

East West Bank Hong Kong Branch
Taskforce on Climate Related Financial Disclosures
(TCFD) Report 2022

Introduction

The Hong Kong Monetary Authority (“HKMA”) released the Supervisory Policy Manual (“SPM”) on Climate Risk Management (“GS-1”) on 30 December 2021. GS-1 provides guidance to authorized institutions (“AIs”) on the key elements of climate-related risk management and sets out the HKMA’s approach and expectations for reviewing how AIs manage climate related risks. In developing GS-1, the HKMA has drawn on the relevant work of Financial Stability Board (“FSB”), Basel Committee on Banking Supervision (“BCBS”) and Central Banks and Supervisors Network for Greening the Financial System (“NGFS”), which includes Recommendations of the Task Force on Climate-Related Financial Disclosures (“TCFD”). The HKMA expects AIs to prepare climate-related disclosures in accordance with TCFD recommendations, make their first disclosures no later than mid-2023, and align their disclosures with TCFD framework no later than 2025. The disclosures made in this document present the information on the efforts that have been made by East West Bank Hong Kong Branch (“EWHK” or “Branch”) towards implementing TCFD recommendations since the issuance of GS-1. This is a standalone disclosure document that only pertains to the business and operations of EWHK.

Governance

As a foreign bank branch, EWHK does not have a Board of Directors structure locally. In 2022, EWHK developed the climate risk management program, which outlines Branch management’s role in assessing and managing climate related risks and opportunities. The Branch’s management team oversees risks and opportunities associated with climate change in its business and operations through multiple governing structures. They include, dependent upon the traditional risk to which climate risks could transmit, the Credit Risk Management Committee (credit risk), Asset-Liability Committee (liquidity risk and market risk), Compliance Committee (legal and compliance risk), and Operational Risk Management Committee (operational risk), Tollgate (strategy risk and reputational risk). Key topics and issues associated climate change risks are consolidated, reported, and discussed at the EWHK Tollgate.

Strategy

Integration of climate change considerations into East West Bank wide processes is an evolving process. In 2022, EWHK aligns its business and risk strategies with those established at the enterprise level, while adapts them to the business environment in which it operates and markets its products and services.

Through preliminary assessments of EWHK’s loan portfolio conducted in 2022, it has been identified that physical and transition climate risks are not considered a material risk of EWHK in short-to-medium terms. However, recognizing increasing threat of climate change, such risks may materialize in the long-term.

EWHK is committed to actively managing these risks and to continuously make effort to build climate resilience. EWHK also supports Hong Kong's Climate Action Plan 2050 for low-carbon transition through credit policy that identifies, assesses, and mitigates climate risks, provides directions towards climate-related opportunities, and supports EWHK customers.

Additionally, EWHK is committed to manage its own impact on climate. EWHK has adopted the enterprise-wide Environmental and Social Policy Framework governing the Bank's mission to support diversity, community well-being, and sustainability. In furtherance of its commitment to global energy and greenhouse gas reductions, East West Bank is mindful of the direct environmental impact of its branch and office operations. Specially for EWHK, the Branch's major environmental impacts are through the energy and paper we consume, and the waste that we generate. EWHK aims to incorporate environmental practices throughout our business and operations to address each of these areas and creating an environment friendly operation. We recycle our waste and minimize our consumption in a manner that enhances efficiency, while reducing our environmental impact. We aim to promote environmentally responsible behavior among our associates. We will continue our effort in strengthening our associates' awareness and knowledge of environmental and climate issues through internal communication and training. We also encourage our customers to save paper by switching to e-statements and e-advice.

Risk Management

EWBK operates under an enterprise-wide ERM framework, which outlines the approach to risk management and oversight, and describes the structures and practices employed to manage the current and emerging risks inherent to the Bank. The Bank's ERM program incorporates risk management throughout the organization in identifying, managing, monitoring, and reporting risks. It identifies the Bank's major risk categories as: credit, liquidity, capital, market, operational, compliance, legal, strategic, and reputational.

The Bank's ERM program is executed along the three lines of defense model, which provides for a consistent and standardized risk management control environment across the enterprise. The first line of defense is comprised of production, operational, and support units. The second line of defense is comprised of various risk management and control functions charged with monitoring and managing specific major risk categories and/or risk subcategories. The third line of defense is comprised of the Internal Audit function and Independent Asset Review ("IAR"). Internal Audit and IAR provide assurance and evaluate the effectiveness of risk management, control and governance processes as established by the Bank. Reporting directly to the Board's Audit Committee, Internal Audit maintains organizational independence and objectivity.

EWBK has adopted the definitions and categories of climate risks established in GS-1. Climate risks are considered an alternating factor of the Bank's major risk categories and factors that have been established as part of the enterprise-wide ERM program. The risks of climate change can be divided into physical and transition risks. The physical risks of climate change include discrete weather events, changing climate patterns and other disruptions caused by climate change affecting the regions, countries, and locations in which we or our customers have operations or other interests. Climate change concerns could result in transition risk. Transition risks arise from the process of adjusting to a low-carbon economy, including changes in climate policy or in the regulation of financial institutions with respect to risks posed by climate

change. Transition risks could also negatively affect our customers in certain industries, which may increase our credit risk and reduce the demand by these customers for our products and services. These climate-related physical and transition risks could have a direct financial impact on the Bank's business and operations. Material adverse impacts to our customers, including declines in asset values, reduced availability of insurance, significant interruptions to business operations, and negative consequences to business models and the need to make changes in responses to those consequences could also affect us. The risks of regulatory changes and compliance and disclosure requirements related to climate change may impose operational burdens and increased compliance costs, capital requirements, or the risk of litigation, which could adversely affect our business, results of operations and financial condition.

Accordingly, EWHK has updated its existing risk management program to include climate risk factors; work in such respect continues to ensure that the increasing relevance of such factors is properly considered. In 2022, EWHK established the Climate Risk Management Program. Greater considerations of climate-change risks have been implemented in the EWHK's credit policy, liquidity management policy, remuneration policy, operational risk management program, and the business continuity plan. Additionally, to raise awareness and promote understanding of the risks to which EWHK may face due to climate change, the respective regulatory expectations, as well as the EWHK's risk management framework, a training on climate risk management related topics has been delivered to all EWHK employees in 2022.

Metrics and Targets

The fourth pillar of the TCFD's recommendations is on the disclosure of metrics and targets AIs establish to assess and manage relevant climate-related risks and opportunities where such information is material. It could include the following:

- Climate portfolio risks - disclose the metrics used by AIs to assess climate related risks and opportunities in line with its strategy and risk management process.
- Climate impact - disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas emissions, and the related risks.
- Describe the targets used by AIs to manage climate related risks and opportunities and performance against targets.

While as it has been stated earlier in this disclosure that climate change related risks are not considered material to EWHK in short to medium terms, the Branch is in the process of establishing appropriate climate metrics that are aligned with both the TCFD framework, as well as the Bank's strategy and enterprise-wide risk management framework.

On its climate resilience and sustainability journey, EWHK's priority is to better understand how climate change risks may impact EWHK's business and financial performance through developing and analyzing plausible climate change scenarios and climate risk drivers. Implementation of risk metrics will help inform EWHK in its effort to establish its climate-related targets.