

ASSESSMENT

2 July 2024



Contacts

David Ho
Sustainable Finance Analyst
kayandavid.ho@moodys.com

Junying Lou
Associate Lead Analyst-SF
junying.lou@moodys.com

Susie Ko
Sustainable Fin Associate
susie.ko@moodys.com

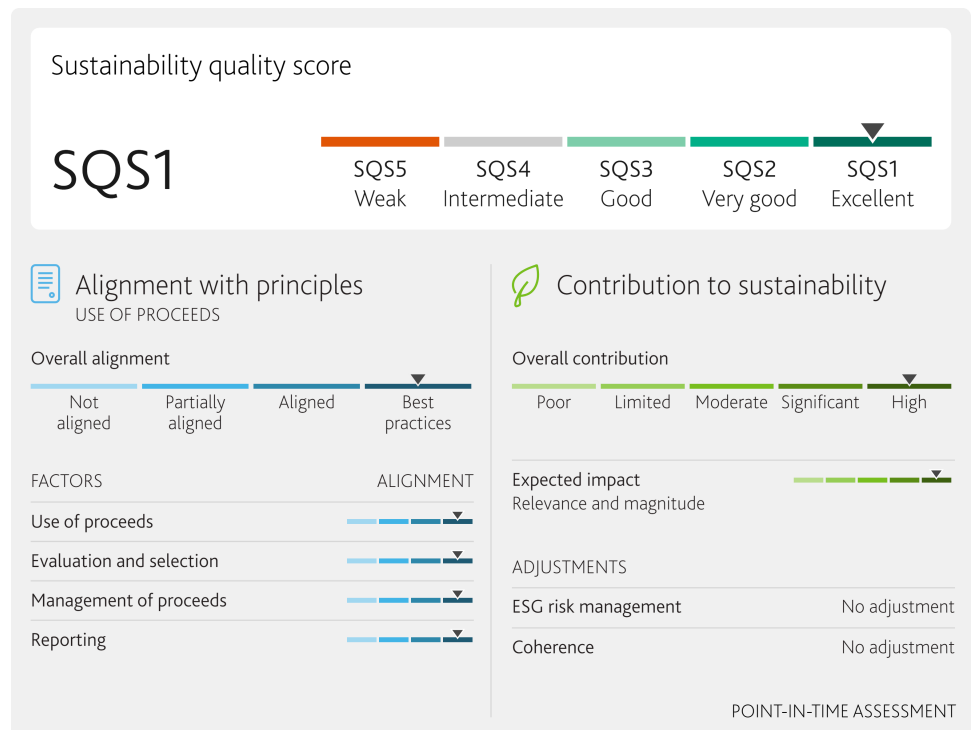
Jeffrey Lee
VP-Sustainable Finance
sukjoonjeffrey.lee@moodys.com

China CITIC Bank Corporation Limited

Second Party Opinion – Green Financing Framework Assigned SQS1 Sustainability Quality Score

Summary

We have assigned an SQS1 sustainability quality score (Excellent) to China CITIC Bank Corporation Limited's green financing framework dated June 2024. The issuer has established a use-of-proceeds framework with the aim of financing projects across three eligible green categories. The framework is aligned with the four core components of the International Capital Market Association's (ICMA) Green Bond Principles (GBP) 2021 (with June 2022 Appendix 1), and the Loan Market Association, Asia Pacific Loan Market Association and Loan Syndications & Trading Association's (LMA/APLMA/LSTA) Green Loan Principles (GLP) 2023 and has also incorporated best practices for all four components identified by Moody's Ratings. The framework demonstrates a high contribution to sustainability.



Scope

We have provided a second party opinion (SPO) on the sustainability credentials of China CITIC Bank Corporation Limited's green financing framework, including the framework's alignment with the ICMA's GBP 2021 (with June 2022 Appendix 1), and the LMA/APLMA/LSTA's GLP 2023. Under the framework, the bank plans to issue bonds, loans, certificate of deposits, or any other similar forms of financing instruments to fund projects across three eligible green categories, as outlined in Appendix 2 of this report.

Our point-in-time assessment¹ is based on the latest version of the framework received on 14 June 2024 and reflects details contained in this version of the framework, and other public and non-public information provided by the company. We produced this SPO based on our [Framework to Provide Second Party Opinions on Sustainable Debt](#), published in October 2022.

Issuer profile

China CITIC Bank Corporation Limited (CITIC Bank) is a joint-stock commercial bank headquartered in Beijing. The bank is the flagship subsidiary of CITIC Group Corporation, which is wholly owned by the Chinese government. CITIC Bank is designated as a domestic systemically important bank (D-SIB) by the People's Bank of China (PBOC) and the National Administration of Financial Regulation (NAFR). As of 31 December 2023, the bank's total asset was RMB9,052 billion.

The banking sector is exposed to carbon transition risks primarily from its exposure to retail and corporate lending and investment activities that principally mirror the full spectrum of economic activities. Social risks stemming from data security and customer privacy are critical concerns for the sector because of the large amounts of personal data accessed. Banks play a central role to mobilize capital to support projects with environmental and social benefits for the broader economy.

CITIC Bank has formulated the Development Plan for Green Finance of China CITIC Bank (2024-2026) to implement the strategic objectives of "carbon peak and carbon neutrality", foster CITIC Bank's low-carbon transition and sustainable development, and advance the strategic execution of green financial services. An integrated three-tiered organizational structure has been adopted to facilitate green finance development.

Strengths

- » Clearly defined eligibility and exclusion criteria, with some subcategories referencing technical screening criteria from the EU-China Common Ground Taxonomy (CGT)
- » Clearly defined environmental benefits, which are relevant and measurable
- » A short allocation period within 24 months is in line with market practice
- » External verification is carried out on both the allocation of funds and the reported environmental benefits
- » The bank has a robust ESG risk management process in place, all eligible assets will be subject to regular review

Challenges

- » There are inherent E&S risks associated with the construction of facilities and manufacturing process, for example, energy use, air and noise pollution and so forth, although there are risk mitigants in place

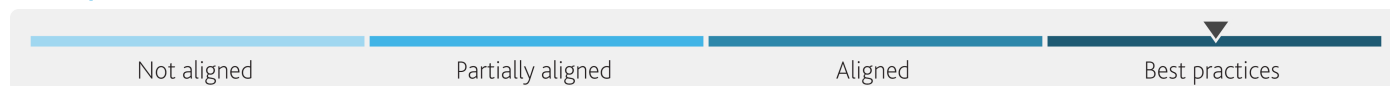
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Alignment with principles

CITIC Bank's green financing framework is aligned with the four core components of the ICMA's GBP 2021 (with June 2022 Appendix 1), and the LMA/APLMA/LSTA's GLP 2023, and incorporates best practices for all four components identified by Moody's Ratings:

- Green Bond Principles (GBP)
- Social Bond Principles (SBP)
- Green Loan Principles (GLP)
- Social Loan Principles (SLP)
- Sustainability-Linked Bond Principles (SLBP)
- Sustainability Linked Loan Principles (SLLP)

Use of proceeds



Clarity of the eligible categories – BEST PRACTICES

The bank has clearly communicated the nature of the expenditures, the eligibility and exclusion criteria for financed projects. The eligibility criteria are defined referring to relevant technical screening criteria or standards for the eligible categories. The bank has communicated that eligible projects will be exclusively located in Mainland China.

Clarity of the environmental or social objectives – BEST PRACTICES

The bank has clearly outlined the environmental objectives associated with all three eligible categories. These objectives include climate change mitigation, pollution prevention and control, and natural resource conservation. All eligible categories are relevant to the respective environmental objectives to which they are aiming to contribute. The bank has referenced the UN Sustainable Development Goals (SDGs) in articulating the objectives of the eligible categories (see Appendix 1), and the objectives are coherent with these recognized international standards.

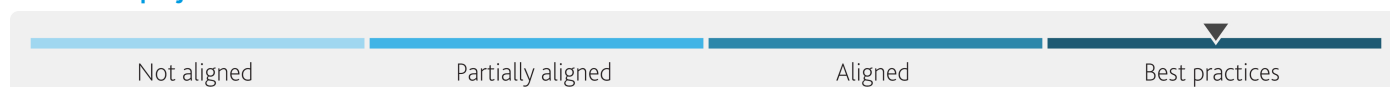
Clarity of expected benefits – BEST PRACTICES

The bank has identified clear expected environmental benefits for the eligible categories. These expected environmental benefits are relevant based on the projects likely to be financed under each category. The benefits are measurable for all project categories and the bank will report on these quantitative benefits in its annual reporting. The bank has confirmed its commitment to disclosing the share of refinancing before each issuance where feasible. For refinanced projects, the bank has committed to a maximum 36-month look-back period.

Best practices identified — use of proceeds

- » Eligibility criteria are clearly defined for all project categories
- » Objectives set are defined, relevant and coherent for all project categories
- » Relevant benefits are identified for all project categories
- » Benefits are measurable and quantified for most projects, either ex-ante with clear baselines or with a commitment to do so in future reporting
- » Commitment to transparently disclose the share of proceeds used for refinancing where feasible
- » Commitment to transparently communicate the associated lookback period(s) where feasible

Process for project evaluation and selection



Transparency and quality of process for defining eligible projects – BEST PRACTICES

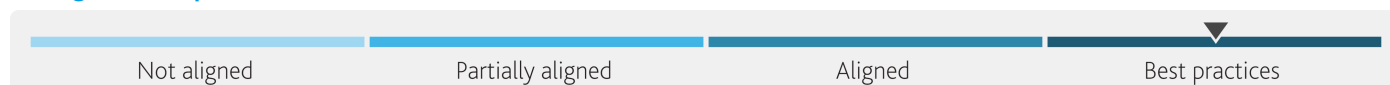
The bank has established a clear and structured two-stage process for the selection and evaluation of eligible assets, which is outlined in its framework. The bank's branches will be responsible for proposing and screening potential assets in accordance with eligibility criteria set out in the framework. The bank's Green Financing Working Group (GFWG) will review, approve and monitor the eligible green assets. The GFWG is comprised of relevant stakeholders from CITIC Bank's Asset & Liability Department, Green Finance Department, etc. The GFWG tracks and monitors the eligibility of assets at least annually or when necessary. The bank has confirmed that traceability of the process is ensured via supporting documents and an internal tracker.

Environmental and social risk mitigation process – BEST PRACTICES

The environmental and social risk mitigation process is disclosed in the framework. The bank has integrated appropriate ESG risk due diligence by conducting pre-lending review and post-lending monitoring. A differentiated management approach for different classes of customers based on their ESG risk profiles has been implemented by the bank. All eligible assets will be subject to a regular review in line with the bank's applicable environmental and social risk management policies, and the bank will take appropriate risk mitigation measures if major ESG risk events occur.

Best practices identified — process for project evaluation and selection

- » The roles and responsibilities for project evaluation and selection are clearly defined and include relevant expertise
- » There is evidence of continuity in the selection and evaluation process through the life of the financial instrument(s), including compliance verification and procedures to undertake mitigating actions when needed
- » The process for project evaluation and selection is traceable
- » Material environmental and social risks for most project categories are identified
- » Presence of corrective measures to address environmental and social risks across projects
- » ESG controversies are monitored

Management of proceeds**Allocation and tracking of proceeds – BEST PRACTICES**

The bank has defined a clear process for the management and allocation of Green Financing Transactions (GFTs) proceeds in its framework. The bank will deposit the net GFTs proceeds in general funding accounts, which will be earmarked for allocation towards eligible green assets. The bank will establish a GFT allocation register to track the use of proceeds. The bank will perform periodic adjustments of net proceeds to eligible assets annually or on a timely basis. The bank aims to fully allocate the net proceeds from each GFT within 24 months from the date of issuance.

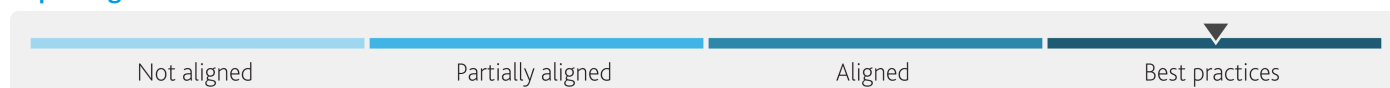
Management of unallocated proceeds – BEST PRACTICES

Following the bank's liquidity management practice, unallocated proceeds will be temporarily invested in green bonds issued by nonfinancial enterprises, money market instruments with good credit rating and market liquidity in the domestic and international markets. The bank has committed to not invest temporary placements in high polluting, high-carbon emission projects, and temporary placements of unallocated proceeds are also subject to exclusion criteria set out in the framework. If a project ceases to be eligible, the net proceeds will be reallocated to replacement projects that comply with the eligibility criteria, as soon as reasonably practicable.

Best practices identified — management of proceeds

- » Broad disclosure of a clearly articulated and comprehensive management of proceeds policy to external stakeholders; bondholders or lenders at a minimum
- » Short allocation period, for example typically less than 24 months
- » Disclosure on temporary placement and presence of exclusion criteria toward environmentally or socially harmful activities
- » Commitment to reallocate proceeds to projects that are compliant with the framework

Reporting



Transparency of reporting – BEST PRACTICES

The bank will report annually on the use of proceeds allocation and impact reporting until the bond maturity or loan payback, and thereafter in case of any material developments and issues related to the projects. The report will be publicly available on the bank's official website or other channels. The report will include exhaustive indicators for allocation reporting, such as the amounts allocated to the eligible category level; the balance of unallocated proceeds; the geographical distribution of proceeds at country level and examples of green projects. The bank has also identified relevant potential impact indicators in the framework for the eligible categories. The post-issuance reporting will also cover material developments or controversies related to projects and share of financing versus refinancing. The methodologies and key assumptions used to measure the environmental impacts will be made available. The bank will engage an independent third party to provide assurance on both allocation and impact reporting through full bond maturity.

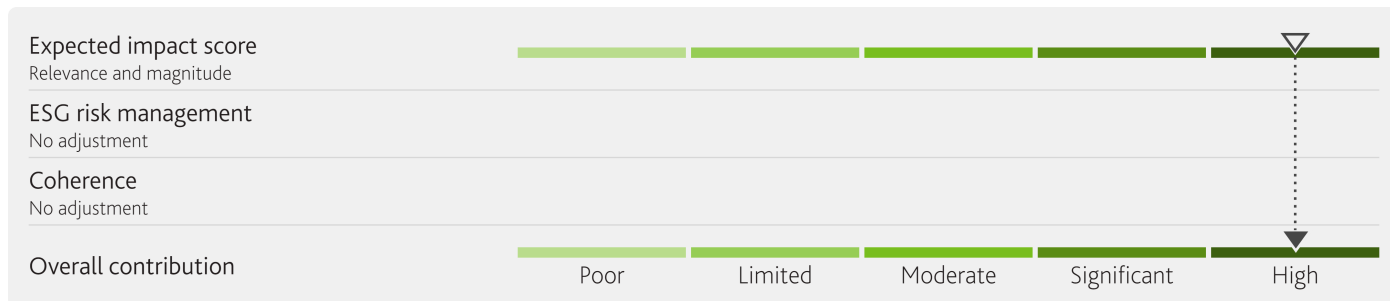
The bank has been making post-issuance disclosures on the bank's onshore green bonds² covering both allocation and impact reporting², suggesting a high likelihood of timely and consistent reporting for future issuances.

Best practices identified — reporting

- » Reporting until full bond maturity or loan payback
- » Reporting covers material developments and issues related to the projects or assets
- » Reporting on allocation of proceeds and benefits done at least at eligible category level
- » Exhaustive allocation reporting – balance or % of unallocated funds, types of temporary investments (e.g. cash or cash equivalent) and share of financing vs re-financing
- » Clear and relevant indicators to report on the expected environmental/social impact of all the projects, where feasible, or eligible categories
- » Disclosure of reporting methodology and calculation assumptions to bondholders or lenders at a minimum
- » Independent audit of the tracking and allocation of funds at least until full allocation and in case of material changes
- » Independent impact assessment on environmental benefits by a qualified third-party reviewer at least until full allocation and in case of material changes and/or case studies to report on the social impact/benefits

Contribution to sustainability

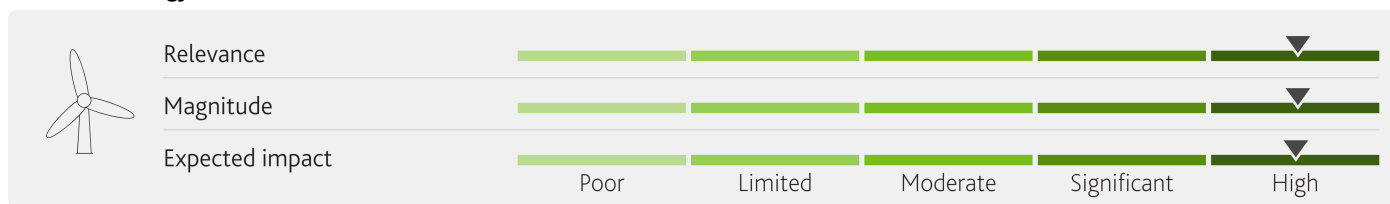
The framework demonstrates a high overall contribution to sustainability.



Expected impact

The expected impact of the eligible projects on environmental objectives is considered high. Based on information provided by the bank, we expect proceeds from forthcoming issuances to represent a higher proportion for the renewable energy and clean transportation categories. We have therefore assigned a higher weight to those categories in our assessment of the overall framework's contribution to sustainability. A detailed assessment by eligible category is provided below.

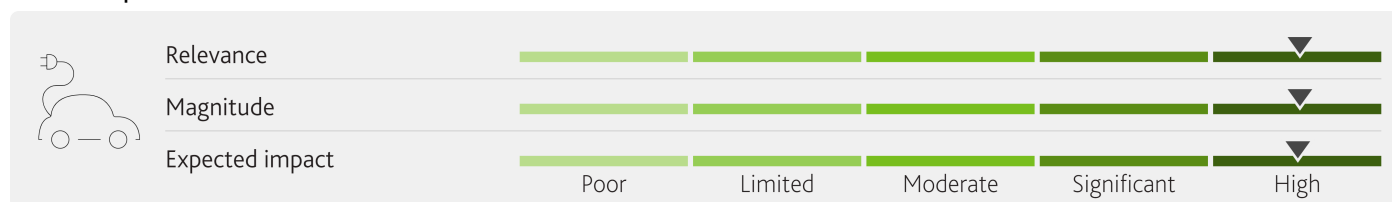
Renewable energy



This category is deemed highly relevant due to the crucial role renewable energy has in China's decarbonization efforts. In 2023, coal remained to be responsible for approximately 60% of China's electricity generation.³ Projects funded under this category align with China's dual carbon goals and policy initiatives to promote renewable energy, including the 14th Five-year plan (2021-25) for national economic and social development. This category is also highly relevant to the banking sector as banks play a pivotal role in channeling financial resources towards environmentally friendly activities to support climate change mitigation efforts.

The magnitude of this category is high because all technologies covered under this category are in line with the best available technologies and are expected to create long-term environmental impact without lock-ins. CITIC bank has confirmed that most proceeds will be allocated to wind, solar and battery energy storage, which are among the leading clean energy options and eligible by project nature in accordance with EU Taxonomy. The bank also adopts an additional requirement (a minimum of 85% of power generation derived from solar sources) from Climate Bonds Initiative (CBI) criteria for the solar projects. For its financed geothermal plants and transmission and distribution infrastructure, either CBI or EU Taxonomy criteria will be adopted. We expect no significant environmental and social (E&S) risks due to the bank's comprehensive E&S risk management requirements at the project level. For battery energy storage, the bank has confirmed that the projects will be limited to the storage of electricity from renewable energy sources and replace peak electricity produced by less environmentally friendly units. The production of wind generators and geothermal energy adheres to the CGT substantial contribution criteria laid out in the CGT numbers C2.3 and C2.8. The construction or operation of electricity generation facilities that produce electricity from concentrated solar power, wind, and battery storage systems adhere to the CGT substantial contribution criteria laid out in the CGT numbers D1.2, D1.3 and D1.8 respectively.

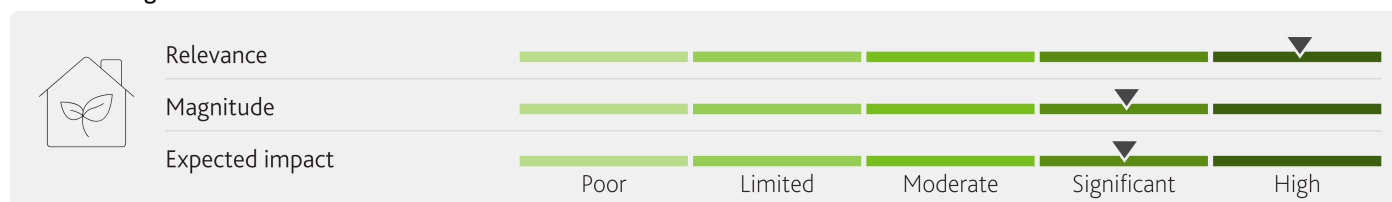
Clean transportation



This category is considered to have high relevance as the funded projects aim to encourage the utilization of zero direct emission transportation modes in China. The transportation sector in China accounts for a major share of greenhouse gas (GHG) emissions⁴ and air pollution. As China's motorization rate escalates, the transportation sector's contribution to the country's total emissions is expected to follow suit. Consequently, transforming this sector to a carbon-neutral model will profoundly influence China's emission path and air quality. The projects under this category will also support China's strategic plan to advance clean energy vehicles and electrify railways.

The magnitude of this category is high because investments in this category exclusively finance zero direct CO₂ emission transportation assets, in line with the current best available technology in the transport sector. The infrastructure to be financed under this category will be mostly dedicated to electric vehicle charging and hydrogen fueling stations, which are eligible in accordance with EU Taxonomy. Although the short to medium-term impacts are dependent on emissions from the supply chain, such as grid emission factors and commercially viable scale of low-carbon hydrogen, the zero direct tailpipe emission technologies are expected to create long-term environmental benefits without lock-ins. The financing of EV, hydrogen vehicle and electrified rail infrastructure, construction and operation of the public transportation system that is dedicated to the zero direct emissions mode also adhere to the CGT substantial contribution criteria laid out in the CGT numbers F2.1, F2.4 and H1.1, respectively.

Green building



The relevance of this category is high because the financing of building upgrades for energy efficiency addresses a key sustainability issue in China. According to the IEA, operational energy use in buildings account for a third of global final energy consumption and is responsible for 26% of global energy related emissions, primarily for the consumption of heat and electricity.⁵ In China, the buildings and construction sector is one of the largest energy consumers and GHG emitters, accounting for 51% of the country's total emissions.⁶ Projects that foster low-carbon development within the buildings sector will support China's carbon neutrality goal and align with national strategies to promoted green buildings.

Investments in this category are expected to have significant magnitude, as they will likely contribute to reduction of carbon emissions associated with buildings by enhancing the building energy efficiency. The Chinese Green Building Evaluation Label 3 star is confirmed by the bank to be the most frequently used label among the list of certifications. The 3-star label is recognized by CBI as a proxy to the top 15% of buildings in energy performance. The magnitude score also incorporates the bank's commitment to prioritize retrofitting over new construction, as the latter is considered to have greater adverse environmental impacts. Alternatively, the bank will accept other internationally recognized certifications like LEED Gold, BEAM Plus Gold, and BREEAM Excellent or higher. However, the bank has not set out additional energy efficiency thresholds for project eligibility, which might lead to diverse energy performance levels.

ESG risk management

We have not applied a negative adjustment for ESG risk management to the expected impact score. CITIC bank has a robust ESG risk management process in place, integrating ESG into its existing risk management framework. As detailed in the green financing framework, all eligible assets will be subject to the bank's applicable environmental and social risk management policies. CITIC bank is a member of the China Climate Investment and Financing Alliance, and the bank's ESG reporting is informed by the TCFD (now maintained by the International Sustainability Standards Board starting in 2024).

Coherence

We have not applied a negative adjustment for coherence to the expected impact score. Projects to be financed under CITIC bank's framework align with the bank's overall sustainability objectives and ESG strategy. Green category projects under the framework align with the bank's strategy to support the broader economy's green development and low-carbon transformation as outlined in Development Plan for Green Finance of China CITIC Bank (2024-2026), and other green finance policies and systems such as, CITIC Bank Green Banking Development Plan, CITIC Bank Guidelines for Promoting Green, Low-Carbon, and Circular Development, and CITIC Bank Management Measures for Green Credit Implementation.

Appendix 1 — Mapping eligible categories to the United Nations' Sustainable Development Goals

The three eligible categories included in CITIC Bank' green financing framework are likely to contribute to four of the United Nations' (UN) SDGs, namely:

UN SDG 17 Goals	Eligible Category	SDG Targets
GOAL 7: Affordable and Clean Energy	Renewable energy	7.2: Increase substantially the share of renewable energy in the global energy mix
GOAL 9: Industry, Innovation and Infrastructure	Clean transportation; Green building	9.4: Upgrade infrastructure and retrofit industries to make them sustainable, with all countries taking action
GOAL 11: Sustainable Cities and Communities	Clean transportation Green building	11.2: Provide access to safe, affordable, accessible and sustainable transport systems for all 11.6: Reduce the adverse per capita environmental impact of cities, with special attention to air quality and waste management
GOAL 13: Climate Action	Clean transportation; Renewable energy	13.2: Integrate climate change measures into national policies, strategies and planning

The UN SDGs mapping in this SPO considers the eligible project categories and associated sustainability objectives/benefits documented in the bank's financing framework, as well as resources and guidelines from public institutions, such as the ICMA SDG Mapping Guidance and the UN SDG targets and indicators.

Appendix 2 — Summary of eligible categories in CITIC Bank's green financing framework

Eligible assets	Description	Technical Screening Criteria	Reference to Green Taxonomy/Catalogue	Sustainability Objectives	Impact Reporting
Renewable energy	Loans, credits, investments or other types of financings to support: The projects related to manufacture, construction, installation, development, upgrade and operation of 1) renewable energy systems, including solar and wind power (onshore/offshore) generation facilities, 2) geothermal energy, 3) energy storage system facilities (i.e. batteries), and 4) electricity transmission and distribution infrastructure assets.	- The concentrated solar power with a minimum 85% of power generation derived from solar sources; - The geothermal with direct emissions below 100gCO ₂ /kWh - The transmission and distribution infrastructure is located on a system for which at least 67% of its added generation capacity in the last 5 years falls below the low carbon power threshold of 100gCO ₂ /kWh	- China Green Bond Endorsed Projects Catalogue 3.2.1.1, 3.2.1.2, 3.2.2.1, 3.2.2.2, 3.2.2.6 and 3.2.3.2 - Common Ground Taxonomy C2.3, C2.4, C2.8, D1.1, D1.3, D1.7 and D1.8	Climate change mitigation	- Annual renewable energy generation (GWh for electricity and GJ for other energy) - Annual GHG emission or standard coal equivalent reduced/avoided
Clean transportation	Loans, credits, investments or other types of financings to support: The projects related to purchase, construction, installation, operation and maintenance of the 1) public transportation system (i.e. subways, light railways, tram, public transportation vehicles and other urban rail transportation facilities) in urban and rural areas, 2) new energy vehicles (i.e. electric and hydrogen), and 3) its infrastructure such as electric vehicle charging and hydrogen filling stations.	- The transportation assets will have zero direct tailpipe CO ₂ emission;	- China Green Bond Endorsed Projects Catalogue 5.5.1.5 and 5.5.4.1 - Common Ground Taxonomy H1.1 and F2.4	Climate change mitigation; Pollution prevention and control	- Number of new energy vehicles deployed (e.g. electric vehicles, electric buses) - Km of tracks or dedicated lanes built (applicable to Rail Tram, Metro and Bus Rapid Transit Systems) - No. of passengers transported (applicable to Rail Tram, Metro and Bus Rapid Transit Systems) - Number and type of new energy transportation infrastructure built - Annual GHG emission or standard coal equivalent reduced/avoided
Green building	Loans, credits, investments or other types of financings to support: The projects related to construction of new buildings, renovation and refurbishment of existing owned and/or managed properties (including public service, commercial, residential, and recreational) which meet the requirements of recognized green building certification standards.	- U.S. Leadership in Energy and Environmental Design (LEED) – minimum certification of Gold; or - BREEAM – minimum certification level of Excellent; or - Chinese Green Building Evaluation Label (GBL) – minimum certification level of 3 stars; or - BEAM Plus – minimum certification level of Gold;	- China Green Bond Endorsed Projects Catalogue 5.2.1.2 and 5.2.1.5.	Climate change mitigation; Natural Resource Conservation	- Type and level of green building certifications obtained - Annual energy savings (MW/year)

Endnotes

- 1 Point-in-time assessment is applicable only on date of assignment or update.
- 2 [China CITIC Bank Co., Ltd report on the use of funds raised by green bonds \(in Chinese\)](#)
- 3 [China Electricity Council: 2023-2024 National electricity supply and demand analysis and forecast report \(in Chinese\)](#), accessed on 24 May 2024.
- 4 [IEA: An energy sector roadmap to carbon neutrality in China](#), accessed on 24 May 2024.
- 5 [IEA: Buildings](#), accessed on 24 May 2024.
- 6 [China Association of Building Energy Efficiency: 2022 Series of research reports on China's urban and rural construction sector carbon emissions \(in Chinese\)](#), accessed 24 May 2024.

Moody's assigns SPOs in alignment with the main tenets of the ICMA Guidelines for Green, Social, Sustainability and Sustainability-Linked Bonds External Reviews and the LSTA/LMA/APLMA Guidance for Green, Social and Sustainability-Linked Loans External Reviews, as applicable; Moody's practices may however diverge in some respects from the practices recommended in those documents. Moody's approach to assigning SPOs is described in its Assessment Framework, and is subject to the ethical and professional principles set forth in the Moody's Investors Service Code of Professional Conduct.

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