DBS Hong Kong

Hong Kong Climate-related Disclosures 2022

Contents

Introduction

About this disclosure

This disclosure is prepared in accordance with the following guidelines and recommendations:

- Supervisory Policy Manual GS-1 on Climate Risk Management by the Hong Kong Monetary Authority (issued December 2021)
- The Task Force on Climate-related Financial Disclosures ("TCFD") recommendations by the Financial Stability Board (updated October 2021)

The information contained in this disclosure reflects the position for DBS Hong Kong as at 31 December 2022, unless otherwise stated. This disclosure is to be read in conjunction with Sustainability Report 2022[1] published by DBS Group Holdings Ltd ("DBS Group").

This is our first disclosure in addressing the recommendations outlined by the TCFD. In the light of the evolving development in climate-related disclosures, we are focusing on Governance and Risk Management in this disclosure. Moving forward, we will continue to enhance our climate-related disclosures with a view to align with the TCFD recommendations no later than 2025.

[1] *Please refer to the "Governance" and "Responsible Financing" in the DBS Group Sustainability Report 2022.*

CEO Message

It is my pleasure to present DBS Hong Kong's first climate-related disclosures. This is a significant milestone for us as we continue to prioritise sustainable and responsible business practices. Our aim is to provide transparency to our stakeholders on how we are managing climate risks and integrating sustainability into our business strategies and operations.

As a leading bank in Asia, we recognise the importance of addressing climate change and its impact on our business operations as well as the wider community. This disclosure focuses on governance and risk management, which are critical in ensuring that we are well-prepared to navigate the risks and opportunities presented by climate change.

As a purpose-driven bank, we shall continue our sustainability journey and remain committed to transparency and accountability, and will continue to work towards a greener, more sustainable future.

Sebastian

Sebastian Paredes
DBS Head of North Asia & Chief Executive Officer
DBS Bank (Hong Kong) Limited

Governance

Board's oversight

The DBS Group Board[2] has overall responsibility for the formulation of DBS' sustainability strategy and is guided by the overarching objective to create long term value by managing our business in a balanced and responsible way. As a commitment to creating a sustainable future, a new Board Sustainability Committee ("BSC") was established in February 2022. The BSC oversees DBS' overall plans and approves its strategies, goals, and targets in relation to material environmental and social issues, in particular climate-related matters, strategically centred around three sustainability pillars: (1) Responsible Banking, (2) Responsible Business Practices and (3) Impact Beyond Banking.

The Board of Directors (the "Board") of DBS Bank (Hong Kong) Limited has overall responsibility for sustainability and integrates environmental, social and governance ("ESG") matters in the formulation of strategy. The Board provides oversight on sustainability agenda and directs its efforts in managing material ESG matters, and is guided by the objective to create long-term value by managing our business in a balanced and responsible way.

The Board has delegated the Board Risk Management Committee ("BRMC") to oversee overall climate risk management, development and implementation of climate risk strategies, including setting risk appetite, overseeing the establishment of risk management policies and key processes for managing climate risk. The BRMC also supports the Board and senior management in setting the tone from the top to embed climate-related considerations into the business activities and decision-making process.

During 2022, updates on climate-related developments and risk management approaches including risk appetite, local adoption of DBS Group's decarbonisation targets and stress testing regularly feature on the Board and BRMC' agendas. Climate risk management training has been provided to Board, BRMC and senior management.

Management's role

The Hong Kong Sustainability Council ("HKSC"), in consultation with DBS Hong Kong CEO and Group Chief Sustainability Officer ("CSO"), sets the strategic direction of location-wide sustainability matters across DBS Hong Kong. The HKSC is chaired by Head of Hong Kong Strategic Marketing & Communications ("GSMC"), comprising of representatives from key business and support units. The HKSC meets quarterly, and as and when required.

In March 2022, the Hong Kong Climate Steering Committee, co-chaired by the Senior Risk Executive of Hong Kong ("SRE"), Head of Hong Kong Institutional Banking ("IBG"), Head of Hong Kong GSMC and Group CSO, was established to strengthen the climate risk management of DBS Hong Kong on location level. With the direction of the Hong Kong Climate Steering Committee, a dedicated working team has also been formed and consists of members from IBG, Risk Management, Legal, Compliance & Secretariat, Finance and the Group CSO team. The Hong Kong Climate Steering Committee meets monthly, and as and when required. Progress of the climate risk management is regularly updated to Hong Kong Risk Executive Committee and/ or BRMC.

[2] *Read more on sustainability governance structure of DBS Group in the DBS Group Sustainability Report 2022.*

Risk Management

Responsible Financing Policy and Standard

We adopt the DBS Group's Responsible Financing Policy and Standard that govern our efforts and approach to responsible financing.

Our Group Core Credit Risk Policy establishes the key principles governing our credit application processes and provides a consistent approach to our credit risk management. Notably, it includes guiding principles on enhanced due diligence, which is required to managing ESG issues, among other concerns, to ensure the bank is not unduly exposed to risks that may impact our business operations or reputation.

Our Group Responsible Financing Standard ("GRFS")[3], supported by corresponding Hong Kong addendum which document our approach to responsible financing and assessments required for customers exposed to elevated ESG risks, details a list of ESG-related prohibited transactions. The Sector Guides, pertaining to sectors with elevated ESG risks, provide further guidance on assessing sectoral ESG risks for all credit applications, periodic credit reviews (including ad hoc reviews). They apply to all lending and capital market products and services for our corporate customers.

Portfolio-level ESG risk management

We enhanced our ESG risk management to integrate climate consideration more rigorously into our risk management.

- **Completed a comprehensive portfolio-level risk appetite assessment to introduce environmental risk into DBS Hong Kong' Risk Appetite Statement (RAS)**, reinforcing our focus on managing portfolio credit exposures to material environmental risks, such as climate. Monitoring metrics have been established for tracking and reporting.

- **Conducted our climate physical risk assessment with a focus on the DBS Hong Kong property-secured lending**, which piloted in the 2021 Hong Kong Monetary Authority (HKMA) Climate Risk Stress Test. Initial insights from the assessment[4] indicated that the potential physical risk impacts to the valuation of property securing the DBS Hong Kong lending portfolios, under a High Emission scenario, were likely to be limited.

- **Developed quantitative models** at DBS Group level for nine priority sectors[5] to identify, assess and quantify transition risks under different scenarios and their potential financial impact to our customers. The potential financial risk impact[6] to sectors/ borrowers are generally dependent on abilities to manage rising greenhouse gas (GHG) emissions costs, adaptabilities during the decarbonisation transition, among others. Associated climate-related impacts are likely to vary across sectors.

[3] *Read more about the Group Responsible Financing Standard and Sector Guides in Our Approach to Responsible Financing.*

[4] *The assessment methodology can be referred to DBS Group Sustainability Report 2021 on page 87 to read more how we leverage locational hazard mapping methodology to conduct the assessment.*

[5] *These nine priority sectors consist of 1) Power, 2) Oil & Gas 3) Automotive, 4) Steel, 5) Aviation, 6) Real Estate, 7) Shipping, 8) Food and Agribusiness, and 9) Chemicals.*

[6] *The sector deep dive analysis can be referred to DBS Group Sustainability Report 2022 on page 25 to read more how we apply the risk management lens through our climate models to the financing of the respective priority sectors.*

Customer-level ESG risk management

ESG due diligence is an integral part of our lending and capital markets deal engagement process. It entails assessing and monitoring our customers' adherence to our GRFS and our Sector Guides, engaging customers in promoting responsible environmental and social practices, and following up on agreed mitigating measures.

We conduct ESG risk assessments as part of all new credit applications, annual credit reviews, or in the event there is negative ESG news or report regarding our customers. Our ESG risk assessments are carried out using the ESG risk questionnaire (ERQ) templates, which were developed based on the profile of our institutional customer segments and taking reference to our Sector Guides.

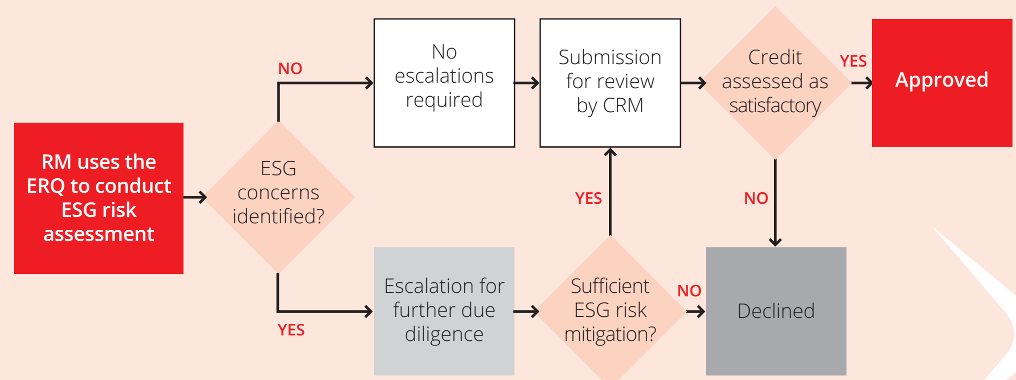

Figure 1: An illustration of our overall ESG risk assessment and credit application process

The figure above illustrates the process flow of how these ESG assessments are conducted for credit applications.

Where potential material ESG concerns are identified through the ESG risk assessment, this is escalated for further due diligence. The ESG concerns triggering escalation could arise, for example, due to transactions being suspected to fall into the list of ESG-related prohibited transactions and/ or customers with adverse ESG news. Where these ESG concerns require detailed customer engagement or further assessment, the Group sustainability team requests further information from Relationship Managers (RMs) and the customers involved to conduct further reviews. Once the Group sustainability team has established there is sufficient ESG risk mitigation, the credit application is then progressed through the credit approval chain. However, in scenarios where the identified ESG concerns are not sufficiently mitigated or present material reputational risks to DBS, the credit application is declined. Where warranted, this can further lead to a reassessment of the overall customer relationship.

In line with DBS Group's internal control framework, our frontline businesses and risk functions have clearly defined roles and responsibilities in the ESG risk assessment process. Specifically, our RMs act as our first line by conducting the ESG risk assessment on the customer, and the Group sustainability team in reviewing escalated transactions and recommending ESG-related conditions and covenants to mitigate ESG risks where required. Transactions are then submitted to and assessed by our second line, our Credit Risk Managers (CRMs). Finally, Internal Audit serves as the third line through periodic audit reviews on the overall effectiveness of our ESG risk management.

To keep abreast with industry best practices and ensure a robust ESG governance process, DBS Group's ESG-related policies, standards, and Sector Guides are updated periodically and communicated across all core markets of DBS including Hong Kong.

All material ESG issues and trends are reported to the Hong Kong Credit Risk Committee (HKCRC) biannually. Where appropriate, material issues are also escalated to the Hong Kong Risk Executive Committee for further discussion and/ or decision making.

Building ESG expertise

Our RMs and CRMs play a critical role in transaction-level and customer-level ESG risk assessment, through their responsibilities in the identification, assessment, and monitoring of ESG risks. To be fully equipped to carry out their roles, our RMs and CRMs are required to undergo mandatory Responsible Financing e-Learning training to ensure alignment with our ESG policies and standards. Newly hired RMs and CRMs are assigned to undertake this training during onboarding, while a refresher training is assigned to existing RMs and CRMs once every two years.

Climate Activation Training

In 2022, DBS Group started to roll out a new and comprehensive climate-related training programme for our RMs and CRMs in a phased approach across all core markets of DBS.

The training programme will be conducted for Hong Kong in the first half of 2023, which aims to equip our RMs and CRMs with a stronger understanding of climate risk to meaningfully engage customers in net zero discussions. In these sessions, RMs and CRMs will also utilise live cases to identify real business opportunities as well as assess and measure climate risk for their customers.

Given the rapidly evolving landscape, we recognise that knowledge-building and a deeper understanding of climate-related topics are key differentiators that are necessary both for our frontline and risk colleagues.

Charting our way forward

To enable us to continually deliver and operationalise DBS Group's net zero targets, we will focus on the following key areas as priorities, guided by DBS Group: our (i) people, (ii) data (iii) process, and (iv) analytical tools, also as essence of our net zero action plan.

Reskilling and empowering our **people** on ESG and climate

Improving climate **data** analytics and operational systemisation and integration

Ensuring robust governance **process** with ESG embedded into (credit loan) underwriting for more effective transition outcomes integration

Developing **analytical tools** to enhance client engagement for net-zero transition banking

DBS

Live more, Bank less