

“Second-party Opinion” on Industrial Bank Co., Ltd. Hong Kong Branch’s GREEN FINANCE FRAMEWORK

by Hong Kong Quality Assurance Agency (HKQAA)

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Introduction

As announced in November 2020, the Chinese Communist Party released the “中共中央關於制定國民經濟和社會發展第十四個五年規劃和二〇三五年遠景目標的建議” (also known as the 14th Five-Year Plan), spelling out China’s long term development goal. Besides economic indicators, the 14th Five-Year Plan also placed emphasis on the importance of promoting green and sustainable development.

Looking forward to 2035, China envisions its carbon emission will have peaked and declined steadily. To achieve this goal, the Chinese government has been pushing for a systematic transition to clean, efficient and low-carbon renewable energy in the industrial, construction and transportation sector. Furthermore, the Plan is committed to deepening the fight against pollution and adhered to prevention-first principle. Consequently, considerable amount of investment in renewable energy and advanced pollution prevention technology is foreseeable.

In view of the national policy, the Chief Executive of Hong Kong SAR announced its 2030 Target of bringing down carbon intensity by 65-70% using 2005 as the base in the Policy Address 2021, showing its true ambition for carbon neutrality before 2050. Over the decades, the Hong Kong Government has allocated over \$47 billion to implement various energy saving and renewable energy measures, promote electric vehicles and vessels, and introduce innovative waste-to-energy and waste-to-resources facilities to help reduce waste and carbon emissions.

In pursuit of the common goal of deep decarbonization, the Hong Kong Government published the “Hong Kong’s Climate Action Plan 2030+” (Environment Bureau, 2016) and the “Energy Saving Plan for Hong Kong’s Built Environment 2015~2025+” (Environment Bureau, 2015) as blueprints for guiding carbon reduction effort in the next decade. As highlighted in these documents, accelerating the adoption of sustainable buildings in the private sector has become necessary for Hong Kong. The high population density, along with the subtropical climate has made Hong Kong an energy-intensive city. Unsurprisingly, 90% of the city’s electricity is consumed by buildings and one-third of it goes to air-conditioning. Therefore, the acceleration of green building adoption plays a key role in Hong Kong’s transition to a low-carbon economy.

Industrial Bank Co., Ltd. (A joint stock company incorporated in P.R.C. with limited liability), Hong Kong Branch (“IBHK” or the “Bank”) operates as a bank providing deposits, loans, investment, financing, settlement, and other bank services. Industrial Bank conducts businesses across worldwide. The Bank’s business operation is in line with the national policy.

IBHK has developed the Green Finance Framework (the “Framework”) under which it intends to engage in sustainable finance activities, i.e. insurance of offshore Green Deposits or Green Certificate of Deposit (Green CD) to finance and/or refinance, of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the IBHK’s sustainable finance. HKQAA also reviewed relevant public documents and non-public information, in whole or in part, existing and future projects that will contribute to China’s targets for sustainable development.



IBHK has engaged HKQAA to review its Green Finance Framework, dated September 2021, and provide a second party opinion on the Framework’s environmental credentials and its alignment with the Green Loan Principles (“GLP”).

Overview of Issuer

Founded in August 1988 and Headquartered in Fuzhou, Fujian Province, Industrial Bank (“IB”) is one of the first batch of joint-stock commercial banks approved by the State Council and the People's Bank of China, and the first Equator Bank in China. In 2007, IB was listed on the Shanghai Stock Exchange (Stock Code: 601166). IB has become a national joint-stock commercial bank with sound governance, distinctive characteristics, great strength and quality service, staying stably among Global Top 50 Banks.

Throughout the years, IB has evolved and advanced its corporate governance philosophy from "shareholders' interests foremost" to "giving consideration to the interests of stakeholders", and to "harmonious unification of economy, society and environment and sustainable development of bank".

In 2016, IB issued three green bonds in the China Interbank Market, becoming the first green financial bond issuer in China. IB was also the first commercial bank in China to fully embrace equator principle. In 2019, IB's green financing portfolio has achieved its mid-term goal of exceeding RMB1 trillion and exceeding 10,000 of green finance corporate clients. As of the end of 2020, IB had achieved a green financing balance of RMB 1.1558 trillion and accumulatively provided the green financing of RMB 2.8598 trillion for 29,829 corporate clients. Focus areas for IB's green finance projects include renewable energy, clean transportation and sustainable water and wastewater management.

Industrial Bank Hong Kong Branch (“IBHK” or the “Bank”) was established as IB's first overseas branch in 2014. The main businesses of the Hong Kong Branch include Corporate Banking business, Financial Markets business, Financial Institutions business and Private Banking business, and IBHK's customers cover large-scale Chinese enterprises in Hong Kong, multinational companies, industry-leading enterprises, Hong Kong blue-chip enterprises, together with other financial peers such as foreign banks, fund, insurance, securities, trust and asset management companies in Hong Kong. As of the end of 2020, IBHK's total assets were HKD 210.1 billion.

Framework Overview and Comment

3.1 Use of Proceeds

IBHK shall allocate the proceeds raised under the Framework to finance or refinance, new or existing eligible green assets (the “Eligible Green Assets”) that meets one or more of the below eligible criteria:

1. Renewable Energy
2. Energy Efficiency
3. Clean Transportation
4. Sustainable Water and Wastewater Management
5. Environmentally Sustainable Management of Living Natural Resources and Land Use
6. Green Buildings

In addition, an Exclusionary List is established which defines the types of projects that IBHK does not finance, ensuring that the Eligible Green Assets will not fund activities including fossil fuel related assets and hydropower plants whose installed capacity are over 20MW.

3.2 Project Evaluation and Selection Process

Eligible Green Assets are identified and selected by Green Finance Product Managers in accordance with the criteria and standards set out in IB’s internal regulations. IBHK will form an eligible green asset list according to the “Eligible Green Asset” categories as described in this Green Finance Framework.

IBHK shall review the Eligible Green Asset list on a periodically basis and determine if any changes are necessary, which may include changes in value of Eligible Green Assets due to asset amortization, prepayment or sales or changes in eligibility due to other reasons. IBHK shall make updates to the Eligible Green Asset List, including replacement, deletion, or addition of projects, based on the review to maintain the eligibility of the Use of Proceeds.

3.3 Management of Proceeds

I. Planning for Use of Proceeds

Prior to the issuance of a Green Deposit or Green CD, IB shall evaluate the recent and pipeline capital spending and develop a preliminary Eligible Green Asset List in accordance with the procedures as described in the Asset Evaluation and Selection section to ensure that the Green Deposit or Green CD proceeds can be allocated to the Eligible Green Assets in a timely manner.

II. Management of Separate Ledger

IBHK shall establish a separate “Green Deposit Ledger” or “Green CD Ledger” (the “Ledger”) to record the source and allocation of proceeds to ensure that all net proceeds of the Green Deposit or Green CD are used to finance Eligible Green Asset.

The Ledger will contain, for each Green Deposit or Green CD issued, information of: (i) Details of Green Deposit or CD and (ii) Fund allocation to Eligible Green Assets.

The proceeds of each IB Green Deposit or Green CD will be deposited in the general funding account and “earmarked” pending allocation. The unallocated proceed may be paced in cash, or money market instruments with market liquidity until they are allocated to Eligible Green Assets.

3.4 Reporting

IBHK will consider reporting on the allocation of net proceeds and impact metrics of its eligible green asset(s) annually in a Green Deposit or Green CD report on its public website as long as Green Deposit or Green CD is outstanding.

3.5 Conclusion

The assessment team of Hong Kong Quality Assurance Agency has determined that IBHK’s Green Finance Framework is well-structured and in accordance with the requirements of Green Loan Principles. For detailed information, please refer to Appendix 3: Independent External Review Form.

Appendix 1: Documents reviewed or referenced

No.	Author	Title
1	Asia Pacific Loan Market Association (APLMA), Loan Market Association (LMA) and Loan Syndications and Trading Association (LSTA)	Green Loan Principles (2021)
2	Industrial Bank Co., Ltd.	Annual Sustainability Report 2020
3	Industrial Bank Co., Ltd.	Annual Report 2020
4	Industrial Bank Co., Ltd.	Industrial Bank Environmental and Social Policy
5	Industrial Bank Co., Ltd.	Green Finance Framework for Industrial Bank Co., Ltd. Hong Kong Branch, September 2021
6	Industrial Bank Co., Ltd.	可用项目台账

Appendix 2: Independent External Review Form

Section 1. Basic Information

Issuer name: Industrial Bank Co., Ltd. Hong Kong Branch (“IBHK” or the Bank)

Green Issuer Green Finance Framework Name, if applicable: Green Finance Framework for Industrial Bank Co., Ltd. Hong Kong Branch

Independent External Review provider’s name: Hong Kong Quality Assurance Agency

Completion date of this form: 15th October 2021

Publication date of review publication: [where appropriate, specify if it is an update and add reference to earlier relevant review]

Section 2. Review overview

SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the GLP:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting |

ROLE(S) OF INDEPENDENT EXTERNAL REVIEW PROVIDER

- | | |
|--|---|
| <input type="checkbox"/> Consultant review | <input type="checkbox"/> Certification |
| <input checked="" type="checkbox"/> Verification | <input type="checkbox"/> Scoring/Rating |
| <input type="checkbox"/> Other (please specify): | |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (if applicable)

Please refer to the Second-Party Opinion Document for the Group above.

Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

1. USE OF PROCEEDS

Overall comment on section (if applicable):

The HKQAA assessment team (“HKQAA”) notes that Industrial Bank Co., Ltd. Hong Kong Branch is intended to allocate the proceeds raised under the Framework in eligible green assets, i.e., renewable energy, energy efficiency, clean transportation, sustainable water and wastewater management, environmentally sustainable management of living natural resources and land use, and green buildings. HKQAA also notes that the Bank has adopted Framework-level exclusion criteria which prohibit lending towards fossil-fuel based energy generation projects.

The eligible categories for the use of proceeds are in line with the requirements of GLP. HKQAA considers that the eligible categories will lead to positive environmental impacts. HKQAA considers that the use of proceeds is justifiable and acceptable.

Use of proceeds categories as per GLP:

- | | |
|--|---|
| <input checked="" type="checkbox"/> Renewable energy | <input checked="" type="checkbox"/> Energy efficiency |
| <input type="checkbox"/> Pollution prevention and control | <input checked="" type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation | <input checked="" type="checkbox"/> Clean transportation |
| <input checked="" type="checkbox"/> Sustainable water and wastewater management | <input type="checkbox"/> Climate change adaptation |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes | <input checked="" type="checkbox"/> Green buildings |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GLP categories, or other eligible areas not yet stated in GLPs | <input type="checkbox"/> Other (please specify): |

If applicable please specify the environmental taxonomy, if other than GLPs: N/A

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

The Bank's Green Finance Product Managers are responsible for screening potential assets in accordance with the criteria and standards set out in IB's internal regulations. An eligible green asset list will also be maintained for periodic review and maintenance.

HKQAA notes that the identified eligible green assets are identified and selected in accordance with the criteria and standards set out in IB's internal regulations. HKQAA also notes that IB would make updates to the Eligible Green Asset List based on the review to maintain the eligibility of the Use of Proceeds, ensuring that all approved assets financed under this framework have net-positive environmental impact for stakeholders and the wider society. HKQAA considers that the asset evaluation and selection process is appropriate and effective.

Evaluation and selection

- | | |
|---|--|
| <input type="checkbox"/> Credentials on the issuer's environmental sustainability objectives | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories |
| <input type="checkbox"/> Defined and transparent criteria for projects eligible for Green Loan proceeds | <input type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input type="checkbox"/> Summary criteria for project evaluation and selection publicly available | <input type="checkbox"/> Other (please specify): |

Information on Responsibilities and Accountability

- | | |
|---|---|
| <input type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input checked="" type="checkbox"/> In-house assessment |
| <input type="checkbox"/> Other (please specify): | |

3. MANAGEMENT OF PROCEEDS

Overall comment on section (if applicable):

HKQAA notes that the Bank will earmark the net proceeds of allocation and maintain a separate "Green Deposit Ledger" or "Green CD Ledger" (the "Ledger") to record the source and allocation of proceeds for eligible green asset(s). HKQAA also notes that the unallocated proceed might be paced in cash, or money market instruments with market liquidity until they are allocated to Eligible Green Assets, which will subject to the Exclusionary List.

HKQAA considers that the Bank has defined rules and details for the management of proceeds and would enable a sufficient and documented allocation process.

Tracking of proceeds:

- Green Loan proceeds segregated or tracked by the issuer in an appropriate manner
- Disclosure of intended types of temporary investment instruments for unallocated proceeds
- Other (*please specify*):

Additional disclosure:

- Allocations to future investments only
- Allocations to both existing and future investments
- Allocation to individual disbursements
- Allocation to a portfolio of disbursements
- Disclosure of portfolio balance of unallocated proceeds
- Other (*please specify*):

4. REPORTING

Overall comment on section (*if applicable*):

The Bank will consider reporting on allocation and environmental impact on its public website on a yearly basis. HKQAA considers that the Bank's overall reporting commitments are in line with the requirements of GLP.

Use of proceeds reporting:

- Project-by-project
- On a project portfolio basis
- Linkage to individual loan(s)
- Other (*please specify*):

Information reported:

- Allocated amounts
- Green Loan financed share of total investment
- Other (*please specify*):

Frequency:

- Annual
- Semi-annual
- Other (*please specify*):

Impact reporting:

- Project-by-project
- On a project portfolio basis
- Linkage to individual loan(s)
- Other (*please specify*):

Frequency:

Annual Semi-annual

Other (*please specify*):

Information reported (expected or ex-post):

GHG Emissions / Savings Energy Savings
 Decrease in water use Other ESG indicators (*please specify*): *green building standard*

Means of Disclosure

- Information published in financial report Information published in sustainability report
 Information published in ad hoc documents Other (*please specify*): *publish Green Deposit or Green CD report on the Bank's official website*
 Reporting reviewed (*if yes, please specify which parts of the reporting are subject to external review*):

Where appropriate, please specify name and date of publication in the useful links section.

USEFUL LINKS (*e.g. to review provider methodology or credentials, to issuer's documentation, etc.*)

The Bank will report on the allocation of net proceeds and associated impact metrics of its eligible green asset(s) annually as long as Green Deposit or Green CD is outstanding. A post-issuance report will be published on the Bank's official website on a yearly basis.

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:

- Second Party Opinion Certification
 Verification Scoring/Rating
 Other (*please specify*):

Review provider(s):

Date of publication:

ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE GLP

1. Second Party Opinion: An institution with sustainability expertise that is independent from the issuer/borrower may provide a Second Party Opinion. The institution should be independent from the issuer/borrower's adviser for its Green Finance Framework, or appropriate procedures such as information barriers will have been implemented within the institution to ensure the independence of the Second Party Opinion. It normally entails an assessment of the alignment with the Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy, and/or processes relating to environmental sustainability, and an evaluation of the environmental features of the type of Projects intended for the Use of Proceeds.

2. Verification: An issuer/borrower can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or environmental criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer/borrower. Also, evaluation of the environmentally sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer/borrower's internal tracking method for use of proceeds, allocation of funds from Green Loan proceeds, statement of environmental impact or alignment of reporting with the Principles may also be termed verification.

3. Certification: An issuer/borrower can have its Green Loan or associated Green Finance framework or Use of Proceeds certified against a recognised external green standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.

4. Green Loan Scoring/Rating: An borrower can have its Green Loan, associated Green Finance framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental performance data, process relative to the Principles, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material environmental risks.

Appendix 3: Hong Kong Quality Assurance Agency (HKQAA)

Local Excellence, Global Perspective

Established by Hong Kong Government in 1989, Hong Kong Quality Assurance Agency (HKQAA) is a non-profit public organisation committed to introducing international management standards, promoting good management practices and sustainability in Greater China for decades. As one of the leading conformity assessment organisations in the region, HKQAA not only provides certification, assessment, registration, training and research services to help organisations enhance management performance and competitiveness, but also develops a wide range of good management practices and related criteria to cope with increasingly diversified market demands and the growing need for sustainable development, fostering a better environment and bringing benefits to the community.

Ample Experience in Fostering Sustainable Economy

In recent years, sustainability has become one of the key forces driving organisations towards a prolonged success. To support and encourage them to walk the talk, HKQAA has developed diverse services and obtained ample experience in the field of social responsibility, environmental protection, sustainability and responsible investment:

- With the initial support of **The Hongkong and Shanghai Banking Corporation Limited (HSBC)**, HKQAA introduced the **CSR Index** to provide quantitative metrics to measure organisations' maturity level in practicing their social responsibilities in 2008;
- HKQAA has been **the only Hong Kong organisation accredited as the Designated Operational Entity (DOE)** by the Executive Board of the Clean Development Mechanism (CDM) under the United Nations Framework Convention on Climate Change (UNFCCC) to deliver CDM validation and verification services since 2011;
- HKQAA has been providing assessment and rating services on companies' sustainability performance for the **Hang Seng Corporate Sustainability Index Series** since 2014;
- Since 2017, our expert has been nominated by the **Innovation and Technology Commission of the HKSAR Government** and the **China National Institute of Standardization** respectively to directly take part in the technical committee of ISO/ TC 207/SC 4 and the working group of **ISO/TC 207/SC 4/ WG 7** to develop **ISO 14030 Green bonds – Environmental performance of nominated projects and assets**;
- Since 2018, HKQAA has been admitted as an **Observer of the Green Bond Principles (GBP) under the International Capital Market Association (ICMA)**;
- Since 2018, HKQAA has become an **approved verifier under the Climate Bonds Standard**.

Contact HKQAA

Website: <http://www.hkqaa.org>

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