

## Assurance Report on Pre-issuance of China Merchants Bank Sydney Branch's 2022 Green Bond

### To China Merchants Bank Co., Ltd.

We have been engaged by China Merchants Bank Co., Ltd. (the "Bank") to perform a limited assurance engagement, as defined by International Standards on Assurance Engagements, here after referred to as the engagement, to report on the Bank's use of proceeds, process for project evaluation and selection, management of proceeds, and reporting of its Sydney Branch's 2022 green bond issuance (the "Subject Matter") as of 16 February 2022 in the accompanying the *Description on China Merchants Bank Sydney Branch's 2022 Green Bond* (the "Description").

### Criteria applied by the Bank

In preparing the use of proceeds, process for project evaluation and selection, management of proceeds, and reporting of its Sydney Branch's 2022 green bond issuance in the Description, the Bank applied the *Green Bond Principles 2021* published by International Capital Market Association and *Common Ground Taxonomy - Climate Change Mitigation* (the "CGT") released by International Platform on Sustainable Finance (IPSF) Taxonomy Working Group Co-chaired by the EU and China (the "Criteria").

### The Bank's Responsibility

The Bank's management is responsible for selecting the Criteria, and for presenting the use of proceeds, process for project evaluation and selection, management of proceeds, and reporting of its Sydney Branch's 2022 green bond issuance in accordance with that Criteria, in all material respects. This responsibility includes establishing and maintaining internal controls, maintaining adequate records and making estimates that are relevant to the preparation of the subject matter, such that it is free from material misstatement, whether due to fraud or error.

### Assurance Practitioner's Responsibility

Our responsibility is to express a conclusion on the presentation of the Subject Matter based on the evidence we have obtained.

We conducted our engagement in accordance with *International Standard on Assurance Engagements 3000 (Revised): Assurance Engagements Other than Audits or Reviews of Historical Financial Information* issued by the International Auditing and Assurance Standards Board. The standard require that we plan and perform our engagement to obtain limited assurance about whether, in all material respects, the Subject Matter is presented in accordance with the Criteria, and to issue a report. The nature, timing, and extent of the procedures selected

depend on our judgment, including an assessment of the risk of material misstatement, whether due to fraud or error.

We believe that the evidence obtained is sufficient and appropriate to provide a basis for our limited assurance conclusions.

## **Our Independence and Quality Control**

We have maintained our independence and confirm that we have met the requirements of the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants, and have the required competencies and experience to conduct this assurance engagement.

We also apply *International Standard on Quality Control 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

## **Description of procedures performed**

Procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Our procedures were designed to obtain a limited level of assurance on which to base our conclusion and do not provide all the evidence that would be required to provide a reasonable level of assurance.

Although we considered the effectiveness of management's internal controls when determining the nature and extent of our procedures, our assurance engagement was not designed to provide assurance on internal controls. Our procedures did not include testing controls or performing procedures relating to checking aggregation or calculation of data within IT systems.

A limited assurance engagement consists of making enquiries, primarily of persons responsible for preparing the use of proceeds, process for project evaluation and selection, management of proceeds, reporting of China Merchants Bank Sydney Branch's 2022 green bond issuance and related information, and applying analytical and other appropriate procedures.

Our procedures included:

- Conducted interviews with personnel to understand the business and reporting process
- Conducted interviews with key personnel to understand the process for collecting, collating and reporting the Subject Matter in the Description
- Checked the eligibility of the nominated projects of green bond issuance in accordance with the Criteria
- Undertook analytical review procedures to support the reasonableness of the data
- Identified and testing assumptions supporting calculations
- Tested, on a sample basis, underlying source information to check the accuracy of the data

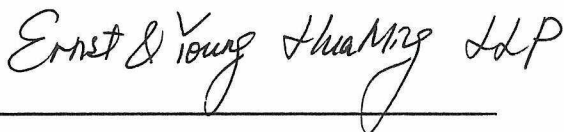
We also performed such other procedures as we considered necessary in the circumstances.

## Conclusion

Based on our procedures and the evidence obtained, we are not aware of any material modifications that should be made to the use of proceeds, process for project evaluation and selection, management of proceeds, and reporting of China Merchants Bank Sydney Branch's 2022 green bond issuance as of 16 February 2022 in the Description, in order for it to be in accordance with the Criteria.

## Restricted use

Our responsibility in performing our procedures and reporting thereon is to the Bank only and in accordance with terms of reference for this engagement as agreed with them. The report may not be suitable for another purpose. We do not therefore accept or assume any responsibility for any other purpose or to any other person or organization. Any reliance of any such third party may place on the China Merchants Bank Sydney Branch's 2022 Green Bond issuance is entirely at its own risk.



Ernst & Young Hua Ming LLP

16 February 2022  
Beijing, China



## Appendix I

### Description on China Merchants Bank Sydney Branch's 2022 Green Bond

China Merchants Bank Co., Ltd. (the "Bank") has established the *China Merchants Bank Green, Social and Sustainability Bond Framework* (the "Framework"), which defines the use of proceeds, process for project evaluation and selection, management of proceeds, as well as reporting in accordance with the *Green Bond Principles 2021* published by International Capital Market Association and *Common Ground Taxonomy - Climate Change Mitigation* (the "CGT") released by International Platform on Sustainable Finance (IPSF) Taxonomy Working Group Co-chaired by the EU and China.

#### Use of Proceeds

An amount equivalent to the net proceeds of the green bond will be used exclusively for the financing and/or refinancing of Eligible Green Projects that meet the eligibility criteria as specified in the Framework as well as the *Green Bond Principles 2021* and the CGT.

In any case, the following sectors will be excluded from Eligible Green Projects categories ("Explicitly Excluded Projects"):

- Sectors which are prohibited by laws and regulations in China, such as child labor, gambling industry, adult entertainment and corporations which are in association with illegal activities
- Luxury sectors such as precious metals, artwork & antiques and golf course services
- Distillation, rectification and mixed alcoholic beverages
- Production and trade of tobacco and tobacco products
- Hydro power with installed capacity > 20 MW
- Biomass which is suitable for food sources
- Mining and quarrying
- All fossil fuel-related assets and activities, such as clean coal projects and rail projects that carrying fossil fuels
- Energy saving and emission reduction projects in heavy industries
- Nuclear energy and nuclear related assets
- Weapon and ammunition
- Army vehicles leasing and operation
- Businesses and activities which are related to the production, distribution and storage of hazardous chemicals and radioactive substances
- Carbon-intensive infrastructures including newly constructed roads, bridges and airports



- Commercial logging operations for virgin tropical rainforests
- Timber production or trade in unsustainable forests

## **Process for Project Evaluation and Selection**

In accordance with the Framework, the Bank defined the responsibility on project evaluation and selection.

### **1. Preliminary Screening**

The Bank's Asset and Liability Management Department will conduct preliminary screening of eligible projects according to the eligibility criteria of the framework based on the project compliance documents, meanwhile, considering different factors including but not limited to sectors, geographies, asset types, and outstanding loan amounts, etc. Such list of preliminary assets will be tagged as Eligible Green Projects according to principles such as prioritizing project loans and new projects, forming an "Eligible Green Project List".

### **2. Review**

The Asset and Liability Management Department will prepare relevant document lists for the "Eligible Green Project List", and initiate document review and site visit.

### **3. Update and Maintenance**

The Asset and Liability Management Department will review the Eligible Green Project List on an annual basis, make replacement if any change(s) is necessary (for example, if a project has become ineligible due to amortization, prepayment, sale or other reasons). If such change(s) is necessary, new projects nominated as eligible green project shall be added in the list, to ensure the full amount of proceeds are allocated to Eligible Green Projects.

## **Management of Proceeds**

In accordance with the Framework, the Bank has defined the responsibility on the management of the proceeds.

During the outstanding period, the Asset and Liability Management Department of the Bank's head office and the Treasury Department of the bond-issuing branch will dynamically manage the use of the proceeds.

### **1. Management of Separate Ledger**

The Asset and Liability Management Department will set up project management ledgers for eligible projects and is responsible for summarizing the updates of project information in the ledger on a timely basis. If a material event or situation changes has occurred to an eligible project during the bond tenor, the relevant line department will decide on a remediation plan with the Asset and Liability Management Department; If there is no major change to the eligible projects, the relevant line department will provide updated information on eligible projects to the Asset and Liability Management Department on an annual basis.



The ledger system shall contain information including but not limited to:

1) Transaction information

- Transaction date
- Amount of (net) proceeds
- Maturity date
- Coupon
- Bond type
- Pricing date
- International Securities Identification Number (ISIN) code

2) Proceeds Allocation Information

- Project briefing including project name, borrower description, project category, balance, release date, repayment date, exchange rate, interest rate of the loan, etc.
- Amounts allocated to various Eligible Green Projects
- Amount of unallocated proceeds

The Bank will review and update the ledger on a timely basis. Any proceeds allocated to the projects that have amortized, been prepaid, sold or otherwise become ineligible shall be reallocated to newly nominated and approved projects.

2. Use of Unallocated Proceeds

Any proceeds which are temporarily unallocated to Eligible Green Project will be kept in cash or invested in money market instruments with good credit ratings and market liquidity by the Bank's Asset and Liability Management Department, and managed in accordance with the Bank's liquidity management policy. The Bank is committed that no temporarily unallocated proceeds will be invested in industries and activities such as greenhouse gas (GHG) intensive, highly polluting, energy intensive projects nor projects with negative social impacts (including but not limited to abovementioned "Explicitly Excluded Projects").

## Reporting

In accordance with the Framework, the Bank has defined the responsibility on the reporting.

The Bank will publish annual report regarding the proceeds allocation of green bond and the environmental impacts of the funded Eligible Projects until full allocation of proceeds into the Eligible Green Projects. The reporting will provide contents includes but not limited to the following proceeds allocation and environmental impacts information:

1) Disclosure on allocation of proceeds

- Allocation amount by Eligible Green Project category, and clearly indicating the UN Sustainable Development Goals (SDGs) of which such allocation supports
- Amount of proceeds to be allocated, and its temporary treatment
- Allocation amount by geographical distribution
- Project examples, subject to confidentiality

2) The environmental benefits of each category of the Eligible Projects where the proceeds were allocated.

3) External Independent Assurance

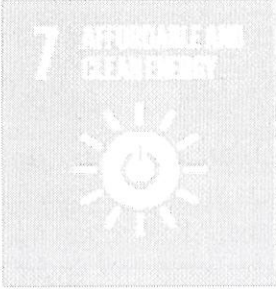
- An assurance report for the annual report issued by a qualified third party
- An assurance report for the use of proceeds issued by a qualified third party

The Bank will publish the *China Merchants Bank Green, Social and Sustainability Bond Report*, and disclose the above information through channels including the Bank official website [www.cmbchina.com](http://www.cmbchina.com).

**Eligible Green Project List**

The Bank nominated 9 Eligible Green Projects, with total value of RMB 2,595.25 million (approximately USD 408.03 million based on the exchange rate of USD 1: RMB 6.3605). Nominated projects list may evolve over time. The following is detailed information of the eligible projects.

**Eligible Green Project List**

No.	Region	Project	Eligible Green Project Categories	Categories in CGT	Key Contribution to SDGs	Loan Amount (RMB million)	Loan Amount (USD million)
1	Northern China	Wind power project	Renewable energy	D1.3 Electricity generation from wind power		541.00	85.06
2	Eastern China	Wind power project				500.00	78.61
3	Eastern China	Wind power project				312.06	49.06
4	Eastern China	Wind power project				261.00	41.04
5	Northwest China	Wind power project				260.60	40.97
6	Eastern China	Wind power project				200.00	31.45
7	Southwest China	Wind power project				183.33	28.82
8	Northern China	Wind power project				168.75	26.53

9	Eastern China	Wind power project				168.51	26.49
<b>Total Loan Amount</b>						<b>2,595.25</b>	<b>408.03</b>

Category	Loan Amount (USD million)	Number of Projects	Loan Proportion
Eastern China	226.65	5	55.55%
Northern China	111.59	2	27.35%
Northwest China	40.97	1	10.04%
Southwest China	28.82	1	7.06%
<b>Total</b>	<b>408.03</b>	<b>9</b>	<b>100.00%</b>

The following sets forth certain information of sample eligible project:

- A wind power project located in Jiangsu Province of Eastern China. The project, with total capacity of 87.45MW, consist of 33 wind turbines with per capacity of 2.65MW. The electricity generation of the project to the grid is 218,394,000 kWh annually, which will result in standard coal reduction of about 66,400 t/a, CO<sub>2</sub> emission reduction of about 2,173,900 t/a, SO<sub>2</sub> emission reduction of about 2,564.3 t/a, NO<sub>x</sub> emission reduction of 491.3t/a. The Bank's loan to this project accounted for approximately 69.91% of the total project investment, which is expected to reduce CO<sub>2</sub> emission about 1,519,773.49 t/a, SO<sub>2</sub> emission about 1,792.7 t/a, NO<sub>x</sub> emission 343.47 t/a.

  
 China Merchants Bank Co., Ltd.  
 16 February 2022



