

East West Bank Hong Kong Branch

Taskforce on Climate Related Financial Disclosures

(TCFD) Report 2025

1. 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 (“Als”) on the key elements of climate-related risk management and sets out the HKMA’s approach and expectations for reviewing how Als 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 Als 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. East West Bank Hong Kong Branch (“EWHK” or “Branch”) made its first disclosure in 2022. In 2025, the change of regulatory environment in United States regarding climate risk inspired EWHK to take initiation in developing a branch-level climate risk management framework. This risk management will follow the HKMA’s regulatory requirements on climate risk while aligning with the Head Office’s overall risk appetite.

The disclosures made in this document present the information on the efforts that have been made by EWHK towards implementing TCFD recommendations since the issuance of GS-1. It is important to note that the current disclosure serves as an interim progress report, EWHK will continue its enhancement on climate risk management framework and will update the disclosure report by the end of 2025 to ensure its compliance with the HKMA’s climate disclosure requirement. This is a standalone disclosure document that only pertains to the business and operations of EWHK.

2. Governance

As a foreign bank branch, EWHK does not have a Board of Directors structure locally and have developed the climate risk management program. The program defines the Branch management’s responsibilities for assessing and managing climate-related risks and opportunities.

2.1 Governance structure

The Branch implements a multi-layered governance approach to oversee climate risks across all business operations. Climate risks are governed through dedicated committees corresponding to their transmission pathways to traditional risks:

- Credit Risk Management Committee (credit risk)
- Asset-Liability Committee (liquidity risk and market risk)
- Compliance Committee (legal and compliance risk)
- Operational Risk Management Committee (operational risk)
- Tollgate (strategy risk and reputational risk).

All significant climate-related issues are consolidated through this framework, with final review and decision-making occurring at the EWHK Tollgate meetings to ensure the comprehensive oversight and strategic alignment of climate risk management.

EWHK will strengthen its local governance framework through a three-tiered structure:

- Tollgate
- The EWHK Senior Management Team

- Functional departments/units that are responsible for the execution of climate-related risk management.

3. Strategy

Integration of climate change considerations into East West Bank wide processes is an evolving process. 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.

3.1 Strategic Alignment

Based on the latest assessment of EWHK's loan portfolio, the Branch has recognized the potential impact of transition and physical climate risks. To better identify the risk and opportunities associated with the climate risk, the Branch is enhancing its risk identification and measurement tools and assessment templates. Climate strategies will be updated with the new assessment results to ensure EWHK will effectively managing these risks and continuously make efforts to build climate resilience. Moreover, EWHK 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.

3.2 Sustainable Practices

EWHK has been committed to manage its own impact on climate since 2022 by adopting 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.

In the past year, EWHK has continued its contribution in the reduction of energy consumption, paper usage and waste generation. EWHK strives to incorporate environmental practices throughout its business and operations to address each of these areas and creating an environment friendly operation. The Branch actively promotes environmentally responsible behavior among its associates and strengthens their awareness and knowledge of environmental and climate issues through internal communication and training. When communicating with customers, EWHK also encourages its customers to save paper by switching to e-statements and e-advice.

4. Risk Management

EWHK 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. EWHK will further embed climate risk elements into relevant major risk management framework based on the latest climate risk assessment results, including but not limited to setting risk indicators for climate-related industries or setting portfolio limits for high-emitting industries.

4.1 Three lines of defence

The Bank's Enterprise Risk Management ("ERM") program is executed along the three lines of defence model, which provides for a consistent and standardized risk management control environment across the enterprise:

- **First Line of Defence - Business and operational units** that own and manage risks through day-to-day operations, including implementing controls and ensuring compliance with policies.
- **Second Line of Defence - Independent risk management and compliance functions** that oversee risk-taking activities, establish frameworks and limits, and monitor adherence to the Bank's risk appetite.
- **Third Line of Defence - Internal Audit and Independent Asset Review ("IAR")** that provide objective assurance on the effectiveness of governance, risk management. Reporting directly to the Board's Audit Committee, Internal Audit maintains organizational independence and objectivity.

4.2 Definition of climate risk

EWHK 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. Climate risk is categorized into physical and transition risks:

- **Physical risks** stem from climate change impacts such as extreme weather events, shifting climate patterns, and other disruptions affecting regions where EWHK or its customers operate. These risks can directly impact the Bank's operations and financial performance through damage to assets, business interruptions, or diminished asset values. Examples of physical risks include extreme weather events, rising sea levels, and long-term shifts in temperature or precipitation patterns, which can directly or indirectly impact the Branch's operations and financial performance.
- **Transition risks** arise from the shift to a low-carbon economy, including changes in climate policies, regulatory requirements, market dynamics, or technological advancements. These risks may negatively impact customers in certain industries, increasing credit risks and reducing demand for the Bank's products and services.

Both physical and transition risks pose potential financial and operational challenges for EWHK. Adverse impacts on customers, such as reduced asset values, business disruptions, or changes in business models, could affect the bank's performance. Additionally, evolving regulatory and compliance requirements related to climate change may increase operational burdens, compliance costs, capital requirements, or litigation risks, further impacting the Bank's financial condition and operations.

4.3 Risk identification and measurement

EWHK has updated its existing risk management program to include climate risk factors. Work in this area continues to ensure that the increasing relevance of these factors is properly considered. Starting in 2022, EWHK has placed greater emphasis on climate risk across the transmission path to other traditional risks in the Climate Risk Management Program and has made continuous efforts to monitor the climate risk impact on these major risks. The climate risk transmission pathway covers credit risk, market risk, operational risk, legal risk, liquidity risk, reputation risk, and strategic risk.

- **Credit Risk:** Transition risks like carbon pricing policies may weaken borrowers' repayment capacity, while physical risks such as floods could devalue collateral.
- **Market Risk:** Unpriced climate risks may trigger sudden asset repricing, exacerbated by collapsing correlations or liquidity shortages.
- **Operational Risk:** Extreme weather events may disrupt business operations, including critical outsourced services.
- **Liquidity Risk:** Climate-related market shifts may prompt deposit withdrawals and reduce funding availability.
- **Legal Risk:** Climate regulations may increase compliance costs and litigation exposure for high-carbon financing.
- **Reputational Risk:** Failure to meet growing expectations for climate-friendly banking may damage client relationships.
- **Strategic Risk:** Slow adaptation to low-carbon transition opportunities may erode competitiveness.

To complete the full disclosure in compliance with the TCFD recommendations, EWHK shall perform the climate risk identification assessment before the end of 2025 to identify climate risk exposures and assess climate risks in products, businesses, processes, and systems based on the definition and transmission path of climate risk. The assessment results shall indicate the short-term and long-term impact of transition risk and physical risk at the portfolio level and impact of physical risk at the operational level, and EWHK shall adjust the methodology according to the latest assessment results.

Furthermore, EWHK management team will consider integrating the climate risks into EWHK's risk appetite framework, considering both qualitative and quantitative factors. Given the current limited risk exposures, EWHK will implement climate risk limit management in phases, with annual reviews and adjustments by the Tollgate based on evolving risk conditions.

4.4 Scenario analysis and stress testing

EWHK will disclose the results of climate risk stress testing (“CRST”) using its newly developed CRST model by the end of year 2025. The Branch will conduct annual CRST and scenario analyses to estimate potential losses and evaluate the institution's resilience under various climate risk scenarios. These exercises incorporate HKMA and Network for Greening the Financial System (“NGFS”) climate scenarios, analysing impacts on credit and operational risks while accounting for portfolio characteristics. Given the forward-looking nature of climate risks that cannot be adequately captured through historical data alone, these tests serve as the primary measurement methodology. EWHK will document all model limitations and methodological assumptions to inform management decision-making and support continuous tool development. Results will be reported to both the EWHK management team and the Tollgate.

Additionally, EWHK will take assess the financial impacts of potential losses from both transition and physical risks and adjust its expected losses accordingly. EWHK will also promptly address any risk management weaknesses identified throughout these exercises.

4.5 Risk monitoring

EWHK is establishing appropriate supervisory mechanisms to actively monitor climate risk exposures and establish aligned control/mitigation measures. Given the evolving nature of climate-related risks, When implementing the monitoring process, EWHK will ensure to consider emissions pathways and environmental policies, while adapting both qualitative and quantitative tools for early warning indicators.

The Risk Officer will report climate risk issues to the EWHK management team at least annually, covering risk appetite deviations, strategy implementation delays, and control measure failures.

4.6 Control and mitigation

EWHK is developing effective climate risk control and mitigation mechanisms in accordance to its business strategies and risk thresholds to assist each working unit in complying with climate risk management policies. EWHK would take appropriate controlling measures on the three aspects below:

- **Industry level:** this refers to industries that do not conform to EWHK's climate risk strategy or risk thresholds
- **Portfolio level:** this refers to portfolios that exceeds the concentration threshold according to EWHK's climate risk strategy or risk thresholds
- **Operation level:** this refers to business discontinuity caused by extreme weather, including its own assets, operations, and outsourced arrangements.

5. Metrics and Targets

Following the fourth pillar of the TCFD's recommendations on the disclosure, EWHK will enhance its metrics and targets using the assessment results to manage relevant climate-related risks and opportunities where such information is material.

5.1 Key metrics

To quantify the effectiveness of climate change management, EWHK is refining its indicator system covering:

- 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.

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. EWHK shall provide the required quantitative metrics with correlated analysis by the end of 2025 to complete the full disclosure in compliance with the TCFD.

5.2 Business target

EWHK establishes quantifiable business targets through comprehensive climate scenario analysis, systematically evaluating how physical and transition risks may impact financial performance across all business lines. By developing data-driven risk metrics and conducting forward-looking vulnerability assessments, the institution can determine appropriate risk-adjusted performance thresholds and set time-bound operational targets that align financial objectives with climate resilience requirements. This target-setting process will incorporate both short-term adaptation measures and long-term strategic repositioning, ensuring all business units maintain profitability while meeting evolving climate risk management standards.