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# DBS Bank
# Our Approach to Responsible Financing

September 2019

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**Introduction......3**
**Governance Structure......3**
**Environmental, Social and Governance Risk Management......3**
**Sector Guides......8**
Agriculture - Palm Oil......8
Agricultural commodities ex. Palm Oil......9
Chemicals......9
Energy – Oil & Gas......10
Energy - Power......10
Infrastructure......11
Mining & Metals......12

# Introduction

DBS Bank Ltd. (herein referred to as "the Bank") has always embedded a sense of purpose in our business model. This comes from our origin as a development bank, created for the purpose of helping Singapore's industrialisation, as well as our heritage in POSB, where "Neighbours first, bankers second" is more than a tagline. Our responsibility to shareholders is complemented by our responsibility to society at large.

As the rate of depletion of natural resources increases, and society raises its expectations for businesses to deliver sustainable solutions for our planet, we see opportunities to offer banking solutions that can help meet those expectations.

We seek to address the environmental, social and governance ("ESG") challenges by providing credit, facilitating trade and investment flows responsibly.

This document provides a point of reference for DBS' Responsible Financing framework. It outlines our commitments and the expectations we have of customers and of ourselves.

# Governance Structure

The DBS Board has overall responsibility for sustainability. The Board delegates the execution of the Bank's strategy to the Chief Executive Officer ("CEO"), who heads the Group Executive Committee and the Group Management Committee.

The DBS Sustainability Council, chaired by the Chief Sustainability Officer, comprises senior leaders across business and support units and it reports to the CEO.

The Sustainable Finance team, responsible for transaction advisory of ESG risks and supporting green/social finance opportunities, reports to the Chief Operating Officer of the Institutional Banking Group ("IBG") and is headed by a member of the Bank's Sustainability Council.

# Environmental, Social and Governance Risk Management

## Our Commitments

The Bank is committed to:

- Supporting customers who are willing to invest in building capacity to manage ESG risks in their businesses;
- Encouraging customers to benchmark themselves against international best practices;
- Contributing to the development of best practices in specific sectors and minimising credit and reputational risk to DBS through alignment of risk appetite with ESG considerations at a portfolio level.

To uphold the above commitments:

- We identify the ESG risks within our loan portfolio in IBG;
- We assess, manage and monitor material ESG risks in our financial transactions; this is done by applying appropriate levels of due diligence proportionate to the risks;
- We build staff capacity to assess ESG risks and opportunities;
- We share with stakeholders our approach, understand their concerns and enlist their expertise as a means to improving our ESG risk management framework. Our stakeholders include customers, regulators, industry associations, non-governmental organisations and investors.

## Scope

The ESG risk management framework is developed by IBG Sustainable Finance in conjunction with the Risk Management Group. A key document under the framework is the Group Responsible Financing Standard ("the Standard"), which is approved by the Group Chief Credit Officer. Any deviation from this Standard is escalated to the Group Chief Credit Officer for approval.

The Standard was first rolled out in January 2017 and is reviewed on an annual basis.

The Standard applies to all lending and capital market products and services for corporate customers in IBG, within DBS and its banking subsidiaries and across all sectors and geographies in which we operate.

This Standard is applied in conjunction with:

- The Association of Banks in Singapore (ABS) Guidelines on Responsible Financing (version 1.1, dated 1 June 2018);
- Group Core Credit Risk Policy -IBG;
- Industry-specific Responsible Financing Sector Guides.

An ESG risk assessment is conducted:

- When credit applications are put up for new and existing customers;
- During credit reviews;
- For Equity Capital Market (ECM) and Debt Capital Market (DCM) transactions; and
- When there have been negative ESG news or reports about the customer.

Where applicable, financing conditions and actions required of customers to meet these conditions are detailed in the ESG risk assessment templates, credit memorandum and relevant loan documentation.

## ESG-related Prohibited Transactions

Consistent with the Bank's credit risk policy, DBS will not knowingly finance the following activities:

- Illegal logging;
- Land clearance by burning;
- Forced labour or child labour and human rights abuses;
- Violating rights of local communities or operate in locations of significant social conflict;
- Production and movement of weapons which normal use violates basic humanitarian principles, and this includes anti-personnel mines, cluster munitions and weapons of mass destruction[1];
- Trading (wholesale or retail) wildlife or wildlife products in violation of CITES[2], this includes ivory, rhino horn and pangolin;
- Finning and/or trading (wholesale or retail) or serving at eateries of shark fin or shark finning, and deriving material revenue from such activities; and
- Adversely affecting UNESCO World Heritage Sites or national and/or international protected areas.

## Transactional Due Diligence

Relationship managers ("RM") conduct ESG risk assessments to understand the customer's approach to managing ESG issues (including the customer's commitment, capacity and track record).

The outcome from the ESG risk assessment provides guidance on whether re-routing to the relevant Global Industry Specialist and IBG Sustainable Finance team is required, before submitting the credit memorandum to the appropriate credit approving authority.

Where we identify significant issues, additional due diligence is required. This may entail site visits, independent reviews or certification requirements.

If any customer is suspected to be involved in undesirable ESG practices, we will promptly engage the customer. If the customer is not willing to take steps to adequately mitigate the identified risks, we are prepared to turn down the transaction or reassess the banking relationship.

[1] WMD are nuclear, radiological, chemical, biological or other weapons that can kill and bring significant harm to a large number of humans or cause great damage to human-made structures (e.g. buildings), natural structures (e.g. mountains), or the biosphere.

[2] CITES refers to the Convention on International Trade in Endangered Species of Wild Fauna (www.cites.org).

We recognise that legacy issues may arise from business entered into force before the implementation of our ESG standards. While we will honour existing contractual commitments, there will be no expansion, revolving or renewal of these engagements.

## Project Finance and Project Finance Advisory Transactions

We are cognizant of the fact that large-scale development projects often have adverse impacts on the environment and local communities. To minimise and/or mitigate the ESG risks, we work with project sponsors who conduct environmental and social impact assessments and other appropriate due diligence as required under the International Finance Corporation ("IFC") Performance Standards[3].

All assessment of project finance or project finance advisory transactions include a review of the Environmental and Social Impact Assessment and proposed mitigation measures.

## Monitoring

Monitoring of ESG risks is performed at both customer and portfolio levels and is integrated into the Bank's existing credit review process. At the customer level, ESG risk is assessed as part of the periodic credit review process, or when triggered by specific events. During the review, attention is paid to areas highlighted in the relevant ESG risk assessment such as:

- Customer's compliance with agreed action plans and if there were any fines or penalties related to non-compliance with environmental and social regulations;
- Occurrences including major accidents or incidents associated with the customer's operations and/or supply chains;
- Adverse media releases or campaigns by non-governmental organisations related to the customer.

In addition to monitoring at the customer level, the Bank reviews its exposure to ESG risk sensitive industries at the portfolio level for any unusual trends or movements that may warrant further attention. These reviews are conducted by the Global Industry Councils.

## ESG Risk Management Training

To ensure that our procedures, policies and standards are implemented, we train our staff and equip them with the necessary resources.

Specific workshops, training and refresher sessions are conducted in our core markets to ensure that our staff are familiar with ESG issues, industry developments, and DBS' policy commitments.

[3] The IFC Performance Standards are an international benchmark for identifying and managing environmental and social risks.

An online training module, which covers key elements of the Bank's Group Responsible Financing Standard was rolled out in June 2018. It is updated periodically to ensure its relevance and effectiveness. The module is mandatory for all RMs and credit risk managers.

### Reporting

Periodic monitoring of relevant ESG metrics allows identification of areas of improvement, and gaps in existing practices that must be bridged to improve the Bank's overall ESG performance. DBS will report and monitor the following ESG metrics:

- Number of transactions escalated for further due diligence, with a breakdown by industry sectors;
- Number of staff trained in ESG risk management.

### Climate-related Reporting

Unprecedented climate change and interconnected ESG risks pose a systemic risk to the financial stability of the banking sector. The Task Force on Climate-related Financial Disclosures ("TCFD") was created by the Financial Stability Board to standardise such disclosure and make it mainstream for financial reporting. This will allow investors, lenders and insurers to assess and price such risks and opportunities.

DBS has endorsed TCFD recommendations. We will be referring to the Supplemental Guidance for the Financial Sector in compiling our Annual Report and Sustainability Report.

## Development of Green Products

Responsible Financing is not only about management of ESG risks but also about capitalising on the opportunities to create long-term value.

The growing demand for financial products that support sustainable economic, social and environmental development has spurred the growth of green financial instruments such as sustainability improvement-linked or ESG-linked loans, and green loans. ESG-linked loans are loans where the interest rate is pegged to the sustainability performance of a customer. Green loans[4] are a type of loan made exclusively to finance or re-finance, in whole or in part, new and/or existing eligible green projects.

On green bonds, DBS issued its inaugural USD 500 million green bond under the DBS Green Bond Framework in July 2017. We facilitate the growth of the green and social bond market by advising customers on the identification of qualified green and socially positive assets, impact reporting and investor expectations.

[4] As defined in the Green Loan Principles by the Loan Market Association (LMA) and the Asia Pacific Loan Market Association (APLMA).

## Sector Guides

Specific sector guides are established taking into consideration our strategy and level of exposure to a sector. The Bank recognises that responsible financing is an evolving agenda, and to achieve maximum impact, we have prioritised the development of seven sector guides:

1. Agricultural commodities - Palm Oil
2. Agricultural commodities ex. Palm Oil
3. Chemicals
4. Energy - Oil & Gas
5. Energy - Power
6. Infrastructure
7. Mining & Metals

Each sector guide is supplemented by a sector-specific ESG risk assessment template, which provides RMs and credit risk managers with a structured approach to assess risks as part of their overall financing decision.

We seek alignment, where possible, with international standards and best practices such as the IFC Performance Standards and World Bank Environmental, Health and Safety Guidelines.

The sector guides are reviewed regularly. The standards for specific sectors are outlined below.

### Agriculture - Palm Oil

The palm oil sector guide applies to all palm oil plantations, mills, refiners, integrated players, and processors.

We seek to support responsible practices including national and international certification standards such as those under the Indonesian Sustainable Palm Oil (ISPO), Malaysian Sustainable Palm Oil (MSPO) or Roundtable on Sustainable Palm Oil (RSPO). We will not consciously finance companies that engaged in unlawful land clearance by burning, new plantings that affect high conservation value forest, new plantings on peatland or operations that violate rights of workers or local communities.

For new lending relationships, we specifically require them to demonstrate alignment with No Deforestation, No Peat, No Exploitation (“NDPE”) policies. DBS will provide financial services to palm oil customers who have relevant policies or public commitments in ensuring their new plantings are not involved in:

- Conversion of High Conservation Value (“HCV”) and High Carbon Stock (“HCS”) forests;
- Planting on peat;

- Planting without securing both the legal right and community support to use all the land involved. Consent can be achieved through a free, prior, informed, consent ("FPIC") process;
- Open burning for land clearance, with reference to the Haze Prevention and Fire Risk guidelines issued by the Association of Banks in Singapore.

We will consider new customers who have achieved RSPO certification or are able to achieve RSPO certification within a satisfactory timeframe.

While we encourage customers to apply sustainable sourcing standards throughout the supply chain, DBS recognises that such commitments may pose a challenge to smallholders.

Please also refer to our public statement regarding our financing towards the palm oil sector.

## Agricultural commodities ex. Palm Oil

Agricultural commodities refer to commodities that come from the raising of crops. This guide applies to businesses that cultivate and process agricultural products.

We will not knowingly finance activities or projects we know to be in deliberate violation of local or national laws, or operations which:

- Adversely affect UNESCO World Heritage Sites or national and/or international protected areas; or
- Involve significant expansion or greenfield development without conducting an environmental and social impact assessment; or
- Use fire for land clearing; or
- Fail to secure both the legal right and community support to use all the land involved. Consent can be achieved through the FPIC process; or
- Convert HCV or HCS forests for development.

## Chemicals

This sector guide applies to businesses which manufacture any type of chemicals including petrochemicals and specialty chemicals, but not chemical distributors and pharmaceutical players (manufacturers of drugs or active ingredients that go into drugs).

We will not knowingly finance activities or projects we know to be in deliberate violation of local or national laws, or operations which:

- Adversely affect UNESCO World Heritage Sites or national and/or international protected areas; or

- Involve significant expansion or greenfield development without conducting an environmental and social impact assessment; or
- Manufacture chemical weapons; or chemicals prohibited in Annex A of the Stockholm Convention, an international agreement on persistent organic pollutants; or chemicals listed in Annex III of the Rotterdam Convention.

## Energy – Oil & Gas

This guide covers onshore and offshore exploration and production, energy-related infrastructure, processing including refineries, and storage of products.

We will not knowingly finance activities or projects we know to be in deliberate violation of local or national laws or are involved in operations which:

- Adversely affect UNESCO World Heritage Sites or national and/or international protected areas; or
- Engage in the exploration or production of gas without due regard to managing methane leakage; or
- Entail significant expansion or greenfield development without conducting an environmental and social impact assessment.

Customers will be evaluated pertinent to their risks if their operations involve:

- Territories which represent remote areas, or, with unconventional geology such as deep-water basins;
- Exploration and production of assets such as shale oil and shale gas, which may involve the use of hydraulic fracturing. Key issues for consideration include fugitive methane which is more potent than carbon dioxide in its global warming potential and thus may increase the greenhouse gas intensity of gas consumption, water management, and community relations;
- Extensive use of contractors and third-party suppliers. Key issue for consideration is whether the customer applies the same level of ESG requirements to third parties and has a mechanism for robust enforcement.

## Energy - Power

Power refers to the construction, operation and decommissioning of thermal power plants and renewable energy projects, the construction and operation of power transmission and distribution networks.

We will not knowingly finance activities or projects we know to be in deliberate violation of local or national laws, or are involved in operations which:

- Adversely affect UNESCO World Heritage Sites or national and/or international protected areas; or

- Entail significant expansion or greenfield development without conducting an environmental and social impact assessment.

Within the sector, coal-fired power plants (“CFPP”) have been of particular concern to stakeholders due to the carbon intensity of the generation process. DBS is committed to:

- Cease financing new CFPP in any market regardless of the efficiency of technologies used; and
- Only supporting customers with a diversification strategy on corporate financing basis.

We recognise that legacy issues may arise from business entered before the implementation of this guide, and we will honour existing commitments to our clients.

Customers will be evaluated in greater depth if their operations:

- Involve large scale resettlement, or impact indigenous peoples;
- Impact critical habitat; or
- Use contractors and third-party suppliers extensively. Key issue for consideration is whether the customer applies the same level of ESG requirements to third parties and has a mechanism for robust enforcement.

Please also refer to our public statement regarding our financing towards the coal sector.

## Infrastructure

Infrastructure refers to the construction, operation and decommissioning of transportation facilities (ports, harbours, terminals, airports, railways, and toll roads), shipping vessels, water and waste management facilities, healthcare facilities (hospitals), and tourism and hospitality venues or facilities.

We will not knowingly finance activities or projects we know to be in deliberate violation of local or national laws, or are involved in operations which:

- Adversely affect UNESCO World Heritage Sites or national and/or international protected areas; or
- Entail significant expansion or greenfield development without conducting an environmental and social impact assessment.

Customers will be evaluated in greater depth if their operations:

- Involve large scale resettlement, or impact indigenous peoples;
- Impact critical habitat; or

- Use contractors and third-party suppliers extensively. Key issue for consideration is whether the customer applies the same level of ESG requirements to third parties and has a mechanism for robust enforcement.

## Mining & Metals

This sector guide applies to mine operators, refiners and smelters, mills and integrated players. While all players in the value chain can have negative impacts on the environment and communities, the companies involved directly in the extraction and the refinement of ores will have the most significant impact.

We will not knowingly finance activities or projects we know to be in deliberate violation of local or national laws or are involved in operations which:

- Adversely affect UNESCO World Heritage Sites or national and/or international protected areas; or
- Entail significant expansion or greenfield development without conducting an environmental and social impact assessment.

Within the sector, thermal coal mining is of concern due to the use of its output primarily for carbon-intensive power generation. Hence, DBS is committed to:

- Stopping project financing of greenfield thermal coal mines;
- Only supporting customers with a diversification strategy on corporate financing basis;
- Evaluating customers' diversification strategy before committing to finance acquisition of thermal coal mines.

Please also refer to our public statement regarding our financing towards the coal sector.

Customers will be evaluated in greater depth if their operations:

- Involve large scale resettlement, or impact indigenous peoples;
- Impact critical habitat; or
- Use contractors and third-party suppliers extensively. Key issue for consideration is whether the customer applies the same level of ESG requirements to third parties and has a mechanism for robust enforcement.

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