

## **Disclosure related to Climate Risk Management Policy**

Climate Risk arises from the potential adverse impact of changes in the environment on economic activity and human well-being. As a responsible lender in Hong Kong's financial space, we believe that finance and investment have a key role to play in managing climatic change and protecting the environment, especially in financing the transition.

As a sign of our commitment to the people, country, and the environment and to manage Climate risk on our portfolio, we have placed a Climate Risk Management Policy, which deals with both physical and transition risks. To properly manage our business on a sustainable basis. Through the policy, we aim

- a. To enhance the bank's resilience to environmental risk, and strengthen the Bank's role in supporting the transition to an environmentally sustainable economy.
- b. To augment green finance wherever possible for sustainable growth of the economy.
- c. To comply with various Circulars, Notices, and Guidelines issued by the Hong Kong Monetary Authority (HKMA)/Head Office (HO) from time to time.
- d. To contribute towards tackling climate change by adopting controlled measures under financing activity.
- e. To engage regularly with our stakeholders to promote mutual understanding of environmental issues across sectors and geographies.

Our policy is in a state of ongoing enhancement in line with the regulatory guidelines.

## **Incorporation of climate risk in lending/Investing**

### **Lending/Investing:**

The branch considers various environmental factors like climate, pollution, biodiversity, water, deforestation, wildlife, GHG emission, etc. affected by the activity at the time of processing the new proposal and reviewing the existing credit facility by the credit department. Adequate consideration should be given to these areas during the credit risk assessment process and be documented properly on a periodic basis. The business/activity of the borrowers under various industries is categorised into High, medium, and low risk as below.

#### **a) High-risk industries:**

Projects with potentially significant adverse environmental impacts that are diverse, irreversible, or unprecedented like oil and gas projects, Large infrastructure development projects, Forestry operations, Mining(Large scale), Major irrigation

projects, Foundry operations manufacture, storage, or transport of hazardous chemicals(large scale), etc. are categorised under high risk.

**b) Medium-risk industries:**

Projects with potentially limited adverse environmental impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures like Breweries, Dairy operations, Food Processing, General manufacturing plants, Mining(small scale), metal plating, Pulp and paper mills, Textile plants, Hotel/ Tourism development, etc. are categorised under medium risk.

**c) Low-risk industries:**

Projects with minimal or no adverse environmental impact like Software development, Service industries, Technical assistance, Retail banking, etc. are categorised under low risk.

**Engaging with our Stakeholders**

We understand the need to engage regularly with our stakeholders to promote mutual understanding of climate-related issues across sectors and geographies. Based on the identified environmental risk, we engage with specific clients with the aim of sharing their medium and long-term perspectives on risks accompanying environmental issues and climate change. If the client's remedial measures are inadequate, we may re-assess the customer relationship including declining future transactions and exiting the relationship.

**Risk Management Committee (RMC)**

We have formulated an RMC committee to set the tone and reinforce the culture within the bank regarding sustainability, promote open discussion, and integrate Climate Risk management into the bank's processes and goals. It shall assist in the setting of the bank's general strategy with respect to Climate Risk matters and considers and recommend policies, practices, and disclosures that conform to such strategy. The committee shall be analyzing our portfolio at periodic intervals with special attention to climatic risk.

**Disclosure**

Bank will develop an appropriate approach to disclose climate-related information to enhance transparency. We shall be publishing disclosures on an annual basis, in line with recommendations by the regulator.

## **Way Forward**

We are committed to enhancing our strategy towards Climate Risk resilience by engaging with stakeholders and through timely review of systems and practices. We will endeavor to reduce our exposure, which is non-sustainable and cause a high risk of environmental issues over a period of time. We shall be reviewing our policy on a regular basis incorporating changes in regulatory instructions, internal or external, and aiming for sustainable finance and investment.