

## Climate Related Disclosure

### Introduction

Nanyang Commercial Bank (NCB) has actively embraced green and low-carbon initiatives, aligning with China's "14th Five-Year Plan" for sustainable development. In 2022, we focused on enhancing our green finance capabilities through internal training, ensuring our team is well-versed in certifying and expanding our green project portfolio. In 2023, we have embarked on actions to reflect our ongoing efforts to integrate climate considerations into our banking operations and risk assessments.

Our climate risk strategy is shaped by in-depth assessments, enabling us to navigate physical and transition risks effectively. It informs our monitoring systems, policy development, and transparent reporting.

NCB is committed to sustainable finance, embracing the shift to a low-carbon economy and upholding the highest standards in climate risk management and reporting.

## TCFD Pillar: Governance

Our governance framework is a structured and layered approach, designed to ensure a comprehensive oversight of climate-related risks and opportunities. This approach is underpinned by our commitment to transparency and accountability.

### Board Oversight

The Board of Directors of NCB (the “Board”) formulates and monitors the long-term goals and overall medium-term to long-term strategies for NCB and its subsidiaries (the “Group”) within the applicable legal and regulatory framework. The Board, with the assistance of the Risk Management Committee, is responsible for reviewing, approving and monitoring the Group’s overall risk tolerance level, risk management strategies, risk management and tolerance level structure and policies, and holds the ultimate responsibility for the supervision and management of climate risks.

In June 2023, the Board enhanced their understanding of the Hong Kong Monetary Authority’s regulatory guidance on climate risks through the topic of “Key Sharing of the Hong Kong Monetary Authority (“HKMA”)’s 2023 Risk and Compliance Supervision Guidelines - Supervision on operational soundness and key sharing of climate risk supervision guidelines” in the first Directors’ training in 2023. The highlights on above training topic include:

- Peer Performance on Climate Risk Management;
- Key sharing of HKMA Supervisory Policy Manual GS-1 “Climate Risk Management” and its Two-Year Plan for Climate Management in HKMA Circular of “Embedding Climate Risk in Banking Supervision”;
- Common challenges faced by peers; and
- Recommendations for future work for Climate Risk Management.

### Executive Oversight

Comprising Risk Management Committee and the Chief Risk Officer, is responsible for:

- Upholding the Bank’s overarching business objectives, which encompass both strategy and operational planning. This includes the stewardship of the climate risk management framework.

- Implementing and reviewing climate risk management strategies to assess their effectiveness.
- Encouraging collaboration across departments to integrate climate risk considerations throughout the bank, promoting unified management of climate-related issues.

Additionally, we have included “Climate Risk Management Elements” in our risk Key Performance Indicators (KPIs) to evaluate the effectiveness of each unit’s management of climate risks. The executives have participated in the above-mentioned Directors’ training regarding the HKMA’s regulatory guidance on climate risks to align understanding and action across all levels of leadership.

### Working Group

The operational architecture for climate risk oversight involves multiple layers:

- At the forefront and as the first line of defence, business units proactively handle risk identification, assessment, management, and reporting, incorporating climate risk into our well-established policies and procedures. Each unit has a designated personnel for climate risk oversight.
- Functional departments, representing the second line of defence, monitor climate-related risk activities and continuously review related policies and procedures.
- The internal audit function, recognised as the third line of defence, ensures the strength and efficiency of our climate governance structures and the integrity of our risk management processes.

In line with our dedication to managing climate risks, NCB has updated several key policies and procedures, including our climate risk management policy, business continuity plan, and various policies related to credit management, ensuring they are responsive to the nuances of climate risk.

## TCFD Pillar: Strategy

Climate change has a profound impact on the sustainable development of the global economy, financial markets, and businesses. At NCB, we are actively committed to promoting green and low-carbon development and fully understanding the significance of addressing climate risks and integrating climate considerations into our business practices. We acknowledge that effectively managing climate risk is not only crucial for the success of our bank, but also for the growth and well-being of our customers, employees, and the communities we serve.

Furthermore, NCB recognises the importance of climate-related opportunities in promoting sustainable development. Efforts have been directed both towards the development of sustainable financial services and operational improvements to encourage the transition to a low-carbon economy.

## Sustainable Financial Services

NCB is committed to supporting its customers in their transition towards adopting low-carbon solutions and embracing sustainable practices. As a result, the Bank has taken significant steps to promote sustainability by launching a range of green financial products in both its retail and commercial banking services. To expand the green finance business, NCB has:

- Introduced the Green Deposit Plan consisting of three phases, offering preferential interest rates on deposits to both eligible corporate and individual customers. Concurrently, the Bank initiated a Green Loan Scheme to assist property owners in adopting renewable energy solutions, specifically by providing loans for the installation of solar panels between 2021 to 2022. In addition, we offer personal loans to individual customers to purchase electricity car in 2024 for reducing carbon emission in the society.
- In response to the “Green and Sustainable Finance Grant Scheme” launched by the HKMA, the Bank was appointed as one of the authorised arrangers, thanks to its proven track record and project performance. This accreditation enables NCB to extend its support to a wider range of issuers in obtaining a portion of the qualifying fee for future green and sustainable bond projects with subsidies.

## Operational Improvements

### Energy Conservation

NCB has implemented multiple measures to enhance energy efficiency in its office and achieve energy savings. During working days, the lights in the headquarters' lift lobby are switched off at 5pm, and at 7:30pm, at least one elevator is turned off. To supplement this, facilities management ensures that any unused lights, air-conditioning, and other facilities are switched off at the end of the day.

To further conserve energy, if the temperature falls below 19 degrees Celsius, only one of the building's three air-conditioning chillers is utilized. Motion-sensor lights have also been installed in the headquarters' rear staircase, replacing the T8 fluorescent tubes. These lights are dimmed to minimize electricity consumption when the staircase is not in use. In the newly renovated branches, offices, and signboards, LED lights or T5 fluorescent bulbs have been installed.

### Waste Reduction

NCB follows the principles of "Reduce, Reuse, and Recycle":

- Reduce - Reduce the purchase of unnecessary furniture, installations, and equipment;

- Reuse - Reuse the furniture, installations, and equipment that are still in good condition;

- Recycle - Purchase goods made from recycled materials wherever possible.

NCB additionally promotes the adoption of reusable cutlery among employees by developing promotional materials such as videos and posters to be displayed in the cafeteria.

In an effort to reduce paper consumption, NCB has identified E-business card vendors and initiated a pilot trial. This initiative effectively minimizes paper usage while enabling instant updates to contact information. Additionally, a collaborative document digitalization system has been implemented to streamline the organization's transition towards paperless receipt registration.

NCB has also been actively engaged in the "Source Separation of Commercial and Industrial Waste" initiative and has been recognized with a commendation certificate for its contributions. In line with our continuous commitment to waste reduction, we

will introduce a collection system for fluorescent tubes, toner cartridges, glass bottles and aluminium cans. To further promote recycling, we will strategically place "plastic bottle recycling bins" on each floor of our headquarters for convenient access and participation.

By incorporating environmentally friendly practices into its core business operations, NCB is taking a proactive stance in driving the sustainable development of the industry.

## TCFD Pillar: Risk Management

At NCB, the risk management framework is strategically crafted to identify, assess, and mitigate risks across all facets of our operations. This framework serves as a robust foundation, safeguarding the safety and stability of the business while enabling the Bank to navigate the dynamic landscape of emerging risks with agility and resilience.

### Approach to Identifying Climate-Related Risks

NCB has developed a comprehensive approach to identifying climate-related risks, aligning with the Risk Taxonomy and Definitions outlined by the Task Force on Climate-related Financial Disclosures (TCFD).

- **Approach to CRST:** includes both physical and transition risk – as outlined by the HKMA’s guidelines, the exercise comprises a short-term scenario (2023-2027) and three long-term scenarios (2023-2050) aligned with the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) scenarios, covering the following paths of transition – Below 2°C, Delayed Transitions, Current Policies.

### Managing and Integrating Climate-Related Risks into Overall Risk Framework

Current risk management measures encompass various aspects of governance, strategy, risk management, and disclosure, ensuring that the Bank is well prepared to address the challenges and opportunities associated with climate change.

To facilitate effective climate risk management, NCB has established a bank-wide Working Group dedicated to this purpose. Chaired by the head of the Risk Management Department, this Working Group monitors the implementation of climate risk management initiatives and serves as a platform for sharing information and best practices related to climate risk management across the Bank’s multiple business units. For example, one of the key roles of the Working Group is to aid future collaborations of operations and support teams for improved quantitative and qualitative climate risk assessments.

Additionally, NCB is establishing a framework to ensure the adoption of best practice climate-risk management practices in the organisation, integrating environmental and climate risk concerns into the rules and regulations governing product and service

development. For instance, the Bank is incorporating guidelines pertaining to green credit into the relevant rules and regulations of its credit business to enhance the management and guidance of green credit initiatives.

NCB is committed to strengthening its risk management capabilities and integrating climate risk into the existing risk management framework. Informed by the Climate Risk Assessments and the CRST, the Bank will further improve its management practices by incorporating the below initiatives:

- Formalisation of the Climate Risk Identification mechanism process, ensuring that it is regularly updated to incorporate the latest regulatory guidelines and industry best practices;
- Enhancement of NCB's high-emitting sectors catalogue to support future risk assessments at the borrower level;
- Setting a portfolio limit for the identified high-emitting sectors to ensure expanded monitoring and targeted policy development;
- Assisting the Board and Senior Management in overseeing climate risk management and provide them with ongoing training on the latest climate risk regulatory guidelines;
- Supplementing the Risk Appetite Statement with qualitative considerations and quantitative indicators of climate risk; and,
- Completing a new round of climate risk pressure testing to continue assessing the resilience of its portfolio and identify potential vulnerabilities.



## TCFD Pillar: Metrics and Targets

### Green Finance Growth Metrics

We are focused on the growth rate and size of green assets as metrics of our progress toward sustainability. To ensure our portfolio aligns with our climate strategy, we have established lending thresholds for high-emitting sectors, such as coal, cement, and steel. Our actions throughout the year have reinforced our leadership in green finance. Throughout the year, NCB has participated in several green syndicated loans, leading the syndication for green loans in Hong Kong. To further support the transition to renewable energy, we have launched a Green Loan Scheme to assist property owners in financing the installation of solar panels between 2021 to 2022. In addition, we offer personal loans to individual customers to purchase electricity car in 2024 for reducing carbon emission. Moreover, NCB has contributed to the green bonds market, issuing bonds in line with the “Green and Sustainable Finance Grant Scheme” backed by the HKMA.

### GHG Emissions

NCB is currently developing plans for the collection and consolidation of data for Scope 1 and Scope 2 emissions. Beyond emissions, we recognise the importance of operational sustainability, tracking metrics such as electricity consumption, water consumption and paper usage. We are also developing plans to calculate our operational and financed emissions (i.e., Scope 3 emissions).

### Targets and Performance

In setting our sights on the future, We define green assets as green loans and green securities that have been recognised by authoritative institutions such as the Hong Kong Quality Assurance Agency (HKQAA).

As of December 2023, our green loan portfolio increased by 73%, reaching an outstanding balance of 6.6 billion HKD. Our green bond-related investments reached 3.4 billion HKD, with their performance gauged against the Bloomberg “Green Instrument Indicator.” We are also mindful of our exposure to high-emission sectors, with balances standing at 8.6 billion HKD for loans and 6.6 billion HKD for bonds,

and we are developing ESG assessment tools to manage these sectors.

### **Future Commitments**

NCB is actively working on establishing ESG assessment methodologies for high-emitting sectors. These tools will enable us to classify clients and design management strategies, further solidifying our commitment to responsible finance and banking.