

ASSESSMENT

2 July 2024



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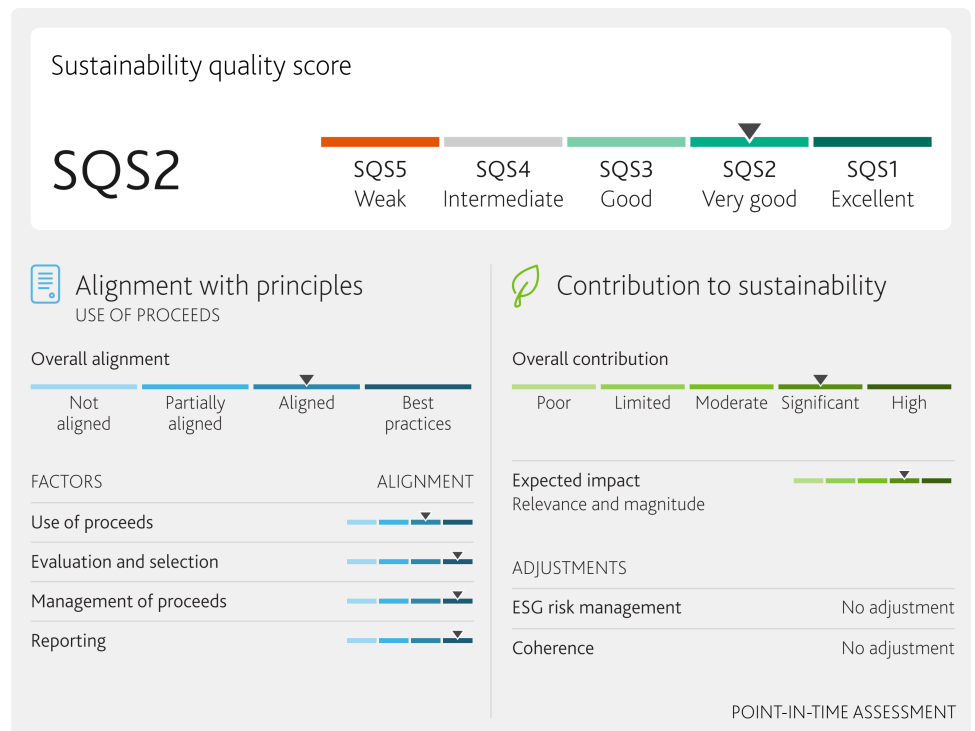
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China Merchants Bank Co., Ltd.

Second Party Opinion – Green, Social and Sustainability Bond Framework Assigned SQS2 Sustainability Quality Score

Summary

We have assigned an SQS2 Sustainability Quality Score (Very good) to China Merchants Bank Co., Ltd.'s green, social and sustainability bond framework, dated July 2024. China Merchants Bank Co., Ltd. has established its use-of-proceeds framework with the aim of financing projects across seven eligible green categories and five eligible social 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), Social Bond Principles (SBP) 2023 and Sustainability Bond Guidelines (SBG) 2021. The framework demonstrates a significant contribution to sustainability.



Scope

We have provided a second party opinion (SPO) on the sustainability credentials of China Merchants Bank Co., Ltd.'s green, social and sustainability bond framework, including the framework's alignment with the ICMA's GBP 2021 (with June 2022 Appendix 1), SBP 2023 and SBG 2021. Under the framework, the bank plans to issue bonds to fund projects across seven eligible green categories and five eligible social categories, as outlined in Appendix 2 of this report.

Our assessment is based on the last updated version of the framework received on 26 June 2024, and our opinion reflects our point-in-time assessment¹ of the details contained in this version of the framework, as well as 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 Merchants Bank Co., Ltd. (CMB) was established in 1987 and is headquartered in Shenzhen. The bank provides a wide range of services, such as corporate finance, financial institutions finance, retail finance, private banking and transaction banking. As of 31 December 2023, CMB reported total assets of RMB11 trillion.

As at the end of 2023, CMB had 143 branches (including Free Trade Zone branch, etc.) and 1,781 sub-branches, covering over 130 cities in Chinese mainland. For overseas markets, CMB had six branches and two representative offices. Total number of employees exceeded 110,000.

The key sustainability issues identified by CMB include development of green and sustainable finance and response to climate change. CMB has integrated the SUNFLOWER(Finance for good, Low-carbon planet, Opportunities for talents, Well-being promotion, Experience enhancement, and Reliable governance) Sustainability Model into its strategy.

Strengths

- » Clearly defined environmental and social (E&S) objectives and benefits in line with the United Nations' (UN) Sustainable Development Goals
- » Transparent project evaluation and selection process with clear exclusion criteria
- » Robust E&S risk management process in place to identify and mitigate the negative E&S impact associated with projects
- » The bank has been making post-issuance reporting for its prior sustainable bonds, suggesting a high likelihood of timely and consistent reporting for future issuances

Challenges

- » Some of the green and social categories remain broadly defined

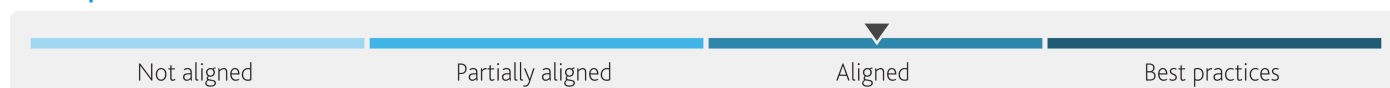
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Alignment with principles

CMB's green, social and sustainability bond framework is aligned with the four core components of the ICMA's GBP 2021 (with June 2022 Appendix 1), SBP 2023 and SBG 2021:

- 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 – ALIGNED

The bank has clearly communicated the nature of the expenditures, the eligibility and exclusion criteria for financed projects, as well as the target populations for the social categories for most project categories. The eligibility criteria are clearly defined for most green categories. However, the criteria for some categories remain broadly defined, for example, pollution prevention and control, sustainable water and wastewater management and environmentally sustainable management of living natural resource. Target populations for most social categories follow official definitions in China. The bank has confirmed that eligible projects will be located in China.

Clarity of the environmental or social objectives – BEST PRACTICES

The bank has clearly outlined the environmental and social objectives associated with all 12 eligible categories. All eligible categories are relevant to the respective environmental or social 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).

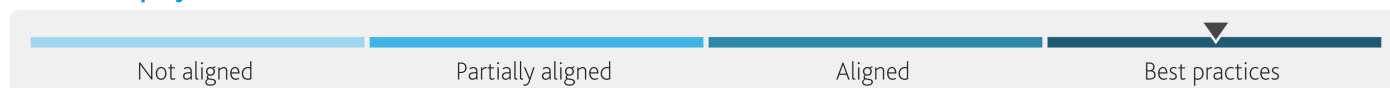
Clarity of expected benefits – BEST PRACTICES

The bank has identified clear expected environmental and social benefits for all 12 eligible categories and these are relevant based on the projects that are likely to be financed under each category. The benefits are measurable, and they will be quantified for all categories in the annual reporting. The bank has committed to a lookback period of no longer than 36 months from the time of issuance.

Best practices identified - use of proceeds

- » 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 process for the selection and evaluation of eligible assets, which is outlined in its framework. The bank's Asset and Liability Management (ALM) has the ultimate responsibility of framework oversight. The ALM will work closely with domestic and overseas branches, corporate finance department, inclusive finance department, and other department

if relevant in conducting initial selection of the projects in accordance with the eligibility criteria set out in the framework. The bank will also involve external experts or relevant internal departments to conduct environmental and social impact assessments for project selection purpose. The bank tracks and monitors the eligibility of assets during each reporting period and on a timely basis. Traceability of the process is ensured via meeting minutes and other internal documentation.

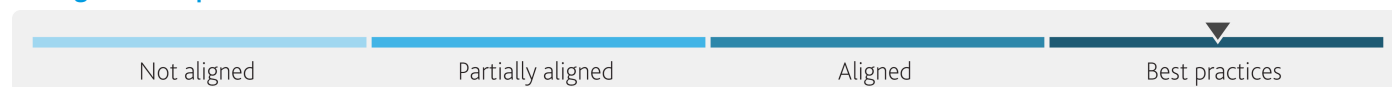
Environmental and social risk mitigation process – BEST PRACTICES

The bank has established a green finance policy to manage environmental and social risks which is publicly disclosed in its sustainability report. Environmental and social risks are integrated into the bank's entire credit management process. The green finance policy is applicable to all investment and financing businesses and involves seven stages, starting from client admission, due diligence, compliance review, customer classification, to contract management, loan disbursement management and post-investment and lending management. Additionally, the bank has specified in the framework that environmental and social impact assessment will be required during project selection process and relevant mitigation measures will be applied to minimize environmental and social risks. The ALM department in the bank is responsible for monitoring eligible projects and if a material event occurs during the bond tenor, appropriate mitigation measures for negative environmental and social impact will be followed.

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 of proceeds. Net proceeds will be deposited in general accounts and tracked using project management ledgers by ALM department of the bank's head office together with the treasury department of the issuing branch. The bank will monitor the allocation of proceeds during each reporting period and on a timely basis to ensure the full amount of proceeds are allocated to eligible projects. The bank aims to fully allocate the net proceeds from each bond within 24 months after issuance.

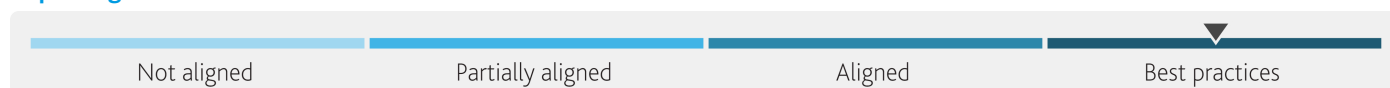
Management of unallocated proceeds – BEST PRACTICES

Unallocated amount will be held in cash by the ALM Department or invested in money market instruments with good market liquidity, and will be managed in accordance with the bank's liquidity management policy. The placement of unallocated proceeds will also comply with the exclusion criteria under the framework, which excludes financing of certain environmentally and socially harmful activities. In the event an asset is no longer eligible, the bank will aim to reallocate the net proceeds 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 and provide timely updates in case of any material changes to the projects allocated. The report will be publicly available on the bank's official website and will include exhaustive indicators, such as the amounts allocated to the eligible category level, the balance of unallocated proceeds and its temporary treatment, the share of proceeds used for refinancing, and the expected sustainable benefits of the eligible categories.

The bank has identified relevant potential impact indicators in the framework for the eligible categories and is committed to disclosing the calculation methodologies and key assumptions. The bank has confirmed that an external verifier will be engaged to provide assurance for both the allocation and impact reporting until full allocation of proceeds and in case of material changes.

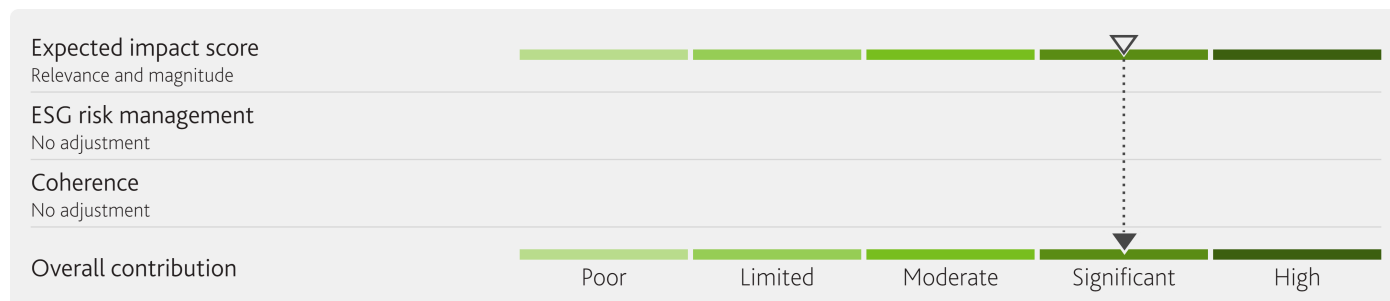
The bank has been publishing timely annual [post-issuance reporting](#) in line with the commitments in its prior green, social and sustainability bond framework, suggesting a high likelihood of continued timely and consistent reporting for future issuances.

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

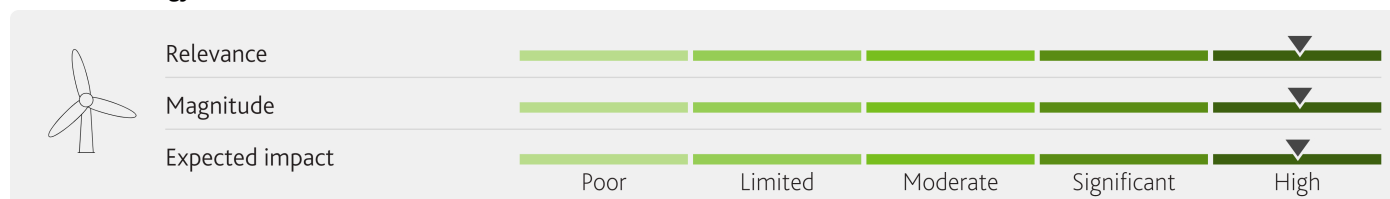
The framework demonstrates a significant overall contribution to sustainability.



Expected impact

The expected impact of the eligible projects on environmental and social objectives is significant. Based on information provided by the bank, we expect proceeds from forthcoming issuances to represent a higher proportion for the renewable energy, clean transportation, sustainable water and wastewater management, and employment generation including through the potential effect of SME financing and microfinance project 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.

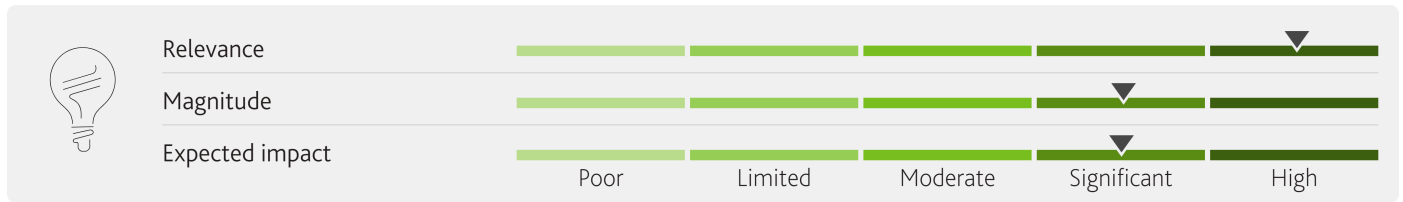
Renewable energy



The financed projects under the renewable energy category are highly relevant to the project location and the banking sector. Supporting renewable energy development in China is not only crucial to China's energy transition, but will also have a significant impact on global decarbonization and renewables acceleration. China is the world's largest greenhouse gas (GHG) emitter with nearly 60% of the total electricity supply produced from coal in 2023² and at the same, the nation is expected to account for almost 60% of new renewable capacity addition globally by 2028³. The banking sector in China plays an important role in channeling capital into green projects to drive decarbonization efforts and fulfil its mandate to promote green finance at a strategic level as defined by the China Banking and Insurance Regulatory Commission.

The magnitude is high because the projects included in this category are expected to generate long-term environmental benefits without lock-in effects by replacing fossil fuels with renewables. The majority of projects are expected to conform to best available technologies in line with leading taxonomies, such as Climate Bonds Initiative (CBI) criteria. CMB has also communicated that the majority of proceeds from this category will be allocated to solar and wind energy, which are among the cleanest energy sources and eligible by project nature in line with EU Taxonomy. CMB has set up comprehensive environmental and social risk management process to mitigate potential E&S externalities associated with specific technologies. In addition to environmental impact assessment required for each project prior to investment to mitigate relevant environmental risks, CMB has adopted sector specific internal guidelines for solar, wind, and hydropower projects to ensure proper compliance and management of the projects. For concentrated solar power, water resources availability and competition are specifically considered during the due diligence process. We note that large-scale hydropower projects with artificial reservoirs could be financed under this category. These projects inherently possess greater negative environmental and social impacts. However, the E&S due diligence measures implemented by CMB should adequately alleviate these concerns, for example, CMB has confirmed that local community communication plan will be required from the borrowers as part of due diligence process for hydropower projects. Moreover, the hydropower projects financed under this category will adhere to the most stringent market standards specified in CBI criteria.

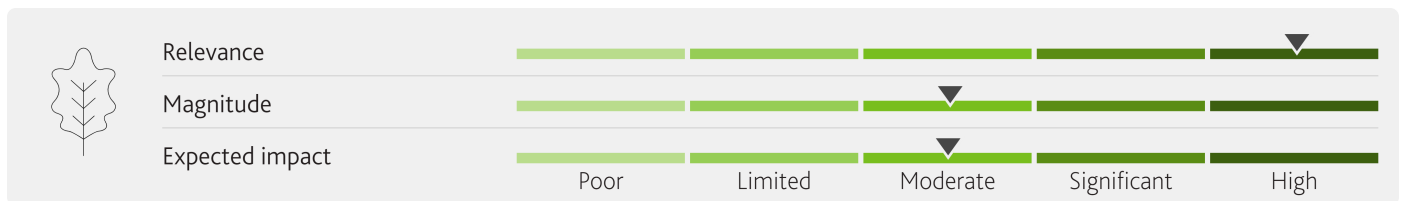
Energy efficiency



The relevance of this project category is high. Energy efficiency is viewed as the first fuel in the clean energy transition and is particularly relevant to China and the banking sector to aid the nation's efforts in decoupling energy consumption with a growing economy. Energy efficiency has been included as one of the central pillars in China's energy policies⁴ and is also recognized as one of the key areas upon which the progress of China's 2030 carbon emission peak target will be hinged⁵.

The magnitude is significant because all projects financed under this category are required to meet a minimum 30% energy efficiency improvement to be eligible, in line with optimal industry standards. In addition, CMB has excluded energy saving and emission reduction projects in heavy industries to prevent lock-ins, which have been considered favorably. However, the broad eligibility of sectors limits our visibility into the technologies and projects that could be financed.

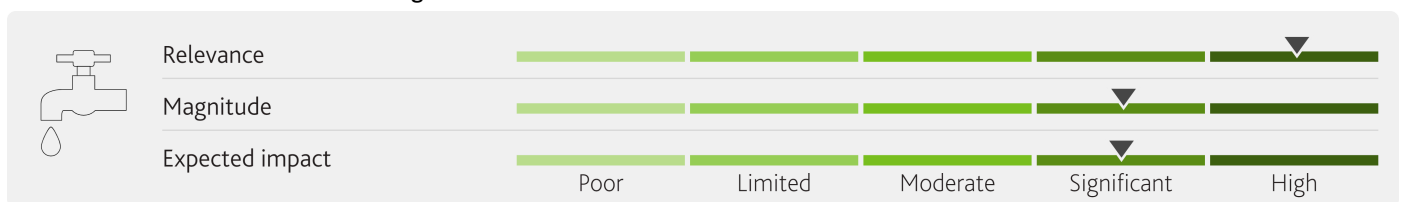
Pollution prevention and control



The relevance of this category is high as the financed projects are expected to address some of the highly important environmental challenges faced by China. China faces critical problems related to the growing volume of waste including municipal solid waste (MSW) and industrial waste, fueled by rapid urbanization and industrialization. Soil contamination from agricultural and industrial activities is another environmental issue China has been grappling with. The financed projects are expected to contribute to the Chinese government's policy initiatives with the aim to reduce waste quantities and protect natural resources.

The magnitude is moderate primarily due to the broad eligibility of sector and technology which impedes our visibility into the environmental benefits and externalities of the financed projects. While we acknowledge that projects are expected to deliver environmental benefits to relieve air, water and soil pollution, efforts focusing on recycling and remediation such as the ones included under this category are less favorable options compared with waste reduction and prevention, as the latter are ranked higher in the waste hierarchy. Projects under this category also lack information regarding eligibility thresholds or technologies, making it challenging for a full assessment of the expected impact including potential E&S externalities.

Sustainable water and wastewater management

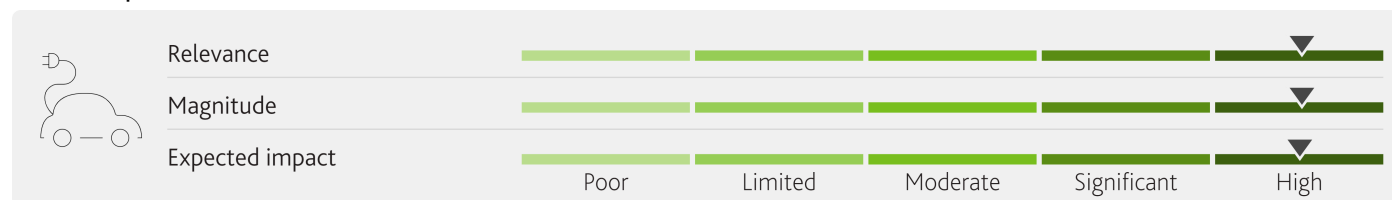


Projects under this category have high relevance because the category responds to one of the important environmental issues in China. China is exposed to various water and wastewater-related risks, including water scarcity, uneven distribution of water resources across regions, water pollution and frequent flooding. In recognition of these challenges, the Chinese government released a plan to safeguard the nation's water security⁶ during the 14th Five-Year Plan and increased investment into flood prevention infrastructure⁷.

The magnitude is significant because the majority of the projects under this category are likely to generate positive environmental impacts on water and wastewater management by improving water saving, reducing pollution and fostering flood resilience. CMB

has established technical eligibility criteria for water supply systems to be in line with EU Taxonomy. CMB has also confirmed that the sewage and wastewater treatment projects will be governed by relevant national regulations, such as pollutant discharge standards for urban sewage treatment plants, and river basin related projects will adopt mostly nature-based solutions and do not involve large-scale constructions that might impact biodiversity. Despite the expected environmental benefits, the broadly defined subcategories limit our full assessment of technologies and sectors that might be covered under this category.

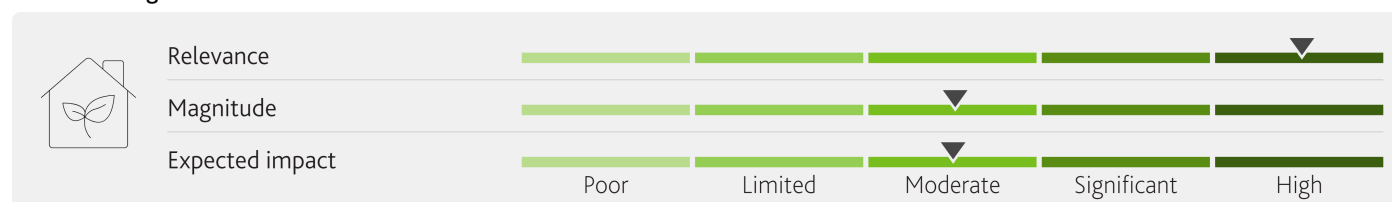
Clean transportation



Projects financed under this category are considered highly relevant because they are anticipated to contribute to China's carbon emission reduction and air quality improvement through the promotion of transportation modes with zero tailpipe emissions. Tailpipe emissions from the transport sector accounted for over 12% of total China's carbon emissions and 14% of the world's total carbon emissions.⁸ Road transport contributed to over 86% of carbon dioxide emissions among road, water, air and railway transport in China in 2019.⁹ Tailpipe emissions are also a primary source of air pollution in China. The number of new energy vehicles is expected to continue increasing significantly before 2030. The development of supporting infrastructure, such as electric vehicles (EV) charging and hydrogen fueling stations, is part of key strategies in China's 14th Five-Year Plan. This category also bears a high relevance to the banking sector due to the significant role banks play in directing funds to expand the value chain of new energy vehicles.

The magnitude of this category is high since this category is solely dedicated to transportation assets with zero direct CO₂ emissions, aligning with the best available technology in the transport sector. While short to medium-term impacts are subject to factors like grid emission and the commercial viability scale of low-carbon hydrogen in the supply chain, zero direct tailpipe emission technologies are projected to yield long-term environmental benefits without creating lock-ins.

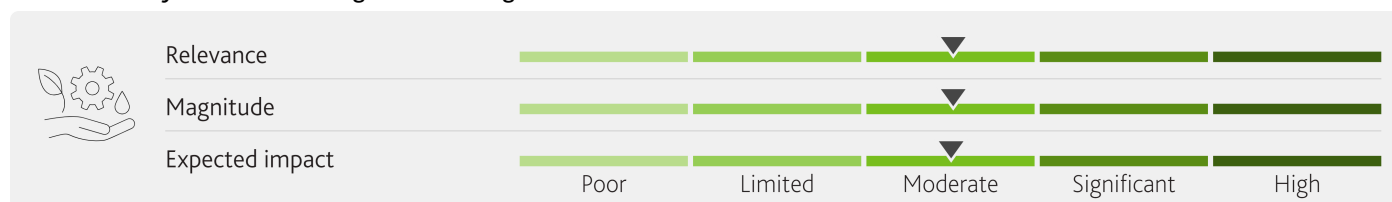
Green buildings



The relevance of this category is high because of China's significant contribution to global CO₂ emissions from buildings, accounting for nearly 25% in 2020. Buildings, both through direct and indirect use of fossil fuels for heating and electricity, contributed to around 20% of China's total emissions, according to the International Energy Agency (IEA).¹⁰ In response, the development of green buildings has emerged as a key strategy in China's pathway towards achieving its carbon neutrality target by 2060, a strategy that is supported by the national 14th Five-Year Plan. The banking sector holds significant sway over the shift towards sustainable building practices, given its pivotal role in steering funds towards the development of green buildings in China.

Projects financed under this category demonstrate a moderate magnitude. CMB has confirmed that all proceeds will be allocated to new buildings which are considered to have greater absolute energy consumption and more inherent E&S risks associated with the construction process. The magnitude score also incorporates the higher share of proceeds supporting China Green Building Evaluation Label 2-star level. The 2-star level indicates a medium level of contribution towards sustainability compared with the 3-star level, which is in line with the CBI criteria. CMB also intends to accept other globally recognized certifications like LEED Gold, Beam Plus Gold, and BREEAM Excellent or higher. However, the use of these certifications alone without specific thresholds concerning energy efficiency for new buildings may result in inconsistent energy performance levels due to the scoring-based systems of these certifications. CMB has also confirmed if renovation projects are included in future issuances, a 30% energy performance improvement will be required, which is in line with EU Taxonomy.

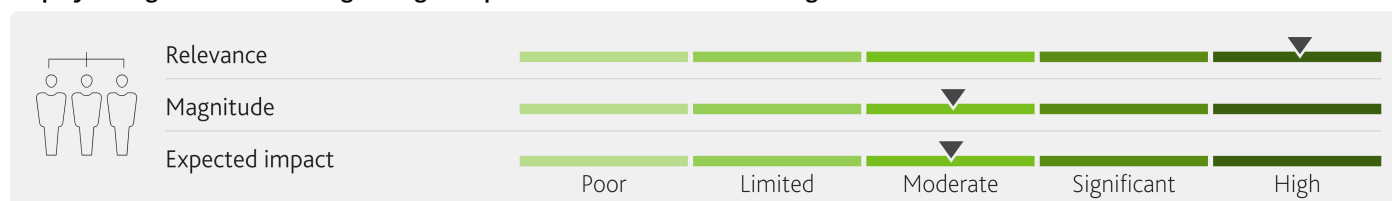
Environmentally sustainable management of living natural resource



The relevance of this eligible category is considered moderate. Despite the fact that China's agricultural practices and rapid urbanization have led to ecological challenges such as soil contamination, desertification, and biodiversity loss, these issues are not among the most pressing environmental concerns for China. Sustainable agriculture is identified by CMB as a key sector for its growing strategy of commercial loans, however, it is expected that environmental conservation still represents a small fraction of CMB's loan portfolio in the near future.

This category exhibits a moderate magnitude primarily because the wide-ranging eligibility within this category hinders our ability to fully evaluate the environmental impacts stemming from the financed projects. The majority of the projects under this category are expected to create positive environmental impacts without major lock-ins. CMB will leverage certifications from Aquaculture Stewardship Council and Marine Stewardship Council for aquaculture projects. In addition, CMB has communicated that certifications from the Forest Stewardship Council, the Programme for the Endorsement of Forest Certification and GLOBALG.A.P. will be required for forestry and agriculture projects. The use of recognized certifications should be reasonably sufficient to provide quality assurance to the certified projects. However, some subcategories remain broadly defined and lack details on technical thresholds or project types, which limits visibility into the full extent of the category's contribution to its stated objectives.

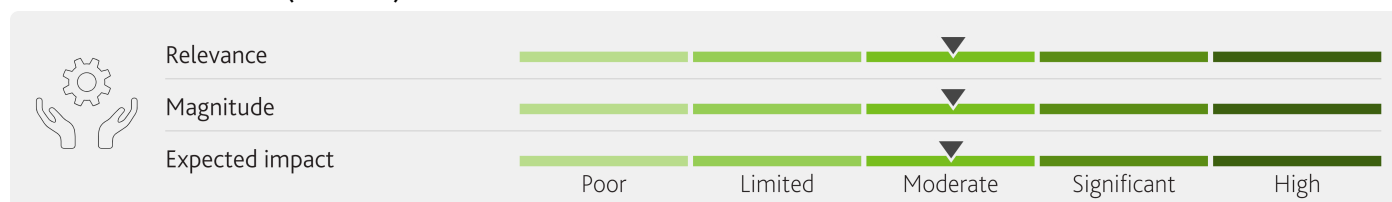
Employment generation including through the potential effect of SME financing and microfinance



The relevance of this category is high because small and medium-sized enterprises (SMEs) are the backbone of China's economy, contributing substantially to GDP, tax revenue, job creation, and exports.¹¹ However, securing financing remains a challenge for these businesses, exacerbated by the COVID-19 pandemic. In 2022, the government issued policies to strengthen financial support to SMEs. According to CMB's 2023 annual report, the bank has decided to shift its strategy towards increasing SME loan portfolio, which reflects the rising importance of SME financing and microfinance to individual-owned businesses to CMB.¹²

The magnitude of this category is considered moderate. CMB has identified the target populations as general SMEs and individually owned businesses, without further eligibility criteria. While general SMEs and individual owned businesses defined in broad terms may not necessarily represent the most vulnerable groups, providing financial support to SMEs and individually owned businesses will have a positive impact in reducing job losses and generating employment. CMB has established exclusive service channels and products for SME loans, which are expected to improve overall ease of access. The average interest rate for inclusive small- and micro enterprises reported by CMB was 4.48% in 2023, which is in line with market rates and sits in the middle range compared with the SME loan interest rates reported by banks of similar size.

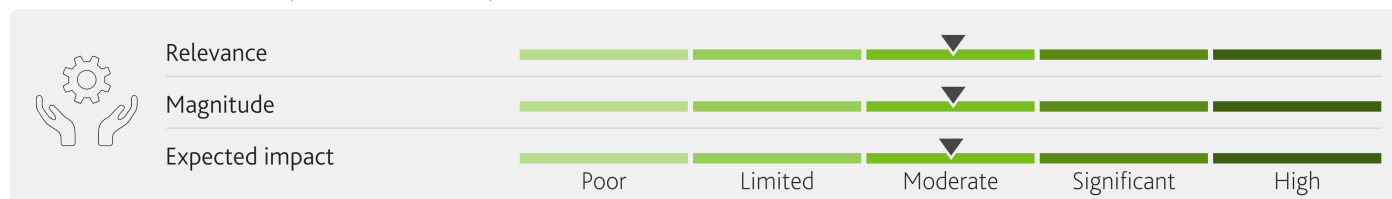
Access to essential services (Education)



The relevance is moderate, underscored by the essential need for enhanced educational support for students in underserved areas in China, even though education is not among the main sectors financed by CMB. Despite the extensive public education system in China, resource disparities exist, particularly in rural regions. Schools in these areas often lack the resources as compared with their urban counterparts, affecting the quality of education provided. In urban areas, low-income students, including many migrant students, face challenges such as covering school fees and accessing top-quality educational resources.

Projects under this category will have a moderate contribution in lowering the educational barriers for these target groups. CMB's plan involves funding construction of public education infrastructure, and supplementing this with assistance activities, scholarships and student loans for students in underdeveloped regions. While these initiatives aim to enhance educational support, CMB as a financier of the projects may not have full governance of the affordability and quality of the public education infrastructure projects. Similar concerns about affordability and quality remain in the context of student loans because of insufficient details about the project specifics.

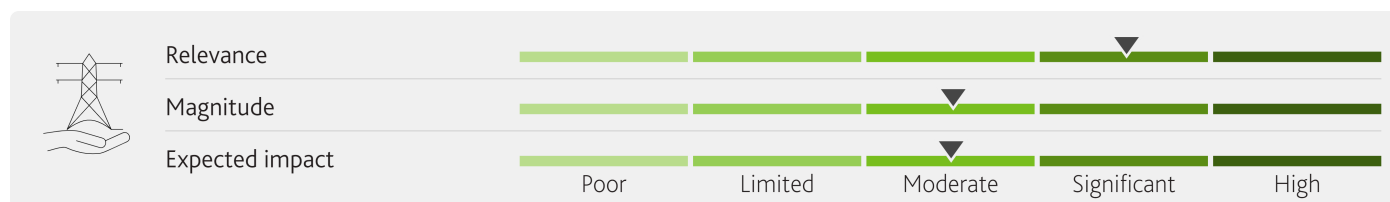
Access to essential services (Healthcare services)



The relevance is moderate because while healthcare is not among the main sectors financed by CMB, the requirement for improved public healthcare support in China continues to persist. Despite improvements in public medical infrastructure, urban areas continue to benefit from better healthcare resources compared to their rural counterparts. In contrast, rural areas face challenges due to a lack of medical professionals, hospitals, and lower healthcare spending by the local government. Moreover, the difficulty and cost associated with traveling for advanced medical care exacerbate the healthcare situation for rural populations. The healthcare system also struggles with disproportionate distribution and congestion of hospitals in Tier 1 and 2 cities. An increasing life expectancy in China would potentially place an additional burden on the country's medical system in the future. In response to these challenges, the Chinese government has implemented initiatives to improve medical infrastructure, enhance equipment usage, and raise the overall quality of healthcare services.

The magnitude of this category is moderate, given the potential benefits of public healthcare services for the general public in China. However, these medical projects may not fully address the needs of vulnerable groups like rural populations with limited healthcare access. In addition, while China's National Health Insurance Fund is expected to largely cover the medical costs, CMB may not have complete oversight over the quality and distribution of the financed medical infrastructure and services as a financier. This results in the uncertainty regarding the effectiveness and ultimate social benefits of the projects.

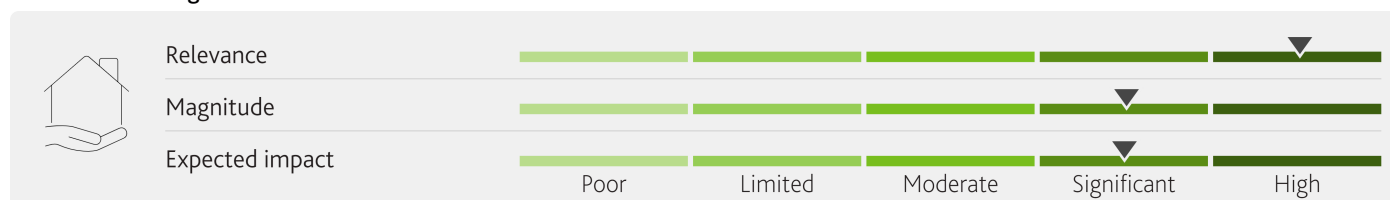
Affordable basic infrastructure



Projects under this category hold significant relevance due to the need to enhance basic infrastructure in China's rural areas, even though public utility financing constitutes a small fraction of the bank's portfolio. Challenges in China's rural areas include water supply, energy use, and waste management. Persistent water pollution, from sewage and agricultural runoff, necessitates improved water management. Underutilized renewable energy and heavy reliance on biomass and coal highlight the need for increased renewable energy generation capacity and clean energy promotion. Issues with waste disposal, causing environmental issues, indicate the need for better waste management systems and awareness initiatives. The inclusion of rural development in China's 14th Five-Year Plan also underscores the importance of these initiatives.

The magnitude of this category is moderate, with the potential to enhance infrastructure in rural China, despite unclear project specifics. CMB plans to fund clean water facilities, renewable energy, and waste projects, which are expected to replace traditional fuels with cleaner alternatives, reducing air and waste-related pollution, and benefiting public health. Waste treatment and sorting systems can reduce improper waste disposal and foster eco-conscious behaviors. CMB has confirmed that all the projects will adhere to relevant standards and regulations set by the Chinese government. The bank has also confirmed joint implementation of the projects with the government. However, there is uncertainty regarding the scale and locations of these projects and the likelihood of their effective use by local citizens, given their limited awareness. The inclusion of rural biogas facilities also raises concerns about potential negative environmental risks if not designed and administered properly.

Affordable housing



The relevance is high, because affordable rental housing projects are likely to alleviate housing issues in China, and property development is one of the key financed areas of CMB. The housing costs are high, especially in large cities in China, making affordability a key concern for young people and the migrant population. The situation has become more acute as a weakening economy hurts job prospects and incomes, undermining the ability of ordinary people to fund home purchases. In response to this issue, the Chinese government has been actively promoting affordable initiatives in recent years, intending to improve the subsidized housing system and increase the supply of subsidized housing.

The magnitude of this category is significant, as increasing the supply of affordable rental housing can expand affordable housing options in the market. CMB plans to finance construction and offer affordable housing mortgage loans to underserved groups like the youth, and low-to-middle income families. With CMB's funding aimed at local government-defined social housing programs, rental costs will likely be regulated and set below market rates. However, without specifics on the type of affordable rental housing CMB intends to finance, it is uncertain whether these housing projects are truly targeting the lowest income bracket. The lack of details on mortgage loans also raises uncertainty regarding their affordability to the target population.

ESG risk management

We have not applied a negative adjustment for the ESG risk management to the expected impact score. CMB has formulated the Green Finance Policy applicable to all investment and financing businesses, incorporating business ESG-related risks into the entire credit management process, and continuously strengthening business environmental (climate) risk management.

Coherence

We have not applied a negative adjustment for coherence to the expected impact score. The projects to be financed under the framework align with CMB's sustainability priorities. CMB will support China's national dual carbon goals of carbon peaking by 2030 and carbon neutrality by 2060. The bank has put in place the China Merchants Bank Credit and Investment Policy 2023, a broad policy framework built around 39 segments (or industry chains) and 139 specific industry policies. This approach demonstrates a dedication to achieving carbon peak and neutrality goals by using customized credit strategies to enhance support for key sectors. These sectors include sustainable, low-carbon developments and the upgrading of traditional industries. The strategy favors loans to eco-friendly clients and strictly forbids new funding for businesses heavily fined for environmental or safety breaches, unless the finance is intended for facility upgrades to reduce pollution and emissions.

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

The twelve eligible categories included in CMB's framework are likely to contribute to nine of the United Nations' Sustainable Development Goals (SDGs), namely:

UN SDG 17 Goals	Eligible Category	SDG Targets
GOAL 3: Good Health and Well-being	Access to essential services (Healthcare services)	3.8: Achieve universal health coverage with access to quality and affordable essential health-care services and medicines for all
GOAL 4: Quality Education	Access to essential services (Education)	4.4: Increase the number of youth and adults with technical and vocational skills for employment and entrepreneurship 4.A: Build and upgrade education facilities that provide safe and effective learning environments for all
GOAL 6: Clean Water and Sanitation	Sustainable Water and Wastewater Management	6.4: Increase water-use efficiency across all sectors and ensure sustainable supply of freshwater to reduce water scarcity
GOAL 7: Affordable and Clean Energy	Renewable Energy	7.2: Increase substantially the share of renewable energy in the global energy mix
	Energy Efficiency	7.3: Double the global rate of improvement in energy efficiency
GOAL 8: Decent Work and Economic Growth	Employment generation including through the potential effect of SME financing and microfinance	8.3: Promote policies that support productivity, job creation, entrepreneurship, innovation, and encourage the growth of SMEs
GOAL 9: Industry, Innovation and Infrastructure	Affordable Basic Infrastructure	9.1: Develop sustainable infrastructure to support economic development and human well-being, focusing on equitable access
GOAL 11: Sustainable Cities and Communities	Affordable Housing	11.1: Ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums
	Clean Transportation	11.2: Provide access to safe, affordable, accessible and sustainable transport systems for all
	Green Buildings	11.6: Reduce the adverse per capita environmental impact of cities, with special attention to air quality and waste management
	Pollution Prevention and Control	
GOAL 12: Responsible Consumption and Production	Sustainable Water and Wastewater Management	12.4: Achieve environmental management of chemicals and all wastes, and reduce their release to air, water and soil
GOAL 15: Life on Land	Environmentally Sustainable Management of Living Natural Resources and Land Use	15.1: Ensure the conservation and sustainable use of terrestrial and inland freshwater ecosystems and their services

The United Nations' Sustainable Development Goals (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 CMB's framework

Eligible Categories	Description	Sustainability Objective	Impact Reporting Metrics
Renewable Energy	<ul style="list-style-type: none"> » The construction, operation, maintenance and upgrade of renewable energy plants, e.g. wind power, solar power, photovoltaic power, hydropower (run-of-river hydropower and no artificial reservoir, or power density above 10 W/m² or life cycle emissions below 50g CO₂e/kWh), biomass energy (GHG emissions not exceed 16.0g CO₂e/MJ and energy conversion efficiency of at least 80% for biomass/biofuel for heating/cooling and co-generation, and 18.8g CO₂e/MJ for biofuel for transport), geothermal (life cycle GHG emissions below 100g CO₂e/kWh); and other projects which promote the use of renewable energy, such as the production of parts and equipment that facilitates the adoption of renewable energy » Infrastructure construction, operation, maintenance, and upgrade related to renewable energy, such as dedicated electricity generating facilities, construction of transmission networks and base stations 	Climate change mitigation	<ul style="list-style-type: none"> » Annual renewable energy generation (MWh for electricity) (GJ for other energy) » Annual GHG emissions reduced/avoided (tonnes of CO₂ equivalent) » Capacity of renewable energy plant(s) constructed or rehabilitated (MW)
Energy Efficiency	<ul style="list-style-type: none"> » Infrastructure upgrade to achieve energy efficiency improvement of at least 30 percent » Application of energy conservation and emission reduction technologies; construction of green manufacturing systems; technological transformation and upgrading in traditional manufacturing sectors which can achieve an energy efficiency improvement of at least 30 percent 	Climate change mitigation	<ul style="list-style-type: none"> » Annual energy savings in (MWh for electricity) (GJ for other energy) » Annual GHG emissions reduced/avoided (tonnes of CO₂ equivalent)
Pollution Prevention and control	<ul style="list-style-type: none"> » Recycling and reuse of industrial and municipal solid wastes; waste segregation, reprocessing of reusable resources for recycling purposes » Soil pollution management and remediation 	Pollution Prevention and control	<ul style="list-style-type: none"> » Waste prevented/minimized/reused/ recycled before and after the project (tonnes per year) » GHG emissions from waste management before and after the project (tonnes of CO₂ equivalent) » Annual absolute amount of waste that is separated/collected/ treated/disposed (tonnes per year, and as % of total waste)
Sustainable water and wastewater management	<ul style="list-style-type: none"> » Sewage treatment and recycling; comprehensive restoration of river basin, water pollution remediation and disposal and decontamination of hazardous wastewater » Sustainable water management, including smart water supply and water saving projects, such as water-saving technology, irrigation projects for water saving purposes. The abstraction and treatment of water with net average energy consumption of ≤ 0.5 kWh per cubic meter produced water supply, and leakage level at Infrastructure Leakage Index ("ILI") ≤ 1.5 » Flood prevention, and the prevention and control of disaster emergency situations, including the construction of flood basins, river embankment, and river management projects 	<ul style="list-style-type: none"> » Climate change mitigation » Natural resource conservation » Pollution prevention and control 	<ul style="list-style-type: none"> » Annual absolute water use before and after the project (m³/a) » Annual absolute amount of wastewater treated/reused /avoided before and after the project (m³/a) » Annual absolute amount of raw/ untreated sewage sludge treated/disposed/ reused (tonnes, and in % of total waste)
Clean Transportation	<ul style="list-style-type: none"> » Acquisition, manufacturing, construction, maintenance and update of facilities, equipment or infrastructure dedicated to zero direct emission vehicles including: <ul style="list-style-type: none"> – Electrified, hydrogen public transportation (e.g., railways, light rails, subways, and electric bus rapid transit ("BRT")) – Electric vehicles (EVs) and hydrogen vehicles (e.g., cars, trucks) – Infrastructure dedicated to EVs or hydrogen vehicles including charging and hydrogen refueling stations 	<ul style="list-style-type: none"> » Climate change mitigation » Pollution prevention and control 	<ul style="list-style-type: none"> » Passenger-kilometres (i.e. the transport of one passenger over one kilometre) and/ or passengers; or tonne-kilometres (i.e. the transport of one tonne over one kilometre) and/or tonnes » Annual GHG emissions reduced/avoided (tonnes of CO₂ equivalent) » Reduction of air pollutants: particulate matter (PM), sulphur oxides (SO_x), nitrogen oxides (NO_x), carbon monoxide (CO), and non-methane volatile organic compounds (NMVOCs) » Number of electric vehicles supported

Green Buildings	<ul style="list-style-type: none"> » New construction and renovation work of existing buildings which obtained or are expected to obtain one or more of the following green building certifications and respective level: <ul style="list-style-type: none"> –Chinese Green Building Evaluation Label - 2 Star or above –U.S. Leadership in Energy and Environmental Design (LEED) - Gold or above –Building Research Establishment Environmental Assessment Method (BREEAM) - Excellent or above –Hong Kong Green Building Council BEAM Plus Standards - Gold or above –Other equivalent international standards The renovation of an existing building will achieve at least 30% energy saving in comparison to the baseline performance of the building before the renovation 	<ul style="list-style-type: none"> » Climate change mitigation » Natural resource conservation 	<ul style="list-style-type: none"> » kWh/m² of GBA p.a.; and % of energy use reduced/avoided vs local baseline/building code; and, if relevant % of renewable energy (RE) generated on site » kgCO₂/m² of GBA p.a; and annual GHG emissions reduced/avoided in tonnes of CO₂ equiv. vs local baseline/baseline certification level; and/or % of carbon emissions reduced/avoided vs local baseline/baseline certification level » Type of scheme, certification level and m² GBA
Environmentally Sustainable Management of Living Natural Resource	<ul style="list-style-type: none"> » Ecological protection and restoration of the natural ecology and vegetation; certified sustainable agriculture and animal husbandry, sustainable forestry development, etc. » Development of blue economy, i.e. certified sustainable fisheries management plans, i.e. Aquaculture Stewardship Counsel label and Marine Stewardship Counsel label, projects for stock rebuilding and improving value chain of the ecosystem 	<ul style="list-style-type: none"> Natural resource conservation 	<ul style="list-style-type: none"> » Land afforested/revegetated (hectares) » Number of species protected » Size of natural protection area (hectares) » Type/Number of sustainable fisheries certifications obtained
Employment generation including SMEs through the potential effect of SME financing and microfinance	<ul style="list-style-type: none"> » Loans to promote inclusive finance: <ul style="list-style-type: none"> SMEs SMEs are defined by local governments or regulatory agencies, for example, definitions of SMEs in China will be according to the standards issued by China's Ministry of Industry and Information Technology, National Bureau of Statistics, National Development and Reform Commission, and Ministry of Commerce <ul style="list-style-type: none"> –Operational loans for SMEs –Supply chain financing –Loan with interest subsidies to small and micro enterprises –High-tech small business loans Individuals –Loans for individual-owned businesses 	<ul style="list-style-type: none"> Promote inclusive finance and job creation 	<ul style="list-style-type: none"> » Number of companies benefitted » Amount of credit provided » Number of jobs created/preserved » Number, type and gender of disadvantaged community benefitted
Access to essential services (Education)	<ul style="list-style-type: none"> » Construction of public education infrastructure » Pairing assistance activities, scholarship programs, and student loans to the students in/from underdeveloped regions such as rural areas or western region, etc. 	<ul style="list-style-type: none"> Increase the access to education 	<ul style="list-style-type: none"> » Number of public education infrastructure constructed » Number of students benefitted from the public education infrastructure/pairing assistance/scholarship/student loans » Amount of outstanding student loans
Access to essential services (Healthcare services)	<ul style="list-style-type: none"> » Construction of public medical infrastructure » Procurement of public medical equipment and pharmaceutical supplies » Production of public medical supplies and equipment 	<ul style="list-style-type: none"> Increase the access to healthcare services 	<ul style="list-style-type: none"> » Number of hospitals/medical centers constructed » Number of individuals/healthcare centers that received medical equipment / pharmaceuticals » Amount of outstanding loans for public medical infrastructure
Affordable Basic Infrastructure	<ul style="list-style-type: none"> » Clean drinking water facilities to underserved populations based in areas with no access or substantially inadequate access to safely drinking water » Basic rural living facilities, such as rural biogas, development of renewable energy power grids in rural area, rural garbage collection, sorting and treatment etc. 	<ul style="list-style-type: none"> Increase the access to basic infrastructure 	<ul style="list-style-type: none"> » Number of households benefitted from the clean drinking water facilities/basic rural living facilities » Amount of methane collected in rural area » Amount of electricity provided in rural area » Amount of waste collected and treated in rural area

Affordable Housing	» Social affordable housing programs such as public rental housing	Increase in number of homes available for target population	» Amount of outstanding loans for affordable housing programs » Number of housing units constructed/preserved » Number of individuals benefitted
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Endnotes

- 1 Point-in-time assessment is applicable only on date of assignment or update.
- 2 [China Electricity Council: 2023-2024 National Electricity Supply and Demand Analysis and Forecast Report \(in Chinese\)](#), 30 January 2024.
- 3 [International Energy Agency \(IEA\): Renewables 2023 analysis and forecast to 2028](#), January 2024.
- 4 [The State Council: China specifies energy targets for 2021-2025](#), 22 March 2022.
- 5 [IEA: An energy sector roadmap to carbon neutrality in China](#), September 2021.
- 6 [The State Council: The 14th Five-Year Plan for Water Security \(in Chinese\)](#), 12 January 2022.
- 7 [The State Council: Acceleration of construction of water infrastructure post-disaster \(in Chinese\)](#), 2 March 2024.
- 8 [Climate Change Research: Analysis of carbon emission level and intensity of China's transportation industry and different transportation modes](#), February 2023.
- 9 [Statista: Distribution of Carbon Dioxide \(CO₂\) Emissions from the Transportation Sector in China in 2019, by mode](#), accessed on 24 May 2024.
- 10 See endnote 5.
- 11 [OECD iLibrary: Financing SMEs and Entrepreneurs 2022: An OECD Scorecard](#), 29 March 2022.
- 12 [China Merchants Bank: 2023 Annual Report](#), 25 March 2024.

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