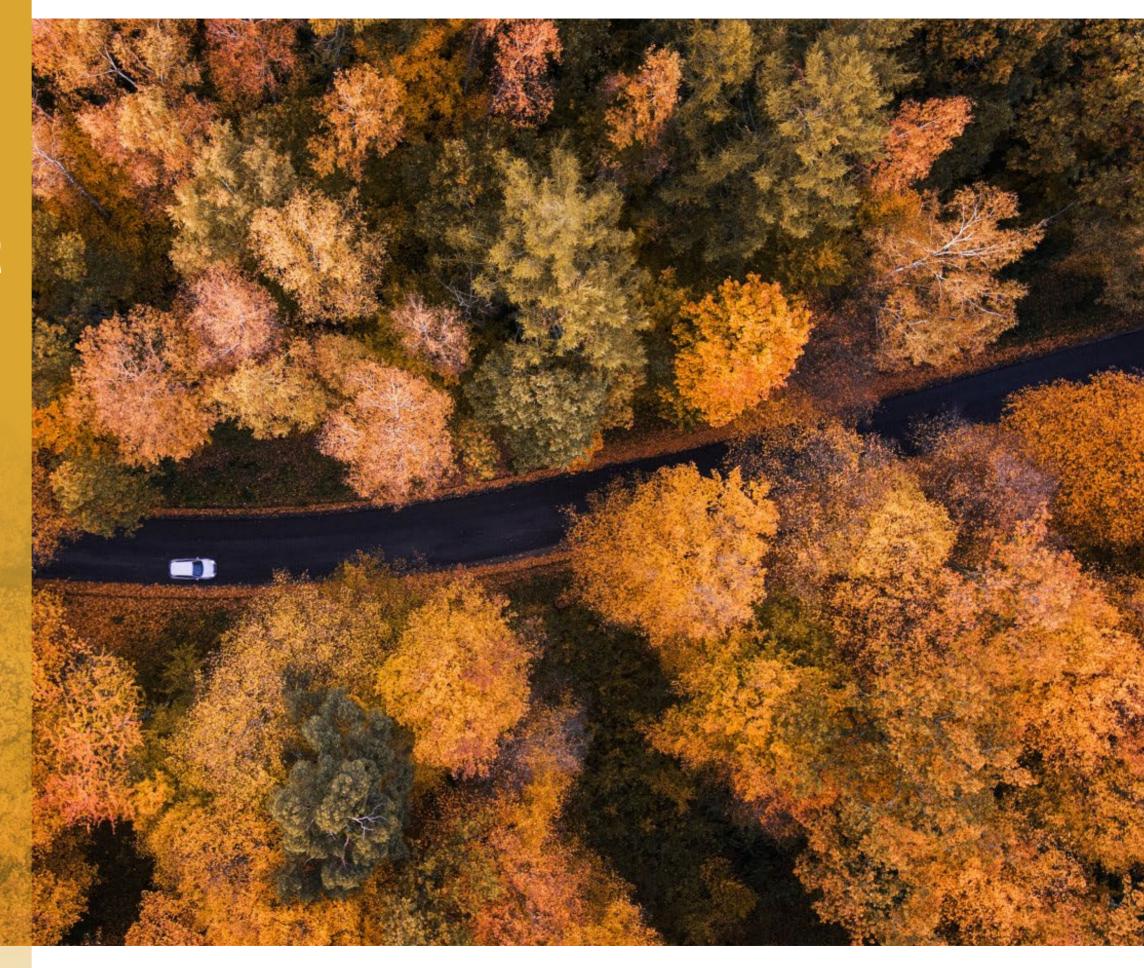
Additionally, to practise the Bank's concept of green, low-carbon and environmental protection through tangible actions and instil environmental awareness in the next generation, the Bank successfully organised multiple "Tree Planting Challenge" tree-planting events in collaboration with Friends of the Earth (HK) during the reporting period. The Bank planted over 300 tree saplings in Conservation in Hong Kong, with more than 60 participants including volunteer colleagues, family members, and clients, jointly fulfilling its social responsibility and contributing its efforts to safeguard the green environment and ecology.



03 Risk Management

The Bank has integrated climate risk management into the comprehensive risk management system for implementin climate-related strategies and achieving climate-related actio targets. By optimising the existing risk management proces to achieve effective identification and assessment of climaterisks, the Bank has taken proactive measures to managerespond to and mitigate the possible impacts of climaterisks.

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The Bank has paid great attention to climate risk identification and assessment, covering the direct operational activities as well as upstream and downstream of the value chain. To identify climate-related risks accurately and comprehensively, the Bank has analysed the pathway and timescale through which different climate risks are transmitted to traditional risks.

Analysis of Climate Risk Transmission Pathway to Traditional Risks

Risk Type	Climate Risk Transmission Pathway		Timescale	e ¹
		Short-term	Medium-term	Long-term
Credit Risk	Climate risk may lead to disruptions in the debtors' business operations or asset devaluation, affecting the borrowers' repayment ability and thereby increasing the bank's credit risk.	\	✓	✓
Market Risk	Transition risks may affect the business operations and market expectations, resulting in fluctuations or declines in the bank's asset value.		✓	✓
Operational Risk (Including Technology Risk)	Physical risks may lead to disruptions in the bank's operations and supply chain, affecting the normal conduct of business activities and resulting in losses.		✓	

Risk Type	Climate Risk Transmission Pathway		Timescale	1
		Short-term	Medium-term	Long-term
Liquidity Risk	In response to climate change events, the simultaneous increase in demand for borrowing and withdrawals may lead to capital shortage and increased liquidity risk.		~	
Legal Risk	The bank may confront the risk of violating laws and regulations by providing funds to industries not supported by national climate policies. In addition, the bank's operating costs may increase to meet compliance requirements.	/	✓	✓
Strategy Risk	The bank may suffer losses by failing to make timely strategic adjustments to comply with newly promulgated climate-related policies.		~	
Reputation Risk	In the face of changing market and consumer preferences towards environmentally friendly products, services, and business practices, passive climate actions may expose banks to reputation risk.	\	✓	✓

¹ Short-term refers to 0-3 years, medium-term refers to 4-9 years, and long-term refers to over 10 years.

Climate Risk Assessment

Scenario Analysis and Stress Testing

The impacts of climate change are characterised by long time horizons, high uncertainty, far-reaching impacts, etc. Climate-related risks may exceed the risk appetite level set by the Bank, leading to substantial financial impacts.

To enhance the resilience of development strategies under different climate change scenarios, the Bank incorporates climate-related risks into stress testing scenarios. Future physical risks, transition risks, and climate-related opportunities are identified and analysed for their impacts. By conducting stress testing, the potential financial impacts of climate-related risks is assessed.

The Bank has conducted stress testing for various physical and transition risks, referring to both the Intergovernmental Panel on Climate Change (hereinafter referred to as the IPCC)'s Representative Concentration Pathway (hereinafter referred to as the RCP) 8.5 and the Delayed Transition Scenario from the Network of Central Banks and Supervisors for Greening the Financial System (hereinafter referred to as the "NGFS").

IPCC RCP 8.5:

A scenario of high greenhouse gas (hereinafter referred to as the "GHG") emissions, assuming that GHG emissions continue to rise at current rates without climate change policy interventions².

NGFS Delayed Transition Scenario:

It is assumed that new climate-related policies will not be introduced until 2030 in various countries and regions worldwide, and the policy directions and action plans adopted vary among different countries and regions. Annual global GHG emissions will be also reduced from 2030 onwards³.

The climate-related risks identified and assessed by the Bank include two main categories: physical risks and transition risks.

Physical Risk

The ECL of loans were affected through exerting pressure on the forecast for climate scenario of Hong Kong in mid-twenty-first century, which was transmitted to the collateral value of properties held by the Bank and increased the Loss Given Default (hereinafter referred to as "LGD") of property mortgage loans. It was found that the majority of properties held by the Bank as collaterals are located in areas less influenced by tropical cyclones by 2050 and are less likely to be exposed to the risks of climate change issues. Taken as a whole, the impacts of climate change-related physical risks on the ECL of property mortgage loans are immaterial.

Transition Risk

To embed transition risks into stress test scenarios, pressure was exerted on the loan customers and bond issuers' financial abilities and credit ratings were conducted to estimate the impact on the ECL of loans and market value of bond investments for the twelve high carbon emission industries (energy, thermal power, power transmission, metal and mining, cement, steel, glass, paper, construction, real estate development, aviation and shipping). The test result concluded that the impact of transition risks on ECL is immaterial.

Credit Granting Assessment

Currently, the Bank has incorporated assessment requirements for customer climate risks and ESG risks into the "Implementation Rules for Credit Granting" with ESG risk assessment being one of the necessary conditions for credit applications. The Bank conducts an annual review of internal credit-related policies, including the "Implementation Rules for Credit Granting" and the "Implementation Rules for Credit and Risk Policy Outline". Additionally, in the event of any climate-related risk incidents, the Bank promptly initiates risk investigations and dynamically adjusts management strategies and customer admission requirements for clients with higher risk exposures.

Principal assessment guidelines/requirements for climate risks*:

Additional assessment requirements for credit-related businesses in industries greatly affected by climate change.

The impacts of climate change or extreme weather events on the supply of production resources, production and potential financial losses should be incorporated into the feasibility analysis (if applicable), scenario analysis and stress testing of relevant projects. The sustainable risk assessment of debtors or credit-granting projects should be improved.

Pay attention to and assess the potential transition risks posed to debtors due to the low-carbon economy transition.

Evaluate the market development prospect and market structure changes. High-carbon emission industries (e.g. fossil fuel-related industries) will be restricted from operating or confronting a decline in resource value. Meanwhile, in response to consumer expectations and industry technology transformation trends, traditional products' market acceptance and competitiveness are decreasing. The risk of phasing out by market is also increasing. The strategic plan and implementation pathways developed by the clients in high-carbon emission industries for achieving "carbon peak" and "carbon neutrality" should be understood. Moreover, their technical and financial capability for technology transformation should be assessed comprehensively.

*Mainly for medium or large-scale enterprise credit customers or other non-personal credit customers with credit lines exceeding the equivalent of HKD200 million.

²Climate change scenario settings are taken from the IPCC AR5 Synthesis Report: Climate Change 2014.

³Delayed transition scenario settings are taken from the NGFS Scenarios Portal.

Climate Risk Management and Monitoring

Climate Risk Management Framework

In the existing risk management framework, the Bank has emphasised the climate risk factors and continuously enhanced the three lines of defence for risk management. The Bank has also assigned climate risk management responsibilities to all relevant departments and promoted the dissemination of risk culture.

Three Lines of Defence for Climate Risk Management

The First Line of Defence: Business Units

- · Conduct various business activities as the frontline department directly;
- Take the responsibilities of identifying, assessing, managing and reporting business-related risk exposures:
- Adjust the current credit approval procedure, integrate the consideration of climate risk factors, and control the potential climate risks caused by business activities.

The Second Line of Defence: Risk

Function

- Formulate, review and revise internal climate-related risk policies and procedures as the risk management-specific department;
- Assess, monitor and report independently on the risks for each business line's activities;
- Conduct regular climate risk assessments of the various assets held by the Bank.

The Third Line of Defence: Internal Audit Department

- Conduct independent audits of the management effectiveness for the business units and risk management department as the last line of defence for risk management;
- Meanwhile, regularly assess the overall performance of the Bank's climate-related risk management;
- Monitor and enhance the construction and improvement of risk control capabilities.

To coordinate with the climate risk management strategies, the Bank has revised the "Articles of Association of Risk Management Committee" and the "Articles of Association of Comprehensive Risk Management and Internal Control Committee" to incorporate the climate risk into the responsibility scope of the "RMC" and "CRMICC". Regular meetings will be held on issues such as climate risk-related management policies, risk status assessment, risk index tracking, etc., to ensure timely monitoring and management of climate risk and make proportionate strategic adjustments to the climate risk situation to mitigate the impacts of climate risks.

The Bank has incorporated the "Green Asset Proportion" as a climate risk indicator in the risk appetite statement to identify and quantify the climate-related risks of business activities effectively and systematically. To steadily increase the green credit ratio, this indicator is monitored quarterly and reviewed at least once a year to align with the Bank's development pace and macroeconomic situation.

Climate Risk Management Tool

Referring to the policies and standard documents related to high-climate risk industry classification and green finance taxonomy globally, nationally and regionally, the Bank has prioritised the materiality of climate risks for all relevant industries based on the management-level professional opinions to enhance the climate risk management effectiveness.

To manage and respond to climate-related risks, the Bank has integrated environmental performance into customers' regular risk rating standards, which will significantly affect their rating results.

Climate Risk Management Enhancement

The Bank has developed the methodology for quantifying the financed emissions and established a data collection and management system. Relying on this, the Bank has collected the carbon emission activity data from customers in high-carbon emission industries and conducted the calculation and disclosure for financed emissions. During the reporting period, the Bank selected clients in key industries for interviews to understand their current climate-related risks and opportunities, and collected relevant carbon emission data to gradually enhance the accuracy of its analysis results. In the future, the Bank will further expand the collection scope of carbon emission data, redouble the effort in performance analysis and monitoring for financed carbon emission, support and promote the development of green finance and transition finance.

The Bank will remain attentive on the development of global, national and regional climate risk, gradually enhance the process of climate risk identification, assessment and management, and improve the risk information and data collection system. Considering the long-term nature, uncertainty and complexity of climate risk, the Bank will consistently enrich the types of climate risk indicator and strengthen the capability and adaptability in climate risk management.

04 Metrics and Targets

In 2023, in response to the Head Office's arrangements for climate and environmental risk management and to fulfit obligations under the "Supervisory Policy Manual" Module GS-1 "Climate Risk Management" by HKMA, the Bank continues to implement climate risk-related tasks. The Bank has strengthened communication with key industry clients and made progress in areas such as enhancing carbon emission disclosure at operational and investment levels optimising internal compensation policies, and promoting the development of green finance at the business level.

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Climate and Environmental Risk Management Key Initiatives



Calculate the corresponding financed emissions for clients in industries with significant carbon emissions in the portfolio and conduct interviews with key clients in order to improve the accuracy of data and understand the climate-related risks and opportunities faced by clients

Head Office's Climate Change Opportunities Outlook

China, according to research, would need over RMB100 trillion to achieve its dual carbon goal, thus creating massive opportunities for commercial banks in green finance and transition finance.

Innovative carbon finance products present new opportunities for financial institutions. Over the past few years, there has been significant progress in both traditional financial products designed to support reducing carbon emissions and financial products with carbon emission permits as the underlying assets.

In order to comprehensively analyse and identify the risks and opportunities arising from climate change, the Bank has established a qualitative assessment process from 2022 onwards and quantified the financed emissions in loan and bond portfolios with reference to "The Global GHG Accounting and Reporting Standard for the Financial Industry" published by Partnership for Carbon Accounting Financials (PCAF). High-emission sectors have been identified through internal risk analysis and prioritised for understanding the current carbon performance of its portfolios.

Operational GHG Emissions

In strict compliance with the relevant national laws and regulations, the Bank implements the concept of green development and continues to provide green financial services to its customers. In strive for being an energy-saving and carbon-reducing practitioner, the Bank actively introduces green office practices and raise staff's awareness of environmental protection, reducing energy consumption and carbon emissions in its operation.

In 2023, the Bank quantified its operational carbon emissions in accordance with the "Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings (Commercial, Residential or Institutional Purposes) in Hong Kong (2010 Edition)" issued by the Hong Kong Electrical and Mechanical Services Department and the Environmental Protection Department.

The Bank's GHG emissions at the operational level are reported together with Bank of Communications Co., Ltd. Hong Kong Branch and BCOM Finance (Hong Kong) Limited. In 2023, the greenhouse gas emissions intensity at the operational level of the Bank was 3.13 tons of carbon dioxide equivalent (CO_2e) per person.

GHG emissions at the operational level

5,703.58 tCO₂e

Scope 1 direct GHG emissions

164.43 tco₂e

Scope 2 indirect GHG emissions from energyrelated activities

4,968.26 tCO₂e

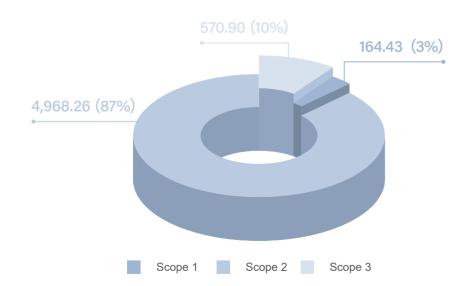
Scope 3 indirect GHG emissions from upstream and downstream activities of its value chain

570.90 tCO₂e

Operational GHG Emissions of the Bank

GHG Emissions (Operational)	2023	Unit
Scope 1	164.43	
Fugitive emissions-Fire suppression system	6.75	tCO₂e
Stationary combustion-Towngas	66.19	100 ₂ e
Mobile combustion-Owned vehicles	91.49	
Scope 2	4,968.26	
Purchased electricity	4,954.02	tCO ₂ e
Purchased gas	14.24	
Scope 3	570.90	
Water processing-Freshwater and wastewater treatment	6.00	
Waste management-Wastepaper	467.27	tCO ₂ e
Capital goods-Paper and printers	71.11	
Business travel-Air travel	26.52	
Total GHG emissions	5,703.58	tCO ₂ e
GHG emissions intensity ⁶	3.13	tCO ₂ e/person

Operational GHG Emissions of the Bank in 2023 (tCO₂e)



⁴As defined in the GHG Protocol, Scope 1 includes direct emissions from gas combustion, vehicle fuel combustion and leakage from fire suppression systems; Scope 2 includes indirect emissions from the production of purchased electricity and gas; Scope 3 includes indirect emissions from water and sewage treatment, landfilling of wastepaper, purchased capital goods (paper and printers) and business travel (air travel).

To align with the Head Office's key initiatives for climate and environmental risk management, the Bank has set its own operational level emission targets, taking into account its own business situation.

GHG Emissions Targets of the Bank (Operational)

missions Targets (Operational)	2035	2050
Absolute GHG emissions at operational level	Reduce GHG emissions at operational level by half in 2035 (2022 as baseline)	Achieve net-zero GHG emissions at operational level in 2050

Apart from its own GHG emissions at the operational level, the Bank also adopts digital technology tools to enrich its online financial services channels and collects relevant data to establish other environmental impact indicators for assessing the environmental benefits.

Other Enviro	vironmental Impact Indicators of the Bank	
Other Environmental Impact Indicators	2023	Unit
Electricity consumption	8,813.27	MWh
Water consumption	9,268.00	m^3
Gas consumption	1,244,831.00	MJ
Paper usage (A4)	93.33	t
Paper usage (A3)	4.02	t

In the future, the Bank will continue to strengthen the collection and management of relevant data, promote green office and green procurement, and reduce resource consumption and GHG emissions while providing green, low-carbon, high quality and convenient financial services to its clients.

⁵ The scope of the operational GHG emissions includes the office premises of Bank of Communications Co., Ltd. Hong Kong Branch, BCOM Finance (Hong Kong) Limited, and Bank of Communications (Hong Kong) Limited.

⁶ The carbon intensity is calculated based on the number of employees of Bank of Communications Co., Ltd. Hong Kong Branch, BCOM Finance (Hong Kong) Limited, and Bank of Communications (Hong Kong) Limited, which is 1,825 for the year 2023 (as at 31 December 2023).

Financed Emissions

Based on the results of internal risk assessment, the Bank quantified and analysed the emission data for its loan and bond portfolios in 2023. Quantification was conducted based on information such as the clients' industry classification, average industry emission factors, etc. Taking the proportion of outstanding balance of loans to customers' debts and equities as the attributional factor, the Bank has evaluated the financed emissions associated with the investments from the Bank.

In 2023, the quantification of the Bank's financed emissions covers assets in 15 sectors from the loan and bond portfolios. The in-scope assets amount to HKD229.805 billion, with a total carbon emissions of approximately 0.5844 MtCO $_2$ e. The average asset carbon intensity of loans and bonds is approximately 2.54 tCO $_2$ e per million Hong Kong dollars.



The in-scope assets amount to HKD

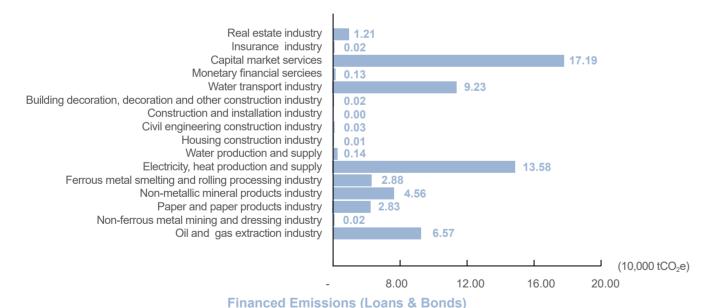
229.805 billion



with a total carbon emissions of approximately

0.5844 MtCO₂6

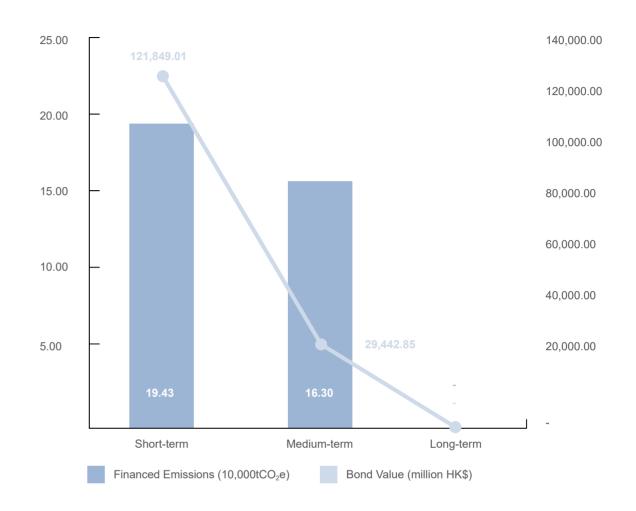
Financ	Financed Emissions (Loans & Bonds) of the Bank in 2023 by Category					
Category	Financed Emissions (10,000 tCO₂e)	Percentage (%)	Emissions Intensity (tCO₂e/million HKD)			
Loan	22.71	38.86%	2.89			
Bond	35.73	61.14%	2.36			
Total	58.44	100.00%	2.54			



⁷ In this year, the Bank has made various adjustments to improve the accuracy of the data for the quantification of its financed emissions:

of the Bank in 2023 by Industry Classification (GB/T 4754-2017)⁷





Outstanding Balance and Financed Emissions (Bonds) of the Bank in 2023 by Tenor

In this year, the Bank conducted research interviews with key industry clients to gather in-depth understanding of their needs and current status regarding climate change and green transition. This provided an opportunity to optimise the data quality and credibility of carbon emission accounting at the investment and financing levels of the Bank. Moving forward, the Bank will continue to provide relevant training for frontline units such as client managers, with a primary focus on key industries with significant emissions. The Bank will liaise closely with clients and suppliers to promote green transition among industry clients while enhancing risk management for its own investment and financing portfolios and supply chains. By doing so, the Bank aims to seize market opportunities in the green and low-carbon race together. Currently, the Bank has set targets for carbon emissions at the investment and financing levels:

Emissions Targets (Financed Emissions)	
Emissions Targets (Financed Emissions)	2060
Absolute financed emissions	Achieve net-zero financed emissions in 2060

^{1.} The industry classification of clients has been adjusted according to the actual nature of their business. Clients which involve in multiple business areas are categorised according to the business that accounts for the largest share of their revenue. The "Electricity, heat production and supply industry" only includes clients who use conventional fossil fuels in their operations, and does not include nuclear, hydroelectric, waste-to-energy or other renewable energy sources.

^{2.}Adjustments were made to the sectoral average emission factors by using the Gross Domestic Product (GDP) and the total value of assets of the sector to improve accuracy.

^{3.}Based on the results of interviews with key clients and information publicly disclosed by clients, the calculation method of financed emissions for key clients was improved.

As a result, the financed emissions disclosed in the current year differed to a certain extent from the results of the previous year.

Incorporate Climate Risk into Remuneration Policies

The Bank's "Remuneration Policy" has stated its consistency with the climate risk management strategy. In the annual performance assessment of departments, climate risk considerations have been incorporated, including:

"e-Diversion Rate" and "e-Coverage"

- "e-Diversion Rate" and "e-Coverage Rate" are included as performance assessment criteria of the related departments to encourage better climate risk management.
- Through the application of digital technology, operational efficiency can be enhanced. Resources consumption and carbon emission can be reduced.

"Strategic Projects"

 Points would be awarded for related departments completing projects in green finance, technology-based finance, digital transformation business, green loans, sustainability-linked loans, etc. This encourages departments to support their clients in green and low-carbon transition to actively mitigate climate change.

"Digital Transition"

· Points would be awarded or deducted for frontline/middle/back office departments according to their completion of digital transformation projects in accordance with their functions, with a view to optimising business processes, reducing operational costs and significantly improving customer experience.

"Support for Climate Risk Management Strategies and ESG Projects"

• The Bank has added a new assessment criteria. Points would be awarded for departments according to their implementation of initiatives in support of climate risk management strategies and ESG principles during the assessment period (such as obtaining relevant awards).

Continue to Push Forward Green Finance

The Bank consistently adheres to the implementation of new development concepts, engaging in various green financial services. The Bank has successively launched multiple green financial services such as green time deposits, green mortgages and brokerage of Hong Kong government green bonds, actively promoting green and sustainable development. The Bank is progressively improving its green credit quidelines, supporting the comprehensive green transition of the national economy and society, and helping Hong Kong establish a "Green Financial Hub" in Guangdong-Hong Kong-Macau Greater Bay Area.

➤ Green Loans



As of the end of the reporting period, the outstanding balance of the Bank's green loans and sustainability-linked loans amounted to the equivalent of HKD12.5 billion, accounting for approximately 6.3% of the total loan balance.



The outstanding balance of the Bank's green loans and sustainability-linked loans amounted to the equivalent of



Accounting for approximately

of the total loan balance

> Green Bonds

Key Achievements:

During the reporting period, the Bank's investment balance in green, blue, and sustainable-themed bonds reached HKD11 billion, supporting sectors including clean energy, green infrastructure upgrades, energy conservation, environmental protection, and clean production.



Green, blue and sustainable-themed bonds reached HKD

➤ Green Retail Financial Products and Services

Key Achievements:

ESG funds integrate environmental protection, social responsibility, and corporate governance into the investment decision-making process along with financial indicators. The resilience and ability of ESG funds to help improve environmental issues have attracted increasing attention from investors. With the rising demand for ESG investments in the market, the Bank currently sells 37 ESG funds managed by renowned asset management companies, offering a total of 115 investment fund options to its clients.

In September 2023, the Bank supported and cooperated with the HKSAR Government's "Retail Green Bonds", actively providing subscription services to assist clients in successfully subscribing to HKD280 million in retail green bonds.



offering a total of investment fund options to its clients



actively providing subscription services to assist clients in successfully subscribing to in retail green bonds

115

280

million



Case Study / Highlights: Provision of "Green Mortgage Special Interest Rate Program" to Facilitate Green Transition of Hong Kong's Construction Industry

In late April 2022, the bank launched the "Green Mortgage Special Interest Rate Program" targeting properties certified with Platinum or Gold ratings by the Hong Kong Green Building Council for their "Green Building Environmental Assessment", encouraging customers to purchase properties with excellent sustainable performance. Certified properties typically excel in areas such as energy use, health and comfort, water usage, and emphasise integrated design and construction management during the construction process, sustainable land development, materials usage, and waste management.

As at April 2024, there are 94 eligible green mortgage properties in collaboration, with over a hundred applications approved since the program's inception. In 2023, the "Green Mortgage" program has received 81 applications, totalling HKD585.39 million, of which 42 applications have been disbursed, totalling HKD296.44 million.

Eligible green mortgage properties in collaboration

94

"Green Mortgage" program applications received

Totalling HKD

81

585.39 million

Application disbursed

Totalling HKD

42

296.44 million

Appendix

TCFD Index

TCFD Recommendations	Disclosure
Governance	
a) Describe the board's oversight of climate-related risks and opportunities.	Chapter 1.1; Chapter 1.3
b) Describe management's role in assessing and managing climate-related risks and opportunities.	Chapter 1.2
Strategy	
a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.	Chapter 2.1; Chapter 3.1
b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.	Chapter 2.2-2.3
c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	Chapter 3.2
Risk Management	
a) Describe the organisation's processes for identifying and assessing climate-related risks.	Chapter 3.1-3.2
b) Describe the organisation's processes for managing climate-related risks.	Chapter 3.3
c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's comprehensive risk management.	Chapter 3.3
Metrics & Targets	
a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	Chapter 3.4
b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.	Chapter 3.4-3.5
c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	Chapter 2.1; Chapter 3.4 3.7



