AIRSTAR BANK LIMITED

CLIMATE-RELATED DISCLOSURE REPORT

31 December 2022

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About the Report

Operating Boundaries

This report uses Airstar Bank's business activities as the operating boundary.

Time Range

The time range of this report is from 1st January 2022 to 31st December 2022.

Reference

This report follows the Task Force on Climate-related Financial Disclosures' (TCFD) recommendations on climate-related disclosures framework, mainly Governance, Strategy, Risk Management and Metrics and Targets.

Disclosure Channels

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1 Overview

Airstar Bank Limited ("the Bank") is a virtual bank licensed by the Hong Kong Monetary Authority (HKMA) on 9th May 2019. This is the first climate-related disclosure report by the Bank, and this report presents information on the Bank's efforts towards implementing the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). The Bank follows the procedures to initiate climate-related management under HKMA's guideline and instructions. The disclosure report corresponds to the requirement by HKMA's Supervisory Policy Manual GS-1 module on Climate Risk Management, and reflects the Bank's works on climate-related Governance, Strategy, Risk Management and Metrics and Targets.

The Bank recognizes the importance of climate change and regards climate-related policy as a key drive for the Bank's sustainable development in the long term. The climate-related policy also complies with HKMA requirement guided by Supervisory Policy Manual GS-1 to follow the climate-related management procedures.

Table 1 Framework on TCFD report[1]

Areas	TCFD's recommendation
Governance	The organisation's governance around climate-related risks and opportunities.
Strategy	The actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.
Risk Management	The processes used by the organisation to identify, assess and manage climate-related risks.
Metrics and Targets	The metrics and targets used to assess and manage relevant climate-related risks and opportunities.

[1] The TCFD report refers to "Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures" published by TCFD in June 2017.

2 Governance

Climate change and its associated risks and opportunities are overseen by the Bank's Board and supporting teams. In order to achieve the comprehensive climate-related management, the Bank has set up a climate risk management organizational structure, which is divided into three levels from the board to functional department:

A. The Board of Directors ("Board") and the Risk Committee ("RC")
B. The Risk Management Committee ("RMC")[2]
C. Functional departments/units that are responsible for the execution of climate-related risk management

The following governance diagram illustrates how our climate-related governance is currently structured:

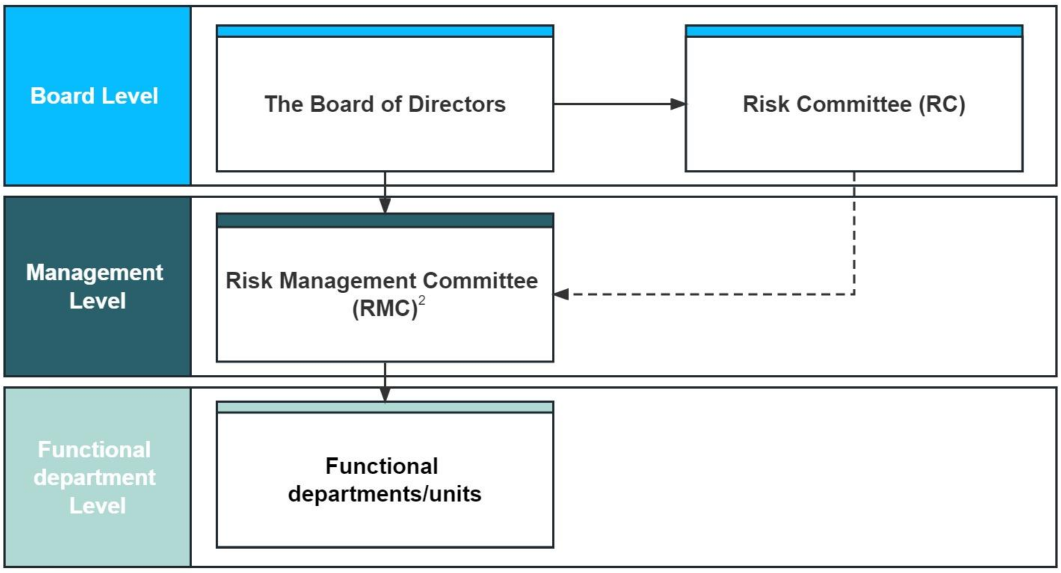

Figure-1 Climate-related Organizational Structure

2.1 The Board of Directors and the Risk Committee

The Board represents the highest authority of the Bank, which is ultimately responsible for overall risk management. The Board is also responsible for ensuring sufficient controls are in place on different levels. The RC (board level) is delegated by the Board to perform its monitoring and supervision duties and assists the Board in fulfilling primary management responsibilities regarding climate risk governance. The RC reports to the Board to assess and manage climate-related risks and opportunities on a quarterly basis.

2.2 The Risk Management Committee

The RMC is a senior management level committee to ensure it is incorporated within the

[2] RMC is a sub-committee of the Management Committee on enterprise-wide risk management with focuses on risk culture, risk appetite, risk profile and consideration of risk into strategic planning and business decisions. The Management Committee has the responsibility for exercising all power, authorities and discretion sub-delegated by the board.

decision-making process. Responsibilities of the RMC on climate risk governance include implementing the Bank's risk management framework, advancing the process of climate risk management, formulating climate risk management policies, risk appetite, strategies and major risk limits for the Board's approval, reviewing the remedial actions for the breach of the climate-related risk limit, establishing an effective escalation process for reporting significant risks and exceptions. The RMC reviews risk reports and provides updates to the RC to assess and manage climate-related risks and opportunities on a quarterly basis.

2.3 Climate-related Functional Departments/Units

The Bank adopted the Three Lines of Defence ("LOD") model and the division of work is listed below:

(1) First Line of Defence: The First LOD has ownership for risks and controls. It comprises Risk Owners and Control Owners.

(2) Second Line of Defence: The Second LOD reviews and challenges activities of the First LOD to ensure they have met the minimum requirements set out in the policies and procedures.

(3) Third Line of Defence: The Third LOD provides independent assurance to the senior management and non-executive governance committees on the effectiveness of risk management framework including design and implementation of processes and controls.

3 Strategy

Climate change will have a profound impact on the future business environment, resource allocation, and competitive advantage of the banking industry. Therefore, proper formulation, planning, and implementation of climate strategy will support the Bank to enhance its adaptability to climate risk. The Bank has incorporated climate considerations into its current strategy development process, promoted consistent understanding and effective communication of climate-related risks, and established a process to define and document relevant climate risk.

3.1 Strategic Plan for Climate-related Issues

In 2023, the Bank reviewed the Risk Appetite Statement ("RAS"), aiming to reduce emissions related to our own activities and those related to the financing of clients. The updated RAS was approved by the Board in 2023. Then the climate-related risk level will be closely monitored and regularly reported to the Risk Management Committee ("RMC") and Risk Committee. In the future, we will (1) closely pay attention to climate-related risks; (2) actively support to achieve the goal of the Paris Agreement and; (3) contribute to a zero-carbon future.

3.2 Transmission Path of Climate-related Risks to Traditional Risks

To enhance the strategy planning, the Bank has been aware of the impact of climate-related risks to the Bank's daily operation, and comprehensively identified the transmission path of climate-related risks to traditional risks, including credit, market, operational, legal, liquidity, reputational, and strategic risks. The Bank divides climate-related risks into short-term, medium-term and long-term impacts, with short-term risks referring to risks that may arise in the next 1-3 years, medium-term risks referring to risks in the next 3-10 years, and long-term risks referring to risks that bank will face in the next 10 years and above.

Transition risk refers to the financial risk related to the process of adjustment towards a lower-carbon economy. Physical risk includes short-term and long term risks. Short-term risks such as extreme weather events including typhoons, floods, etc., may result in business interruption. Long-term risks like rising sea levels and rising temperatures may result in impairment of coastal real estate assets. Among the traditional risk types, credit risk is assessed to be the most relevant regarding transition and physical risk.

Table 2 Transmission Path of Climate-related Risks to Traditional Risks

Traditional Risks	Transmission Path
Credit risk	Transition risk may reduce the borrower's repayment ability or recovery on outstanding obligations in the event of default due to the borrower being affected by policy changes. Rising carbon prices during the process of transition to a low-carbon economy also results in a reduction in the borrower's operating capacity and profits. Physical risks, such as extreme weather events including typhoons, floods, etc., may result in a reduction in the value of collateral.
Market risk	Failure to incorporate climate risk into pricing or valuation could trigger a significant and sudden negative price correction. At the same time, the impact of this risk would be expanding if correlations between assets collapse or if market liquidity for a particular asset falls sharply.
Operational risk	Physical risks lead to break in business operating. For example, in the event of extreme weather, there could be increasing interruption of the Bank's business operations or outsourced arrangements.
Liquidity risk	Climate risk may cause counterparties of the Bank to withdraw deposits or draw on lines of credit. Hence, when market conditions change due to climate risk drivers, sources of funding may be reduced.
Legal risk	Climate-risk-sensitive investments and business activities will increase the legal and regulatory compliance costs of the Bank.
Reputational risk	The market and consumer sentiment will gradually favor products, services and business activities that are climate or environmentally friendly. The Bank is therefore expected to take on more social responsibilities regarding climate change. Lack of awareness on the climate and environment when conducting business activities may adversely affect the Bank's ability to maintain or establish business relationships.
Strategic risk	The Bank may lose competitiveness and market standing for failing to respond in a timely manner to the changing market environment alongside the increasing scrutiny and preference towards climate or environmental-friendly solutions and responsible banking practices.

4 Risk Management

4.1 Climate-related Risks Management Policy

To address the impact of climate change on the Bank, the Bank has updated risk management policy and procedure in 2022. We reviewed Climate Risk Management Framework Policy in December 2022, which provided guidance to the Bank's climate risk management. The Bank also updated other risk management policy to further improve work on climate risk management of the Bank.

4.2 Identification of Climate-related Risks and Opportunities

The Bank analyzed the risk types and features based on its own management and industry requirements. Two types of climate risk have been identified, including transition risk and physical risk. Transition risk refers to the financial risk from the process of adjustment towards a lower-carbon economy. Physical risk refers to risks that may have a direct impact on the Bank’s assets and operations management, including acute climate disasters and chronic climate change.

In assessing the potential impact of climate risk, transition and physical risk scenarios are constructed for each of the traditional risk types to determine the likelihood of potential climate events under each primary risk, and the Bank’s capability of controlling these risks. For the risk assessment process, traditional risk types are categorized into: (1) credit risk, (2) liquidity risk, (3) market risk, (4) operational risk, (5) reputational risk, (6) legal risk, and (7) strategic risk. Based on the assessment, the potential impact of climate-related risks on traditional risks are relatively low. Therefore, climate-related risks are considered to be immaterial to the Bank.

4.3 Climate Risk Stress Testing

Climate Scenarios Settings

To ensure GS-1 compliance, the Bank carried out climate risk stress testing (“CRST”), transition risk and physical risk were separately assessed using the prescribed regulatory scenarios:

- The transition risk scenario has been formulated based on the disorderly scenario developed by the Network of Central Banks and Supervisors for Greening the Financial System (“NGFS”).

The physical risk scenario is based on the Representative Concentration Pathway (“RCP”) 8.5 adopted by the Intergovernmental Panel on Climate Change (“IPCC”).

The transition pathway for the prescribed regulatory disorderly scenario corresponds to the NGFS scenarios generated by the well-established National Institute Global Econometric Model (“NiGEM”) “Global Change Assessment Model (GCAM) 5.3 + NGFS”, in which the “delayed transition” scenario is used:

- The delayed transition scenario is based on the assumption that global annual emissions do not decrease until 2030. Therefore, strong policies are needed to limit warming to below 2°C.
- The NGFS paper chooses delayed transition scenario to represent disorderly pathways.
- Carbon dioxide removal (“CDR”) is assumed to be limited.

CRST Methodology

When conducting CRST on the wholesale and retail portfolios, baseline and stressed values of portfolio specific macroeconomic factors (MEFs) are obtained from the NGFS' NiGEM GCAM 5.3 + NGFS model (under the "baseline" and "delayed transition" scenarios). The probability of default (PD) term structure is subsequently generated using the updated MEF values, which is used to calculate the Expected Credit Loss (ECL) under both scenarios. The resulting impact of climate risk on the portfolio is analyzed based on the change in ECL under the baseline and stressed scenarios.

CRST Results

Given that the Bank focuses on retail banking, the impact of climate risk has been deemed immaterial. Therefore, industrial-level or obligor-level scenario analysis should be considered in the event that the Bank has increased climate related exposures or a corporate loan portfolio in the future.

5 Metrics and Targets

Throughout 2022, the Bank has made progress on assessing climate-related risks and opportunities, improving governance and risk management processes, as well as developing stronger metrics and targets.

5.1 Climate-related Risks and Opportunities Metrics

The bank has identified climate-related risks and opportunities, and conducted climate risk stress testing. The result shows that the impact of climate risk has been deemed immaterial. In the future, the Bank will update climate-related risk management policy regularly, publish climate-related disclosure on an annual basis, and work on the transition towards a lower-carbon economy.

5.2 Greenhouse Gas Emissions

The Bank adopted GHG Protocol[3] to calculate scope 1 and scope 2 greenhouse gas emissions. Since the Bank focuses on providing virtual financial services in HK, the physical boundary of greenhouse gas emission is the Bank's office in HK. In 2022, electricity was the only energy consumption of the Bank. Therefore, the scope 1 emission of the Bank was zero, scope 2 emission was 24.44 tonnes of CO_{2e}, and the total GHG emission was 24.44 tonnes of CO_{2e}. The Bank will keep on monitoring the greenhouse gas emissions of business activities, and set up plans on reducing the consumption of electricity.

Table-3 GHG Emission of the Bank in 2022

Indicator	Results (tonnes of CO_{2e})
Scope1 Total Annual Emissions from Stationary Combustion	0
Scope1 Total Annual Emissions from Mobile Combustion	0
Scope1 Total Annual Emissions from Refrigerants	0
Scope1 Total Reduction of Annual Emissions from Tree Planting	0
Scope2 Total Annual Emissions from Consumption of Purchased Electricity	24.44
Scope2 Total Annual Indirect Emissions of Purchased Gas	0
Scope1 Total Annual Emissions	0
Scope2 Total Annual Emissions	24.44
Scope1+Scope2 Total Annual Emissions	24.44

[3] GHG Protocol: https://ghgprotocol.org/standards