

Bank of China International Limited

中銀國際有限公司

2024 Climate-related Disclosures

2024年氣候相關披露

雄心與夢想

Ambitions & Dreams
of "Going Global"



This report provides an overview of the climate risks and opportunities posed by climate change faced by Bank of China International Limited (“BOCIL”). It covers each of the four thematic areas, namely governance, strategy, risk management, and metrics and targets.

BOCIL is a limited liability company incorporated in Hong Kong. The principal activities of BOCIL are provision of banking, financial and other related services. BOCIL’s ultimate holding company is Bank of China Limited (“BOC Group”). As part of the BOC Group, BOCIL operates within the context of BOC Group’s framework and adheres to the climate related objective, strategies and targets set by the BOC Group. For details of BOC Group’s climate related objective, strategies and targets, please refer to the BOC Group’s Social Responsibility Report.

The Report has been prepared with reference to the following disclosure frameworks and requirements:

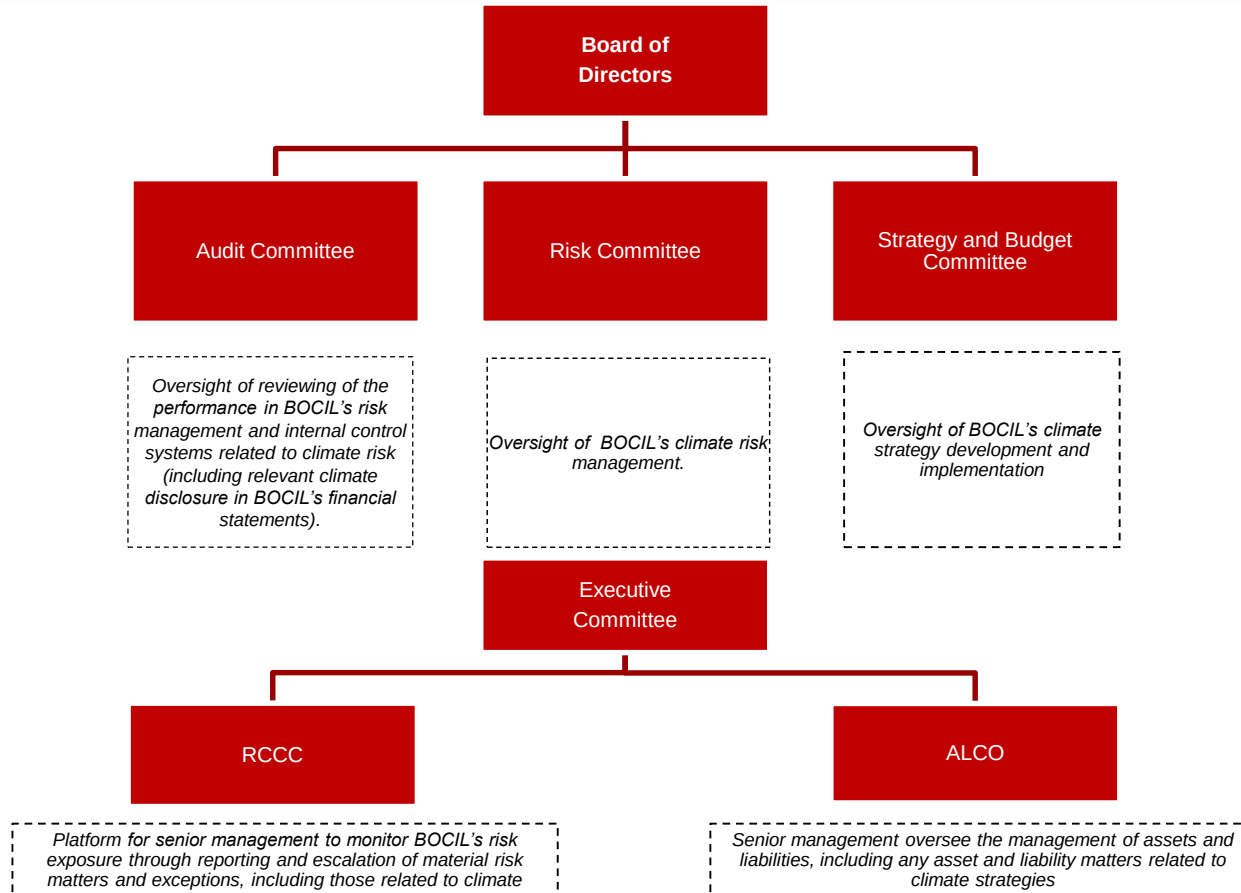
- Recommendations of the Task Force on Climate-related Financial Disclosures (“TCFD Recommendations”)
- Disclosure requirements of the Hong Kong Monetary Authority (“HKMA”)’s Supervisory Policy Manual (“SPM”) module GS-1 “Climate Risk Management”

Unless otherwise stated, the information and data disclosed in this Report covers the period from 1 July 2023 to 30 June 2024.

BOCIL has established the governance structures on climate-related matters into the organization structure including the Board, senior management, execution departments and management-level committees. BOCIL adopts the existing governance framework to oversee climate risk management. The Board of Directors (“Board”) is responsible for oversight of BOCIL’s approach to manage inherent risks, including climate risk which is embedded therein. To facilitate the Board to perform its oversight, the Board has delegated Risk Committee (“RC”), Strategy and Budget Committee (“SBC”) and Audit Committee (“AC”) to management the climate risk.

The Board has delegated its power to RC in risk management aspects of BOCIL. RC is responsible to provide independent oversight and guidance to the Board on BOCIL’s risk management matters, including but not limited to reviewing and providing recommendation of BOCIL’s risk appetite, risk management strategies, risk policies and guidelines and the adequacy of BOCIL’s risk management framework. The Board has delegated its power to SBC to oversee the objectives, overall strategy of BOCIL. SBC is responsible to assess and recommend to the Board the strategic business plans and oversee the implementation status of the business plans, including those related to climate risk. The Board has delegated its power to AC to review the performance of risk management and internal control systems related to climate risk. AC is responsible to review and recommend to the Board on BOCIL’s climate risk disclosures as required by local financial and regulatory requirements. Meetings of RC, SBC and AC are organized on a quarterly basis.

The Board also delegates its powers to the senior management in managing all BOCIL’s affairs. BOCIL’s senior management is responsible for the proper functioning of the risk management framework in which climate risk is embedded. Executive Committee (“EC”) is the platform for escalation of material matters and exceptions. The Risk Control and Credit Committee (“RCCC”) is a sub-committee of EC which is the platform for senior management to monitor BOCIL’s risk exposure through reporting and escalation of material risk matters and exceptions, including those related to climate. Any emerging risks identified, including climate risk, are also required to be reported to RCCC. Meetings of RCCC are organized on a monthly basis. The Asset and Liability Committee (“ALCO”) is also a sub-committee of EC which oversees the management of assets and liabilities, including any asset and liability matters related to climate strategies.



BOC Group has set out the basis principles, strategic goals, and incentives for the development of green finance in the *14th Five-Year Plan for Green Finance of Bank of China Limited*. Being a subsidiary of BOC Group, BOCIL has taken the climate-related factors into consideration for strategic planning in response to the carbon goal of China Government and HKSAR, and the “Carbon Peaking and Carbon Neutrality Goal” set out by the BOC Group.

As published in BOC Group’s 2023 Bank of China Corporate Social Responsibility Report, BOC Group has set out the following strategic goals for green finance.

- Implement the green and low-carbon concept and strive to become the bank of choice for green financial services;
- Achieve leapfrog development of green finance business;
- Manage environmental and social risks properly;
- Exploring and progressively reducing carbon footprints of group operations and asset portfolios.



BOCIL continues to identify risks and opportunity including those relate to climate, which is part of the steps adopted by BOCIL in formulating business strategy. Any such strategy, including those relate to climate, is subsequently assessed for how the underlying risk can be managed, reduced or mitigated to align with BOCIL's existing risk management framework which is ultimately overseen by our Board. BOCIL's existing risk management framework enables risk management processes through which BOCIL identifies, assesses, monitors and manages the risks assumed in conducting business activities. Any climate related business strategy shall adhere with the climate related risk management approach as stated under BOCIL's risk appetite. BOCIL sets out the following climate-related strategies by reference to the 2023 Bank of China Corporate Social Responsibility Report of BOC Group.

Implementation of green and low-carbon concept

BOCIL will, where applicable and commensurate with the scale and complexity of BOCIL's operations, integrate green and low-carbon concepts into management and operating activities including organizational framework, corporate governance, policies and system, business development, products and services, risk management, corporate culture, information disclosure, and daily operation.

BOCIL has established the governance structure on climate-related matters into the organization structure including the Board, senior management (i.e. EC), execution departments and management-level committees (i.e. ALCO, RCCC). The Board and its delegated sub-committees are responsible for reviewing and approving the climate-related policies, targets and disclosures set by the senior management. EC being the senior management team is responsible for implementation of strategic plan and risk appetite framework approved by the Board. EC and its sub-committees supervise the overall daily operation, implement and monitor the implementation of strategic plan approved by the Board.

BOCIL pays attention to and monitors the energy and other resources consumed in its own operations to move toward the carbon goal of China¹ and HKSAR Government². We engage with the aim to improve corporate behavior to support the national and group target.

- Green office

- Reduce paper usage and conference travel emissions by making use of teleconferencing and videoconferencing systems.
- Energy efficient saving measure to reduce energy consumption level.
- BOCIL is developing a low-carbon action plan along with corresponding emission reduction pathways and measures.

1. President Xi Jinping made it clear in September 2020 that China would endeavour to achieve the peak of carbon emissions before 2030 and carbon neutrality before 2060.

2. The Chief Executive of HKSAR announced in the 2020 Policy Address that Hong Kong would strive to achieve carbon neutrality before 2050.

Implementation of green and low-carbon concept (continued)

BOCIL follows the group and regulatory requirements for timely and accurate disclosure.

- ✓ BOCIL has completed the first climate related disclosures. BOCIL will continue follow the climate risk management and disclosures under the TCFD framework and HKMA GS-1 requirements.
- ✓ BOCIL is assessing the disclosures standards developed by the International Sustainability Standards Board (ISSB) and developing the implementation plan, and will continuously enhance the disclosures under the TCFD framework.

Achieve leapfrog development of green finance business

Currently BOCIL does not offer any investment products (including funds and bonds) to customer. Investment products are offered to clients are provided by other BOCI Group affiliate companies. BOCIL only provides banking products including loans and deposits. In terms of loan products, BOCIL will consider whether incorporation of green criteria when approving loan facilities to customers is feasible. In terms of investment products, BOCIL will explore with other BOCI Group affiliate companies the possibility of expanding customer product offering to green funds and bond products to align with the green target of BOC Group. The study will also cover the possibility of reviewing the product due diligence review guideline to include elements related to green or sustainable developments of the products, so as to assist in the selection of products that meet the green development strategy.

BOCIL will explore to invest in green bonds issued by Hong Kong Government under the Government Green Bond Programme to support the green and sustainable development of Hong Kong. The green bond proceeds will be used to fund projects that will improve the environment and facilitate the transition to a low carbon economy.

Managing environmental and social risks properly

BOCIL identifies and analyses the transmission paths and impacts of climate risk to its key transitional risks from the perspectives of physical risk and transition risk, taking into account the definition and classification of climate risk by the TCFD and BOC Group. Please refer to section 3 Risk Management for details.

Develop carbon reduction objectives and action plans for bank operations and asset portfolios

BOCIL follows the BOC Group policy to continuously improve the green finance policy system. BOCIL has established the *Climate Risk Management Policy* to incorporate the related risk elements from the perspective of risk management under the private banking context of BOCIL. The *Climate Risk Management Policy* is required to be reviewed at least on an annual basis.

As approved in BOCIL's risk appetite, BOCIL exerts rigorous control over credit extension to industries with high energy consumption, high pollution and overcapacity and gradually adjusts and optimizes the credit structure, and constantly improves the comprehensive benefit of green finance. Relevant policy and guidelines are supplemented with risk management principles to support business units regarding selection and review processes of new business initiatives and products in general, including consideration of various risk types and the climate risk factors embedded therein. Given that this risk management strategy relates to BOCIL's lending decisions to customers and is bound by BOCIL's risk appetite regardless of the external business environment such as temperature, this risk management strategy shall still apply under a 2°C or lower climate scenario. As of the 30 June 2024, BOCIL primarily provides private banking services to high net-worth individual clients, no credit facilities was granted to corporate clients engaging in climate sensitive industries.

BOCIL's climate strategy will be reviewed on a continuous basis to keep abreast with the changing landscape in shaping a climate friendly environment. Resilience of such new climate strategy, if any, will be reviewed with climate-related scenarios where applicable.

Climate Risk Management System

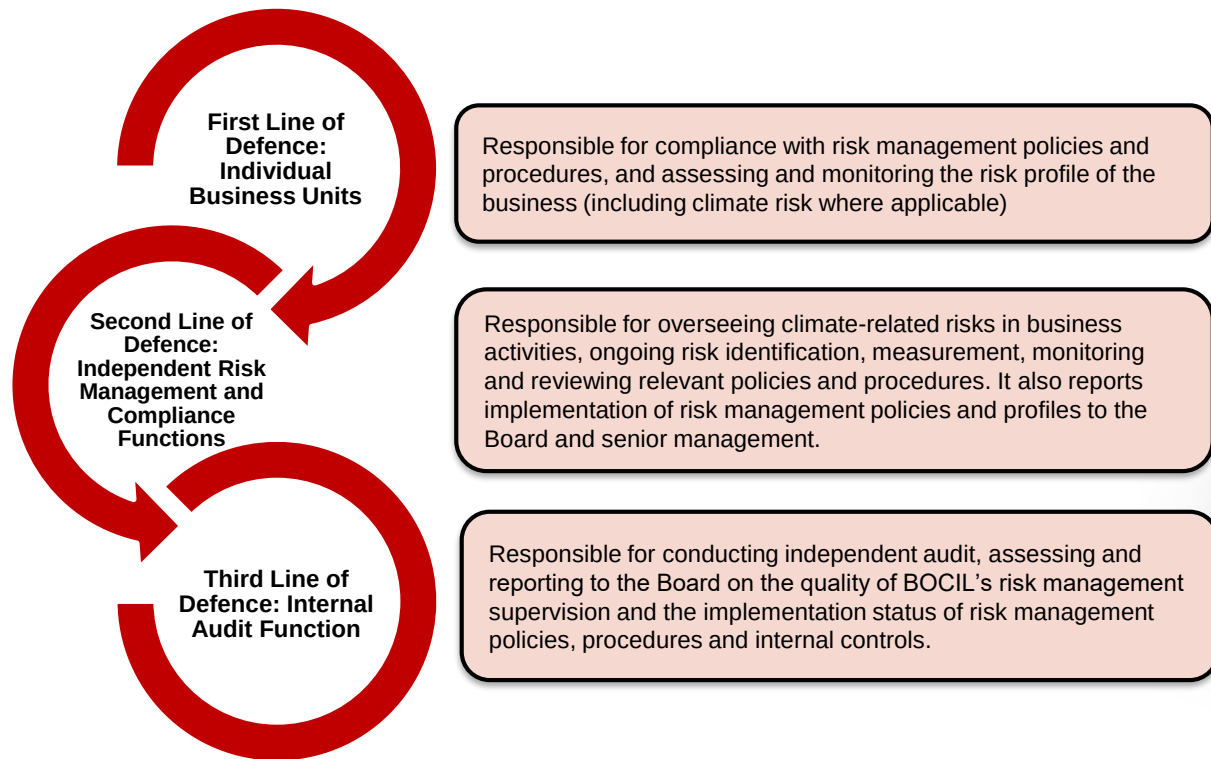
BOCIL integrates climate risk management into the overall risk management system and have integrated elements of climate risk management principles into various key risk management policies. Taking into account the nature of (i) private banking services and products currently provided by BOCIL and (ii) key clienteles of BOCIL (i.e. high net-worth individual customers), BOCIL formulates its climate risk management principles commensurate with its operational scale and complexity.

BOCIL has establish the Climate Risk Management Policy, which aims to provide principles of climate risk management is framework implemented by BOCIL. The *Climate Risk Management Policy* is required to review at least on an annual basis. In light of the evolving importance of climate related matters both in Hong Kong and around the world, BOCIL has enriched the climate risk management framework by further incorporating quantitative risk appetite indicator specific to climate risk. Such quantitative risk appetite indicator is subject to a minimum of monthly review.



3. Risk Management

BOCIL applies the risk management framework on climate risk which is governed in accordance with the bank's existing "three lines of defence" model.



Identification of Climate Risks

Climate risks are embedded in the 8 traditional risk types and are divided into two categories based on the relevant regulatory requirements in Hong Kong namely transition risks and physical risks:

Transition Risks

Factors arising from mitigating and adapting to climate change, such as policy adjustments, technology changes, and changes in consumer preferences, leading to increase in greenhouse gas emissions pricing, as well as changes in market demand and structure, resulting in higher production costs, lower profits, and lower asset valuations for enterprises, thereby increasing the risk of default.

Physical Risks

Factors arising from climate change, such as water scarcity, natural capital depletion, natural disasters, air, water, and soil pollution, leading to direct negative impact on the real economy, such as lower production capacity, higher costs, early retirement of fixed assets, and damage to buildings. Physical risks can arise from short-term or acute weather events (such as typhoons, floods, droughts, heatwaves), or from long-term or chronic changes in climate patterns (such as persistent high temperatures that may cause sea level rise or prolonged heat waves).

Taking into consideration of the nature of private banking services and the nature of BOCIL's clientele, BOCIL refers to the TCFD recommendations, as well as the assessment performed by BOC, to identify key transmission channels of climate risks on the 8 traditional risk types. In addition, BOCIL also assesses the impact of climate risk on BOCIL's exposure to such traditional risk types and its corresponding time horizon of impact.

3. Risk Management

Risk Type	Potential Impact	Time Horizon
Credit Risk	Under the transition towards a low-carbon economy, there could be a decrease in debt repayment ability and an increase in the risk of default for some high net-worth individual customers because the operation and financial conditions of their source of fund may be affected by climate-related factors. Natural disasters such as typhoons and floods may cause loss or damage to real estate or fixed assets pledged to us, resulting in a reduction in the value of our pledged assets. The operation and financial conditions of product issuers may also be affected by climate-related factors, thus reducing their profitability and viability, ultimately resulting in a reduction in the value of our pledged assets.	Mid to long term
Market Risk	Extreme weather events can damage infrastructure in Hong Kong, thus weakening economic growth and leading to a decline in sovereign credit rating, which in turn affects the value of assets held on banks' balance sheet. The carbon neutral target may trigger a shift in investors' preference, leading to increased volatility in climate-related investment.	Mid to long term
Operational Risk	Extreme weather events may cause business disruption to the operations and business continuity if such extreme weather events prolong. In responding to climate change, such events may cause losses to banks as a result of the bank unable to respond to climate changes due to inadequacy in internal procedures and systems.	Mid to long term

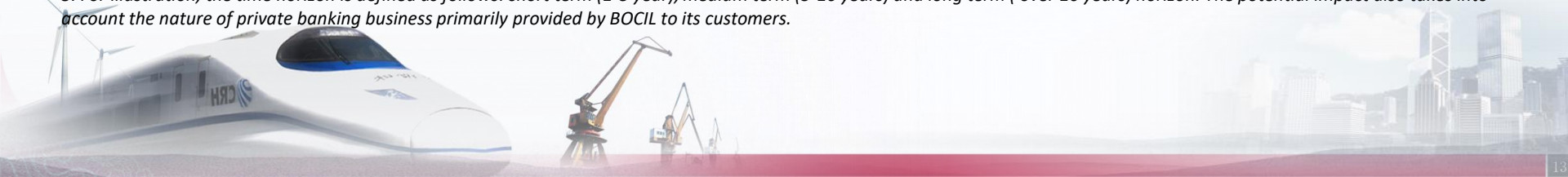
3. For illustration, the time horizon is defined as follows: short term (1-5 year), medium term (5-10 years) and long term (over 10 years) horizon. The potential impact also takes into account the nature of private banking business primarily provided by BOCIL to its customers.



3. Risk Management

Risk Type	Potential Impact	Time Horizon
Liquidity Risk	As market preferences change in response to climate-related factors (e.g., as the public and investors move towards climate or environment-friendly products, services, and business activities), there may have fewer sources of funding and the cost of funding may also increase.	Mid to long term
Legal and Compliance Risk	Climate factors may give rise to legal risks where in the case that banks become a party to litigations or disputes related to climate. Compliance risk is the risk of legal or regulatory sanctions, financial losses, or damage to the reputation as a result of banks' failure to comply with applicable laws and regulations.	Mid to long term
Interest Rate Risk	Banks have exposure to climate sensitive assets which are prone to adverse movements in interest rate.	Mid to long term
Reputation Risk	The change in market preference for climate- or environmentally-friendly products will lead to public or interest groups' increased expectation on banks to undertake more social responsibility in relation to combating climate change and the transition process.	Mid to long term
Strategic Risk	Banks may lose their competitiveness and market position if failing to respond in a timely manner to changing market conditions, not taking full account of market preferences for climate or environment-friendly solutions or banking services	Mid to long term

3. For illustration, the time horizon is defined as follows: short term (1-5 year), medium term (5-10 years) and long term (over 10 years) horizon. The potential impact also takes into account the nature of private banking business primarily provided by BOCIL to its customers.



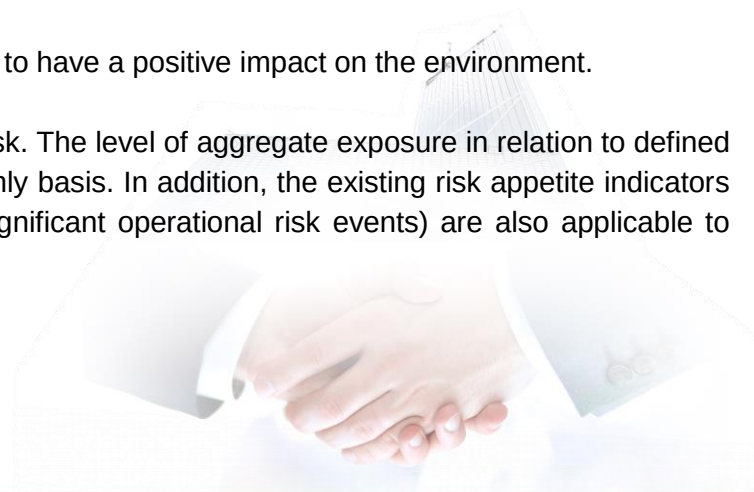
Climate Risk Management Mechanism

Climate Risk Appetite

Risk appetite refers to the types and levels of risk that BOCIL is willing to take in order to meet the requirements and expectations of various stakeholders, to operate in a sound and sustainable manner, and to achieve its business plans and strategic development objectives within its risk bearing capacity. The risk appetite statement of BOCIL states that BOCIL exerts rigorous control over credit extension to industries with high energy consumption, high pollution and overcapacity, and constantly improves the comprehensive benefit of green finance. In addition, BOCIL actively supports the national strategy, undertakes the social responsibility and is dedicated to building a world-class bank in the new era.

By incorporating climate-related considerations in the risk appetite, BOCIL supports to have a positive impact on the environment.

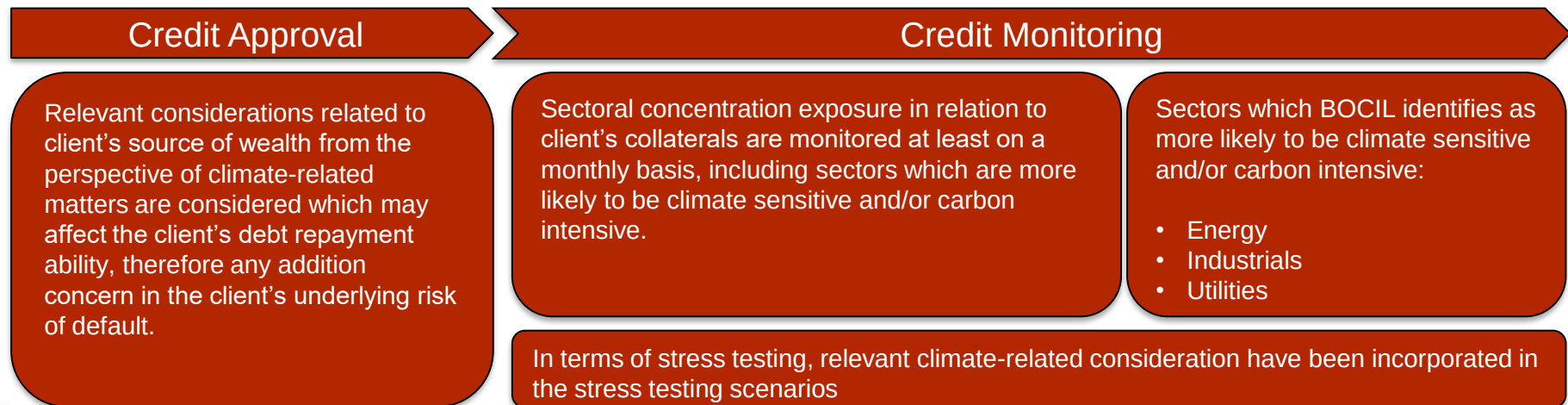
BOCIL further incorporated quantitative risk appetite indicators specific to climate risk. The level of aggregate exposure in relation to defined high climate-related risk industries relative to Tier 1 capital is monitored on a monthly basis. In addition, the existing risk appetite indicators in relation to operational risk (i.e. operational risk loss rate and the number of significant operational risk events) are also applicable to operational risk transmitted from climate events.



Climate Risk Management Mechanism

A qualitative review on BOCIL's overall exposure to climate risk embedded in 8 risk types is currently performed to actively identify any emerging risks and their impacts. The result of such qualitative review is reported to senior management on a monthly basis. Considering the nature of (i) private banking services and products currently provided by BOCIL and (ii) key clienteles of BOCIL (i.e. high net-worth individual customers), BOCIL further implements other measures to manage climate-related risk matters in BOCIL's private banking business.

Climate Risk-related Client Credit Risk Management Process



Climate Risk Management Mechanism

Key climate-related Risk Management Processes of Other Risks

Financial Institution Credit Risk

- Established relevant policy and guidelines, and incorporated relevant internal requirements to consider climate-related considerations in the annual financial institution credit risk assessment.
- In terms of stress testing, relevant climate-related consideration have been incorporated in the stress testing scenarios.

Operational Risk

- Established relevant policy regarding the framework for operational resilience, in which extreme weather events are required to be considered as part of the severe but plausible scenarios.
- Business Continuity Plan is established to ensure continuity of business where needed.

Reputation Risk

- Established relevant policy and guidelines, and incorporated relevant detailed guidelines in drivers which could arise climate risk to BOCIL.

Climate Risk Management Mechanism

Key climate-related Risk Management Processes of Other Risks

Market Risk

- Established relevant policy and guidelines, and incorporated relevant requirements related to climate risk.
- In terms of stress testing, relevant climate-related consideration have been incorporated in the stress testing scenarios.

Strategic Risk

- Established relevant policy to outline strategic risk management framework adopted by BOCIL and the strategic risk management approach adopted by BOCIL
- Principles in relation to strategic risk management of climate strategies are outlined in the *Climate Risk Management Policy*

Compliance Risk

- High-level requirements have been set out in relation to key regulatory references issued by the Hong Kong Monetary Authority regarding climate risk management.

BOCIL also in practice assesses whether any additional capital add-on is required under Pillar 2 regarding the 8 key risks from the perspective of climate-related considerations. No additional capital add-on related to climate risk is required as of Q1 2024.

Climate Risk Stress Testing

Stress testing is one of the parts in our climate risk management framework. BOCIL includes climate-related considerations in the stress testing scenarios on credit risk and market risk, thus it enables BOCIL to analyse the impact of climate-related considerations on credit risk and market risk at least on a quarterly basis.

In designing the stress testing scenarios (i.e. baseline, adverse and severely adverse scenarios), the following considerations are taken into account and incorporated in the stress testing scenarios:

Credit Risk

Client Credit Risk

Client's repayment ability due to significant market shocks and / or emerging climate hazards

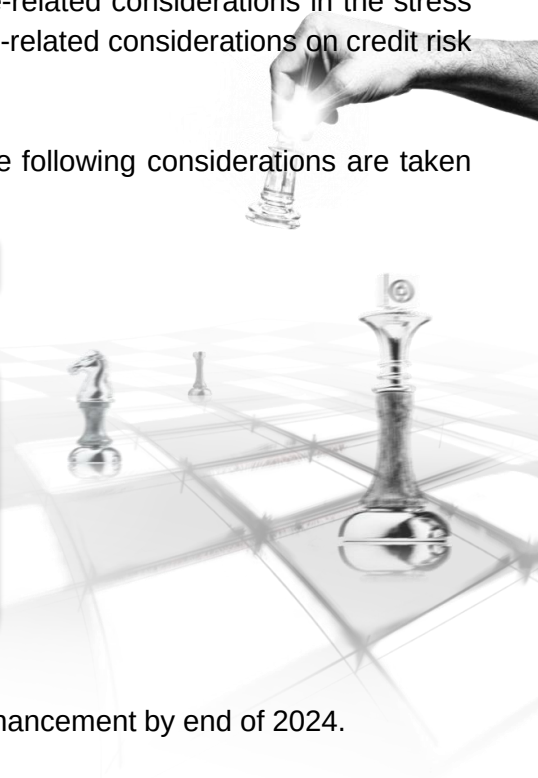
Financial Institution Credit Risk

Non-compliant climate risk factors identified in the annual risk assessment performed

Market Risk

Climate related factors such as large or sudden negative price adjustments triggered by climate risk on the breakdown in correlations between assets or a sharp reduction in market liquidity for particular assets.

BOCIL is in progress to enhance the existing stress testing and targets to complete the necessary enhancement by end of 2024.



Outlook and Future Plans

The world becomes more challenging from the force of nature from climate changes. BOCIL weathered through the severe rainstorm in September 2023. Despite such climate events with vast destruction to Hong Kong, BOCIL remained relatively unaffected. A lesson learnt without operational and credit loss for BOCIL due to that severe rainstorm, but BOCIL becomes vigilant and cautious in the next unfortunate but certain severe climate events.

As the worldwide initiatives in climate risk management continue to evolve, local regulator in Hong Kong is expected to gradually introduce more in-depth and detailed regulatory requirements. To cope with the growing importance stressed by different stakeholders regarding the need in the financial industry to continuously evolve in relation to climate risk management, various difficulties (such as data collection, implementation of high-level principles stipulated by local authorities) continue to pose a major challenge for managing climate risks within the financial industry, particularly in managing climate risk from a forward-looking manner.

Despite the challenges and difficulties, BOCIL will continue to strengthen the existing risk management framework in accordance with the evolving climate risk related regulations, as well as to regularly review the existing climate risk management policies and guidelines to ensure that climate risk is kept at an appropriate level.



4. Metrics and Targets

Greenhouse Gas Emissions from Operations

BOCIL is in the process of developing qualitative and quantitative metrics and targets to support our climate risk management and strategy implementation. We have begun to collect Greenhouse Gas (“GHG”) emission data which enable us to identify areas for improvement and set targets to achieve the net zero objective. Due to the nature of our business and office setup, BOCIL currently incurred a minimal amount of scope 1 emission and scope 2 indirect emission shown in the table below:

GHG emission metrics ⁴ (Tonnes of carbon dioxide equivalent)	Category	FY 2022	FY 2023	YTD May 2024
<u>Scope 2 (Indirect Emissions)</u>	<u>Electricity consumption</u>	<u>234</u>	<u>231</u>	<u>69</u>

Green Operation Goals (2021 as the base year)

Greenhouse gas emissions (Scope 1 and 2)

- 25% reduction by 2030

Electricity consumption

- 25% reduction by 2030

BOCIL follows HKSAR Government's Hong Kong Climate Action Plan 2050 to achieve carbon neutrality before 2050.

BOCIL is in the process of collecting quantitative data about Scope 3 GHG emission data to enrich the metrics and targets disclosures.

4. The calculation of GHG emission metrics is based on the carbon dioxide equivalent per electricity unit sold published by Hong Kong Electric Investments in its Sustainability Reports.

Carbon Emissions in Financed Activities

BOCIL exerts rigorous control over credit extension to industries with high energy consumption, high pollution and overcapacity and gradually adjusts and optimizes the credit structure, and constantly improves the comprehensive benefit of green finance. As of 30 June 2024, BOCIL primarily provides private banking services to high net-worth individual clients, no credit facilities was granted to corporate clients engaging in climate sensitive industries. BOCIL investment in debt securities for liquidity and yield enhancement purpose. As of 30 June 2024, the debt securities investments were related to sovereign, non-bank financial institutions and banks that are less likely prone to climate risk factors.

Further, we have begun to monitor the collateral exposures placed by our clients for climate sensitive sectors, such as Energy, Industrials and Utilities. The aggregate exposure of such collaterals as percentage of Tier 1 capital was maintained at low single digit level as of 30 June 2024. Despite the anticipated low level of sectoral exposure and the level is currently being monitored at least on a monthly basis, explicit sectoral exposure cap will be further established to compare against the actual sectoral exposure for each applicable industry sector. BOCIL will continuously evaluate the need to further establish other applicable metrics in the future when more climate-related opportunities are identified.

BOCIL has ensured applicable policies and guidelines have embedded climate risk considerations and monitored relevant metrics periodically. BOCIL does not lend directly to corporates under the current operational model and the approved risk appetite discourages lending to industries with high energy consumption and high pollution.

BOCIL is aware of the evolving importance in climate risk management and is in progress to further enrich the existing collateral sectoral metric mechanism.

Appendix: Report content index

Disclosures in this report are prepared in line with the disclosure requirements of the HKMA's SPM module GS-1 "Climate Risk Management", and with reference to the TCFD's 11 disclosure recommendations and the Supplemental Guidance for Banks.

	TCFD Recommendations	Location of disclosure or explanation
Governance	Disclosure of the organization's governance around climate-related risks and opportunities	P2-3
	a) Describe the board's oversight of climate-related risks and opportunities.	P2-3
	b) Describe management's role in assessing and managing climate-related	P2-3
Strategy	Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.	
	a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long Term	P4-8
	b) Describe the impact of climate related risks and opportunities on the organization's businesses, strategy, and financial planning.	P4-8
	c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	p.18
Risk Management	Disclose how the organization identifies, assesses, and manages climate-related risks.	
	a) Describe the organization's processes for identifying and assessing climate-related risks	p.9-18
	b) Describe the organization's processes for managing climate-related risks	p.14-18
	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	p.14-18
Metrics and Targets	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.	
	a) Disclose the metrics used by the organization to assess climate related risks and opportunities in line with its strategy and risk management process.	P20-21
	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.	P20-21
	c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.	P20-21