

# 2022

**TASK FORCE ON  
CLIMATE-RELATED FINANCIAL  
DISCLOSURES (TCFD)  
REPORT**



創興銀行 Chong Hing Bank



# CONTENTS

<b>2</b>	<b>Introduction</b>
<b>3</b>	<b>Governance</b> <ul style="list-style-type: none"><li>– Board Oversight</li><li>– Senior Management Responsibility</li></ul>
<b>5</b>	<b>Strategy</b> <ul style="list-style-type: none"><li>– Climate-related Risk Management</li><li>– Resilience of our strategy</li></ul>
<b>7</b>	<b>Risk Management</b> <ul style="list-style-type: none"><li>– Integration of Climate-related Risks into our Overall Risk Management</li><li>– Identification and Assessment of Climate-related Risks</li><li>– Processes for Managing Climate-related Risks</li></ul>
<b>9</b>	<b>Metrics and Targets</b> <ul style="list-style-type: none"><li>– Metrics</li><li>– Targets</li></ul>
<b>10</b>	<b>Looking Forward</b>

# INTRODUCTION

Chong Hing Bank Limited (“Chong Hing Bank”, the “Bank” or “We”) acknowledges that climate change is one of the most pressing threats the world is experiencing. As one of the active banking and related financial services providers in Hong Kong, we are dedicated to being transparent in climate-related risk disclosures and hereby publish our first report with reference to the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and to fulfil the requirements set out by the Hong Kong Monetary Authority (HKMA) in the Supervisory Policy Manual GS-1 Climate Risk Management. The report consists of four major sections that are in line with the pillars set out by TCFD and HKMA, namely Governance, Strategy, Risk Management and Metrics and Targets, capturing the latest updates of the Bank’s practices and performance in managing climate-related risks.

# GOVERNANCE

Our corporate governance applicable to Environmental, Social and Governance (ESG) issues, including but not limited to climate change, green and sustainable finance, is integrated into the wider corporate governance structure throughout the Bank. Our ESG management structure illustrates the main corporate bodies at the board of Directors (the "Board"), senior management and operational levels that are involved in maintaining a robust climate governance at Chong Hing Bank, which are described in further detail below.



## BOARD OVERSIGHT

The Board is responsible for overseeing and leading the Bank to formulate its ESG development strategies and goals (including, but not limited to, climate change and green and sustainable finance). The Board also approves the Bank's overall risk (including but not limited to risks from climate change, green and sustainable finance related risks) management strategy and framework, reviews them regularly to ensure that they remain adequate and appropriate under the changing business and market conditions.

During 2022, the Board received regular updates on climate-related matters from the Risk Committee and the Executive Committee. These updates covered matters such as key policy initiatives and developments, review of the Sustainability Strategic Statement and review of the Bank's Risk Appetite Statement.

## GOVERNANCE

The Risk Committee is responsible for conducting reviews and providing recommendations to the Board on the Bank's overall risk management strategies. These include strategies on environmental and climate-related risks. Also, the Risk Committee reviews and regularly assesses the adequacy and effectiveness of the Bank's risk management framework, internal control systems (other than internal financial control systems) and risk management policies, procedures and systems designed to identify, measure, monitor and control major risk exposures of the Bank, including, but not limited to climate-related risks.

### SENIOR MANAGEMENT RESPONSIBILITY

The Executive Committee formulates the Bank's strategies and frameworks for ESG risk management to align with the Bank's overall business objectives. The Executive Committee regularly reviews and approves policies and plans relating to ESG risks and other material ESG related issues. The Executive Committee also promotes and supervises the implementation of policies and plans managed by related departments. The respective head of business and support units report their sustainability performance in regular meetings with the Executive Committee and in their regular business analysis meeting. These meetings serve to ensure the effective control of climate-related risks, environmental risks and other ESG risks faced by the Bank.

The Risk Management Committee has been designated as responsible for overseeing climate-related issues. Climate-related risks will be included in regular risk management reports to ensure such risks are overseen by the Risk Management Committee. The Chairman of the Risk Management Committee is the Bank's Chief Risk Officer (CRO) who reports to the Executive Committee and the Risk Committee on a regular basis.

In 2022, the Bank set up an inter-departmental Climate Risks and ESG Working Group, comprising members from units across risk, business, finance, treasury and operations. Chaired by the Chief Risk Officer, this Working Group is responsible for assisting the Risk Management Committee in fulfilling its duties with respect to climate-related risks and ESG risk management. Also, it coordinates the implementation of practices in alignment with the recommendations and guidelines issued or recommended by regulators. The Chairman of the Working Group, who is also the chairman of the Risk Management Committee, reports to the Risk Management Committee on a regular basis.

Details of the key responsibilities of the Board, Board Committees and Working Group can also be found in the Bank's [2022 Environmental, Social and Governance Report](#).

The importance of climate issues in the Bank's governance is also reflected in the remuneration system. Climate-related KPIs have been incorporated into the performance evaluation of the division or team leads who have relevant roles in climate risk management to hold them accountable for their efforts in managing climate-related risks and opportunities.



# STRATEGY

The Bank issued a Sustainable Strategic Statement, which states its ambition to play an active role in driving the transition to a low-carbon economy. By embedding climate-related risk considerations into our business operations and strategies, we are committed to support our customers in the process of transitioning to a more climate-resilient and sustainable business model.

## CLIMATE-RELATED RISK MANAGEMENT

To support Hong Kong's development in green and sustainable finance and managing climate-related risks, while giving us and our stakeholders a better understanding of the banking sector and the Bank's resilience to climate change, the Bank participated in the pilot "climate risk stress test" (CRST) launched by the HKMA in 2021 for the banking sector.

The CRST comprised multiple scenarios that considered both physical risk scenarios and transition risk scenarios representing different pathways to a low-emission economy. Assumptions, such as temperature and sea level rise in Hong Kong, abrupt climate policy changes under the disorderly pathway and the achievement of the 2-degree climate goal of the Paris Agreement is met, were made to understand the Bank's reactions under such shocks.

Together with our understanding of the market landscape and regulatory environment, the CRST served as the foundation of our formulation of the key pillars in our Sustainable Strategic Statement in 2021, namely:

1. **Support low-carbon transition financing:** strive to position the Bank to have a positive role in the transition to a low-carbon economy;
2. **Incorporate climate risks in our portfolio:** strive to manage the climate risks and impacts of the Bank's portfolio;
3. **Promote sustainable operations:** strive to reduce the environmental footprint of the Bank's business operations and strengthen the Bank's sustainability awareness and culture;
4. **Enhance reporting transparency:** strive to increase transparency through reporting.

The Bank addresses climate-related risks through the pillars above and using different time horizons that align with the time when the risks are expected to manifest themselves:

Short-term	1 to 3 years
Mid-term	5 years
Long-term	10 to 20 years

## RESILIENCE OF OUR STRATEGY

In 2022, the Bank reviewed its strategic statement against the updated regulatory requirements and market expectations. Stakeholder engagement was conducted and strategic assessment of the Bank's strength and weakness was completed vis-à-vis our strategic statement. The outcome of this review was a set of actions to further elevate climate-related risk management as a priority on the Bank's agenda.

## STRATEGY

In particular, the Bank has considered setting goals and action plans to advance its performance under the four pillars in each defined time horizon. The Bank will focus on building its internal capacity in capturing opportunities in the green and sustainable finance market, managing climate-related risks and reporting on the climate-related risks metrics. Executing these actions will empower the Bank's thorough integration of climate considerations into its business strategy and advance its ability to adapt into a climate-conscious banking environment.

The Bank also regards green and sustainable lending and investing as the main channels to help its customers achieve the common Paris-aligned goal. Its Sustainable Lending Policy and Sustainable Investment Policy have been enhanced by adding more details in assessing and monitoring climate-related risks across both lending and investment activities. These details include the introduction of metrics and thresholds set to limit the exposure of the Bank's financing and investment portfolios to the identified, relevant and material physical and transition risks.

To remain climate resilient, the Bank monitors market developments associated with the potential impacts of climate change and continues to re-evaluate the adequacy of resources and efforts put in managing climate-related risks.

# RISK MANAGEMENT

Chong Hing Bank continuously enhances its risk management framework to identify, assess and manage risks arising from climate change. Policies such as our Sustainable Lending Policy and several tools were developed to manage climate-related and environmental risks in our credit portfolio.

## INTEGRATION OF CLIMATE-RELATED RISKS INTO OUR OVERALL RISK MANAGEMENT

Chong Hing Bank has qualitatively integrated climate-related risks into its Risk Appetite Statement to reflect our fundamental approach to manage climate-related risks and to achieve our medium and long-term strategic goals. Our Risk Appetite Statement is reviewed and approved annually by the Board for company-wide alignment.

We recognise that an increase in frequency of extreme weather events or inadequate responses to climate change may amplify risks we take through our customers and our operations. To manage this potential risk amplification effect we developed policies and procedures to ensure that the consideration of climate-related risks, including physical and transition risks, is integrated into our credit risk management processes. The Bank will continue to enhance the existing risk management framework and relevant policies to expand the coverage of climate-related risks in other risk areas when needed.

## IDENTIFICATION AND ASSESSMENT OF CLIMATE-RELATED RISKS

The Bank has developed a set of tools and procedures to assess the vulnerabilities of climate-related transition risks at industry and client level.

The Bank maintains a list of Climate Sensitive Industries, which includes sensitive industries that are particularly prone to climate-related risks. For lending activities, if a loan is applied by a client from one of these sensitive industries, a Pre-Lending Transactional Generic Checklist is used to collect relevant supporting evidence and to assess the borrower's awareness of climate-related risks. The list of Climate Sensitive Industries will be reviewed and updated regularly with due consideration of market practices and standards. This review and update may include, for example, any changes in local and international regulations, the evolution in industrial practices, any changes in environmental or climate policies, any relevant technology trends, or any other material changes in relevant circumstances.

In addition to the procedures described above, the Bank used the CRST done in 2021 to assess the impacts of both physical and transition risks to its portfolio. In developing stress scenarios related to climate change, we adopted the following scenarios:

- Physical risk: we adopted the Representative Concentration Pathway (RCP) 8.5 published by the Intergovernmental Panel on Climate Change (IPCC). The scenario assumes that emissions follow a business-as-usual pattern, which delivers a temperature increase of more than 4°C by 2100.
- Transition risk: we adopted the Current Policies Scenario and the Disorderly Scenario developed by the Network of Central Banks and Supervisors for Greening the Financial System (NGFS). The Current Policies Scenario which is regarded as the benchmark because it assumes the preservation of currently implemented policies, while the Disorderly Scenario assumes a delayed policy action toward limiting average global warming to below 2°C.



## RISK MANAGEMENT

Throughout the stress testing, we have identified the high carbon emitting industries and estimated damage and devaluation of property investment. The CRST focused on the assessment of the impacts of different risk drivers on the Bank's profitability and capital adequacy, with the stress on credit risks, market risks and operational risks. The CRST has provided quantified insights on climate impacts which the Bank is expected to encounter and should be prepared for.

### PROCESSES FOR MANAGING CLIMATE-RELATED RISKS

Climate-related risks are managed at both counterparty and portfolio levels through an ongoing monitoring process that regularly produces reports that are considered through the existing risk committee structures.

For transition risk, we monitor on an ongoing basis customers' climate-related performance through customer due diligence checks at transaction level, while performing monitoring of lending exposures for Climate Sensitive Industries at portfolio level. For physical risk, we monitor and evaluate the physical risk of clients' collaterals based on the consolidated risk levels on an ongoing basis.

Lending terms will be considered and adjusted to control and mitigate our exposures to climate-related risks. For counterparties which are not in line with the Bank's climate strategy or risk appetite, appropriate follow-up actions or more stringent lending terms may be considered during the credit approval process. On the other hand, the Bank may consider applying favourable terms to clients who have considered climate-related issues in their business and operation, within the limits of our general credit risk management principles.

Going forward, we will continue to enhance our risk management capabilities and integration of climate risk into our existing risk management framework.

# METRICS AND TARGETS

## METRICS

The Bank has always been conscious of its performance in managing different climate-related risks. As one of the key metrics, the Bank reports on its Greenhouse Gases (“GHG”) emissions since 2016 to demonstrate the continuous efforts in mitigating the impact of the GHG on climate change. In 2022, the total GHG emission (Scope 1 and 2) was 2,734 tonnes CO<sub>2</sub>e, representing about an 8% reduction from 2021. This demonstrates how we are committed to promoting sustainable operations as one of our four strategic pillars. More details of the GHG emissions disclosure of the Bank’s own operations can be found in the Bank’s [2022 Environmental, Social and Governance Report](#).

In addition, the Bank strictly monitors and reports to the senior management on the sectoral exposures to high climate risk sectors and on the high physical risk area collateral. The monitoring and reporting of these exposures are critical for the Bank to enable business growth while maintaining acceptable risk exposure levels. The Bank will continue to enhance the mechanism to measure the performance of our solutions in managing the climate-related risk of our portfolios and businesses.

## TARGETS

The Bank is presently studying the possibility to set targets on new operational and business metrics in relation to climate-related risk management. These new targets will continue to be in line with the goals and actions planned in our Sustainable Strategic Statement.

## LOOKING FORWARD

Being resilient to climate-related risks is imperative to our business' continued success. We understand the importance of high quality disclosure of our efforts towards tackling climate-related issues and of the fact that it is a major business priority to contribute to transition the economy to a low carbon one.

This year the Bank has further progressed in making its governance of climate risks stronger, and in taking steps to enhance our risk management and transparency in line with the market and regulatory expectations on the adoption of the TCFD recommendations. However, we recognize that more work needs to be done to fully integrate climate-related risk management across our businesses and operations.

In the future, we anticipate continuing our efforts through:

- Conducting different assessments such as gap analysis to measure, manage and mitigate climate-related risks identified in our portfolios;
- Strengthening our risk governance structure and ability to have an effective oversight through stricter climate-related risk monitoring and reporting;
- Expanding the implementation of climate-related risk management practices through the launch of green and sustainable financial products;
- Aligning the bank's strategies against the goals and actions planned in our Sustainable Strategic Statement.

