

## Appendix I

### Description on China Construction Bank Singapore Branch's 2021 Transition Bond

China Construction Bank (“the Bank”) has prepared *China Construction Bank Transition Bond Framework* (the “Framework”). This Framework has been prepared to demonstrate the Bank will issue Transition Bonds (A) in response to the *Climate Transition Finance Handbook (2020)* published by International Capital Market Association (ICMA), (B) in alignment with the four pillars of relevant ICMA principles<sup>1</sup>, (C) in consideration of the climate change mitigation transition activity classification as defined in the *TEG Final Report on the EU Taxonomy*, the principles of “Avoidance of Carbon Lock-in” and “Do No Significant Harm”.

#### **In response to ICMA Climate Transition Finance Handbook (2020) Disclosure Recommendation**

##### **I. Climate Transition Strategy and Governance**

In recent years, by embedding green finance into the Bank’s overall strategy, the Bank has gained extensive experience in its constructive exploration of promoting green and sustainable development. Going forward, the Bank will further integrate “Green and Low-carbon Finance” into the Bank’s overall development strategy. The Board of Directors of the Bank reviewed and approved the *Green Credit Development Strategy of China Construction Bank (2016-2021)*, in which the Bank sets up seven short-term targets and three longer-term goals for green credit development. By making the most of the Bank’s strengths, the Bank leverages green loans to grow other green finance businesses, creating a complete suite of green financial products and services.

The Bank has reinforced the organizational support for the Green Finance business by further strengthening the leadership role of the Board of Directors and the management in Green Finance business, and by establishing a vertical and detailed governance structure of the Green Finance business, comprising “the Board of Directors, the Green Finance Management Committee, departments of the head office, dedicated divisions and offices-branches”.

The Bank will continue to increase credit support in transition projects towards low-carbon or zero-carbon, such as the technological transformation of traditional industries. When it comes to the selection of the Green and Low-carbon projects including transition finance, the Bank will focus on domestic steel, cement, electrolytic aluminum and other high-pollution, high-energy-consumption and high-carbon-footprint industries. The Bank will also follow the

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<sup>1</sup> For example, *ICMA Green Bond Principles 2018 (GBP)*.

principles of commercialization and sustainability to guide the clients in such industries to fully utilize financial products to transform and upgrade business as per relevant processes and technologies, to achieve their decarbonization targets, and to maximize environmental and social benefits, hence actively promoting companies to achieve their own climate transition goals and strategies.

## **II. Business Model Environmental Materiality**

The Bank pays significant attention to transition towards low-carbon or zero-carbon within traditional industries with high emissions, and will expand the Bank's transition financing to support enterprises to adopt new equipment and technology that can save energy and reduce emissions, facilitating the restructuring and technical transformation and upgrade within traditional industries, and ultimately to reduce the Bank's carbon footprint and carbon risk exposure in credit portfolios.

In terms of target setting, a higher proportion of green credit has been incorporated in the annual credit policy. With respect to organization and implementation, the targets for green finance business have been included in the annual comprehensive operation plan and broken down by each business line, branch and subsidiary. With respect to resource allocation, more resources will be invested in supporting the growth of green credit-related business as a priority. With respect to supervision and inspection, the performance of KPIs for green finance business has been incorporated in day-to-day monitoring. With respect to appraisal and evaluation, the KPIs for the green credit have been included in the annual KPI appraisal system. A higher share of incremental capital at risk will be allocated to green loans. An annual evaluation will be conducted on the progress made in green finance development by all domestic branches.

To better solve the issue of how to choose the right model for promoting green development in different areas under different conditions, the Bank has set up pilot green finance banks at the head office level in Zhejiang Huzhou, Guangdong Huadu, Chongqing Wanzhou, Shanghai Qingpu, Zhejiang Jiashan and Suzhou Wujiang, to explore replicable green finance models commensurate with the characteristics of the stage of social and economic development and natural ecological conditions in each areas, with a view to making better contributions with THE BANK's solutions by drawing upon the experience gained.

## **III. Climate Transition Strategy to be Science-based including Targets and Pathways**

The Bank undertakes to assess and use feasible scenarios and methodologies, such as the Assessing Low-Carbon Transition (ACT) initiative and the Science Based Targets initiative (SBTi), to select an appropriate baseline for carbon emission reduction to support the carbon reduction target under the Paris Agreement, which will be expressed in strength or absolute values. Relevant disclosures will be made subject to data availability.

## **IV. Implementation Transparency**

The Bank will take issuing Transition Bonds as a starting point and appoint third party reviewers to verify and certify the proceeds allocation for Transition Bonds-related projects and the subsequent environmental impacts. In the future, with the concept of Green and Low-carbon Finance progressively being embedded into the Bank's overall business, the Bank will ensure to enhance information disclosure transparency on a wider range of Green and Low-carbon Finance, including transition finance.

## **Alignment with the Four Pillars of Relevant ICMA Principles**

### **I. Use of Proceeds**

The Bank shall select eligible projects based on the countries or regions where the projects are located and the relevant national and regional pathways of achieving carbon neutrality ultimately. The Bank will also make the selection based on the principle of best practice including the data availability of eligible projects in each country and region, climate change mitigation transition activity classification as defined in the *TEG Final Report on the EU Taxonomy*, including the two principles of “*Avoidance of Carbon Lock-in*” and “*Do No Significant Harm*”, relevant measurable quantitative indicators as thresholds based on project location’s national/regional standards (if applicable), together with the list of “*Explicitly Excluded Projects*”

### **II. Project Evaluation and Selection**

- **Preliminary Screening.** Based on the project compliance documents and referring to criteria and standards of eligible project categories defined in the Framework, the Bank’s domestic and overseas branches shall conduct a preliminary screening of eligible projects, to form the list of nominated projects and submit to the Headquarter for further review.
- **Review and Approval.** The Bank’s Headquarter shall review each of the nominated projects, and then submit to professional third-party agencies for an independent assessment. Approval will be granted to nominated projects certified by professional third-party agencies. The approved projects will form the Eligible Project List.
- **Update and Maintenance.** The Bank’s Headquarter shall review the Eligible Project List on a quarterly basis and determine if any change(s) is necessary (for example, if a project has become ineligible due to amortization, prepayment, sale or other reasons). If such change(s) is necessary, the Headquarter shall organize domestic and overseas branches to nominate new projects and approve the eligible ones to replace projects that have become ineligible due to amortization, prepayment, sale or other reasons.

### **III. Management of Proceeds**

The Bank will allocate the proceeds from the Transition Bonds to the eligible projects across various domestic and overseas markets via the Bank's global network.

- **Planning for Use of Proceeds.** Prior to the issuance of Transition Bonds, the Bank shall develop the preliminary Eligible Project List to ensure that proceeds raised from Transition Bonds can be allocated to the eligible projects.
- **Management of Separate Register.** The Bank shall record the source and allocation of proceeds in a separate register management system to ensure that the proceeds of the Transition Bonds are properly managed and used. The Bank shall review and update the register on time. Any proceeds allocated to the projects that have been amortized, prepaid, sold or otherwise become ineligible due to other reasons shall be reallocated to newly nominated and approved projects. The register system shall contain information including but not limited to:
  - ✓ Transaction information (including but not limited to issue amount, coupon, issue date and maturity date, etc.)
  - ✓ Proceeds allocation information (including but not limited to project name, borrower description, project category, balance, release date, repayment date, exchange rate, interest rate of the loan, etc.)
- **Use of Unallocated Proceeds.** Unallocated proceeds shall not be invested in greenhouse gas intensive, highly polluting, energy intensive projects nor projects with negative social impacts (including but not limited to "Explicitly Excluded Projects"). The unallocated proceeds could be temporarily invested in Green or Transition Bonds issued by non-financial institutions in domestic or international capital markets, and in money market instruments with good credit ratings and market liquidity, or kept in cash until they are allocated to eligible projects.

#### IV. Reporting

The Bank will make disclosure in relation to the eligible projects' proceeds allocation and environmental impacts on an annual basis on the official website when the Transition Bonds remain outstanding. The Bank is committed to ensuring the transparency of information disclosure in accordance with the best practices recommended by the ICMA. The contents to be disclosed annually include but not limited to:

- Annual report of the Transition Bonds, where the content includes but not limited to the following proceeds allocation and environmental impacts information:
  - ✓ A brief description of the eligible projects where the proceeds were allocated, and breakdown in terms of amount and percentage allocated to each of the categories
  - ✓ The unallocated proceeds and how they are invested temporarily
  - ✓ Appropriate case information of the selected eligible projects
  - ✓ The environmental benefits of each category of the eligible projects where the proceeds were allocated

- An attestation report for the annual report issued by a qualified third party
- An attestation report for the use of proceeds issued by a qualified third party

## Eligible Project List

The Bank has established a list of eligible projects, with an approximated total value of RMB 2,114.91 million. Nominated projects list may evolve over time. The following is detailed information about the eligible projects.

### Eligible Project List

No.	Region	Project	Eligible Project Categories	Loan Amount (RMB million)
1	Southern China	Natural gas based distributed energy station project	Electricity, gas, steam and air conditioning supply	290.00
2	Southern China	Natural gas based cogeneration project	Electricity, gas, steam and air conditioning supply	560.16
3	Southern China	Natural gas based distributed energy station project	Electricity, gas, steam and air conditioning supply	205.00
4	Southern China	Natural gas based trigeneration project	Electricity, gas, steam and air conditioning supply	264.72
5	Southern China	Natural gas based trigeneration project	Electricity, gas, steam and air conditioning supply	266.67
6	Southern China	Natural gas based cogeneration project	Electricity, gas, steam and air conditioning supply	191.60
7	Eastern China	Natural gas based distributed energy station project	Electricity, gas, steam and air conditioning supply	46.00
8	Southern China	Natural gas based distributed energy station project	Electricity, gas, steam and air conditioning supply	65.00
9	Southern China	Natural gas based distributed energy station project	Electricity, gas, steam and air conditioning supply	162.22
10	Central China	Waste heat recovery and power generation project in an existing steel plant	Steel industry	63.54

No.	Region	Project	Eligible Project Categories	Loan Amount (RMB million)
<b>Total Loan Amount (RMB million)</b>				<b>2,114.91</b>

The following sets forth certain information of sample eligible projects:

- A natural gas based distributed energy station project located in Guangdong Province of China. The project is equipped with 3×59MW level gas-steam combined cycle trigeneration units with heating steam pipe network of 9.5km, cooling steam pipe network of 2.6km and low-temperature hot water pipe network of 2.5km to meet the demand for cooling, heating and power in distributed energy station. After the completion of the project, 10 small boilers within the heating range will be shut down. The total natural gas consumption of the project is about  $2.18 \times 10^8 \text{ Nm}^3/\text{year}$ . The power generation capacity is nearly 875.36GWh/year, the heating and cooling capacity is  $1.85 \times 10^6 \text{ GJ/year}$  and  $1.28 \times 10^5 \text{ GJ/year}$  respectively, which will result in the CO<sub>2</sub> emissions reduction of about 25,613 tons/year<sup>2</sup>. Carbon emission from nature gas of the project is about 62.15 tons CO<sub>2</sub>/TJ, which is 14.62% below the national average of 72.8 tons CO<sub>2</sub>/TJ<sup>3</sup>.
- A waste heat recovery and power generation project in an existing steel plant in Chongqing municipality of China. The project is equipped with 5 sets of waste heat recovery and power generation system in an existing steel plant with the installed capacity of 128.5 MW. The project will deliver 804,000 MWh electricity annually through recovering and utilizing the waste heat from the existing steel plant, which will result in the CO<sub>2</sub> emissions reduction of about 487,465 tons/year<sup>4</sup>



China Construction Bank Singapore Branch

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<sup>2</sup> Calculated based on the UNFCCC CDM methodology AM0107 *New natural gas based cogeneration plant*.

<sup>3</sup> Source: *International Energy Agency-Data and statistics*, available at: <https://www.iea.org>.

<sup>4</sup> Calculated based on the UNFCCC CDM methodology ACM0012 *Waste energy recovery*.