WWF

SUSTAINABLE FINANCE REPORT 2018

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SUSTAINABLE BANKING IN ASEAN

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WWF is one of the world's largest and most experienced conservation organizations, with over 5 million supporters and a global network active in more than 100 countries. WWF's mission is to stop the degradation of the planet's natural environment and to build a future in which people live in harmony with nature. WWF has worked with the finance sector for more than a decade via innovative collaborations that seek to integrate ESG risks and opportunities into mainstream finance so as to redirect financial flows to support the global sustainable development agenda. Our approach to sustainable finance leverages WWF's conservation expertise as well as our partnerships with companies on key issues such as water, energy, climate and food to drive sustainability. Positioned at the cutting-edge of sustainable finance internationally, WWF contributes directly to leading initiatives, including the European Commission's Technical Expert Group on Sustainable Finance and the development of an international green bonds standard. WWF also works directly with some of the largest asset owners in the world on decarbonizing investment portfolios. This has allowed us to strengthen lending and investment criteria for key industry sectors, provide insights and data on environmental and social risks, fulfil critical research gaps, help unlock innovations in sustainable finance products and convene key stakeholders to progress the sustainable finance agenda.

The Centre for Governance, Institutions and Organisations (CGIO) was established by the National University of Singapore (NUS) Business School to spearhead relevant and high-impact research on governance and sustainability issues that are pertinent to Asia and the world. Two of CGIO's flagship projects on corporate governance are the Singapore Transparency and Governance Index (SGTI) and the ASEAN Corporate Governance Scorecard (ACGS). The SGTI is the leading index for assessing corporate governance practices of Singapore-listed companies. Each company's score and ranking are reflected on the Singapore Exchange's website. The ACGS evaluates the top 100 companies by market capitalization on their corporate governance practices in each of six ASEAN countries covered in this report. CGIO and Singapore Institute of Directors were jointly appointed by the Monetary Authority of Singapore (MAS) as Singapore's domestic ranking body for ACGS. The ACGS instrument further underscores its importance to the ASEAN community in spearheading best corporate governance practices.

CONTENTS

FOREWORD

ASEAN adopted a Charter in 2008. One of the purposes of ASEAN, as prescribed by the Charter, is to "promote sustainable development so as to ensure the protection of the region's environment, the sustainability of its natural resources."

Tommy Koh
UNEP Champion of the Earth
Chairman, 1992 UN Earth Summit

To achieve this goal, we need cooperation among the public sector, private sector and civil society. The banking industry plays a critical role. It provides financing for our food, energy and transport industries. The banking industry has the power to ensure that its clients in these industries conduct their businesses in a sustainable manner or in a manner that destroys our environment.

Singapore is the biggest financial centre in ASEAN. It can be an exemplar by setting high standards. It can ensure that no unsustainable palm oil plantations, unsustainable timber industries or other polluting industries are financed from Singapore. I have been particularly gratified to see visible improvement in the Singapore banks compared to last year.

We have made progress in recent years. But, the situation is still sub-optimal. I urge the banking industry in ASEAN to embrace sustainability. I urge ASEAN bankers to take ambitious steps towards a sustainable future for their children.

Tommy Koh
UNEP Champion of the Earth
Chairman, 1992 UN Earth Summit

FOREWORD

Robeco is a global asset manager that firmly believes in sustainability investing. Sustainability has been of strategic importance at Robeco since we started adopting it in the mid-1990s, and it has been at the core of our business since Robeco acquired Sustainable Asset Management (now RobecoSAM) in the mid-2000s. The acquisition of SAM gave us the knowledge and insight we needed to integrate sustainability in all aspects of our business.

Peter Ferket
Head of Investments, Robeco

We acknowledge that the environment in which companies operate is very different from 20 years ago. Climate change, resource scarcity, pollution and the working conditions in emerging countries are all trends that affect companies, as well as provide opportunities for new markets.

We believe that the investment industry will move from creating only wealth to creating wealth and well-being, and it is our intention to contribute to that shift. This is in the interests of both society and our industry, and when these two are aligned progress can be swift.

In today's world, the topic of sustainability arises within minutes of engaging with clients. We believe that the industry has reached an inflection point. It is already clear that taking a sustainable approach does not detract from performance. We believe that using financially material ESG information leads to better-informed investment decisions and ultimately benefits society. The Sustainable Development Goals are a very important development in this context that take sustainability to the next level by making it tangible and measurable. There has been a transition in the asset management world, from avoiding companies that have a negative impact on the environment to investing in companies that have a positive one.

We are convinced that reports such as this important publication by WWF play an important role in holding banks in ASEAN to account for their performance on critical environmental, social and governance factors. The benchmarking provided is beneficial to shareholders such as Robeco to strengthen their engagement with these banks on how they can improve their sustainability performance.

As a member of the Principles for Responsible Investment investor working group on sustainable palm oil we use this research to advance sustainability in the palm oil sector by not only engaging with companies producing palm oil but also engaging in a constructive dialogue with ASEAN banks that finance the palm oil industry. This strategy allows us to arrive at industry-wide solutions to halt deforestation, prevent exploitation of workers and ultimately contribute to sustainable economic development in the ASEAN region.

Peter Ferket
Head of Investments, Robeco

EXECUTIVE SUMMARY

The past year has seen growing collaboration and commitment on sustainability in ASEAN, with an increasing focus from governments on meeting the Sustainable Development Goals (SDGs).

Despite this progress, however, ASEAN countries remain some of the most vulnerable in the world to climate change; while other issues – such as deforestation, biodiversity loss, water scarcity and human rights abuse – continue to threaten the region. Furthermore, according to the United Nations Economic and Social Commission for Asia Pacific (UNESCAP), ASEAN nations are not on track to meet key environmental and social SDGs by 2030. In order to address these issues, ASEAN must do more to adapt to a resource- and carbon-constrained world and transition to a sustainable, low-carbon economy.

At a global level, we are witnessing rapid change in the sustainable finance landscape, which will have wide-reaching implications for ASEAN banks. The European Commission action plan on sustainable finance will be game-changing for the entire financial system due to its introduction of a new sustainability taxonomy through which investors, insurers and banks will assess their clients and investments. We are already seeing the finance sector respond by moving ahead of regulation. The United Nations Environment Programme Finance Initiative (UNEPFI) Banking Principles, expected to be released in 2019, will offer a set of harmonized sustainable banking guidelines that will mirror the Principles for Responsible Investment (PRI) for investors and likely have a similar impact on the banking industry. Meanwhile, minimum industry standards for financial products to be labelled 'green' are being expanded beyond green bonds with the release of the Green Loan Principles earlier in 2018.

In addition to regulations and standards, the finance sector is developing and pilot-testing methodologies for banks to assess and manage climate risk in their portfolios. A working group of 16 member banks, in collaboration with UNEPFI, issued guidance on how to implement the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD); while the 2° Investing Initiative is piloting a draft methodology for banks to align their lending portfolios with the transition pathway required to limit climate warming to 2°C. Such action is increasingly supported by the growing number of investors who recognize the risks and opportunities presented by a carbon- and resource-constrained world, and expect banks and banks' clients to adapt their business models accordingly. In the past year we have seen significant investor action pushing companies to disclose against the TCFD framework, as well as greater pressure for banks to manage climate-related risks in line with TCFD recommendations.

The finance sector has a unique enabling role to play in the transition to a sustainable, low-carbon economy. ASEAN banks must use the conditions of access to, and cost of, capital to encourage their clients to take ambitious steps to transform the region's food, energy, transport and infrastructure systems. While improved environmental and social risk management is critical, banks can also tap into significant opportunities presented by sustainable development, which will require extensive private sector financing, especially in emerging markets.

In last year's report, we highlighted the general misalignment of finance sector guidelines and regulations with national policies on sustainable development and climate change across ASEAN, and the resulting fact that banks were not fully harnessing their potential to drive sustainable development in the region.

This year's report shows that banks in ASEAN are moving in the right direction; however, they must accelerate their efforts in order to stay competitive, resilient and relevant in a resource-constrained, low-carbon future while ensuring that their products and services do not result in negative environmental and social impacts.

OVERVIEW OF REPORT

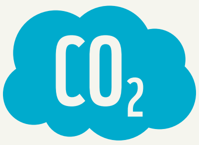
This report is an update of the Sustainable Banking in ASEAN report issued by WWF in partnership with the National University of Singapore (NUS) Centre for Governance, Institutions and Organisations (CGIO) in October 2017. This report benchmarks 34 banks in six ASEAN countries – namely Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam – on their corporate governance practices and their integration of environmental, social and governance (ESG) factors into their business. The ESG factors include (but are not limited to) those which are having a particular impact in ASEAN, such as climate risk, deforestation, water scarcity, human rights and labour issues. The assessment is based on a framework of indicators that represent (i) sound corporate governance practice (board, shareholders and stakeholders, disclosure and transparency, audit and risk); and (ii) robust ESG integration practice (purpose, policies, processes, people, products, portfolio). We used English-language disclosures available publicly as of 3 July 2018 as the sole basis for the assessment, as these represent the information typically accessible to all stakeholders. We then compared this year's results with last year's to establish the progress that ASEAN banks have made on corporate governance and ESG integration.

This report is aimed at banks, banking regulators and banking associations in ASEAN, to help them understand changes in, and improve the level of, ESG integration, both in individual banks and across the wider industry. The report is also aimed at investors, within ASEAN and globally, who can use it to assess banks' progress on ESG integration, understand whether this is aligned with their own ESG commitments, and engage with the banks on the issue as required. Report users can access the interactive Sustainable Banking Assessment (SUSBA) website (*www.susba.org*) to further explore and compare the results.

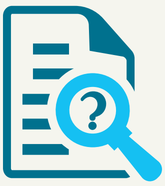
KEY FINDINGS

1. Sustainability is still not formally included in the mandate of board committees, with only limited disclosure regarding board and senior-level oversight of material ESG issues such as climate change. As was the case last year, sustainability was not disclosed as a consideration by any bank in the drafting of terms of reference for nominating, remuneration or audit committees. Additionally, 19 banks did not mention responsible lending in their leadership statement, and 30 did not disclose whether senior management has oversight of climate change risks, as recommended by the TCFD.

2. Sustainability has not been fully embedded into corporate governance mechanisms and processes in ASEAN banks. Integrating sustainability across corporate governance mechanisms is key to improving a bank's sustainability performance. ASEAN banks are disclosing their sustainability practices to their stakeholders, with 33 out of 34 banks reporting on sustainability and 26 disclosing that they have policies on stakeholder engagement. However, further integration of sustainability remains limited, with only 11 banks disclosing that they review their environmental and social (E&S) policies and procedures periodically, and just eight disclosing that their bank has an external audit on sustainability.



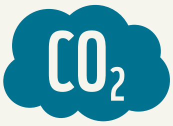
3. ASEAN banks have embraced sustainability as a core business strategy, with most banks now understanding that their ESG risks and opportunities lie mainly within their portfolios rather than their own operations. Of the 34 ASEAN banks, only four still think of sustainability as related to managing their buildings' and employees' environmental footprints. Banks increasingly acknowledge the impact of climate risks on businesses, with 19 banks recognizing climate risk this year compared to 12 last year. Around half of the banks now recognize the relevance of the SDGs to their businesses – eight more than last year.



4. The banks' inclusion of sustainability in their corporate strategies is not reflected in their policies and processes, with only slight improvements in the number of banks developing and disclosing sector-specific policies or requirements. Nineteen banks have a standardized framework for E&S risk assessment, compared to 15 last year. Four additional banks disclosed that they have sector policies, bringing the total to seven, but disclosure of the policies themselves was limited, with just three banks disclosing one or two of their key policies (rather than all their policies, which is the market practice for international banks).

5. Banks show increased disclosure of responsibilities associated with ESG implementation, and some are creating new sustainable finance products to capture opportunities. However, capacity gaps and lack of training are still making it difficult for banks to implement robust ESG risk management and capture the upside via product development and the transitioning of their portfolios. Eleven banks – compared to four last year – disclosed responsibilities of departments or committees involved in ESG implementation.

However, only three banks disclosed the existence of a dedicated ESG team; while 12 disclosed having some form of ESG training for staff, compared to 11 last year. These numbers suggest a capacity gap, which manifests itself in a lack of disclosure on E&S risk management policies and processes and insufficient capture of opportunities via capital allocation and sustainable finance products. Although 22 banks mentioned sustainable banking products, only two banks have specifically allocated capital for sustainable finance activities.



6. Disclosure on portfolio-level management of ESG risks and opportunities is still lacking. This suggests that banks are not yet prepared to fulfil TCFD-related disclosure requirements that investors are starting to expect. Only two banks disclosed that they assess E&S risk at the portfolio level. No banks disclosed the accumulated E&S risks or carbon intensity across their portfolios, nor did any indicate whether they are aligning their portfolios to a resource- and carbon-constrained world by setting targets for reducing risk exposure or for green financing, which are all TCFD recommendations. This suggests there could be hidden E&S risks embedded in these banks' portfolios, and that they would benefit from a more strategic approach to both risk management and the capture of E&S opportunities.

RECOMMENDATIONS

WE RECOMMEND ASEAN BANKS:

- Embed sustainable finance into their core business strategy, drawing upon the six fundamental pillars of ESG integration and employing science-based criteria and standards to drive resilient and sustainable growth in the real economy. This strategy should be at least in line with, or more ambitious than, national agendas on climate change and sustainable development.

- Elevate sustainability to a core part of corporate governance by including it in board-level terms of reference and in remuneration criteria, and by providing sustainability and ESG training to boards and senior management to help them understand the related risks and opportunities.

- Assess portfolio-level exposure to climate risks (including transition and physical risks) by conducting forward-looking scenario analysis for high-risk sectors, and require clients in these sectors to set science-based targets with appropriate transition plans. Banks can set science-based targets for portfolio alignment with the SDGs and the Paris Agreement.

- Disclose sustainable finance practices, portfolio-level risk exposures and science-based targets and metrics using the recommended six pillars framework (and in alignment with TCFD for climate-related issues); in order to be accountable to stakeholders and enable shareholders to benchmark relative sustainability performance and portfolio resilience.

- Collaborate with stakeholders – such as regulators, banking associations and NGOs – to benefit from peer-to-peer learning and enhance capacity on sustainable finance, jointly develop science-based disclosure and impact measurement frameworks/methodologies, become signatories to the UNEPFI Banking Principles once issued, and generally act to create industry-wide change and ensure a level playing field.

WE RECOMMEND ASEAN BANKING REGULATORS AND BANKING ASSOCIATIONS:

- Facilitate ESG integration in the banking sector by establishing or enhancing time-bound national sustainable finance regulations or industry association guidelines, including sector-specific guidelines with minimum standards, and monitor progress to ensure timely implementation.

- Design these sustainable finance regulations based on global best practice, including science-based criteria and standards, in dialogue with policy-makers in charge of climate change and sustainable development agendas. The regulations should combine mandatory requirements where necessary with incentives for the finance sector to contribute to national goals on the SDGs and the Paris Agreement.

- Work with science-based organizations to undertake analysis of climate risks across the banking sector, including climate stress testing, to understand the resilience of the industry. Make it mandatory for banks to perform environmental stress tests, assess portfolio alignment and disclose climate risk in line with TCFD recommendations.

- Collaborate with regulators and banking associations from other ASEAN countries to facilitate peer-to-peer learning and harmonize ESG regulations, and join the Central Banks and Supervisors Network for Greening the Financial System. This will create a level playing field, ensure regulatory consistency for banks, and prevent a race to the bottom in terms of sustainable finance standards.

- Support capacity-building for the banking industry by working with NGOs who can provide deep insights into material E&S issues and create useful tools and guides on due diligence and risk assessment as well as including sustainable finance into mandatory training modules for all banking sector employees in credit, risk, relationship management, compliance, legal and audit functions.

WE RECOMMEND SHAREHOLDERS OF ASEAN BANKS:

- Engage with ASEAN banks in investment portfolios at both board and C-suite level to support the five recommendations above and assert their influence as shareholders through voting and engagement.

- Request specifically that banks:
  - Disclose in line with TCFD recommendations, including an assessment of their portfolio-level exposure to climate and other ESG risks;
  - Conduct forward-looking climate scenario analysis of loan portfolios, in order to assess the level of alignment with investors' own climate/ESG commitments and policies, as well as with the SDGs and the Paris Agreement; and
  - Make public decarbonization commitments using science-based targets, to minimize their exposure to climate risk and align their portfolios with the SDGs and the Paris Agreement.

- Engage with regulators, stock exchanges and banking associations to demonstrate support for sustainable finance regulations and affirm the business case for sustainable finance.

WWF CAN SUPPORT THE ASEAN BANKING SECTOR IN THE FOLLOWING WAYS:

- Build capacity in banks on ESG integration and share expert insights into key ESG issues such as climate, water and deforestation. This will enable banks to meet sustainable finance regulations, minimize exposure to ESG risk, capitalize on opportunities and fulfil their potential to drive sustainable development.
- Provide insights gained from our work on cutting-edge initiatives in sustainable finance and ongoing developments in global regulations, for example the European Commission Action Plan on Sustainable Finance.
- Facilitate landscape-level multi-stakeholder initiatives to structure innovative green finance solutions, with effective conservation indicators and outcomes, targeted at both international and regional companies, SMEs and smallholders.
- Develop practical tools and guides for the banking sector that facilitate ESG integration and reflect the latest science-based perspectives on sustainability.
- Provide expert insights on E&S issues to banking sector regulators and banking associations to support their formulation of sustainable finance regulations and sensitive sector guidelines.
- Monitor ESG integration progress in the ASEAN banking sector by issuing annual reports on banks' disclosure and the extent to which sustainable finance and relevant regulatory frameworks are harmonized across borders.

CGIO CAN SUPPORT THE ASEAN BANKING SECTOR IN THE FOLLOWING WAYS:

- Analyse the strengths and weaknesses of listed companies' corporate governance disclosures using comprehensive frameworks, and use these findings to highlight overall trends in corporate governance across ASEAN.
- Shed light on outstanding progress and stagnation among banks' practices and disclosures, for the use of regulators and policy-makers.
- Demonstrate the links between corporate governance and sustainability through research and by organizing events, conferences and seminars.

INTRODUCTION

The past year has seen an increasing focus from ASEAN governments on sustainability and meeting the Sustainable Development Goals (SDGs).

THE GLOBAL GOALS
For Sustainable Development

Collaboration and commitments in this area have been a priority for the region, as was shown by the recent signing of the ASEAN Singapore Declaration on environmental sustainability.[1] However, despite this positive momentum, progress on addressing major environmental and social issues in ASEAN is slow and climate change – together with interlinked issues like deforestation, biodiversity loss and water scarcity – continues to threaten the region.[2]

Worryingly, according to the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), ASEAN nations are not on track to meet key environmental and social SDGs by 2030.[3] Continued deforestation is limiting progress on SDG 15 (life on land), no progress has been made on SDG 13 (climate action) or SDG 14 (life below water), and the region has actually regressed on SDG 10 (reduced inequalities).[3] Reducing deforestation can significantly contribute to addressing climate change,[4] yet countries in the region continue to experience some of the highest deforestation rates in the world.[5, 6]

BANKS CAN USE THEIR INFLUENCE TO ENCOURAGE CLIENTS TO TAKE AMBITIOUS STEPS TO SUSTAINABLY TRANSFORM OUR FOOD, ENERGY AND TRANSPORT SYSTEMS

WHAT IS THE ROLE OF THE FINANCE SECTOR IN ASEAN IN ADDRESSING THESE ISSUES?

In order to address these threats, the region and the world must adapt to a resource- and carbon- constrained future and transition to a sustainable, low-carbon economy that is aligned with the SDGs and the Paris Agreement. The finance sector can play a unique enabling role in this transition by redirecting financial flows towards sustainable businesses and away from environmentally and socially damaging business activities. Banks can influence their clients by linking access to, and cost of, capital to science-based sustainability criteria; and they should use this influence to encourage clients to take ambitious steps to sustainably transform our food, energy and transport systems. This will generate vast opportunities for banks, particularly in emerging markets – one estimate suggests that 40 per cent of the business opportunities associated with achieving the SDGs are located in Asia, amounting to more than US$5 trillion by 2030.[7] Another recent study estimated that the investment opportunity of meeting the SDGs in ASEAN by 2030 is worth up to US$3 trillion.[8]

This year's assessment shows that banks in ASEAN are moving in the right direction; however, there are still many gaps in their approach to ESG integration. The imperative for banks to address these gaps lies firstly in the urgent need to avert climate change and drive sustainable development, but also stems from the rapid change we are witnessing in the sustainable finance landscape globally. Investors are increasingly focused on whether banks adequately manage climate and ESG risks (hereinafter referred to as ESG risks), capitalize on sustainability-linked opportunities, and maintain climate-resilient portfolios. In addition, as their more progressive peers move ahead on sustainable finance, ASEAN's banks must accelerate efforts to stay competitive and relevant.

GLOBAL DEVELOPMENTS IN SUSTAINABLE FINANCE

The last year has been marked by a step-change in global action on sustainable finance. The regulatory landscape is changing with the adoption of the European Commission action plan on sustainable finance and international peer-to-peer sharing on best practice by regulators involved in the Central Banks and Supervisors Network for Greening the Financial System. At present, the Monetary Authority of Singapore is the only ASEAN regulator participating in this network. At the same time, the finance sector is attempting to move ahead of regulation, with the development of the UNEPFI Banking Principles and banks' participation in pilot projects to implement the Task Force for Climate Related Disclosures (TCFD) recommendations. Investors are increasingly engaging with banks in their investment portfolios to encourage more TCFD-aligned disclosures.

CHANGES IN THE SUSTAINABLE FINANCE REGULATORY LANDSCAPE

The most significant regulatory change in the last year was the adoption of the action plan on sustainable finance by the European Commission in March 2018. Consisting of 10 actions to promote sustainable finance, the plan includes the development of a green taxonomy, green bond standards, and eco-labels for other financial products.[9] The Technical Expert Group on Sustainable Finance has been established to implement the plan, and comprises representatives of industry, academia and civil society, including WWF.[10] Implementation of the action plan has already commenced with the issuance of three legislative proposals related to sustainable finance and two draft amendments to existing acts.[11]

THE ACTION PLAN ON SUSTAINABLE FINANCE WILL BE GAME-CHANGING FOR THE ENTIRE FINANCIAL SYSTEM

The action plan on sustainable finance will be game-changing for the entire financial system due to its likely introduction of a new sustainability taxonomy through which investors, insurers and banks will assess their clients and investments. The impacts are expected to extend beyond the EU given the size of EU-controlled assets, the active presence of EU-headquartered financial institutions in ASEAN, and global capital market linkages. As EU financial institutions adapt to the changes, we can expect them to start redirecting capital flows to markets and companies that can credibly demonstrate alignment and compliance with changing definitions and expectations of what is 'green' and what is not.

Voluntary initiatives are paving the way for potential additional regulation. The Financial Stability Board (FSB) formed the TCFD, which recognizes the material risks that climate change poses to the finance sector and businesses. The recommendations of the TCFD outline the assessments and disclosures investors, lenders, insurers and other stakeholders will require to appropriately assess and act on climate-related risks and opportunities.[12] Regulators are focusing on the TCFD, with both the French and UK governments considering making TCFD recommendations mandatory.[13, 14] In France, there is already alignment between the TCFD and Article 173-VI of the Law on Energy Transition and Green Growth, which stipulates that financial institutions must disclose how they are addressing climate risk.[15]

VOLUNTARY INITIATIVES SPEARHEADED BY THE FINANCE INDUSTRY

Although regulation is an important driver of sustainable finance, it is not a prerequisite for change – and in many cases the financial sector is actually moving ahead of regulation. Key players within the financial sector have recognized that greater transparency and disclosure is required to understand, assess and manage climate risk. This is demonstrated by widespread support for the TCFD, with more than 30 banks – and more than 315 organizations in total – signed up to support it.[16] They include financial institutions with more than US$81 trillion in assets under management (AUM).[17]

Banks' support for the TCFD has translated into a pilot project on implementing the TCFD recommendations, coordinated by UNEPFI and involving 16 global banks. The first report from the project, released in April 2018, detailed the proposed methodology for forward-looking assessment of transition-related risks and opportunities; and a second report, focused on physical risks, was released in July 2018.[18] UNEPFI is also coordinating a similar pilot project with a group of 20 institutional investors: the associated report will be published in early 2019.[19] Once developed, the methodologies will provide a set of scenarios, models and metrics to help financial institutions understand their exposure to climate risks. To take the next step and act on these assessments, financial institutions can set science-based targets to align their portfolios with the Paris Agreement (see box on science-based targets on the opposite page).

Looking more specifically at sustainable banking, 26 banks from across the globe are currently working with the UNEPFI to develop a set of Banking Principles that will help banks align their businesses with the Paris Agreement and the SDGs. As a multi-stakeholder initiative, the consultation process for the Principles' development involves environmental and social NGOs, whose expert inputs can inform the process and help create a more robust set of Principles than if the industry acted alone. Scheduled for release at the end of 2019,[20] the final Banking Principles will harmonize guidance on sustainability for the banking sector. Given their parallels, the Banking Principles could mobilize the banking industry in a similar way to how the Principles for Responsible Investment mobilized investors: since their inception in 2006, the number of PRI signatories has grown from 100 to more than 1,800, accounting for nearly US$82 trillion AUM as of April 2018.[21]

Beyond managing risk, the financial sector has developed guidelines to help capture the opportunities presented by green financial products. The green bond market in particular has seen rapid development over the past few years: the International Capital Market Association released the Green Bond Principles in 2016,[22] and the first half of 2018 has already seen a record issuance of US$76.8 billion.[23] The green loan market is moving in a similar direction with the launch of the Green Loan Principles in March 2018. These were issued by the Loan Market Association (LMA) in association with the Asia Pacific Loan Market Association (APLMA) and consist of a framework of standards and guidelines to follow when classifying loans as 'green'. However, the GLP principles are voluntary and should only be considered a first step to ensuring the positive impact of green loans. This is because, similar to the Green Bond Principles, they do not set requirements for measuring or reporting on the actual net impacts of activities financed by such loans.

INVESTORS ARE ENGAGING COLLECTIVELY TO DRIVE PROGRESS AND INFLUENCE REGULATION

Investors globally have recognized the importance of managing ESG risks in their portfolios, not least due to the risk of stranded assets.[24] As such, they are increasingly expecting companies, including banks, to disclose in line with TCFD recommendations and to demonstrate how they are managing climate-related risks and opportunities. For instance, Boston Common Asset Management's 2017 report emphasized that investors are increasingly assessing how banks institutionalize the management of climate risks and opportunities, having revealed that top global banks are still not fully aligned with the 2°C scenario.[25] Later that year, 100 investors controlling US$1.8 trillion in AUM wrote to 60 of the world's largest banks, calling for increased climate-related financial disclosure.[26] Institutional investors are also acting individually to encourage banks to address ESG risks. For example, the Norwegian Government Pension Fund Global, the largest sovereign wealth fund in the world with a 1.4 per cent stake of listed companies globally,[27] recently initiated dialogue with Indonesian and Malaysian banks over their palm oil financing practices.[28]

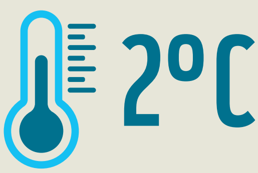
The Climate Action 100+ initiative has drawn the support of investors with nearly US$30 trillion in AUM, who are asking companies to implement a strong framework to manage climate risk, take action to reduce greenhouse gas emissions, and – importantly – to issue disclosures in line with TCFD. Initially focusing on the 100 largest corporate GHG emitters, the reach of the initiative has now been extended to cover an additional 61 companies.[29] Increased climate disclosure by clients will also assist banks in their own risk management and disclosure on climate risks.

Investors' concerns about climate risk have seen them engage not just banks and other portfolio companies, but governments as well. In June 2018, investors with AUM of more than US$26 trillion released the Global Investor Statement to Governments on Climate Change. The Statement called on governments to achieve the goals of the Paris Agreement, accelerate private investment to support the low-carbon transition, and commit to implement the TCFD recommendations in their jurisdictions by 2020.[30] It also requested that the FSB and international standard-setting bodies incorporate the TCFD recommendations into their standards and guidelines. These changes will have knock-on effects for banks and their clients, and generate increased transition risks for those who are not preparing for a carbon- and resource-constrained world.

SCIENCE-BASED TARGETS

The transition to a low-carbon economy will impact financial institutions and the companies they finance. Setting science-based targets for decarbonization, which ensures that emissions reductions take place in line with what is required to achieve a less than 2°C warming scenario, will be key to companies' success in this transition.

To encourage and support companies to set such targets, the Science Based Targets initiative (SBTi) was developed as a collaboration between WWF, CDP, the United Nations Global Compact (UNGC) and the World Resources Institute (WRI).[31] Globally, 440 companies have signed up to the initiative as of July 2018, with four in ASEAN – Singtel, City Developments Limited and Olam in Singapore, and PTT in Thailand.[25] Besides assuring investors and other stakeholders that companies' emissions reduction targets are meaningful, the SBTi also improves the comparability of company disclosures on emissions reduction and climate risk management.



In an ongoing project with the 2°C Investing Initiative and Ecofys, the SBTi is currently developing a methodology and implementation guidelines for financial institutions to set science-based targets to align their portfolios with the Paris Agreement.[32] As part of this process, three European banks are participating in a pilot project to develop and test methodologies to establish the 2°C alignment of banks' loan portfolios. The conclusions of this pilot project will be published later in 2018.[33] As of July 2018, 33 financial institutions have committed to setting targets via the SBTi [34] once the methodology has been finalized.

WHAT DO THESE GLOBAL DEVELOPMENTS MEAN FOR BANKS IN ASEAN?

Although global sustainable finance developments might seem far removed from ASEAN, these changes can still impact ASEAN's banks:

- The successful syndication of loans originated by ASEAN banks may be impacted as global banks adapt to the changing sustainable finance landscape by refocusing their ESG risk appetites and outlook, not least by adopting the green taxonomy.
- Investor expectations for portfolio companies to disclose against TCFD and manage climate risks will extend to ASEAN banks and may affect investor perception and valuation of the banks.
- Demand for capital market products underwritten by banks (including those issued by banks themselves) may start to change as green taxonomies and eco-labels are implemented – any inability to meet investor requirements will impact the success of these capital markets issuances.
- As the market for green financial products develops, banks may face increasing competitive pressure from their peers to create innovative green financial products and to allocate capital/win mandates to finance opportunities provided by the transition to low-carbon and sustainable economies.
- Banks may be able to capitalize on the changing landscape and tap into new investor bases or securitize existing green loans to unlock additional capital if they can credibly demonstrate their innovative green financial products and capital allocation to green or sustainable sectors.

REGIONAL DEVELOPMENTS IN SUSTAINABLE FINANCE

ASEAN has not yet caught up with the global momentum on sustainable finance, but recent developments suggest that some of the countries in the region understand the risks and opportunities and are taking steps to address them. In 2017, the Indonesian Financial Services Authority (OJK) followed up its 2014 Roadmap for Sustainable Finance by issuing a regulation on green bonds (No. 60/POJK.04/2017) and a key regulation on sustainable finance, the Application of Sustainable Finance for Financial Services (No. 51/POJK.03/2017), to come into effect in 2019. In Malaysia, Bank Negara is developing an Environmental and Social Impact Assessment Framework with the International Centre for Education in Islamic Finance (INCEIF) and the World Bank, as part of the value-based intermediation for its Islamic banking sector. At the regional scale, the ASEAN Green Bonds Standard was issued in November 2017 by the Asian Capital Markets Forum (ACMF) in collaboration with the International Capital Market Association (ICMA).

Despite this progress, regulatory movement on sustainable finance elsewhere in the region is variable, and countries such as the Philippines and Thailand still do not have any sustainable finance regulations or industry association guidelines. As is demonstrated in the remainder of this report, more progress is needed if banks are to play a crucial role in supporting the achievement of national SDG and climate goals, mitigate their negative environmental and social impacts, and become more attractive to international investors through climate risk management.

PURPOSE OF THIS REPORT

This report is an update of the Sustainable Banking in ASEAN report issued in October 2017 by WWF and NUS[35] and provides an update of ASEAN banks' performance and progress on corporate governance and ESG integration. The main objectives of the report are to:

- Highlight the potential for the finance sector to drive sustainable development in ASEAN with positive environmental, social and economic outcomes.
- Provide a useful assessment framework that incorporates environmental and social issues most relevant to ASEAN.
- Help stakeholders (shareholders, regulators and others) track banks' progress and performance on corporate governance and ESG integration by comparing this year's results against last year's.
- Present the results in an interactive online platform (www.susba.org), which allows users to compare selected banks and indicators based on their preferences.

WHO THIS REPORT IS AIMED AT:

- Banking regulators and associations can use the report to monitor levels of ESG integration and evaluate policy effectiveness including the need for further regulations and guidelines.
- Banks (board members, CEOs, CFOs, CROs, credit, risk and sustainability teams) can use the report to understand and improve their level of ESG integration and disclosure against objectively-defined indicators. They can identify more progressive peers who have taken steps to improve (e.g. through working with stakeholders like NGOs), which will allow for peer-to-peer learning and knowledge-sharing opportunities.
- Investors (CIOs, risk officers, portfolio managers, banking sector analysts, ESG analysts) can use the report to gain insights into the ESG performance of ASEAN banks already in their portfolios or under consideration for investment. They can analyse whether these banks have ESG policies aligned to their own ESG commitments. Where misaligned, investors can use the results to engage with portfolio banks to support and drive progress on ESG integration.

SUMMARY OF ASSESSMENT FRAMEWORK

34 BANKS | 6 COUNTRIES | 10 KEY BUILDING BLOCKS | 22 INDICATORS | 108 SUB INDICATORS

METHODOLOGY

This report covers 34 banks across six ASEAN countries, namely Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam.

The major publicly listed banks headquartered in each country were included to best represent the regional banking industry, upon which most local businesses rely (Table 1). Banks from Myanmar were not included in the assessment, as most of the banks had not yet disclosed their annual reports in time for our analysis. Banks from Cambodia, Laos and Brunei were also not considered as they are not publicly listed on these countries' stock exchanges.

TABLE 1: ASSESSED BANKS

1 INDONESIA	2 MALAYSIA	3 PHILIPPINES	4 SINGAPORE	5 THAILAND	6 VIETNAM
■ Bank Central Asia Tbk (BCA) ■ Bank Mandiri (Persero) Tbk (Mandiri) ■ Bank Negara Indonesia Tbk (BNI) ■ Bank Panin Tbk (Panin) ■ Bank Permata Tbk (Permata) ■ Bank Rakyat Indonesia Tbk (BRI) ■ Bank Victoria International Tbk (Victoria)	■ AMMB Holdings Berhad (Ambank) ■ CIMB Group Holdings Berhad (CIMB) ■ Hong Leong Bank Berhad (Hong Leong) ■ Malayan Banking Berhad (Maybank) ■ Public Bank Berhad (Public Bank) ■ RHB Bank Berhad (RHB)	■ BDO Unibank, Inc (BDO) ■ Bank of the Philippine Islands (BPI) ■ China Banking Corporation (CBC) ■ Metropolitan Bank & Trust Company (Metrobank) ■ Philippine National Bank (PNB) ■ Security Bank Corporation (SBC)	■ DBS Group Holdings Limited (DBS) ■ Oversea-Chinese Banking Corporation Limited (OCBC) ■ United Overseas Bank Limited (UOB)	■ Bangkok Bank (BBL) ■ Bank of Ayudhya (Krungsri) ■ Kasikorn Bank (KBank) ■ Krung Thai Bank (KTB) ■ Siam Commercial Bank (SCB) ■ Thanachart Bank (TBank) ■ TMB Bank (TMB)	■ Bank for Investment and Development of Vietnam (BIDV) ■ Joint Stock Commercial Bank for Foreign Trade of Vietnam (VCB) ■ Vietnam Joint Stock Commercial Bank for Industry and Trade (VietinBank) ■ Vietnam Export-Import Commercial Joint Stock Bank (Eximbank) ■ Vietnam Prosperity Bank (VPBank)

The corporate governance assessment applies to the entire bank. The assessment of ESG integration focuses only on the banks' external or indirect ESG footprint (i.e. client activities financed) as opposed to the banks' direct footprint (e.g. building energy consumption and staff), as the former is overwhelmingly larger in magnitude and impact as well as being the key focus of both investors and TCFD guidelines. The assessment focuses only on the banks' corporate/wholesale lending divisions. Retail banking, private banking, investment banking and asset management divisions are excluded given the significantly greater contribution and vulnerability to climate change and other ESG risks posed by the wholesale banking divisions.

We reviewed only publicly available, English-language disclosures in the form of 2017 annual reports, 2017 sustainability or CSR reports released before 30 June 2018, and information posted on corporate websites such as company policies, statements, investor presentations and press releases (last accessed on 3 July 2018). These public disclosures represent what is available to international investors and stakeholders looking to develop an understanding of how the banks are managing climate and ESG risks and opportunities so as to contribute to sustainable development.

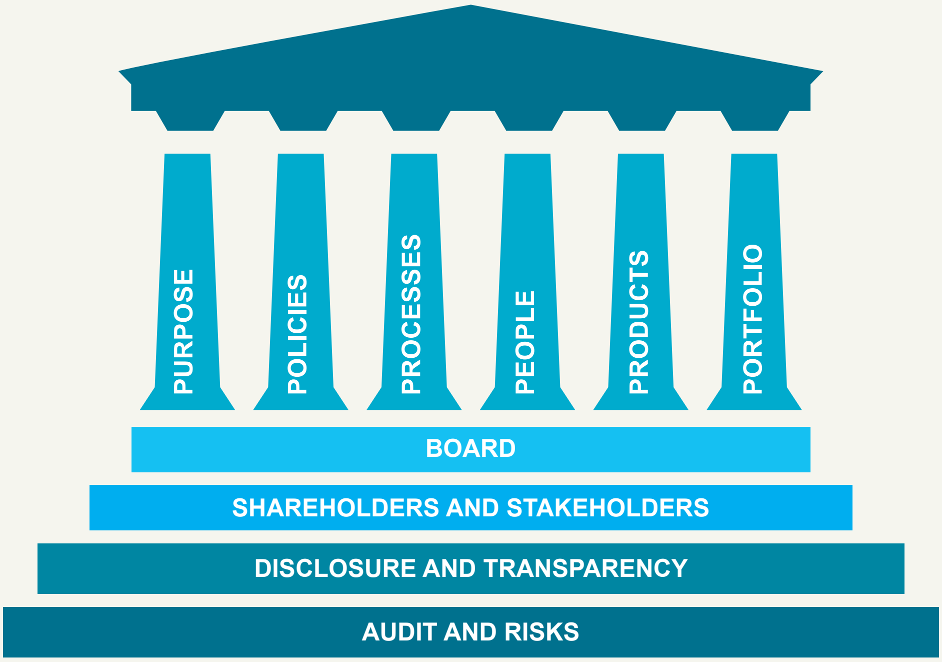


FIGURE 1: ASSESSMENT FRAMEWORK

The review was undertaken using an assessment framework based on four key aspects of good corporate governance and six fundamental pillars of robust ESG integration (Figure 1).

Corporate governance: In order to achieve their long-term goals and strategy, banks should have an independent, diversified and competent **board** to guide senior management and monitor the implementation of strategic plans. **Shareholders** and other **stakeholders** should also be valued: banks need to clearly set out policies to ensure the rights of their shareholders and maintain communication channels to engage stakeholders. Once the policies are in place, banks should provide **transparency** and **disclosure** via their reports and corporate websites in a timely and reliable manner. To increase credibility and effectiveness, banks need to make ongoing efforts on **audit** and **risk management**. Additionally, integrating sustainability into corporate governance better positions companies to deliver on sustainability performance.[36]

ESG integration: Banks need to recognize that sustainability is a necessary condition for long-term growth and that they have a crucial role to play in financing sustainable development. This is their **purpose** and link to the real economy. They need to set **policies** to guide the integration of E&S principles into internal **processes** and engagement with clients. To do so, they need to have well-trained **people** in place with clear roles and responsibilities and senior-level oversight. ESG integration is not just about management of E&S risks: it is also about translating the banks' knowledge and purpose into sustainable banking **products** to capitalize on opportunities. In order to manage enterprise-level risks and opportunities and ensure that each bank's business model properly embraces sustainability, a strategic overview and science-based target-setting at **portfolio** level are crucial. **Further information on the methodology can be found in the 2017 Sustainable Banking in ASEAN report.**

In order to track the progress of banks' performances on corporate governance and ESG integration, this year's assessment results were compared with last year's. This comparison will be updated on an annual basis. In the results tables shown in Chapter 3 and Chapter 4, progression or regression compared to last year are marked in green and red respectively.

Report users can access the interactive Sustainable Banking Assessment (SUSBA) website (*www.susba.org*) to further explore and compare the results.

TABLE 2: CORPORATE GOVERNANCE ASPECTS AND ESG INTEGRATION PILLARS

ASPECTS (CG)	No.	INDICATORS	PILLARS (ESG)	No.	INDICATORS
1) BOARD	1	Independence and qualifications of the board	1) PURPOSE	1	Relevance of sustainability to the organization and its strategy for addressing sustainability
	2	Clearly stated roles and monitoring the implementation of corporate strategy		2	Participation in commitment-based sustainable finance initiatives and policy advocacy with regulators
	3	Appointment, selection, training and re-election	2) POLICIES	3	Public statements on principles and risk appetite and aspects of ESG
	4	Remuneration and appraisal		4	Sector-specific policies
2) SHAREHOLDERS AND STAKEHOLDERS	5	Rights of shareholders	3) PROCESSES	5	Processes for assessing ESG risks in client and transactional approvals
	6	Policies on stakeholder engagement and list of stakeholder groups engaged		6	Procedures for client monitoring and engagement
	7	Stakeholder reporting and communicating mechanisms	4) PEOPLE	7	Responsibilities for ESG
3) DISCLOSURE AND TRANSPARENCY	8	Release of reports and disclosure on ESG issues		8	E&S staff competency and performance evaluation
	9	Corporate website	5) PRODUCTS	9	ESG integration in products and services
4) AUDIT AND RISKS	10	General audit function and audit on sustainability	6) PORTFOLIO	10	ESG risk assessment and mitigation at portfolio level
	11	Risk management frameworks and ESG-related risks		11	Disclosure of ESG risk exposure and targets

SUMMARY OF RESULTS

CORPORATE GOVERNANCE REGIONAL RESULTS

TABLE 3: CORPORATE GOVERNANCE REGIONAL RESULTS (AVERAGE PER INDICATOR FOR EACH COUNTRY)

ASSESSMENT RESULTS EXPLAINED

Increase compared to last year
Current result based on this year's assessment

Current result based on this year's assessment
Decrease compared to last year

CORPORATE GOVERNANCE PILLARS AND INDICATORS		INDONESIA	MALAYSIA	PHILIPPINES	SINGAPORE	THAILAND	VIETNAM	AVERAGE
1) BOARD	1. Independence and qualifications of the board							
	2. Clearly stated board's role and monitoring the implementation of corporate strategy							
	3. Appointment and selection, training and re-election							
	4. Remuneration and appraisal							
2) SHAREHOLDERS AND STAKEHOLDERS	5. Rights of shareholders							
	6. Policies on stakeholders engagement and list of stakeholders groups engaged							
	7. Stakeholder reporting and communicating mechanisms							
3) DISCLOSURE AND TRANSPARENCY	8. Release of reports and disclosure on ESG issues							
	9. Corporate website							
4) AUDIT AND RISKS	10. General audit function and audit on sustainability							
	11. Risk management frameworks and ESG-related risks							

KEY: Fulfilled | Improved | No Change | Regressed | Unfulfilled

BOARD

In general, almost all banks (32) disclosed board monitoring of corporate strategy and limitations of the number of memberships allowed for executive directors, compared to 25 and 23 respectively last year. This change could be related to amendments to national legal frameworks and guidelines aimed at strengthening corporate governance practices. [37,38,39] However, there is still no disclosure as to whether the terms of reference of nomination or remuneration committees or criteria regarding directors' nomination and compensation consider sustainability.

SHAREHOLDERS AND STAKEHOLDERS

Twenty-five banks disclosed commitments to provide their shareholders with material information that may affect their market values, almost doubling versus last year's 13 banks. An additional 11 banks disclosed mechanisms for reporting and resolving violations of shareholder rights, bringing the total to 27. Thirty banks (four more than last year) disclosed lists of stakeholder groups engaged, of which 26 (five more than last year) have policies and procedures to engage with stakeholders. This improvement could be related to new governance guidelines that promote shareholders' rights and obligations and commit to better serve the stakeholder. [38,40,41]

DISCLOSURE AND TRANSPARENCY

Thirty-three disclosed on sustainability in their reporting documentation. Thirty banks disclosed anti-corruption policies (compared to 25 last year), and all 34 banks disclosed their related party and interested person transactions, an increase from 30 last year. Eight additional banks mentioned responsible lending in their leadership statements, bringing the total to 15; however, this remains a key gap compared to the other sub-indicators within the disclosure and transparency aspect.

AUDIT AND RISKS

Regarding audit and risks, all banks in all countries disclosed that they protect their shareholders' rights by providing credible fundamental audit and risk management functions. Banks have started to recognize that audit should be extended to E&S policies and procedures, with five banks implementing periodic audits to assess implementation of E&S policies and risk assessment procedures, up from just one last year and eight conducting external audits on sustainability. There has been improvement in integrating E&S considerations into risk assessment, with 24 banks compared to 12 last year recognizing E&S risks and 11 banks disclosing that they periodically review their E&S policies and procedures compared to five last year.

ESG INTEGRATION REGIONAL SUMMARY

TABLE 4: ESG INTEGRATION REGIONAL RESULTS (AVERAGE PER INDICATOR FOR EACH COUNTRY)

ASSESSMENT RESULTS EXPLAINED

Increase compared to last year
Current result based on this year's assessment

Current result based on this year's assessment
Decrease compared to last year

ESG INTEGRATION PILLARS AND INDICATORS		INDONESIA	MALAYSIA	PHILIPPINES	SINGAPORE	THAILAND	VIETNAM	AVERAGE
1) PURPOSE	1. Relevance of sustainability to the organization and its strategy for addressing sustainability							
	2. Participation in commitment-based sustainable finance initiatives and policy advocacy with regulators							
2) POLICIES	3. Public statements on principles and risk appetite and aspects of ESG and ESRM							
	4. Sector-specific policies							
3) PROCESSES	5. Process for assessing ESG risks in client and transactional approvals							
	6. Procedures for client monitoring and engagement							
4) PEOPLE	7. Responsibilities for ESG							
	8. E&S staff competency and performance evaluation							
5) PRODUCTS	9. ESG integration in products and services							
6) PORTFOLIO	10. ESG risk assessment and mitigation at portfolio level							
	11. Disclosure of ESG risk exposure and targets							

KEY: Fulfilled Improved No Change Regressed Unfulfilled

PURPOSE

Across ASEAN more banks are recognizing the relevance of sustainability to their businesses, with almost all banks (32 compared to 26 banks last year) referring to sustainability in their core business strategies. Of these 32 banks, 30 disclosed that they differentiate between their direct and indirect footprints, compared to 21 last year. This shows that banks increasingly understand their role as financiers and how their activities impact societies and the environment. Furthermore, half of the banks now recognize the SDGs and 19 banks acknowledged climate-related risks and opportunities – seven more than last year.

Banks still need to include civil society as one of their key stakeholders, as it represents the environment and the local communities most impacted by banks' financing activities. Civil society can also provide deep science-based insights into climate risk and other ESG issues that can impact banks' loan portfolios. Although 13 banks disclosed engaging with stakeholders on E&S impacts of financial services, only five banks included NGOs among their key stakeholders.

Participation in commitment-based sustainable finance initiatives is still limited, with only one bank signed up to UNEPFI. Eight disclosed that they engage with regulators on sustainable finance matters, out of which four were Indonesian banks who are part of the Indonesian Sustainable Finance Initiative.

POLICIES

Although nearly all banks assessed acknowledged that their environmental and social impacts lie within their business portfolios, they have not yet translated this understanding into policies to indicate their position and risk appetite on key E&S issues.

Only 10 banks have exclusion lists; however, more banks are listing specific activities that they will not finance, thereby going beyond general statements about not financing activities harmful to society and the environment. For instance, three banks, compared to only one last year, stated that they will not finance activities that have negative impacts on World Heritage sites. No banks disclosed the exclusion of new coal-fired plants and coal mines from financing, although one bank has defined minimum technological criteria for coal-fired plants that it will finance. With regards to other E&S risks, only five recognized deforestation risks, nine recognized human rights and labour rights risks, and two recognized water risks. However, most still have not required clients to commit to no-deforestation, comply with international human and labour rights principles, or conduct water risk assessments. For example, there is only one bank which prohibits financing of any activity impacting Ramsar wetlands and high conservation value (HCV) forests.

Up from three last year, seven banks disclosed that they have specific policies or requirements for sensitive sectors, including palm oil, forestry, infrastructure and energy. However, only three of these banks disclosed their sector policies (albeit only one or two key policies rather than the full set), while others indicated their policies were under development. The remaining banks need to develop sector policies or requirements, based on international standards, to guide their internal due diligence and ensure the adoption and promotion of international best practice.

PROCESSES

Banks have not fully embedded E&S criteria into client and transaction approval processes. Among the 30 banks that recognize their indirect footprint, 19 disclosed that they incorporate E&S factors when evaluating clients and transactions, while 12 disclosed that such E&S assessments impact credit decisions. Even though more banks are disclosing E&S risk management processes than last year, they have not yet disclosed the level of client monitoring and engagement conducted. With only five banks disclosing how they deal with non-compliance, it is not clear how well banks are enforcing their ESG policies.

PEOPLE

A growing number of banks have senior management oversight of ESG issues (15 compared to 10 last year), though only four of these specifically highlight climate risks and opportunities as part of senior management's responsibilities. This indicates that banks increasingly understand the importance of having the board and senior management involved in managing ESG issues. Eleven banks disclosed the responsibilities of committees or departments involved in ESG implementation compared to only four last year. Three banks stated that ESG responsibilities are assigned to their three lines of defence, compared to none last year.

Banks have largely not employed dedicated ESG teams to implement E&S policies and procedures (only three banks compared to zero last year), which may explain why ESG integration has only been partially implemented overall. Furthermore, only 12 banks disclosed that they train staff on E&S issues, and just three had special training for the board or other senior management to ensure sustainability flows from the top of the bank.

PRODUCTS

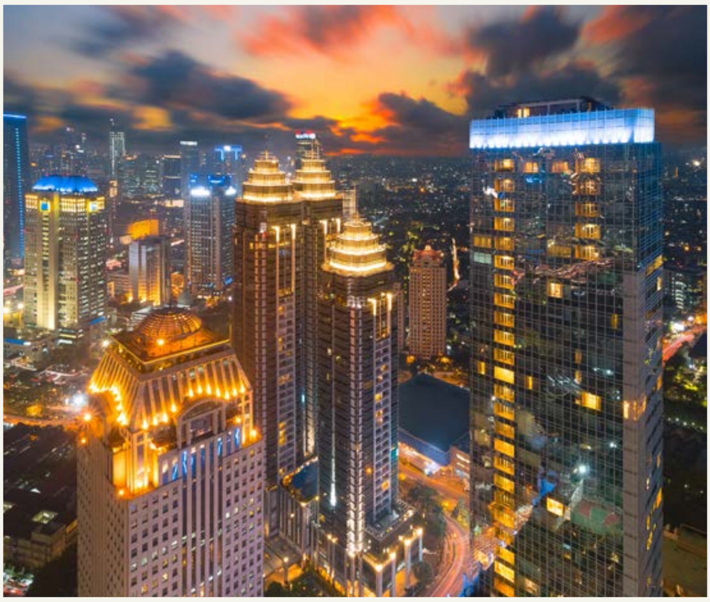
Twenty-two banks disclosed the development of green financial solutions and products, which indicates that many are starting to tap into the opportunities presented by sustainable development. The banks' disclosures indicate that they are moving beyond microfinance and renewable energy financing to create innovative products such as sustainability-linked loans, which reward clients' improved sustainability performance with lower interest rates. Three banks also issued green bonds in the rapidly developing green bond environment, which is a promising new development.

Conversely, banks have not yet mainstreamed sustainability into their product development and still see green products as niche compared to their overall business. Only two banks disclosed specifically allocating capital to finance green solutions.

PORTFOLIO

Portfolio management of E&S risks remains at a nascent stage, despite international frameworks such as TCFD recommending that all financial institutions disclose how they manage climate risks and opportunities at the portfolio level. Only two out of the 34 banks disclosed that they conduct portfolio-wide ESG risk assessment, indicating that such practices remain uncommon.

Five banks disclosed the results of E&S client or transaction assessments, although some were limited only to specific sectors or project finance. One bank disclosed the percentage of its palm oil clients with time-bound plans to achieve 100 per cent Roundtable on Sustainable Palm Oil (RSPO) or Indonesian Sustainable Palm Oil (ISPO) certification. Banks need to provide more detailed disclosures on overall exposure to E&S risks, such as a breakdown of their energy portfolio, portfolio carbon intensity or the percentage of their portfolio aligned with E&S commitments such as no deforestation. They also need to disclose portfolio-level targets for reducing overall exposure to E&S risks.



CHAPTER 4

COUNTRY RESULTS

INDONESIA

CORPORATE GOVERNANCE DISCLOSURE RESULTS

TABLE 5: INDONESIA CORPORATE GOVERNANCE RESULTS

CORPORATE GOVERNANCE PILLARS AND INDICATORS		BCA	BNI	BRI *	MANDIRI	PANIN	PERMATA	VICTORIA	AVERAGE
1) BOARD	1. Independence and qualifications of the board								
	2. Clearly stated board's role and monitoring the implementation of corporate strategy								
	3. Appointment and selection, training and re-election								
	4. Remuneration and appraisal								
2) SHAREHOLDERS AND STAKEHOLDERS	5. Rights of shareholders								
	6. Policies on stakeholder engagement and list of stakeholder groups engaged								
	7. Stakeholder reporting and communicating mechanisms								
3) DISCLOSURE AND TRANSPARENCY	8. Release of reports and disclosure on ESG issues								
	9. Corporate website								
4) AUDIT AND RISKS	10. General audit function and audit on sustainability								
	11. Risk management frameworks and ESG-related risks								

* BRI's 2016 Sustainability Report has been used for the assessment as the 2017 Sustainability Report had not been issued in English by 3 July 2018.

KEY: Fulfilled Improved No Change Regressed Unfulfilled

INDONESIA

CORPORATE GOVERNANCE SUMMARY FOR SEVEN INDONESIAN BANKS

BOARD

Indonesian banks have a two-tiered governance structure consisting of a Board of Commissioners and a Board of Directors; for the purposes of this assessment, the Board of Commissioners is considered to be 'the board' as they are responsible for oversight of the bank. As with last year, two banks have a majority independent board. Three banks have independent chairmen and disclosed that they limit the permitted tenure length for independent directors. All seven banks disclosed that all their executive directors serve on no more than two boards of listed companies outside the group. As with last year, none of the banks considered sustainability as part of their nomination or remuneration criteria.

SHAREHOLDERS AND STAKEHOLDERS

All seven banks protected their shareholders' rights to participate in and vote at general meetings, including those of their minority shareholders. All the banks informed their shareholders of significant changes that may affect the banks' market values, whereas only three did so last year. Five banks disclosed the list of stakeholders they engage with and that they have policies or procedures to engage these stakeholders. Six banks disclosed the existence of mechanisms for reporting and resolving violations of stakeholders' rights.

DISCLOSURE AND TRANSPARENCY

All the banks disclosed sustainability-related information via their reports and additional sustainability-related information on their corporate websites, the same as last year. They also continued to disclose their commitments to anti-corruption, which is supported by their whistleblowing policies. Four banks explicitly committed to responsible lending in their leaders' statements, whereas only two banks did so last year.

AUDIT AND RISKS

As with last year, all Indonesian banks surveyed disclosed the existence of risk management frameworks and internal audit functions, but none of them integrated sustainability into their audit criteria. Two banks conducted a periodic audit to assess implementation of E&S policies and procedures and two also disclosed an external audit on sustainability: this compares to zero and one, respectively, last year. Six banks recognized ESG-related risks, compared to only three last year. However, only one bank regularly reviewed its E&S policies, compared to zero last year.

ESG INTEGRATION DISCLOSURE RESULTS

TABLE 6: INDONESIA ESG INTEGRATION DISCLOSURE RESULTS

ESG INTEGRATION PILLARS AND INDICATORS		BCA	BNI	BRI *	MANDIRI	PANIN	PERMATA	VICTORIA	AVERAGE
1) PURPOSE	1. Relevance of sustainability to the organization and its strategy for addressing sustainability								
	2. Participation in commitment-based sustainable finance initiatives and policy advocacy with regulators								
2) POLICIES	3. Public statements on principles, risk appetite and aspects of ESG								
	4. Sector-specific policies								
3) PROCESSES	5. Process for assessing ESG risks in client and transactional approvals								
	6. Procedures for client monitoring and engagement								
4) PEOPLE	7. Responsibilities for ESG								
	8. E&S staff competency and performance evaluation								
5) PRODUCTS	9. ESG integration in products and services								
6) PORTFOLIO	10. ESG risk assessment and mitigation at portfolio level								
	11. Disclosure of ESG risk exposure and targets								

* BRI's 2016 Sustainability Report has been used for the assessment as the 2017 Sustainability Report had not been issued in English by 3 July 2018.

KEY: Fulfilled Improved No Change Regressed Unfulfilled

ESG SUMMARY FOR SEVEN INDONESIAN BANKS

PURPOSE

Six Indonesian banks referred to sustainability in their strategy and vision, as well as distinguishing between their direct and indirect footprints. As with last year, two banks disclosed an alignment of their vision of sustainability with the SDGs, and three acknowledged climate-related risks. Only one bank (compared to none last year) listed NGOs as a key stakeholder, although two disclosed E&S stakeholder engagement efforts. Two banks disclosed material ESG issues, indicating that not all banks have considered these to have a significant impact on businesses and stakeholders. Four banks are part of the recently-announced Indonesian Sustainable Finance Initiative (ISFI) a national market-led initiative to engage with key stakeholders on sustainable finance; however, as with last year, only one bank disclosed participation in the UNEP Finance Initiative.

POLICIES

Only two banks disclosed that they will not finance activities that are harmful to the environment, but they have not listed what these activities include. Two banks recognized biodiversity and one bank recognized labour rights as risks in their clients' activities, compared to zero last year for both. However, these recognitions were not translated into policy requirements. As with last year, two banks disclosed sector-specific requirements for the palm oil industry and referenced international standards such as RSPO.

PROCESSES

Five banks disclosed the use of national environmental management performance rating systems, such as AMDAL (Indonesia's environmental impact assessment system) and PROPER (Program for Pollution Control, Evaluation, and Rating). Of these, four had set certain E&S thresholds and had commitments to only work with clients that fulfilled them, but they did not disclose any internal risk classification frameworks that apply to all clients. One bank disclosed that it conducts periodic monitoring of its clients' compliance with action plans to achieve a 'blue' rating under the PROPER rating system, but it did not provide further insights into its client monitoring and engagement processes. Given that the regulation on the Application of Sustainable Finance for Financial Services (No. 51/POJK.03/2017) will come into effect in early 2019, banks need to ensure that they have supporting E&S policies and processes in place to meet its requirements.

PEOPLE

Five banks disclosed information on E&S training for their staff and one bank disclosed that it had established a dedicated sustainable finance function. The same two banks as last year disclosed senior management oversight on ESG integration, although none of the banks disclosed senior management oversight on climate change. None of the banks disclosed having special training for senior management, compared to one last year. One bank also provided a new disclosure describing the allocation of E&S risk management responsibilities to its three lines of defence.

PRODUCTS

The same three banks as last year disclosed again that they have developed sustainable finance products. The new regulation issued by OJK at the end of 2017 on the issuance and requirements of green bonds (No. 60/POJK.04/2017) provides a supporting framework for banks to develop additional green products, which will hopefully improve disclosure in this area next year. As with last year, only one bank disclosed that it specifically sets aside capital for green or sustainable sectors.

PORTFOLIO

As with last year, all the banks surveyed disclosed their loan exposures by sector, and one bank disclosed the percentage of palm oil clients with ISPO or RSPO certifications. This year, two banks also disclosed the composition of loans disbursed according to their PROPER rating, compared to one last year. The banks did not provide more detailed disclosures on overall exposure to E&S risks, such as a sub-sectoral breakdown of their energy portfolio, carbon intensity or the percentage of their portfolio aligned with E&S commitments, nor did they disclose commitments to portfolio-level E&S-related targets.

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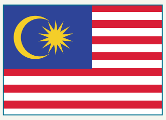
Collecting palm fruit at an RSPO-certified plantation in Sumatra, Indonesia. Credible certification can help banks manage E&S issues in high-risk sectors.



MALAYSIA

CORPORATE GOVERNANCE DISCLOSURE RESULTS

TABLE 7: MALAYSIA CORPORATE GOVERNANCE DISCLOSURE RESULTS

CORPORATE GOVERNANCE PILLARS AND INDICATORS		AMBANK	CIMB	HONG LEONG	MAYBANK	PUBLIC BANK	RHB	AVERAGE
1) BOARD	1. Independence and qualifications of the board							
	2. Clearly stated board's role and monitoring the implementation of corporate strategy							
	3. Appointment and selection, training and re-election							
	4. Remuneration and appraisal							
2) SHAREHOLDERS AND STAKEHOLDERS	5. Rights of shareholders							
	6. Policies on stakeholder engagement and list of stakeholder groups engaged							
	7. Stakeholder reporting and communicating mechanisms							
3) DISCLOSURE AND TRANSPARENCY	8. Release of reports and disclosure on ESG issues							
	9. Corporate website							
4) AUDIT AND RISKS	10. General audit function and audit on sustainability							
	11. Risk management frameworks and ESG-related risks							

KEY: Fulfilled | Improved | No Change | Regressed | Unfulfilled

MALAYSIA

CORPORATE GOVERNANCE SUMMARY FOR SIX MALAYSIAN BANKS

BOARD

All six banks disclosed that they limit the maximum tenure for their independent directors. All banks disclosed the present and past directorships of their board members, whereas only three did so last year, and all banks also disclosed that all executive directors serve on no more than two boards of listed companies outside the group. Five banks disclosed that their boards monitor the implementation of corporate strategies, compared to three last year. As with last year, no banks considered sustainability as part of their nomination or remuneration criteria.

SHAREHOLDERS AND STAKEHOLDERS

All banks protected their shareholders' rights to participate in and vote at the general meetings and extended this to their minority shareholders. All banks disclosed their list of stakeholder groups and that they have procedures to engage with these stakeholders, whereas only five and four, respectively, disclosed this last year. As with the previous year, three banks informed their shareholders of significant changes that may affect the banks' market values. All the banks had set up reporting mechanisms to redress potential violations of stakeholders' rights, which was an increase from only one bank last year.

DISCLOSURE AND TRANSPARENCY

As with last year, all banks disclosed sustainability-related information in their annual reporting. All banks also disclosed additional sustainability-related information on their corporate websites, compared to five last year. This year, five banks disclosed commitments to anti-corruption, and all six banks reported their related party and interested person transactions, compared to three and two last year, respectively. Five banks explicitly mentioned a commitment to responsible lending in their leadership statements, whereas only one did so last year.

AUDIT AND RISKS

As with the previous year, all banks disclosed the existence of risk management frameworks and internal audit functions, but no banks integrated sustainability into their audit criteria. One bank conducted a periodic audit to assess implementation of E&S policies and procedures and two banks disclosed an external audit on sustainability, compared to one for each last year. Five banks recognized ESG-related risks, whereas only one did so last year. However, only three regularly review their E&S policies and procedures, compared to one last year.

ESG INTEGRATION DISCLOSURE RESULTS

TABLE 8: MALAYSIA ESG INTEGRATION DISCLOSURE RESULTS

ESG INTEGRATION PILLARS AND INDICATORS		AMBANK	CIMB	HONG LEONG	MAYBANK	PUBLIC BANK	RHB	AVERAGE
1) PURPOSE	1. Relevance of sustainability to the organization and its strategy for addressing sustainability	No Change	Fulfilled	Improved	Fulfilled	Improved	Improved	Improved
	2. Participation in commitment-based sustainable finance initiatives and policy advocacy with regulators	Unfulfilled	Improved	Unfulfilled	Regressed	Unfulfilled	Unfulfilled	No Change
2) POLICIES	3. Public statements on principles, risk appetite and aspects of ESG	Unfulfilled	Unfulfilled	Improved	Improved	Unfulfilled	Unfulfilled	Improved
	4. Sector-specific policies	Unfulfilled	Unfulfilled	Improved	Unfulfilled	Unfulfilled	Unfulfilled	Improved
3) PROCESSES	5. Process for assessing ESG risks in client and transactional approvals	Unfulfilled	Improved	Improved	Improved	Unfulfilled	Unfulfilled	Improved
	6. Procedures for client monitoring and engagement	Unfulfilled	Unfulfilled	Improved	Unfulfilled	Unfulfilled	Unfulfilled	Improved
4) PEOPLE	7. Responsibilities for ESG	Improved	Improved	Improved	Improved	Unfulfilled	Improved	Improved
	8. E&S staff competency and performance evaluation	Unfulfilled	Improved	Unfulfilled	Improved	Unfulfilled	Improved	Improved
5) PRODUCTS	9. ESG integration in products and services	Improved	No Change	Improved	No Change	Improved	No Change	Improved
6) PORTFOLIO	10. ESG risk assessment and mitigation at portfolio level	Unfulfilled	Unfulfilled	Unfulfilled	Unfulfilled	Unfulfilled	Unfulfilled	Unfulfilled
	11. Disclosure of ESG risk exposure and targets	No Change	No Change	No Change	No Change	No Change	No Change	No Change

KEY: Fulfilled Improved No Change Regressed Unfulfilled

ESG SUMMARY OF SIX MALAYSIAN BANKS

PURPOSE

Malaysian banks disclosed stronger commitments to sustainability than they did last year. All the banks surveyed included clear references to sustainability in their strategy; all also acknowledged a difference between their direct and indirect E&S footprints, compared to five and four last year, respectively. Although the Malaysian Code on Corporate Governance 2017 states that corporate governance “requires balancing the needs of other stakeholders such as [...] society and communities”,[42] only two banks listed NGOs among their stakeholders and disclosed that they engage with stakeholders to fully understand the impacts of their financing activities, compared to two and one, respectively, last year. Four banks disclosed E&S issues in their materiality analyses, up from two last year. Five banks referred to the SDGs and four banks recognized the impact of climate change on society and business, up from three and one, respectively, last year.

POLICIES

Four banks did not disclose any position statements or commitments in relation to key E&S issues. Two banks recognized human rights and labour rights risks, although this did not translate into policy requirements for clients to manage these risks as conditions of financing. One bank did disclose that it would not finance activities that could damage World Heritage sites, compared to zero last year. One bank disclosed that it had palm oil sector-specific requirements for clients, compared to zero last year.

PROCESSES

Three banks disclosed that they have E&S risk management processes, compared to only one last year. Of these, one bank disclosed that it has an E&S escalation mechanism and another bank disclosed that it classifies clients according to E&S risk and that risk assessment outcomes affect client acceptance decisions, compared to zero last year. One bank also disclosed that it continuously assesses clients on their E&S performance and that the outcomes of this assessment may result in the termination of loans, compared to zero last year.

PEOPLE

Five banks mentioned senior management oversight on ESG integration, compared to two last year; and one bank disclosed that senior management has oversight of climate change, compared to zero last year. Five banks also disclosed information about the distribution of E&S roles and responsibilities across their organization, and one disclosed that it has E&S-related staff training, compared to zero last year, for both sub-indicators. Two other banks disclosed that they have E&S-related senior management training and one of these incorporates sustainability into board appraisal, compared to none last year.

PRODUCTS

All six banks disclosed that they have sustainable finance products, compared to three last year. Two banks disclosed participation in the Green Technology Financing Scheme (GTFS), and two disclosed involvement in the roll-out of SRI Sukuk bonds in line with the framework issued by the Securities Commission.[43] As with last year, no banks disclosed that they specifically set aside capital for green or sustainable sectors.

PORTFOLIO

All banks disclosed their loan exposures by sector. However, they did not provide more detailed disclosures on overall exposure to E&S risks, such as a sub-sectoral breakdown of their energy portfolio, carbon intensity or percentage of portfolio aligning with E&S commitments; nor did they disclose commitments to portfolio-level E&S targets. This contrasts with the Bursa Malaysia Sustainability Reporting Guide, which highlights the importance of "reducing exposures to sustainability-related risks".[44]

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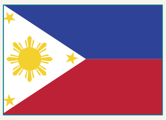
In the Matang mangrove forest, poles are sustainably harvested for charcoal production. Banks have a key role to play in the transition to a sustainable future in ASEAN.



THE PHILIPPINES

CORPORATE GOVERNANCE DISCLOSURE RESULTS

TABLE 9: THE PHILIPPINES CORPORATE GOVERNANCE DISCLOSURE RESULTS

CORPORATE GOVERNANCE PILLARS AND INDICATORS		BDO	BPI	CBC	METROBANK	PNB	SBC	AVERAGE
1) BOARD	1. Independence and qualifications of the board							
	2. Clearly stated board's role and monitoring the implementation of corporate strategy							
	3. Appointment and selection, training and re-election							
	4. Remuneration and appraisal							
2) SHAREHOLDERS AND STAKEHOLDERS	5. Rights of shareholders							
	6. Policies on stakeholder engagement and list of stakeholder groups engaged							
	7. Stakeholder reporting and communicating mechanisms							
3) DISCLOSURE AND TRANSPARENCY	8. Release of reports and disclosure on ESG issues							
	9. Corporate website							
4) AUDIT AND RISKS	10. General audit function and audit on sustainability							
	11. Risk management frameworks and ESG-related risks							

KEY: Fulfilled Improved No Change Regressed Unfulfilled

THE PHILIPPINES

CORPORATE GOVERNANCE SUMMARY FOR SIX PHILIPPINE BANKS

BOARD

As with last year, no bank had a majority independent board structure, and only one had an independent chairman. All six banks disclosed that they limit the permitted tenure length for independent directors. All banks disclosed that their executive directors serve on no more than two boards of listed companies outside the group, whereas only two banks did so last year. None of the banks considered sustainability as part of their nomination or remuneration criteria.

SHAREHOLDERS AND STAKEHOLDERS

All banks protected their shareholders' rights to participate in and vote at general meetings, including those of minority shareholders. Five banks informed their shareholders of significant changes that may affect the banks' market values, compared to one bank last year. Six banks disclosed the list of stakeholders they engaged with, and five banks disclosed that they have policies and procedures to engage these stakeholders. Five banks disclosed the existence of mechanisms for reporting and resolving violations of stakeholders' rights.

DISCLOSURE AND TRANSPARENCY

All banks disclosed sustainability-related information via their reports and additional sustainability-related information on their corporate websites. All banks disclosed anti-corruption policies, which were supported by their respective whistleblowing policies. However, no banks explicitly demonstrated their commitment to responsible lending through their leaders' statements.

AUDIT AND RISKS

All banks disclosed policies to improve their risk management processes, in accordance with the Philippines Code of Corporate Governance for Publicly-Listed Companies.[45] All the banks disclosed the existence of internal audit functions, but no banks integrated sustainability into their audit criteria. No banks conducted a periodic audit to assess implementation of E&S policies and procedures nor disclosed an external audit on sustainability. All six banks disclosed their key risks and how these risks were assessed and managed. However, only one bank identified E&S-related risks, the same as last year. None of the banks periodically monitored the implementation of E&S policies and procedures.

ESG INTEGRATION DISCLOSURE RESULTS

TABLE 10: THE PHILIPPINES ESG INTEGRATION DISCLOSURE RESULTS

ESG INTEGRATION PILLARS AND INDICATORS		BDO	BPI	CBC	METROBANK	PNB	SBC	AVERAGE
1) PURPOSE	1. Relevance of sustainability to the organization and its strategy for addressing sustainability	Improved	Improved	Improved	Improved	Improved	No Change	Improved
	2. Participation in commitment-based sustainable finance initiatives and policy advocacy with regulators	Unfulfilled	Unfulfilled	Unfulfilled	Unfulfilled	Unfulfilled	Unfulfilled	Unfulfilled
2) POLICIES	3. Public statements on principles, risk appetite and aspects of ESG	No Change	Unfulfilled	Unfulfilled	Unfulfilled	Unfulfilled	Unfulfilled	No Change
	4. Sector-specific policies	Unfulfilled	Unfulfilled	Unfulfilled	Unfulfilled	Unfulfilled	Unfulfilled	Unfulfilled
3) PROCESSES	5. Process for assessing ESG risks in client and transactional approvals	Regressed	Unfulfilled	Unfulfilled	Unfulfilled	Unfulfilled	Unfulfilled	Regressed
	6. Procedures for client monitoring and engagement	Unfulfilled	Unfulfilled	Unfulfilled	Unfulfilled	Unfulfilled	Unfulfilled	Unfulfilled
4) PEOPLE	7. Responsibilities for ESG	No Change	Unfulfilled	Unfulfilled	Unfulfilled	Unfulfilled	Unfulfilled	No Change
	8. E&S staff competency and performance evaluation	Regressed	Regressed	Regressed	Unfulfilled	Unfulfilled	Unfulfilled	Regressed
5) PRODUCTS	9. ESG integration in products and services	No Change	No Change	No Change	Unfulfilled	Improved	Unfulfilled	Improved
6) PORTFOLIO	10. ESG risk assessment and mitigation at portfolio level	Unfulfilled	Unfulfilled	Unfulfilled	Unfulfilled	Unfulfilled	Unfulfilled	Unfulfilled
	11. Disclosure of ESG risk exposure and targets	No Change	No Change	No Change	No Change	No Change	No Change	No Change

KEY: Fulfilled Improved No Change Regressed Unfulfilled

ESG SUMMARY FOR SIX PHILIPPINE BANKS

PURPOSE

All banks referenced sustainability in their vision and mission statements, compared to four last year, and five banks recognized the E&S impact of client operations financed by the banks, compared to three last year. Four banks recognized the SDGs and referred to them in relation to their businesses, compared to none last year. However, only one bank recognized climate change as a risk to society and business. Only one bank listed NGOs as a key stakeholder and none mentioned that they engage with stakeholders on E&S issues. Two banks, the same as last year, have also stated E&S issues in their materiality analyses.

POLICIES

Philippine banks did not disclose information pertaining to E&S policies and principles, with the sole exception of one bank publicly committing to stop financing projects deemed to have harmful effects on the environment and local communities. This result remains unchanged from last year, despite the 2017 Code of Corporate Governance recommending the identification and analysis of key risk exposure relating to E&S factors.[46] There were no disclosures on ESG risk appetite or sector policies.

PROCESSES

As with last year, only one bank disclosed on its framework for assessing ESG risks for clients and transactions. None of the banks disclosed classifying clients according to the E&S risks of their operations, monitoring of clients' compliance on E&S issues, or procedures for dealing with non-compliance.

PEOPLE

Philippine banks did not disclose information on the responsibilities of staff for ESG matters or whether they have any dedicated ESG teams. Only one bank disclosed that senior management has oversight of ESG integration, despite the Code recommending board supervision on the disclosure of ESG policies. Three of the banks disclosed last year that they participated in sustainable energy finance training; however, this was not disclosed this year, and none of the banks disclosed any other ESG training for their staff.

PRODUCTS

Four banks disclosed the development of sustainable finance products, all of which catered to the needs of clients investing in energy efficiency and renewable energy projects. One of these banks issued its first green bond to expand financing for addressing climate change.[47] Two banks disclosed the total loan amount that contributed to specific SDGs. As with last year, no banks disclosed that they specifically set aside capital for green or sustainable sectors.

PORTFOLIO

As with last year, all banks disclosed their loan exposures by sector. However, they did not provide more detailed disclosures on overall exposure to E&S risks, such as a sub-sectoral breakdown of their energy portfolio, carbon intensity or percentage of portfolio aligning with E&S commitments; nor did they disclose commitments to portfolio-level E&S targets. As with Policies, the 2017 Code of Corporate Governance's recommendation for identification and analysis of key risk exposure is relevant here, and it reinforces the need for banks to disclose their exposure to ESG- and climate-related risks and related risk management targets.

SINGAPORE

CORPORATE GOVERNANCE DISCLOSURE RESULTS

TABLE 11: SINGAPORE CORPORATE GOVERNANCE DISCLOSURE RESULTS

CORPORATE GOVERNANCE PILLARS AND INDICATORS		DBS	OCBC	UOB	AVERAGE
1) BOARD	1. Independence and qualifications of the board				
	2. Clearly stated board's role and monitoring the implementation of corporate strategy				
	3. Appointment and selection, training and re-election				
	4. Remuneration and appraisal				
2) SHAREHOLDERS AND STAKEHOLDERS	5. Rights of shareholders				
	6. Policies on stakeholder engagement and list of stakeholder groups engaged				
	7. Stakeholder reporting and communicating mechanisms				
3) DISCLOSURE AND TRANSPARENCY	8. Release of reports and disclosure on ESG issues				
	9. Corporate website				
4) AUDIT AND RISKS	10. General audit function and audit on sustainability				
	11. Risk management frameworks and ESG-related risks				

KEY: Fulfilled Improved No Change Regressed Unfulfilled

SINGAPORE

CORPORATE GOVERNANCE SUMMARY FOR THREE SINGAPOREAN BANKS

BOARD

All the assessed banks disclosed having majority independent boards and independent chairmen. All three banks disclosed that they limit the tenure length of their independent directors, compared to two last year. Two banks disclosed that all executive directors serve on no more than two boards of listed companies outside the group, compared to one last year. None of the banks considered sustainability as part of their nomination or remuneration criteria, which was the same as last year.

SHAREHOLDERS AND STAKEHOLDERS

SGX's Sustainability Reporting requirement has encouraged companies to consider stakeholders when developing their policies. In addition, the revised Code of Corporate Governance of Singapore, which will come into effect on 1 January 2019, will have an increased focus on stakeholders beyond shareholders.[48] As with last year all banks informed their shareholders of significant changes that may impact the banks' market values. This year, all three banks disclosed their lists of stakeholder groups engaged and that they have policies and procedures to engage these stakeholders, compared to two banks last year. With regards to stakeholder communications, two banks now provide reporting and resolving mechanisms for stakeholder rights violations, compared to zero last year.

DISCLOSURE AND TRANSPARENCY

The three assessed banks disclosed that they have an anti-corruption policy, compared to two banks last year. All banks disclosed sustainability-related information via their annual reporting as well as additional sustainability-related information on their corporate websites and all banks also expressed their commitment to responsible lending in their leadership statements.

AUDIT AND RISKS

All three banks disclosed that they have a risk management framework and an internal audit function, but no banks integrated sustainability into their audit criteria. No banks disclosed whether they conducted a periodic audit to assess implementation of E&S policies and procedures, the same as last year, and one bank disclosed an external audit on sustainability, compared to zero last year. All three banks identified E&S risks, as with last year, and also disclosed their commitment to review their E&S policies and procedures periodically, compared to two last year.

ESG INTEGRATION DISCLOSURE RESULTS

TABLE 12: SINGAPORE ESG INTEGRATION DISCLOSURE RESULTS

ESG INTEGRATION PILLARS AND INDICATORS		DBS	OCBC	UOB	AVERAGE
1) PURPOSE	1. Relevance of sustainability to the organization and its strategy for addressing sustainability				
	2. Participation in commitment-based sustainable finance initiatives and policy advocacy with regulators				
2) POLICIES	3. Public statements on principles, risk appetite and aspects of ESG				
	4. Sector-specific policies				
3) PROCESSES	5. Process for assessing ESG risks in client and transactional approvals				
	6. Procedures for client monitoring and engagement				
4) PEOPLE	7. Responsibilities for ESG				
	8. E&S staff competency and performance evaluation				
5) PRODUCTS	9. ESG integration in products and services				
6) PORTFOLIO	10. ESG risk assessment and mitigation at portfolio level				
	11. Disclosure of ESG risk exposure and targets				

KEY: Fulfilled Improved No Change Regressed Unfulfilled

ESG SUMMARY FOR THREE SINGAPOREAN BANKS

PURPOSE

Two Singaporean banks have further incorporated ESG into their strategy and business practices. All Singaporean banks disclosed their material ESG issues, compared to two in the previous year, and all recognized climate change as a risk for society and businesses and disclosed a commitment to contribute to the SDGs, compared to one in the previous year. All banks identified SDG 7 (Affordable and Clean Energy) and SDG 13 (Climate Action) as key focus areas. One bank included NGOs on its list of key stakeholders, and all banks disclosed engagement with key stakeholders to understand ESG factors important to them and relevant to the banks' businesses.

POLICIES

All Singaporean banks recognized some key E&S issues, with one making progress from last year by recognizing water scarcity and human rights. They all had exclusion lists, with two banks including World Heritage sites on these lists compared to one last year. Singaporean banks have also started to translate recognition of E&S risk into client requirements, as can be seen from one bank requiring no deforestation across the board, and one bank requiring client adherence to International Labour Organization (ILO) standards. All the banks mentioned that they have developed sector policies for the sensitive sectors identified in Association of Banks in Singapore (ABS) guidelines, such as agriculture, forestry and defence. However, only one bank disclosed these policies, and only for energy and palm oil, and another bank disclosed minimum lending criteria for the coal sector. Banks disclosed that they referred to international standards to guide their sector policies, but exactly how these standards were incorporated – for example, as minimum performance criteria – was not disclosed.

PROCESSES

All banks elaborated on mechanisms for escalating controversial or sensitive clients and transactions, as well as how ESG risk assessment results affect client acceptance decisions, as opposed to only two last year. Up from one bank last year, two banks disclosed that they considered clients' track records on ESG and assigned ESG risk ratings to borrowers; they also disclosed a requirement for medium- and high-risk clients to comply with agreed ESG milestones and monitoring of clients' compliance with agreed action plans. Compared to one last year, all banks disclosed that they periodically review clients' ESG profiles and stated that non-compliance with agreed E&S action plans can lead to reassessment of the transaction.

PEOPLE

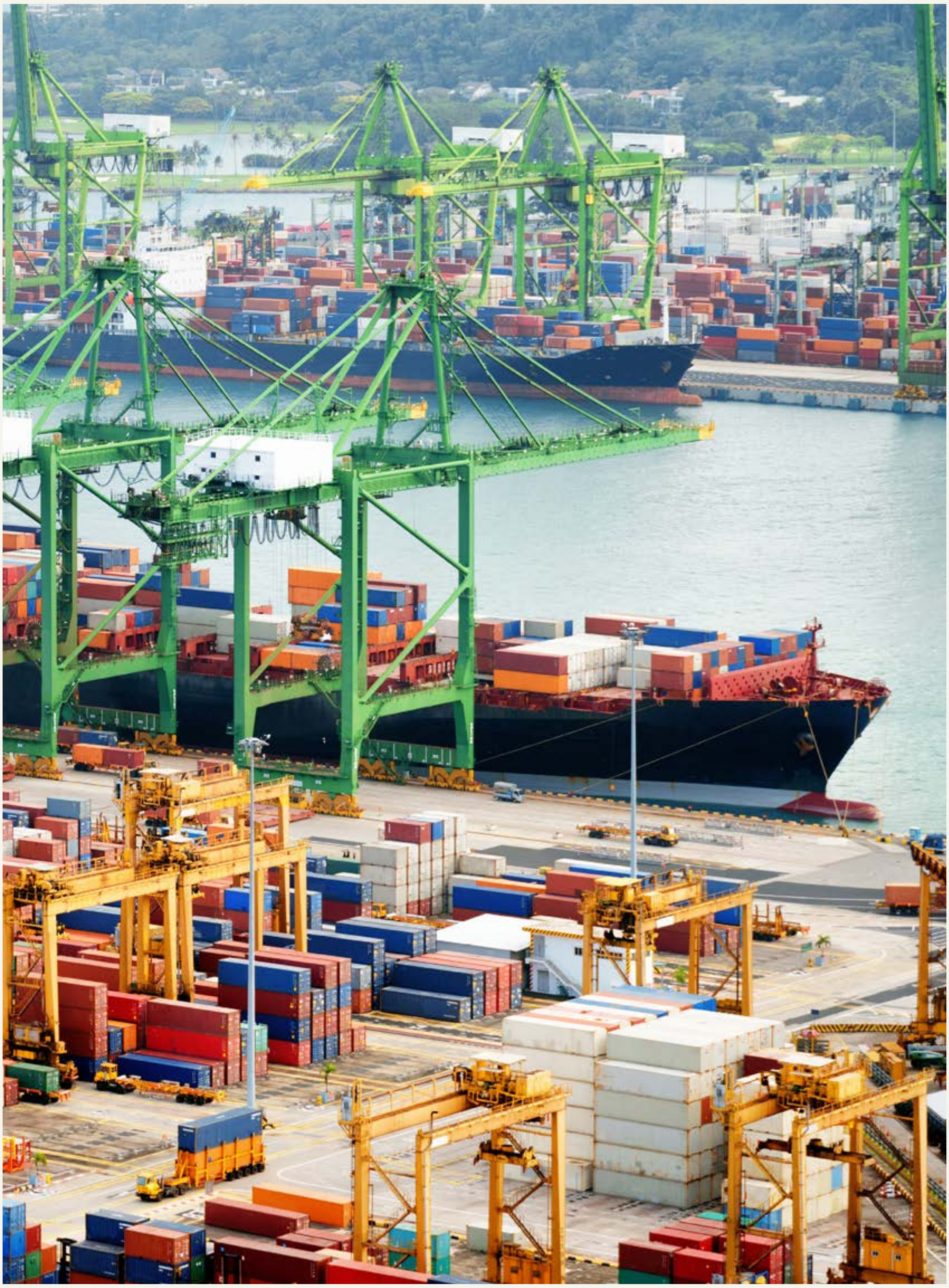
All banks disclosed that senior management has oversight of climate risks, compared to only one last year. All banks disclosed responsibilities and roles on E&S issues. However, only two disclosed the distribution of E&S responsibilities to the three lines of defence, although this was still an increase from zero banks last year. Compared with zero last year, two banks disclosed that they have dedicated resources to manage E&S risks and develop the banks' sustainability framework. As with last year, only one bank disclosed sustainability-related KPIs for its employees, despite the SGX Sustainability Reporting Guide requirement to link ESG targets with management performance incentives.

PRODUCTS

All banks disclosed sustainable finance products within their portfolio, with two banks participating in sustainability-linked loans that link interest rates to clients' sustainability performance.[49, 50] While these are nascent signs of sustainability-oriented market solutions, there was still no indication that banks are integrating E&S factors into mainstream capital allocation decisions. One bank disclosed its client outreach activities, which consisted of organizing workshops for clients in ESG-sensitive industries to increase awareness of E&S issues.

PORTFOLIO

Two banks disclosed that they review their portfolio exposure to E&S issues periodically. However, they did not provide more detailed disclosures on overall exposure to specific E&S risks, such as a sub-sectoral breakdown of their energy portfolio, carbon intensity or percentage of portfolio aligned with E&S commitments. Two banks disclosed transaction E&S assessment results, for example the total number of assessed, declined and escalated transactions. Banks did not disclose commitments to portfolio-level E&S targets.



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Transport and infrastructure sectors can have a large ESG and carbon footprint. Banks need to manage these risks.

THAILAND

CORPORATE GOVERNANCE DISCLOSURE RESULTS

TABLE 13: THAILAND CORPORATE GOVERNANCE DISCLOSURE RESULTS

CORPORATE GOVERNANCE PILLARS AND INDICATORS		BBL	KBANK	KRUNGSRI	KTB	SCB	TBANK	TMB	AVERAGE
1) BOARD	1. Independence and qualifications of the board								
	2. Clearly stated board's role and monitoring the implementation of corporate strategy								
	3. Appointment and selection, training and re-election								
	4. Remuneration and appraisal								
2) SHAREHOLDERS AND STAKEHOLDERS	5. Rights of shareholders								
	6. Policies on stakeholder engagement and list of stakeholder groups engaged								
	7. Stakeholder reporting and communicating mechanisms								
3) DISCLOSURE AND TRANSPARENCY	8. Release of reports and disclosure on ESG issues								
	9. Corporate website								
4) AUDIT AND RISKS	10. General audit function and audit on sustainability								
	11. Risk management frameworks and ESG-related risks								

KEY: Fulfilled Improved No Change Regressed Unfulfilled

THAILAND

CORPORATE GOVERNANCE SUMMARY FOR SEVEN THAI BANKS

BOARD

All seven assessed banks disclosed information about board diversity and the directorships held by their board members. Three banks now have a majority independent board, an increase from two last year; however, only one bank had an independent chairman, and two limited the maximum tenure length for their independent directors. Five banks disclosed that they re-elected board directors at least once every three years, whereas none of these banks disclosed this last year. None of the banks considered sustainability as part of their nomination or remuneration criteria.

SHAREHOLDERS AND STAKEHOLDERS

More banks disclosed on the engagement of stakeholders and shareholders in this year's reporting than last year. Three banks informed their shareholders of significant changes that may affect the banks' market values, compared to one last year. All seven banks disclosed the list of stakeholders that they engage with and six disclosed the policies and procedures to engage these stakeholders. Also, six of the seven banks disclosed mechanisms for reporting and resolving violations of stakeholders' rights, compared to five last year.

DISCLOSURE AND TRANSPARENCY

As with last year, all seven banks reported on sustainability, as encouraged by the 2017 Corporate Governance Code for Listed Companies,[51] and included other sustainability-related information on their corporate websites. Two banks now explicitly disclose the number of days it takes to release their financial results, compared to zero banks last year. Three banks referred to responsible lending in their leadership statements, compared to two last year.

AUDIT AND RISKS

All the banks had internal audit functions in place, but none of them integrated sustainability into their audit criteria. Two banks conducted a periodic audit to assess implementation of E&S policies and procedures, compared to zero last year, and three banks disclosed an external audit on sustainability, the same as last year. Six banks recognized ESG-related risks, whereas only four did so last year. However, only four regularly review their E&S policies and procedures, compared to two last year.

ESG INTEGRATION DISCLOSURE RESULTS

TABLE 14: THAILAND ESG INTEGRATION DISCLOSURE RESULTS

ESG INTEGRATION PILLARS AND INDICATORS		BBL	KBANK	KRUNGSRI	KTB	SCB	TBANK	TMB	AVERAGE
1) PURPOSE	1. Relevance of sustainability to the organization and its strategy for addressing sustainability								
	2. Participation in commitment-based sustainable finance initiatives and policy advocacy with regulators								
2) POLICIES	3. Public statements on principles, risk appetite and aspects of ESG								
	4. Sector-specific policies								
3) PROCESSES	5. Process for assessing ESG risks in client and transactional approvals								
	6. Procedures for client monitoring and engagement								
4) PEOPLE	7. Responsibilities for ESG								
	8. E&S staff competency and performance evaluation								
5) PRODUCTS	9. ESG integration in products and services								
6) PORTFOLIO	10. ESG risk assessment and mitigation at portfolio level								
	11. Disclosure of ESG risk exposure and targets								

KEY: Fulfilled Improved No Change Regressed Unfulfilled

ESG SUMMARY FOR SEVEN THAI BANKS

PURPOSE

All seven banks made reference to sustainability in their corporate strategies, out of which six distinguished between their own direct footprint and the indirect footprint of the client activities they finance. Three banks referred to SDGs, the same as last year, and six banks acknowledged climate risk compared to five last year. Engagement with stakeholders on issues such as responsible lending was undertaken by four banks, compared with two last year. However, none of the banks listed NGOs or civil society as key stakeholders. Five out of the seven banks also disclosed material ESG issues.

POLICIES

Four banks disclosed that they recognize human rights and labour rights risks associated with clients' activities, compared with three and one last year, respectively. Two banks disclosed that they conduct human rights risk assessment for their project financing activities, compared with one bank last year. For risks such as deforestation and water scarcity, as with last year, all banks interpreted these risks as applying only to their own operations, rather than the client operations they finance. One bank disclosed that it has sector policies and also disclosed all these policies, compared to zero banks last year.

PROCESSES

Four out of seven banks disclosed that they consider ESG issues during credit analysis of loans; this number is the same as last year, with one additional bank disclosing and one bank not disclosing this year. These four banks also disclosed that ESG risk assessment outcomes influence client and transaction acceptance decisions, and three disclosed that they have escalation mechanisms for high-ESG-risk transactions. Two banks disclosed requirements for medium- and high-risk clients to implement specific E&S action plans, and that they review performance against these action plans post loan disbursement, an improvement from zero banks last year for both sub-indicators.

PEOPLE

Only three banks disclosed that senior management has oversight of ESG integration, compared with two banks last year, and no banks disclosed whether this covers climate change risks. This is despite Stock Exchange of Thailand's (SET) 2012 Principles of Good Corporate Governance, which encourage company boards to set clear policies on E&S issues, including those pertaining to indirect operations. For banks, this equates to the E&S impact of clients' activities financed.[52] Two banks disclosed that they train staff on ESG implementation, an increase from zero last year.

PRODUCTS

Five banks have created green loan products for renewable energy or energy-efficiency projects, with some also offering microfinance loans to finance entrepreneurs to develop environmentally friendly technologies, compared with four banks last year. One bank issued Thailand's first green bond. Only one bank disclosed that it specifically set aside capital for green or sustainable sectors, compared with zero last year.

PORTFOLIO

There was no indication that banks conduct portfolio-level risk assessment and mitigation for E&S issues; however, one bank disclosed that it would conduct a portfolio human rights risk assessment in 2018. Banks' disclosures at the portfolio level reflected the emphasis placed on renewable energy projects, as three banks provided information on the quantum and composition of their renewable energy loan portfolios, but did not provide equivalent disclosure on their fossil fuel loan portfolios. None of the banks disclosed their portfolio-wide loan exposures pertaining to specific E&S risk, carbon intensity or commitments to portfolio-level E&S targets.

Clean energy generation at the Sankampaeng solar power station, Chiang Mai, Thailand. Renewable energy or energy-efficient products are part of the solution to mitigate climate change.

VIETNAM

CORPORATE GOVERNANCE DISCLOSURE RESULTS

TABLE 15: VIETNAM CORPORATE GOVERNANCE DISCLOSURE RESULTS

CORPORATE GOVERNANCE PILLARS AND INDICATORS		BIDV	EXIMBANK	VCB	VIETINBANK	VPBANK	AVERAGE
1) BOARD	1. Independence and qualifications of the board	No Change	Improved	No Change	No Change	No Change	Improved
	2. Clearly stated board's role and monitoring the implementation of corporate strategy	Fulfilled	Improved	No Change	Fulfilled	Improved	Improved
	3. Appointment and selection, training and re-election	Improved	Unfulfilled	No Change	No Change	No Change	Improved
	4. Remuneration and appraisal	No Change	Improved	No Change	No Change	No Change	Improved
2) SHAREHOLDERS AND STAKEHOLDERS	5. Rights of shareholders	No Change	Improved	No Change	Improved	Improved	Improved
	6. Policies on stakeholder engagement and list of stakeholder groups engaged	Fulfilled	No Change	Unfulfilled	Unfulfilled	Improved	Improved
	7. Stakeholder reporting and communicating mechanisms	No Change	Unfulfilled	Improved	No Change	Improved	Improved
3) DISCLOSURE AND TRANSPARENCY	8. Release of reports and disclosure on ESG issues	Improved	Improved	No Change	No Change	Improved	Improved
	9. Corporate website	No Change	No Change	No Change	No Change	No Change	No Change
4) AUDIT AND RISKS	10. General audit function and audit on sustainability	Improved	Improved	Improved	Improved	No Change	Improved
	11. Risk management frameworks and ESG-related risks	Improved	Improved	Improved	No Change	No Change	Improved

KEY: Fulfilled Improved No Change Regressed Unfulfilled

VIETNAM

CORPORATE GOVERNANCE SUMMARY FOR FIVE VIETNAMESE BANKS

BOARD

None of the banks have a majority independent board; however, all five banks assessed disclosed that they limit the permitted tenure length for their independent directors, compared to three banks last year. All the banks disclosed that all their executive directors serve no more than two boards of listed companies outside the group, compared to three last year. Four banks disclosed that their boards monitored implementation of corporate strategy, whereas only two did so last year. None of the banks considered sustainability as part of their nomination or remuneration criteria.

SHAREHOLDERS AND STAKEHOLDERS

Compared to last year, more banks demonstrated recognition of shareholders and stakeholders' rights. All banks protected their shareholders' rights to participate in and vote at general meetings, compared to four banks last year, and four of those included the rights of minority shareholders, compared to three last year. Four banks disclosed that they informed shareholders of significant changes that may impact the banks' market values, compared to two last year. Three banks disclosed the list of stakeholders they engaged with, compared to two last year; however, only one bank disclosed the policies and procedures used to engage with these stakeholders. Two banks set up mechanisms for reporting and resolving violations of stakeholders' rights, an improvement from zero last year.

DISCLOSURE AND TRANSPARENCY

None of the banks maintained sustainability-related content on their websites outside of the annual or sustainability report; however, four banks included sustainability-related information in the annual reports. Two banks disclosed their anti-corruption policies, compared to none last year. However, none of the banks demonstrated their commitment to responsible lending explicitly in their leaders' statements.

AUDIT AND RISKS

All five banks disclosed key risks and how they are assessed and managed. Three banks disclosed that they identified ESG-related risks, compared to zero last year, but no bank disclosed a periodical audit of the implementation of E&S policies and procedures, an external audit on sustainability, or a periodical review of their E&S policies and procedures. All banks disclosed the existence of a separate internal audit function, and that this function was supervised by a role with a similar function to an audit committee; however, there was no disclosure on whether sustainability has been integrated into the audit criteria.

ESG INTEGRATION DISCLOSURE RESULTS

TABLE 16: VIETNAM ESG INTEGRATION DISCLOSURE RESULTS

ESG INTEGRATION PILLARS AND INDICATORS		BIDV	EXIMBANK	VCB	VIETINBANK	VPBANK	AVERAGE
1) PURPOSE	1. Relevance of sustainability to the organization and its strategy for addressing sustainability						
	2. Participation in commitment-based sustainable finance initiatives and policy advocacy with regulators						
2) POLICIES	3. Public statements on principles, risk appetite and aspects of ESG						
	4. Sector-specific policies						
3) PROCESSES	5. Process for assessing ESG risks in client and transactional approvals						
	6. Procedures for client monitoring and engagement						
4) PEOPLE	7. Responsibilities for ESG						
	8. E&S staff competency and performance evaluation						
5) PRODUCTS	9. ESG integration in products and services						
6) PORTFOLIO	10. ESG risk assessment and mitigation at portfolio level						
	11. Disclosure of ESG risk exposure and targets						

KEY: Fulfilled Improved No Change Regressed Unfulfilled

ESG SUMMARY FOR FIVE VIETNAMESE BANKS

PURPOSE

Four banks referred to sustainability in their business strategies, compared with three last year. Four banks acknowledged and recognized the ESG footprint of their client operations, an increase from two last year. Banks did not disclose clear references to the SDGs or list material E&S issues affecting the bank and stakeholders; and, as with last year, only two banks recognized climate risks to businesses and society. This is despite the International Finance Corporation (IFC) and State Securities Commission of Vietnam (SSC) Sustainability Reporting Handbook recommending companies list material E&S aspects.[53] Two banks disclosed that they engage with key stakeholders on E&S issues associated with the banks' activities, but no banks listed NGOs or civil society among their stakeholders.

POLICIES

There were no improvements in disclosures related to policies this year. Whereas one bank disclosed a commitment in the previous year not to finance projects with negative environmental impacts, no banks made such a disclosure this year. None of the banks disclosed information on their ESG risk appetite or sector policies.

PROCESSES

The State Bank of Vietnam (SBV) Directive requires banks to consider E&S risks in their lending activities. However, only three banks disclosed that they conduct E&S risk assessment of clients and transactions. This was an improvement from two last year. None of these banks disclosed additional details on this risk assessment process, such as whether this assessment influences loan application outcomes, or if they categorize clients and transactions according to assessment results. Two banks disclosed that they conduct a periodic review of clients' E&S risk profiles, compared to only one last year.

PEOPLE

None of the Vietnamese banks disclosed information on the distribution of ESG responsibilities. However, one bank disclosed that its board of directors and the subordinate committees (e.g. risk management, human resources etc.) are responsible for sustainable development, and it also provided details of its in-house training programmes for staff on E&S risk management procedures in its credit operations. This is a step back from last year, when two banks disclosed information about in-house training on E&S risk management.

PRODUCTS

The SBV Directive emphasizes the importance of boosting green credit and prioritizing financing for green projects in the country. Despite this, there was no change from last year, with only one bank disclosing information on the issuance of preferential loans in collaboration with international partners to support renewable energy and sustainable agriculture projects. Banks did not make any other disclosures on how E&S factors are used for capital allocation decisions.

PORTFOLIO

As was the case last year, all banks disclosed their loan exposures by sector. They did not provide more detailed disclosures on overall exposure to E&S risks, such as sub-sectoral breakdown of energy portfolio, carbon intensity or the percentage of portfolio aligned with E&S commitments, nor did they disclose commitments to portfolio-level E&S-related targets.

APPENDIX: CORPORATE GOVERNANCE AND ESG INTEGRATION SUB-INDICATORS

ASPECTS, PILLARS AND INDICATORS					
CORPORATE GOVERNANCE ASPECTS	NO.	INDICATORS	ESG INTEGRATION PILLARS	NO.	INDICATORS
1) BOARD	1	Independence and qualifications of the board	1) PURPOSE	1	Relevance of sustainability to the organization and its strategy for addressing sustainability
	2	Clearly stated roles and monitoring the implementation of corporate strategy		2	Participation in commitment-based sustainable finance initiatives and policy advocacy with regulators
	3	Appointment, selection, training and re-election	2) POLICIES	3	Public statements on principles and risk appetite and aspects of ESG
	4	Remuneration and appraisal		4	Sector-specific policies
2) SHAREHOLDERS AND STAKEHOLDERS	5	Rights of shareholders	3) PROCESSES	5	Processes for assessing ESG risks in client and transactional approvals
	6	Policies on stakeholder engagement and list of stakeholder groups engaged		6	Procedures for client monitoring and engagement
	7	Stakeholder reporting and communicating mechanisms	4) PEOPLE	7	Responsibilities for ESG
3) DISCLOSURE AND TRANSPARENCY	8	Release of reports and disclosure on ESG issues		8	E&S staff competency and performance evaluation
	9	Corporate website	5) PRODUCTS	9	ESG integration in products and services
4) AUDIT AND RISKS	10	General audit function and audit on sustainability	6) PORTFOLIO	10	ESG risk assessment and mitigation at portfolio level
	11	Risk management frameworks and ESG-related risks		11	Disclosure of ESG risk exposure and targets

CORPORATE GOVERNANCE

ASPECT 1: BOARD			
NO.	**INDICATORS**	**NO.**	**SUB-INDICATORS**
1	INDEPENDENCE AND QUALIFICATIONS OF THE BOARD	1	Are a majority of the directors on the board independent?
		2	Is the chairman independent?
		3	Does the bank have a term limit of nine years or less for its independent directors?
		4	Has the bank set a limit of five board seats or fewer that an individual independent director can hold at the same time?
		5	Are all executive directors of the bank serving on no more than two boards of listed companies outside of the group?
		6	Do the board members have varied qualifications and backgrounds?
		7	Is there gender and/or ethnic diversity on the board?
		8	Is there disclosure of all the directorships and chairmanships held by the directors at present and over the past three years?
2	CLEARLY STATED ROLES AND MONITORING THE IMPLEMENTATION OF CORPORATE STRATEGY	9	Are the roles and responsibilities of the board of directors clearly stated?
		10	Does the board monitor the implementation of the corporate strategy, vision and/or mission?
3	APPOINTMENT, SELECTION, TRAINING AND RE-ELECTION	11	Does the bank have a nominating committee?
		12	Are the majority of nominating committee directors independent?
		13	Do the terms of reference of the nominating committee or the criteria used in appointing new directors cover a requirement to consider sustainability?
		14	Does the bank provide training for new directors?
		15	Are all the directors subject to re-election at least once every three years?
4	REMUNERATION AND APPRAISAL	16	Does the bank have a remuneration committee?
		17	Are the majority of remuneration committee directors independent?
		18	Do the terms of reference of the remuneration committee or the criteria used in the remuneration policies cover a requirement to consider sustainability?
		19	Do the shareholders have the opportunity to approve remuneration for the directors and/or senior management?

CORPORATE GOVERNANCE

ASPECT 2: SHAREHOLDERS AND STAKEHOLDERS			
NO.	INDICATORS	NO.	SUB-INDICATORS
5	RIGHTS OF SHAREHOLDERS	20	Do the shareholders have the right to participate in and vote at the general meetings?
		21	Are the shareholders informed of major changes that may affect the bank's market value?
		22	Are the shareholders informed of the policies and procedures related to the voting and general meetings?
		23	Does the bank vote by poll for all resolutions at the most recent AGM?
		24	Does the bank have policies to ensure the rights of minority shareholders?
6	POLICIES ON STAKEHOLDER ENGAGEMENT AND LIST OF STAKEHOLDER GROUPS ENGAGED	25	Does the bank disclose a list of stakeholder groups engaged?
		26	Are there any policies and procedures to engage stakeholders?
7	STAKEHOLDER REPORTING AND COMMUNICATING MECHANISMS	27	Does the bank have a whistleblowing policy?
		28	Does the bank allow the shareholders to raise any concerns/issues for the resolutions to discuss and vote in the general meetings?
		29	Are there reporting and resolving mechanisms when the rights of stakeholders are violated?
		30	Has the bank taken any measures to understand the views of other stakeholders (excluding shareholders)?
ASPECT 3: DISCLOSURE AND TRANSPARENCY			
8	RELEASE OF REPORTS AND DISCLOSURE ON ESG ISSUES	31	Does the bank disclose the number of days taken to release the financial results and annual reports?
		32	Does the bank have sustainability reporting?
		33	Is responsible lending mentioned in the leadership statement?
		34	Does the bank have an anti-corruption policy?
		35	Does the bank disclose the corporate structure such as the parent company, subsidiaries, and joint ventures?
		36	Does the bank disclose the ownership structure that shows the identity and shareholdings of major shareholders that hold 5% shares or more?
		37	Is there disclosure of any related party transactions (RPTs) and/or interested person transactions (IPTs)?

CORPORATE GOVERNANCE

ASPECT 3: DISCLOSURE AND TRANSPARENCY			
NO.	**INDICATORS**	**NO.**	**SUB-INDICATORS**
9	CORPORATE WEBSITE	38	Is the address of the bank's website provided in the annual report?
		39	Does the website have an investor relations section?
		40	Is the investor relations contact given on the website and in the annual report?
		41	Does the website have an ESG/sustainability/CSR section?
ASPECT 4: AUDIT AND RISKS			
10	GENERAL AUDIT FUNCTION AND AUDIT ON SUSTAINABILITY	42	Does the bank have a separate internal audit function?
		43	Does the bank have an audit committee?
		44	Are the majority of audit committee directors independent?
		45	Do the terms of reference of the audit committee or the criteria used cover a requirement to consider sustainability?
		46	Does the bank implement periodic audit to assess implementation of E&S policies and E&S risk assessment procedures?
		47	Is there external audit on sustainability?
11	RISK MANAGEMENT FRAMEWORKS AND ESG-RELATED RISKS	48	Does the bank disclose key risks and how these risks are assessed and managed?
		49	Does the bank identify ESG-related risks?
		50	Are there policies or frameworks to evaluate and improve risk management?
		51	Does the bank periodically review the E&S policies and procedures?

ESG INTEGRATION

NO.	INDICATORS	NO.	SUB-INDICATORS
PILLAR 1: PURPOSE			
1	RELEVANCE OF SUSTAINABILITY TO THE ORGANIZATION AND ITS STRATEGY FOR ADDRESSING SUSTAINABILITY	1	Is there a clear reference to sustainability in the bank's strategy and vision?
		2	Does the bank clearly recognize that its ESG footprint extends to its business activities and portfolio?
		3	Is there a clear reference to the Sustainable Development Goals in the bank's strategy or vision?
		4	Does the bank acknowledge the importance of climate risk for society and businesses?
		5	Does the bank list civil society and/or NGOs as key stakeholders?
		6	Does the bank engage with key stakeholders to ensure that the sustainability impacts of the bank's financing activities are properly understood?
		7	Does the bank list material E&S issues that impact both the business and stakeholders?
2	PARTICIPATION IN COMMITMENT-BASED SUSTAINABLE FINANCE INITIATIVES AND POLICY ADVOCACY WITH REGULATORS	8	Does the bank participate in relevant commitment-based sustainable finance initiatives such as BEI, RSPO, NY Declaration on Forests, EP, UNEPFI?
		9	Does the bank engage with regulators and policymakers to support transition to a sustainable financial system or sustainable global system (energy, low carbon etc.)?
PILLAR 2: POLICIES			
3	PUBLIC STATEMENTS ON PRINCIPLES AND RISK APPETITE AND ASPECTS OF ESG	10	Does the bank have an exclusion list which includes E&S-sensitive sectors or activities?
		11	Does the bank require clients in carbon-intensive sectors to undertake climate-related risk assessment and mitigation/transition plans to ultimately align with the Paris Agreement?
		12	Does the bank exclude financing new coal-fired power plants and coal mines?
		13	Does the bank acknowledge biodiversity loss and/or deforestation risks in clients' activities?
		14	Does the bank require its clients across the board to commit to "no deforestation"?
		15	Does the bank refrain from providing products and services to clients engaged in industrial activities that have a negative impact on World Heritage Sites?

ESG INTEGRATION

PILLAR 2: POLICIES			
NO.	INDICATORS	NO.	SUB-INDICATORS
3	PUBLIC STATEMENTS ON PRINCIPLES AND RISK APPETITE AND ASPECTS OF ESG	16	Does the bank recognize water scarcity and water pollution as risks for its clients' activities?
		17	Does the bank require its clients in high-risk sectors and geographies to do water risk assessment and commit to water stewardship?
		18	Does the bank recognize human rights risks including those related to local communities, in the activities which it finances?
		19	Does the bank require all its clients to commit to protecting human rights (e.g. supporting the UNGP)?
		20	Does the bank recognize labour rights and occupational health and safety as risks across all sectors?
		21	Does the bank require all its clients to adhere to ILO standards or an equivalent?
		22	Are the bank's E&S requirements applicable to businesses/divisions beyond lending (e.g. capital markets, asset management)?
4	SECTOR-SPECIFIC POLICIES	23	Does the bank have sector policies or sector-specific requirements for ESG-sensitive industries e.g. agri commodities, energy and mining, seafood, infrastructure?
		24	Does the bank disclose all its sector policies?
		25	Do all the bank's sector policies state E&S requirements or recommendations based on international standards for good E&S practices (e.g. IFC Performance Standards, RSPO, FSC etc.)?
PILLAR 3: PROCESSES			
5	PROCESSES FOR ASSESSING ESG RISKS IN CLIENT AND TRANSACTIONAL APPROVALS	26	Does the bank use some standardized frameworks for client/transaction E&S risk assessment e.g. due diligence lists, questionnaires, scoring tools or use of third-party assessment?
		27	Does the bank assess capacity, commitment and track record of clients in relation to sustainability as part of its E&S risk assessment process?
		28	Is there an escalation mechanism for more complex or controversial cases?
		29	As part of the approval process does the bank classify its clients and transactions based on E&S risk assessment?
		30	Do the E&S risk assessment outcomes influence transaction and client acceptance decisions?

ESG INTEGRATION

NO.	INDICATORS	NO.	SUB-INDICATORS
PILLAR 3: PROCESSES			
6	PROCEDURES FOR CLIENT MONITORING AND ENGAGEMENT	31	Does the bank require all medium- and high-risk clients to implement time-bound E&S action plans?
		32	Does the bank monitor clients' compliance with the agreed E&S action plans?
		33	Does the bank perform periodic reviews of its clients' profiles on E&S?
		34	Does the bank disclose how it deals with non-compliance by existing clients with the bank's policies and with the agreed E&S action plans?
PILLAR 4: PEOPLE			
7	RESPONSIBILITIES FOR ESG	35	Is there senior-management-level oversight of ESG integration?
		36	Do senior management's responsibilities include oversight of climate change risks and opportunities impacting the bank's financing activities?
		37	Does the bank disclose the responsibilities of various departments or committees involved in ESG implementation?
		38	Does the bank assign E&S issues to three lines of defence?
8	E&S STAFF COMPETENCY AND PERFORMANCE EVALUATION	39	Does the bank have a dedicated ESG team to implement E&S policies and procedures?
		40	Does the bank train its staff about E&S policies and risk management processes?
		41	Does the bank have special training for its senior management to ensure sustainability flows into the bank's strategy and leadership?
		42	Is advancing the sustainability agenda part of the staff's KPIs/appraisal process?
PILLAR 5: PRODUCTS			
9	ESG INTEGRATION IN PRODUCTS AND SERVICES	43	Does the bank have specific products and services that support the mitigation of E&S issues e.g. climate change mitigation and adaptation, water scarcity and pollution, deforestation etc. (e.g. green bonds, clean energy, energy efficiency, impact financing)?
		44	Does the bank integrate E&S factors into capital allocation for existing mainstream products and for client selection (e.g. specified pools of loan capital for low carbon or green sectors or sustainability leaders)?
		45	Does the bank hold client outreach to share E&S knowledge and impact sustainability performance of clients (e.g. joint workshops on E&S topics)?

ESG INTEGRATION

PILLAR 6: PORTFOLIO			
NO.	INDICATORS	NO.	SUB-INDICATORS
10	ESG RISK ASSESSMENT AND MITIGATION AT PORTFOLIO LEVEL	46	Does the bank periodically review its portfolio exposure to E&S issues (e.g. deforestation or human rights risk across the portfolio)?
		47	Does the bank specifically review its portfolio exposure to climate-related risks and disclose methods used?
		48	Does the bank have a strategy to identify, assess and mitigate climate-related risks of its portfolio (e.g. energy sector)?
11	DISCLOSURE OF ESG RISK EXPOSURE AND TARGETS	49	Does the bank disclose its loan exposure by industry sector?
		50	Does the bank disclose the alignment of its portfolio with scientific scenarios (i.e. 2°C climate scenario) and international agreements for sustainability?
		51	Does the bank disclose the composition of its energy loan portfolio (i.e. fossil fuel versus wind, hydro, solar etc.)?
		52	Does the bank disclose carbon intensity of its portfolio by sector?
		53	Does the bank disclose its client/transaction E&S assessment results e.g. no. of assessed transactions, no. escalated, no. approved, no. approved with qualifications?
		54	Does the bank disclose the percentage of its soft commodities clients that have time-bound plans to achieve 100% certification using multi-stakeholder sustainability standards?
		55	Does the bank disclose what percentage of its portfolio is covered by cross-cutting commitments e.g. "no deforestation", "no exploitation", water risk assessments?
		56	Does the bank disclose the percentage of its clients that are not meeting their time-bound E&S action plans?
		57	Does the bank set goals to ultimately align with SDGs and the Paris Agreement, and measurable annual targets to reduce high-risk E&S exposure (e.g. reduction in exposure to certain sectors such as fossil fuels or certain issues such as high-carbon-emitting companies)?

ABBREVIATIONS

ABS	Association of Banks in Singapore
ASEAN	Association of Southeast Asian Nations
AUM	Assets under management
BEI	Banking Environment Initiative
CGIO	Centre for Governance, Institutions and Organisations
EP	Equator Principles
ESG	Environmental, social and governance
E&S	Environmental and social
FSB	Financial Stability Board
GHG	Greenhouse gas
IFC	International Finance Corporation
ILO	International Labour Organization
ISFI	Indonesia Sustainable Finance Initiative
ISPO	Indonesia Sustainable Palm Oil
NUS	National University of Singapore
SDGs	Sustainable Development Goals
UNESCAP	United Nations Economic and Social Commission for Asia Pacific
UNEPFI	United Nations Environment Programme Finance Initiative
PRI	Principles for Responsible Investment
PROPER	Program for Pollution Control, Evaluation, and Rating (Indonesia)
RSPO	Roundtable on Sustainable Palm Oil
SBTi	Science Based Targets initiative
SBV	State Bank of Vietnam
SET	Stock Exchange of Thailand
SGX	Singapore Stock Exchange
SSC	State Securities Commission of Vietnam
SUSBA	Sustainable Banking Assessment (website)
TCFD	Taskforce on Climate-related Financial Disclosures
UNGC	United Nations Global Compact
WRI	World Resources Institute

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WWF
SUSTAINABLE FINANCE

100% RECYCLED

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Working to sustain the natural world for people and wildlife

together possible.

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